ASX announcement

One Company Many Brands

7 December 2011

S&P AFFIRMS SUNCORP BANK'S A+ CREDIT RATING

Standard & Poor's (S&P) today affirmed the long-term credit rating of Suncorp Metway Ltd (Suncorp Bank) at 'A+' as part of its international review of the banking industry. The Suncorp Group credit ratings all have a 'stable' outlook.

Suncorp Group CEO Patrick Snowball said the S&P decision demonstrated the stability of the Group and the strength of its balance sheet.

"Confirmation of the Bank's 'A+' credit rating underscores the importance of the Suncorp Group model and the Bank's core position within the Group," he said.

"The Bank is a critical part of our strategy and its rating benefits from its position within the strong and stable Suncorp Group.

"This is further endorsement of Suncorp's financial services model which delivers diversity of income from across our insurance, banking and life businesses."

Suncorp Bank CEO David Foster said the announcement further positioned Suncorp Bank as the genuine alternative to the major banks.

"Our credit rating provides considerable benefits in terms of access to a wide range of diversified wholesale funding markets at competitive rates which supports our growth," he said.

"S&P acknowledged the sound strategy in diversifying our banking business across personal, SME, commercial and agribusiness banking."

The S&P report is attached.

Ends

For more information contact:

Media:	Michelle Barry, +617 3835 5581
Analysts/Investors:	Mark Ley, +617 3135 3991

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December 6, 2011

Research Update:

Australia-Based Suncorp Metway Ltd. 'A+' Rating Affirmed On Revised Bank Criteria; Outlook Stable

Primary Credit Analyst:
Gavin Gunning, Melbourne (61) 3-9631-2092;gavin_gunning@standardandpoors.com

Secondary Contact:
Peter Sikora, Melbourne (61) 3-9631-2094;peter_sikora@standardandpoors.com

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Research Update:

Australia-Based Suncorp Metway Ltd. 'A+' Rating Affirmed On Revised Bank Criteria; Outlook Stable

Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have affirmed our 'A+' long-term issuer credit rating on Suncorp Metway Ltd. (Suncorp). Our 'A-1' short-term rating is affirmed. The outlook is stable.
- Our ratings on Suncorp reflect the anchor stand-alone credit profile for a bank operating in Australia; plus Suncorp's moderate business position, adequate capital and earnings and risk positions, adequate liquidity, below average funding, and parent support.
- The stable outlook reflects our expectation that: the bank's risk position will solidify at the adequate level, earnings metrics will improve to broadly in-line with peers, funding and liquidity risks will continue to be satisfactorily managed, and the bank will remain a core member of Suncorp Group Ltd.

Rating Action

As we previously announced on Dec. 6, 2011, Standard & Poor's Ratings Services has affirmed its 'A+' long-term and 'A-1' short-term counterparty credit ratings on Suncorp Metway Ltd. (Suncorp). The outlook is stable.

Further, we have withdrawn our bank fundamental strength rating on the bank.

Rationale

Our ratings on Suncorp reflect the anchor stand-alone credit profile (SACP) for a bank operating in Australia; plus the bank's "moderate" business position, "adequate" capital, earnings, risk position and liquidity, "below average" funding, and the bank's core membership of the larger and financially stronger Suncorp Group Ltd.

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor SACP, the starting point in assigning an ICR. The anchor SACP for a bank operating only in Australia is 'a-'. Suncorp conducts all of its lending in its Australian home market. The BICRA score is informed by our evaluation of economic risk, where we view Australia as a wealthy, open, and resilient economy. We consider that build-up of private sector credit and asset prices has eased in the recent years, and that moderate private sector debt is offset by conservative lending practices and a creditor-supportive legal framework. With regard to industry risk, our assessment of the Australian banking industry is underpinned by the country's conservative and comprehensive regulation, and the banking sector's very low risk appetite, partly offset by limited funding support from customer deposits and a material dependence on net external borrowings.

The SACP for Suncorp is 'bbb'.

In our opinion, Suncorp's business position is "moderate". Suncorp's business stability benefits from its good brand and market position in the Australian State of Queensland--Australia's third most populous state; its predominate focus on residential mortgage lending; and its supportive retail deposit customer base. That said, its relative lack of business and geographic diversity means that its financial strength and business stability are heavily influenced by the economic fortunes of the residential mortgage sector in its geographic home region. Additionally, Suncorp's business focus, across what are relatively commoditized mortgage lending and deposit products, leaves it susceptible to potential competitive pressure from the larger and stronger Australian major banks. That said, a degree of business diversity supporting Suncorp's overall business position is achieved through Suncorp's A$4.5 billion commercial and SME lending portfolio, and its A$3.5 billion agri-business portfolio, which form part of its core banking portfolio. We view Suncorp's current strategy as sound. Following asset-quality problems in previous years associated mainly with commercial property and property development lending, Suncorp has refocused its strategy on well-understood and lower-risk products and markets. Even if relatively concentrated from a business and geographic standpoint, our opinion is that the bank's current strategy should have a solidifying effect on its business-position assessment over the medium term.

Suncorp's capitalization and earnings are viewed by us as "adequate". We believe that Suncorp's risk-adjusted capital (RAC) ratio has the capacity to improve above its current level of 10% over the next 18 months--this being a marginal level for a "strong" capital and earnings assessment. Our current assessment of capital and earnings recognizes the bank's above-average use of hybrid capital, however, as well as its recently weaker asset-quality experience compared with peers, which has resulted in lower bank profitability and internal capital-generating capacity. Suncorp's future earnings capacity, however, provides good prospects for the bank to cover credit losses at a normalized level, which could support the bank's ability to sustain its RAC ratio above 10% if its asset quality were to continue to improve and if supportive capital management policies were employed. We note also that Suncorp's quality of capital could improve over the medium term should hybrid capital convert to common equity in 2013.

Suncorp's risk position is assessed as "adequate", reflecting our view that its risk position is fully captured in our capital and earnings assessment. Despite weaker asset quality compared to domestic Australian peer averages over recent years, we believe that Suncorp's future asset quality experience will be more in line with peers' and within normalized loss levels estimated in the bank's RAC ratio considering that Suncorp has embraced a lower-risk lending strategy. Further, Suncorp's risk-position assessment benefits from the material buffer in its RAC ratio within the context of its "adequate" capital and earnings assessment, which provides it with good flexibility to contend with risks inherent in its business profile. We note that Australian residential mortgages remain a low-risk asset class by international standards, which gives us further comfort concerning Suncorp's risk position and helps to offset its exposure and susceptibility to Queensland's regional economic cycles given its relative geographic and business concentration. A factor that we will monitor is Suncorp's future lending growth in residential mortgage products, in particular, if growth is above the Australian system.

We assess Suncorp's funding as "below average" and liquidity as "adequate". Similar to many other Australian financial institutions, Suncorp is considered by us to be materially reliant on wholesale funding. While much of this risk has been taken into account by us in our recent revision of our BICRA assessment of Australia to group '2' from group '1', Suncorp nonetheless demonstrates a higher reliance on wholesale funding compared with some other rated Australian and New Zealand regional financial institutions, and has less wholesale funding diversity compared with Australia's four major banks. We nonetheless view funding and liquidity risks currently as well-managed, with Suncorp demonstrating sufficient funding strength and flexibility at the current rating level. In particular, over recent years, Suncorp has materially improved liquidity, reduced reliance on short-term funding markets, including the offshore commercial paper market, and improved deposit funding levels. Indicating Suncorp's current funding flexibility was Suncorp's recent upsizing of its November 2011 RMBS transaction to A$1.25 billion, from A$750 million. Further, Suncorp is investigating the use of covered bonds, a move that has the potential to add further funding diversity. Suncorp currently appears adequately placed to meet wholesale refinance requirements during 2012.

Our counterparty credit rating on Suncorp is four notches higher than the SACP, reflecting our view that Suncorp is a core member of the Queensland-headquartered Suncorp Group Ltd. Suncorp Group Ltd. operates a number of nationally-operating insurance brands and is one of Australia's largest general insurers. While we believe that Suncorp would benefit from extraordinary support from Suncorp Group Ltd., our current view is that the likelihood of extraordinary government support for the bank, in the unlikely event that it was required, would be low.

The issue ratings on Suncorp's non-deferrable senior subordinated debt of 'A' is affirmed, as we believe Suncorp's repayment capacity would benefit from support provided by the Suncorp Group Ltd. considering our view that Suncorp is core to the group. While we have lowered the issue ratings on Suncorp's hybrid capital instruments by one notch to 'BBB+', reflecting our view concerning the narrow-distributable-profits test for Australian banks, we nonetheless are of the view that these instruments would likewise benefit from group support.

Outlook

The stable outlook reflects our view that the ratings are likely to remain unchanged over the next one-to-two years. To maintain the stable outlook, we expect that Suncorp's asset quality will continue to improve and that earnings metrics will revert to broadly in-line with peer levels. We further expect that funding and liquidity risks will continue to be well managed. Finally, we expect Suncorp to remain core to Suncorp Group Ltd.

Prospects for positive momentum affecting the SACP in the medium term could hinge on our view of future capitalization and earnings, all other rating factors remaining equal. We would need comfort that risk-adjusted capitalization will remain above 10%, on an ongoing basis. This is likely to become clearer pending a fuller recovery of earnings, also taking into account future capital initiatives. Further, funding improvements could also contribute to positive ratings momentum affecting Suncorp's SACP.

We most likely could lower the ratings if we no longer viewed Suncorp as core to Suncorp Group Ltd., noting the significant ratings lift Suncorp benefits from because of its parentage. Negative momentum affecting the SACP could also arise if new or unexpected asset-quality problems were to emerge, or if funding and liquidity weakens compared to domestic peers, or potentially if the peer group as a whole deteriorates. At the current rating level we expect that the knock-on effects of volatile global debt markets because of euro-zone stresses, or other factors, will be adequately managed. We equally note, however, that because we view Suncorp's funding as "below average", we view Suncorp as having some minor scope for deterioration before negative momentum affecting the SACP would arise.

Ratings Score Snapshot

Issuer credit rating	A+/Stable/A-1
SACP	bbb
Anchor	a-
Business position	Moderate (-1)
Capital and earnings	Adequate (0)
Risk position	Adequate (0)
Funding and liquidity	Below average and adequate (-1)
Support	+4
GRE support	0
Group support	+4
Sovereign support	0
Additional factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Affirmed

Suncorp-Metway Ltd.		
Issuer credit rating	A+/Stable/A-1	
Senior unsecured (4 issues)	A+	
Subordinated (6 issues)	A	
Commercial paper (2 issues)	A-1	

Downgraded

	To	From
Suncorp-Metway Ltd.		
Preference stock (1 issue)	BBB+	A-
Preferred stock (1 issue)	BBB+	A-

Not Rated Action

	To	From
Suncorp-Metway Ltd.		
Bank fundamental strength rating		
Local currency	NR	B

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.