

Australian Banks Downgraded under Standard & Poor's New Rating Criteria

The big four downgraded as anticipated

As has been expected for a considerable period, Standard & Poor's has downgraded the big four Australian banks to AA-. The downgrades don't imply any deterioration in the quality of the banks. The downgrades are related to the new global banking criteria that Standard & Poor's has implemented and follows the downgrades of various US and European banks on 30 November.

This downgrade of one notch (or rating level) was widely expected as the most likely outcome of the reassessments of the big four under the new criteria. There is no reason for concern about these banks, which remain among the highest rated in the world, and the downgrades are not a sign of major systemic problems in the Australian banking sector. All of the big four retained the highest possible short-term rating of A-1+.

The only severe action that Standard & Poor's took was against Macquarie Group which was downgraded two notches from A- to BBB. Macquarie Bank, however, retained its rating of A.

It's important to note that the ratings on Australia's regional banks were not changed in today's rating moves. The new criteria methodology chiefly focuses on sovereign support for banks, i.e. the willingness and capability of governments to support their major banks. Given that the ratings on the regional banks do not take into account sovereign support, the new criteria had limited impact.

The ratings on Japanese banks were largely stable, but a few were placed on negative outlook.

Interestingly, all the major Singaporean banks are now rated AA-, with Overseas Chinese Banking Corp. and United Overseas Bank being upgraded and DBS Bank retaining its rating. Given the now small number of AA- rated banks globally, the rating changes are significant. They signal a change in the relative quality of Asian banks vs. European and US banks.

Impact on Tyndall Australian Bond Fund

The impact of the changes on the Tyndall Australian Bond Fund has been minimal. We do hold major bank senior and subordinated bonds as well as bonds from some of their subsidiaries. But the downgrades have had a limited impact on the Fund's credit quality as the senior debt still remains in the AA-rating band. All of the Australian subordinated debt held within the fund has a call date of 2013 or sooner, and is currently expected to be called at that date.

One of the bank subsidiaries was also downgraded from AA- to A+ which has a slight effect on the overall portfolio rating. However, the fund remains unchanged at a weighted-average overall rating of AA.

Standard & Poor's rating changes – 1 December 2011

The table below shows the rating changes for Australian banks.

Entity	New long-term rating	Previous long-term rating	New short-term rating	Previous short-term rating
Australia and New Zealand Banking Group Ltd.	AA-/Stable	AA/Stable	A-1+	A-1+
Commonwealth Bank of Australia	AA-/Stable	AA/Stable	A-1+	A-1+
Macquarie Group Ltd.	BBB/Stable	A-/Stable	A-2	A-2
Macquarie Bank Ltd.	A/Stable	A/Stable	A-1	A-1
National Australia Bank Ltd.	AA-/Stable	AA/Stable	A-1+	A-1+
Westpac Banking Corp.	AA-/Stable	AA/Stable	A-1+	A-1+

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