S&P Global Ratings

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Norfina Ltd. (trading as Suncorp Bank)

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Norfina Ltd. (trading as Suncorp Bank)

Ratings Score Snapshot

Issuer Credit Rating
AA-/Stable/A-1+

SACP: a- → **Support: +3** → **Additional factors: 0**

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	+3
Sovereign support	0

Issuer credit rating
AA-/Stable/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Highly likely to receive support from parent if needed.	Price taker in Australia's commoditized retail banking market.
Strong capital.	

We believe Australia and New Zealand Banking Group Ltd. (ANZ) will provide timely financial support to Norfina Ltd. (trading as Suncorp Bank) in all foreseeable situations. Accordingly, we equalize our ratings on Suncorp Bank with that on ANZ (AA-/Stable/A-1+). We consider Suncorp Bank to be an integral part of ANZ's groupwide strategy, now making up a considerable part of ANZ's operations. In addition, we expect the Australian government to extend its support for ANZ to Suncorp Bank, if needed.

Capital will remain strong. We project our risk adjusted capital (RAC) ratio for the bank will remain well above 10% over the next two years.

Suncorp Bank remains a price taker. Like similarly sized peers, the bank remains vulnerable to competitive pressures from the much larger Australian major banks. These banks collectively make up about 72% of the country's retail banking market.

Outlook

The stable rating outlook on Suncorp Bank mirrors that on its parent, ANZ. We expect to maintain our issuer credit ratings on Suncorp Bank at the same level as that on its parent over the next two years.

Downside scenario

We will lower our ratings on Suncorp Bank if we downgrade ANZ.

In addition, risks to the ratings on Suncorp Bank would emerge if the company's importance to the broader group diminishes. This could occur if there were a weakened commitment of support from the parent; a dilution in shareholding; or a reduction in Suncorp Bank's importance to the group strategy. We consider these scenarios to be unlikely over the next two years.

Upside scenario

We see very limited upside to our issuer credit rating on Suncorp Bank over the next two years, in line with our view on ANZ.

Key Metrics

Norfina Ltd.--Key ratios and forecasts

	--Fiscal year ended Jun. 30--				
(%)	**2023a**	**2024a**	**2025f**	**2026f**	**2027f**
Growth in operating revenue	14.5	(5.1)	9.3-11.4	3.5-4.2	3.7-4.5
Growth in customer loans	8.3	3.8	4.5-5.5	4.5-5.5	5.0-6.1
Growth in total assets	9.1	4.3	4.5-5.5	4.5-5.5	4.9-6.0
Net interest income/average earning assets (NIM)	1.8	1.7	1.7-1.8	1.6-1.8	1.6-1.8
Cost to income ratio	52.7	59.2	57.1-60.0	56.1-59.0	55.0-57.8
Return on average common equity	12.8	9.9	9.1-10.0	9.1-10.1	9.2-10.2
Return on assets	0.6	0.5	0.4-0.5	0.4-0.5	0.4-0.5
New loan loss provisions/average customer loans	0.0	0.0	0.1-0.1	0.1-0.1	0.1-0.1
Gross nonperforming assets/customer loans	0.7	0.9	0.9-0.9	0.9-0.9	0.9-0.9
Net charge-offs/average customer loans	0.0	0.0	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	13.6	13.7	13.5-14.0	13.5-14.0	13.5-14.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: Resilient Economy, Conservative Regulations, And Low Risk Appetite Mitigate Housing And Funding Risks

The starting point for our ratings on Suncorp Bank--similar to all other banks operating predominantly in Australia--reflects our assessment of Australia's macroeconomic environment.

Australia has a wealthy, open, and resilient economy that has performed well following economic downcycles and external shocks. Low unemployment over the next two years should keep credit losses for banks in Australia low and close to pre-pandemic levels. Nevertheless, these banks remain exposed to a jump in credit losses due to high household debt, elevated interest rates and prices, and global economic uncertainties. We expect the persistent gap between housing demand and supply to drive modest growth in property prices in the next two years.

We consider Australia's prudential regulatory standards and supervision to be among the strongest globally. In our view, an oligopolistic structure in the country's banking industry supports system stability. Sound earnings and solid interest margins should protect the system from unforeseen events, including a significant rise in credit losses. A material dependence on external borrowing exposes Australian banks to funding disruptions.

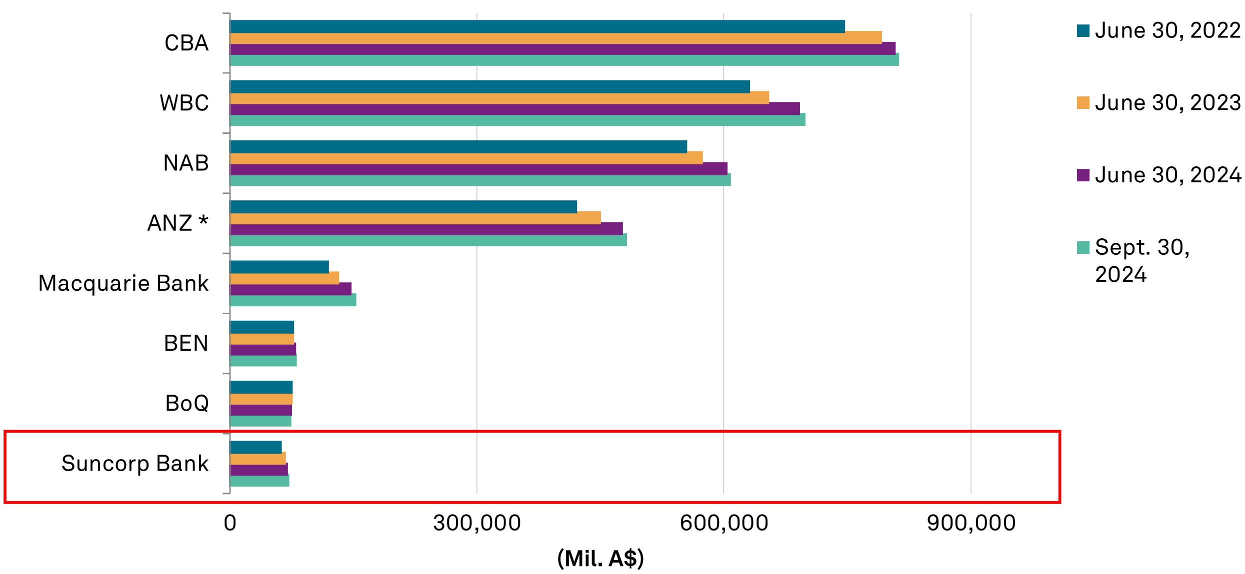
Business Position: Suncorp Bank Will Benefit From ANZ's Size And Scale

Suncorp Bank remains a price taker as a stand-alone player. We believe the bank will remain susceptible to competitive pressures from the larger major banks. We hold a similar view for similarly sized Bendigo and Adelaide Bank Ltd. (BEN; A-/Stable/A-2) and Bank of Queensland Ltd. (BoQ; A-/Negative/A-2). This is because the four major banks collectively make up about 72% of Australia's lending market, versus about 2% each for BEN, BoQ and Suncorp Bank (see chart 1).

That said, while Suncorp Bank currently operates as a separate commercial entity, its assets and liabilities are legally consolidated onto ANZ's balance sheet. Suncorp Bank plans to decouple from its legacy Suncorp Group systems and migrate onto ANZ's platform within the next four to five years. In the interim, we believe Suncorp Bank will increasingly benefit from the scale and resources of the wider group.

Chart 1

Suncorp Bank remains small as a stand-alone bank
Total lending exposures



*Does not include Suncorp Bank exposures. CBA: Commonwealth Bank of Australia, WBC: Westpac Banking Corp., ANZ: Australia and New Zealand Banking Group Ltd., BEN: Bendigo and Adelaide Bank Ltd., BoQ: Bank of Queensland Ltd.
Source: Australian Prudential Regulation Authority.

We expect Suncorp Bank will operate business-as-usual in the lead-up to migrating customers onto ANZ's platform. In collaboration with its parent, Suncorp Bank has a significant pipeline of work over the next three years to prepare for the migration of customers to ANZ's platform. While this will likely be a resource drain for Suncorp Bank, we do not expect the bank to deviate from its core retail banking activities over the next 12-24 months.

Residential mortgages are likely to remain the predominant source of lending for Suncorp Bank over the next two years. These loans accounted for about 82% of total lending as of June 30, 2024.

ANZ plans to return the Norfina banking license to the regulator within the next 36 months.

Suncorp Bank will continue writing new business under the Suncorp brand over the next 24 months. As a precondition to the acquisition, ANZ have the right to retain this legacy brand for at least five years after the Aug. 1, 2024, acquisition date, with the option to extend for another two years. While this will likely cause some business cannibalization--as the group finalizes the integration roadmap--we expect Suncorp Bank and ANZ to collaborate to rationalize its product offerings to avoid this.

Capital And Earnings: Strong Capital

Suncorp Bank's capital should remain a strength for its credit profile. We project our RAC ratio for the bank will remain stable at 13.5%-14.0% over the next two years. This reflects our view that Suncorp Bank will grow its loan book at about system levels while maintaining solid internal capital generation. As of June 30, 2024, our RAC ratio for Suncorp Bank was 13.7%.

Suncorp Bank maintains its capital well above regulatory minimums. The bank has a common equity Tier-1 (CET-1) ratio target range of 10.0%-10.5%. As of June 30, 2024, Suncorp Bank's CET-1 ratio was 10.3%.

We expect the bank will upstream excess capital to ANZ sufficient to maintain its CET-1 ratio within the target operating ratio. We expect for this to be about 40% of annual earnings.

Alternatively, if required, Suncorp Bank also has access to capital management tools such as capital-relieving securitization, forgoing dividend payments, or in equity injections from ANZ. Notwithstanding, we believe it's highly unlikely the latter two tools will be needed over the next 12-24 months.

Earnings to remain strong over the next two years. This is because ANZ, not Suncorp Bank, will incur most integration costs. While Suncorp Bank will incur some one-off acquisition-related transaction costs in fiscal 2025 (ended June 30), we believe a recovery in net interest margin (NIM) will support earnings.

Competition on both sides of the balance sheet and a preference shift among depositors for higher-yielding products drove a 16-basis point decline in fiscal 2024 NIM. We believe replicating portfolio tailwinds and a slightly cheaper wholesale funding profile should support a NIM recovery over the next 12 months.

Risk Position: Mortgage-Focused Loan Book Supports Asset Quality

Suncorp Bank's risk profile is consistent with the broader Australian banking system. We believe the standard risk weights we apply in our capital and earnings assessment adequately capture the bank's risk profile. This is consistent with our view on ANZ and the other major and regional banks.

We do not consider Suncorp Bank's core activities to be complex or high-risk. The bank mostly operates in retail banking. In our opinion, it has adequate risk management systems and practices for an organization of its size and complexity. Further, Suncorp Bank is subject to risk oversight from the broader ANZ group.

Acquisition-related integration risks remain. While Suncorp Bank has managed these risks well to date, the integration is in its infancy. To date, there have been no material operational risk lapses related to the acquisition or integration. The group has been cautious in its approach to integration, having earmarked the first 12 months post-acquisition primarily for planning and strategic alignment. The bank plans to begin exiting from most of its transitional services agreements with Suncorp Group Ltd. by the end of fiscal 2025.

Suncorp Bank will maintain a conservative risk appetite, in our view. The bank appears to have a moderate growth appetite broadly in line our expectations for the system, consistent with its parent.

Asset quality should remain sound despite inflationary pressures. We forecast credit losses of about 10 basis points (bps) of customer loans over the next 24 months, slightly lower than our expectation for the wider banking sector. This is because Suncorp Bank has a history of very low credit losses and a greater skew toward residential mortgage lending compared with the major banks.

Funding And Liquidity: Susceptible To Competitive Pressures As A Stand-alone Entity

Australia's small and midsize financial institutions are vulnerable to funding pressure from the major banks. On a stand-alone basis, this includes Suncorp Bank.

We assess the funding profiles of the four major banks and Macquarie Bank Ltd. to be stronger than all other banking institutions in Australia. This is because we believe the major banks could bring funding pressure on all other Australian financial institutions if they decided, or were forced, to compete more aggressively for domestic deposits due to a dislocation in overseas wholesale funding markets. Such a market event would be accompanied by some form of economic crisis, which would likely cause a flight to safety in domestic deposit markets, in our assessment.

However, if such a scenario occurs over the next 24-36 months before the Norfina banking license is withdrawn, we believe ANZ would have a material incentive to provide funding support to Suncorp Bank, if needed.

Suncorp Bank is a price taker in the Australian deposit market. It remains predominately funded by customer deposits. Core deposits made up about 68% of the bank's funding base as of June 30, 2024, unchanged from 12 months earlier. The balance was largely made up of senior unsecured debt (19%), covered bonds (6%), and residential mortgage-backed securities (6%). The bank maintained a net stable funding ratio of 123% through the half year to June 30, 2024. This was broadly on par with regional banking peers.

Suncorp Bank will benefit from ANZ's deep access and established franchise in global capital markets. The subsidiary will continue issuing debt under the Suncorp Bank brand until the Norfina banking license is withdrawn. In the interim, we expect Suncorp Bank to benefit from ANZ's international presence via access to a wider investor base.

Suncorp Bank has sufficient on-balance sheet liquidity to meet at least 12 months of general market stress, in our view. The bank had a short-term wholesale coverage ratio (on-balance sheet liquidity cover for wholesale funding maturing within 12 months) of 0.7x as of June 30, 2024. This was consistent with its four-year average level. While this is lower than the average for regional and major bank peers, we believe ANZ would provide support to Suncorp Bank, if required. Alternatively, Suncorp Bank can also draw on contingent liquidity from the central bank via repurchase agreements of internally securitized mortgages.

Suncorp Bank consistently manages its liquidity coverage ratio (LCR) well above the regulatory prescribed minimum of 100%. As of June 30, 2024, the bank had an LCR of 155%.

Support: Likely Timely Support From ANZ Enhances Creditworthiness

We equalize our ratings on Suncorp Bank with those on its parent, ANZ. Consequently, our long-term rating on Suncorp Bank factors in three notches of uplift above the bank's stand-alone credit profile (SACP) of 'a-'.

This reflects our view that ANZ is likely to provide timely financial support to Suncorp Bank in all foreseeable circumstances. Suncorp Bank is now ANZ's second-largest subsidiary, behind ANZ Bank New Zealand Ltd. (ANZ NZ; AA-/Stable/A-1+). The Australian-based subsidiary provides the group with greater geographic diversification, predominantly in the state of Queensland.

We believe Suncorp Bank is an integral part of ANZ's groupwide strategy. Suncorp Bank accounted for about 9% of the group loan book as of Sept. 30, 2024. This makes it unlikely ANZ would divest Suncorp Bank, in our view. ANZ has already incurred significant costs since the acquisition and has invested considerable resources planning the integration of Suncorp Bank. As such, we believe there are strong incentives for the group to support Suncorp Bank, if needed, before being fully integrated into ANZ.

Furthermore, we expect that the Australian government's support for ANZ would extend to Suncorp Bank, if needed. This is because any financial distress at Suncorp Bank could harm ANZ's perceived creditworthiness in domestic and international capital markets.

Environmental, Social, And Governance (ESG)

We see ESG factors for Suncorp Bank to be broadly in line with those for industry and domestic peers. Given the retail banking services the bank provides, we view social factors as important. These include the bank's obligation to lend responsibly and ensure customers have adequate understanding of bank credit products.

We see environmental factors as less relevant than social and governance factors to the creditworthiness of Suncorp Bank. The mining sector accounts for only about 1% of the total domestic lending by the Australian banking sector. Still, we believe the bank has indirect exposure to environmental factors because it operates in an economy where the commodities sector is significant.

Evolving domestic and global environment standards and legislation as well as changing customer preferences leading to a transition toward less carbon-intensive forms of energy could weaken the broader economy and consequently, Suncorp Bank's lending portfolio.

Key Statistics

Table 1

Norfina Ltd. (trading as Suncorp Bank)--Key figures

	Annual Jun-2024	Annual Jun-2023	Annual Jun-2022	Annual Jun-2021	Annual Jun-2020
Adjusted assets	84,953	81,487	74,699	65,844	65,925
Customer loans (gross)	70,044	67,486	62,294	57,786	58,254

Table 1

Norfina Ltd. (trading as Suncorp Bank)--Key figures (cont.)

	Annual Jun-2024	Annual Jun-2023	Annual Jun-2022	Annual Jun-2021	Annual Jun-2020
Adjusted common equity	3,988	3,769	3,576	3,435	3,435
Operating revenues	1,358	1,431	1,250	1,284	1,238
Noninterest expenses	804	754	762	757	719
Core earnings	379	462	352	403	243

Table 2

Norfina Ltd. (trading as Suncorp Bank)--Business position

	Annual Jun-2024	Annual Jun-2023	Annual Jun-2022	Annual Jun-2021	Annual Jun-2020
Total revenues from business line (currency in millions)	1,358	1,431	1,250	1,284	1,238
Commercial and retail banking/total revenues from business line	100.00	100.00	100.00	100.00	100.00
Return on average common equity	9.91	12.82	9.79	11.17	7.00

Table 3

Norfina Ltd. (trading as Suncorp Bank)--Capital and earnings

	Annual Jun-2024	Annual Jun-2023	Annual Jun-2022	Annual Jun-2021	Annual Jun-2020
Tier 1 capital ratio	12.01	12.11	10.68	11.82	11.09
Adjusted common equity/total adjusted capital	87.69	87.06	86.46	85.45	85.45
Net interest income/operating revenues	100.74	98.39	99.60	96.73	96.20
Fee income/operating revenues	(1.47)	(0.49)	0.16	1.09	2.02
Market-sensitive income/operating revenues	0.44	1.33	(0.32)	1.64	1.05
Cost to income ratio	59.20	52.69	60.96	58.96	58.08
Preprovision operating income/average assets	0.67	0.87	0.69	0.80	0.78
Core earnings/average managed assets	0.46	0.59	0.50	0.61	0.37

Table 4

Norfina Ltd.--Risk-adjusted capital framework data

(Mil. A$)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's Global Ratings' RWA	Average Standard & Poor's Global Ratings' RW (%)
Credit risk					
Government and central banks	12,188	0	0	350	3
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	230	46	20	22	10
Corporate	12,656	9,717	77	10,804	85
Retail	58,943	19,613	33	17,558	30
Of which mortgage	57,477	18,808	33	16,461	29
Securitization§	131	26	20	26	20

Table 4

Norfina Ltd.--Risk-adjusted capital framework data (cont.)					
Other assets†	1,088	924	85	1,442	133
Total credit risk	85,236	30,326	36	30,202	35
Credit valuation adjustment					
Total credit valuation adjustment	'--	25	'--	0	'--
Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	'--	158	'--	237	'--
Total market risk	'--	158	'--	237	'--
Operational risk					
Total operational risk	'--	2,688	'--	2,683	'--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	'--	33,197	'--	33,123	100
Total diversification/ Concentration adjustments	'--	'--	'--	5,696	17
RWA after diversification	'--	33,197	'--	38,819	117
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,994	12.0	4,548	13.7
Capital ratio after adjustments‡		3,994	12.0	4,548	11.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of June 30, 2024, S&P Global Ratings.

Table 5

Norfina Ltd. (trading as Suncorp Bank)--Risk position					
	Annual Jun-2024	**Annual Jun-2023**	**Annual Jun-2022**	**Annual Jun-2021**	**Annual Jun-2020**
Growth in customer loans	3.79	8.33	7.80	(0.80)	(2.35)
Total managed assets/adjusted common equity (x)	21.31	21.63	20.89	19.17	19.20
New loan loss provisions/average customer loans	0.02	0.03	(0.02)	(0.08)	0.29
Net charge-offs/average customer loans	0.02	0.02	0.01	0.02	0.02
Gross nonperforming assets/customer loans + other real estate owned	0.88	0.67	0.80	1.30	1.36
Loan loss reserves/gross nonperforming assets	34.85	48.45	43.49	31.78	38.10

Table 6

Norfina Ltd. (trading as Suncorp Bank)--Funding and liquidity					
	Annual Jun-2024	**Annual Jun-2023**	**Annual Jun-2022**	**Annual Jun-2021**	**Annual Jun-2020**
Core deposits/funding base	67.93	67.53	68.95	68.02	65.44
Customer loans (net)/customer deposits	129.29	130.78	128.99	138.60	145.07
Long-term funding ratio	83.72	81.39	85.63	87.61	82.57
Stable funding ratio	92.50	91.00	95.61	94.37	88.04
Short-term wholesale funding/funding base	17.19	19.66	15.19	13.26	18.59
Regulatory net stable funding ratio	123.00	123.00	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.68	0.64	0.81	0.67	0.41
Broad liquid assets/total assets	10.92	11.82	11.50	8.22	7.03
Broad liquid assets/customer deposits	17.18	18.73	17.86	13.03	11.61
Net broad liquid assets/short-term customer deposits	(8.07)	(10.31)	(4.16)	(6.50)	(16.78)
Regulatory liquidity coverage ratio (LCR) (%)	155.00	137.00	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	52.44	59.20	47.69	40.27	52.33

N/A--Not applicable.

Norfina Ltd.--Rating component scores	
Issuer credit rating	**AA-/Stable/A-1+**
SACP	a-
Anchor	a-
Economic risk	3
Industry risk	2
Business position	Adequate
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+3
ALAC support	0
GRE support	0
Group support	+3
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of November 27, 2024)*	
Norfina Ltd.	
Issuer Credit Rating	AA-/Stable/A-1+
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	AA-
Short-Term Debt	A-1+
Issuer Credit Ratings History	
30-Jul-2024	AA-/Stable/A-1+
02-Apr-2024	A+/Watch Pos/A-1
19-Jul-2022	A+/Positive/A-1
29-Jun-2022	A+/Negative/A-1
14-Dec-2021	AA-/Stable/A-1+
30-Jan-2020	A+/Positive/A-1
Sovereign Rating	
Australia	AAA/Stable/A-1+
Related Entities	
ANZ Bank New Zealand Ltd.	
Issuer Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	
Local Currency	AA-/A-1+
Preference Stock	BBB+
Senior Unsecured	A-1+

Ratings Detail (As Of November 27, 2024)*(cont.)	
Senior Unsecured	AA-
Subordinated	A
Subordinated	A-
ANZ Holdings (New Zealand) Ltd.	
Junior Subordinated	BBB
Australia and New Zealand Bank (China) Co. Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Australia and New Zealand Banking Group Ltd.	
Issuer Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	
Foreign Currency	AA-/A-1+
Commercial Paper	
Foreign Currency	A-1+
Junior Subordinated	BBB
Senior Unsecured	A-1+
Senior Unsecured	AA-
Subordinated	A-
Australia and New Zealand Banking Group Ltd. (London Branch)	
Junior Subordinated	BBB
Australia and New Zealand Banking Group Ltd.(New York Branch)	
Senior Unsecured	AA-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.