
Bendigo and Adelaide Bank Ltd. And Rural Bank Ratings Affirmed At 'A-/A-2'; Outlook Remains Stable

MELBOURNE (Standard & Poor's) July 25, 2012--Standard & Poor's Ratings Services said today that it has affirmed its 'A-/A-2' issuer credit ratings on Bendigo and Adelaide Bank Ltd. (BEN). The outlook on the ratings remains stable. At the same time, we have affirmed the 'A-/A-2' ratings on Rural Bank Ltd., which are equalized with those on its ultimate parent, BEN, because we consider Rural Bank to be a "core" subsidiary of BEN under Standard & Poor's criteria for rating group entities.

"The ratings affirmation and stable rating outlook importantly recognize BEN's demonstrated commitment to actively manage its capital position. The bank has implemented initiatives to ensure it maintains its projected risk-adjusted capital (RAC) ratio at a level supportive of the current rating," said Standard & Poor's credit analyst Lisa Barrett.

We have assessed BEN's capital and earnings profile as "strong", underpinned by our expectation that the bank will maintain its RAC ratio at more than 10% in the medium term. The recent strengthening in its RAC ratio to this level has been supported by its December 2011 AS\$150 million institutional share placement and February 2012 Share Purchase Plan, which raised an additional AS\$46 million in capital. Factored into our expectations of a projected RAC ratio between 9.9% and 10.4% is our understanding that the bank will continue to undertake a range of capital-management initiatives to sustain its RAC ratio at a level supportive of its strong capital and earnings assessment. Additionally, we expect BEN to redeem or convert outstanding reset preference shares at the next reset date--Nov. 1, 2012--which could also positively affect its level of total adjusted capital.

"The stable outlook reflects our expectation that BEN will: maintain its RAC ratio at more than 10% over the medium term; sustain its sound loss experience; and continue to improve revenue stability, which has added further support to its "adequate" business position assessment," Ms. Barrett said.

The most likely scenario for a downgrade would relate to a reassessment of BEN's capital and earnings assessment to "adequate" from the current assessment of "strong", particularly as the bank's projected RAC ratio is marginal for the current rating. This scenario could come about if BEN decided not to progress capital-management initiatives required to maintain its RAC ratio at more than 10% due to a change in its capital-management strategy or due to the realization of a large unexpected loss or downturn in earnings, particularly if this was accompanied by above-system loan growth.

Upward rating prospects are limited in the short-to-medium term. The most likely scenario for an upgrade would stem from a strategic shift in the bank's capital-management plans that resulted in a sustained elevation in its RAC ratio to a level commensurate with an assessment of "very strong".

RELATED CRITERIA AND RESEARCH

- 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

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