

# Norfina Limited

## Update

### Key Rating Drivers

**Sale Completion; 'Extremely High' Support:** The upgrade of Norfina Limited's (trading as Suncorp Bank) Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) follows the successful completion of its sale to Australia and New Zealand Banking Group Limited (ANZ; AA-/Stable/a+). The Long-Term IDR and SSR are anchored to and in line with ANZ's Long-Term IDR as we expect Suncorp Bank to benefit from the junior debt buffers being built by ANZ.

Suncorp Bank, formerly known as Suncorp-Metway Limited, is part of ANZ's Level 2 banking group and therefore ANZ is required to build loss-absorbing capacity to cover Suncorp Bank as part of the Australian resolution framework. Suncorp Bank's SSR is equalised with ANZ's Long-Term IDR, reflecting our view that a default would result in huge reputational risk for ANZ.

**Huge Reputational Risk:** A Suncorp Bank failure would have a huge reputational impact on ANZ as both banks operate in Australia and rely on wholesale funding for a substantial portion of total funding requirements. This could result in a higher cost of or reduced access to wholesale funding for ANZ. The ratings also reflect that Suncorp Bank is small relative to ANZ and both banks are regulated by the Australian Prudential Regulation Authority (APRA), which means the regulator is likely to favour support for the bank to reduce contagion risk.

**Economic Growth to Slow:** We expect the high inflation and rapid interest rate increases in 2022 and 2023 to slow economic growth and raise unemployment in Australia through 2024. However, the weakening should not result in sharp asset-quality deterioration. We factor in high household leverage into our assessment to reflect households' susceptibility to sharp interest-rate hikes, resulting in a score at the lower end of the 'aa' category.

**Simple Business Model:** Suncorp Bank's business profile score reflects its straightforward business model and modest market share. The bank's operations centre around traditional banking activities, primarily residential mortgages. This helps to limit earnings volatility. The proportion of commercial loans, including agricultural and SME lending, within Suncorp Bank's total loans has diminished in recent periods.

**Low Risk Underwriting Standards:** Sound underwriting standards and robust risk controls contribute to Suncorp Bank's stable asset quality through economic cycles. The bank's risk management protocols are broadly in line with those of domestic peers.

**Impaired Loans to Rise:** We expect asset quality to weaken through the remainder of 2024, as borrowers are strained by cost of living pressures and interest rates remain high. A large increase in stage 3 loans is unlikely due to low unemployment and buffers built up by households.

**Earnings Challenges Ahead:** We expect profitability metrics to weaken over the next two years, reflecting shrinking net interest margins, subdued loan growth and rising expenses. Impairment charges are also likely to rise moderately, adding to inflationary and regulatory compliance pressures.

**Sound Capital Position:** We expect the common equity Tier 1 (CET1) ratio to decline modestly from the 10.5% reported at end-December 2023 as earnings headwinds limit internal capital generation. This would remain consistent with a score in the 'a' category.

**Solid Deposit Funding Base:** Fitch expects the bank's funding and liquidity profile to weaken modestly over the next two years, with deposits to remain the main form for funding. Suncorp Bank is likely to benefit from cheaper wholesale funding costs following the sale to ANZ.

### Ratings

Foreign Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+

Viability Rating a-

Shareholder Support Rating aa-

### Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

### Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

### Related Research

[Fitch Upgrades Australia's Suncorp Bank to 'AA-/Stable; Removes RWP \(August 2024\)](#)

[Global Economic Outlook - June 2024 \(June 2024\)](#)

[Suncorp-Metway Limited \(June 2024\)](#)

[Fitch Upgrades Australia and New Zealand Banking Group to 'AA-'; Stable Outlook \(May 2024\)](#)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

#### Long-Term IDR and SSR

Suncorp Bank's Long-Term IDR and SSR would be downgraded if ANZ's Long-Term IDR is downgraded, or there is a reduced propensity to support, although we view the latter as unlikely.

The Long-Term IDR and SSR may also be downgraded if we believe that ANZ's qualifying junior debt buffers are no longer sufficient to protect senior creditors in a resolution event.

The rating sensitivities for ANZ's Long-Term IDR can be found in the press release [Fitch Upgrades Australia and New Zealand Banking Group to 'AA-'; Stable Outlook](#), published 26 May 2024.

#### VR

Suncorp Bank's Viability Rating (VR) may be downgraded if a combination of the following were to occur:

- the four-year average of stage 3 loans/gross loans is likely to remain above 2.5% (financial year ended June 2020 (FYE20)-FYE23: 1.0%);
- the four-year average of the operating profit/risk-weighted asset ratio declines below 1.0% for a sustained period (FYE20-FYE23: 1.7%);
- the CET1 ratio falls below 10.0% (end-1HFY24: 10.5%) without a credible plan to increase it back above this level and group surplus capital drops significantly.

The VR is also sensitive to an increase in Suncorp Bank's risk profile, such as a loosening of underwriting standards or risk controls in the pursuit of growth, although that appears unlikely in the current environment.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

#### Long-Term IDR and SSR

Suncorp Bank's SSR and Long-Term IDR could be upgraded if ANZ's Long-Term IDR is upgraded.

#### VR

An upgrade of Suncorp Bank's VR would require both a significant improvement in the bank's franchise, such that the business profile is commensurate with a factor score of 'a-' (currently bbb+), and a significant and sustained improvement in all the financial profile factors. This appears unlikely over the next two years.

## Other Debt and Issuer Ratings

Rating Level	Rating	Outlook
Senior Unsecured: Long Term	AA-	Watch Off
Senior Unsecured: Short Term	F1+	

Source: Fitch Ratings

The senior debt ratings have been upgraded and are in line with Suncorp Bank's IDRs, consistent with Fitch's *Bank Rating Criteria*.

Suncorp Bank's Short-Term IDR maps to the Long-Term IDR of 'AA-' and is in line with ANZ's Short-Term IDR.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

#### Senior Unsecured

The senior unsecured debt ratings will be downgraded if Suncorp Bank's IDRs are downgraded.

#### Short-Term IDR

The Short-Term IDR would be downgraded if ANZ's Short-Term IDR is downgraded.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade


#### Senior Unsecured

The senior unsecured debt ratings will be upgraded if Suncorp Bank's IDRs are upgraded.

Short-Term IDR

The Short-Term IDR cannot be upgraded as it is at the highest level on Fitch’s rating scale.

Ratings Navigator

Norfina Limited							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA- Sta
							a+	a+	a+	A+
							a	a	a	A
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## Financials

### Summary Financials

	31 Dec 23		30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
	6 months - interim (USDm)	6 months - interim (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>						
Net interest and dividend income	456	666.0	1,408.0	1,245.0	1,242.0	1,191.0
Net fees and commissions	-7	-10.0	-7.0	2.0	14.0	25.0
Other operating income	3	5.0	30.0	3.0	28.0	22.0
Total operating income	452	661.0	1,431.0	1,250.0	1,284.0	1,238.0
Operating costs	264	386.0	754.0	762.0	757.0	719.0
Pre-impairment operating profit	188	275.0	677.0	488.0	527.0	519.0
Loan and other impairment charges	1	1.0	17.0	-14.0	-49.0	172.0
Operating profit	187	274.0	660.0	502.0	576.0	347.0
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	56	82.0	198.0	150.0	173.0	104.0
Net income	131	192.0	462.0	352.0	403.0	243.0
Other comprehensive income	78	114.0	-26.0	-185.0	20.0	24.0
Fitch comprehensive income	209	306.0	436.0	167.0	423.0	267.0
<b>Summary balance sheet</b>						
<b>Assets</b>						
Gross loans	46,868	68,520.0	67,321.0	62,073.0	57,563.0	58,024.0
- of which impaired	375	548.0	490.0	583.0	843.0	925.0
Loan loss allowances	144	210.0	219.0	217.0	239.0	301.0
Net loans	46,724	68,310.0	67,102.0	61,856.0	57,324.0	57,723.0
Interbank	580	848.0	1,788.0	2,490.0	1,495.0	567.0
Derivatives	244	357.0	501.0	579.0	310.0	691.0
Other securities and earning assets	7,021	10,265.0	11,639.0	9,392.0	6,340.0	6,554.0
Total earning assets	54,570	79,780.0	81,030.0	74,317.0	65,469.0	65,535.0
Cash and due from banks	1,422	2,079.0	102.0	109.0	68.0	161.0
Other assets	352	514.0	376.0	294.0	328.0	250.0
Total assets	56,343	82,373.0	81,508.0	74,720.0	65,865.0	65,946.0
<b>Liabilities</b>						
Customer deposits	35,934	52,535.0	51,434.0	48,125.0	41,520.0	39,947.0
Interbank and other short-term funding	5,356	7,830.0	8,503.0	7,326.0	5,877.0	6,870.0
Other long-term funding	11,210	16,389.0	16,317.0	14,484.0	13,728.0	14,304.0
Trading liabilities and derivatives	306	447.0	520.0	559.0	272.0	534.0
Total funding and derivatives	52,878	77,307.0	76,774.0	70,494.0	61,397.0	61,655.0
Other liabilities	398	582.0	432.0	201.0	158.0	217.0
Preference shares and hybrid capital	383	560.0	560.0	560.0	585.0	585.0
Total equity	2,684	3,924.0	3,742.0	3,465.0	3,725.0	3,489.0
Total liabilities and equity	56,343	82,373.0	81,508.0	74,720.0	65,865.0	65,946.0
Exchange rate		USD1 = AUD1.461988	USD1 = AUD1.508296	USD1 = AUD1.451589	USD1 = AUD1.330141	USD1 = AUD1.457089

Source: Fitch Ratings, Fitch Solutions, Suncorp Bank

## Key Ratios

	31 Dec 23	30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
<b>Ratios (annualised as appropriate, %)</b>					
<b>Profitability</b>					
Operating profit/risk-weighted assets	1.7	2.0	1.4	1.7	1.1
Net interest income/average earning assets	1.6	1.8	1.8	1.9	1.8
Non-interest expense/gross revenue	58.4	52.7	61.0	59.0	58.1
Net income/average equity	9.9	12.7	9.7	11.1	6.9
<b>Asset quality</b>					
Impaired loans ratio	0.8	0.7	0.9	1.5	1.6
Growth in gross loans	1.8	8.5	7.8	-0.8	-2.2
Loan loss allowances/impaired loans	38.3	44.7	37.2	28.4	32.5
Loan impairment charges/average gross loans	0.0	0.0	0.0	-0.1	0.3
<b>Capitalisation</b>					
Common equity Tier 1 ratio	10.5	10.4	9.1	10.1	9.3
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	4.7	4.4	4.5	5.6	5.2
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	9.8	8.0	11.6	18.0	20.2
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Funding and liquidity</b>					
Gross loans/customer deposits	130.4	130.9	129.0	138.6	145.3
Gross loans/customer deposits + covered bonds	n.a.	124.0	123.6	132.0	136.4
Liquidity coverage ratio	139.0	137.0	135.0	149.0	156.0
Customer deposits/total non-equity funding	67.9	67.0	68.3	67.3	64.7
Net stable funding ratio	124.0	123.0	138.0	131.0	123.0

Source: Fitch Ratings, Fitch Solutions, Suncorp Bank

## Support Assessment

Shareholder Support	
Shareholder IDR	AA-
Total Adjustments (notches)	0
Shareholder Support Rating	aa-
Shareholder ability to support	
Shareholder Rating	AA-/ Stable
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

Suncorp Bank's SSR, IDRs and senior debt ratings are driven by Fitch's assessment that there is an extremely high probability of support from the parent, ANZ, if required. We believe a default of Suncorp Bank would cause huge reputational damage for ANZ as ANZ is reliant on wholesale funding and both banks are domiciled in Australia.

Suncorp Bank is modest in size relative to ANZ so any required support should be manageable. Both banks are regulated by APRA, and ANZ is required to hold resolution buffers to cover Suncorp Bank, indicating that its senior creditors should be protected on a failure of the bank, similar to our assumption for ANZ.

ANZ will progressively transfer Suncorp Bank customers to its own systems over the next three years before handing back Suncorp Bank's banking licence to APRA.

Environmental, Social and Governance Considerations

**Credit-Relevant ESG Derivation**

Norfina Limited has 6 ESG potential rating drivers

- Norfina Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Norfina Limited has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

Category	Score	Issues	ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	3	issues	2
	5	issues	1

**Environmental (E) Relevance Scores**

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

**How to Read This Page**  
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

**The Credit-Relevant ESG Derivation table's** far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

**Social (S) Relevance Scores**

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

**Governance (G) Relevance Scores**

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

**CREDIT-RELEVANT ESG SCALE**  
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Suncorp Bank has an ESG Relevance Score of '3' for Exposure to Social Impacts, above the bank sector default score of '2', which is aligned with the score for ANZ. This reflects the ongoing scrutiny of the conduct and practices of

Australia's largest banks by consumers and authorities after the 2018 royal commission into misconduct in the sector. This scrutiny has a minimal impact on Suncorp Bank's business profile and ratings.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](https://www.fitchratings.com/topics/esg/products#esg-relevance-scores).



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