

Research Update:

Suncorp-Metway Ltd. Upgraded To 'AA-/A-1+' From 'A+/A-1' On Completed Acquisition By ANZ; Outlook Stable

July 31, 2024

Overview

- Australia and New Zealand Banking Group Ltd. (ANZ) has completed its acquisition of Australia-based bank Suncorp-Metway Ltd. (SML).
- We now believe ANZ will support SML in all foreseeable circumstances, if required. Following the acquisition, the bank's legal name is Norfina Ltd. The bank will maintain the Suncorp brand for trading purposes.
- We have raised our issuer credit ratings on SML to 'AA-/A-1+' because we equalize these ratings with those on ANZ. We removed our ratings on SML from CreditWatch.
- The stable rating outlook on SML mirrors that on its parent, ANZ.

Rating Action

On July 31, 2024, S&P Global Ratings raised its long- and short-term ratings on SML to 'AA-/A-1+' from 'A+/A-1'. At the same time, we removed the ratings from CreditWatch, where we had placed them with positive implications on April 2, 2024. The outlook on the long-term rating is stable.

Rationale

The upgrade follows the completion of ANZ's acquisition of SML.

We believe ANZ (AA-/Stable/A-1+) will support SML in all foreseeable circumstances. SML is now the second-largest subsidiary of the ANZ group. It provides the group with greater geographic diversification, predominantly in the Australian state of Queensland.

The acquisition will also support the ANZ group in its continuing efforts to expand the footprint of its residential mortgage portfolio. SML accounts for about 5% of the total group capital and about 12% of residential loans. Consequently, we consider SML to be a core part of the ANZ group and

PRIMARY CREDIT ANALYST

Mark P Symes
Melbourne
(61) 3-9631-2051
mark.symes
@spglobal.com

SECONDARY CONTACTS

Nico N DeLange
Sydney
+ 61 2 9255 9887
nico.delange
@spglobal.com

Lisa Barrett
Melbourne
+ 61 3 9631 2081
lisa.barrett
@spglobal.com

equalize our ratings on SML with those on ANZ.

Government support for ANZ is likely to flow through to SML. This is because any financial distress at SML could harm ANZ's reputation and perceived creditworthiness in domestic and international capital markets.

The acquisition does not materially change ANZ's credit profile, in our view. Capital will remain a strength for the ANZ group. This is because the group was holding a buffer over its target capital level ahead of the completion of the acquisition. The group had prefunded most of the acquisition costs with common equity issuance.

In our view, the acquisition will solidify ANZ's competitive position. We also believe that group management is well placed to manage acquisition-related integration risks.

Outlook

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

Downside scenario

We will lower our ratings on SML if we downgrade ANZ.

In addition, risks to the ratings on SML 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 SML'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 SML over the next two years, in line with our view on ANZ.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	AA-/Stable/A-1+	A+/Watch Positive/A-1
SACP	a-	a-
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Moderate and adequate (-1)	Moderate and adequate (-1)
Comparable ratings analysis	0	0
Support		
ALAC support	0	0

	To	From
Issuer Credit Rating	AA-/Stable/A-1+	A+/Watch Positive/A-1
GRE support	0	0
Group support	3	2
Sovereign support	0	0
Additional factors	0	0
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 List

Upgraded; CreditWatch/Outlook Action

	To	From
Suncorp-Metway Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	A+/Watch Pos/A-1
Suncorp-Metway Ltd.		
Senior Unsecured	AA-	A+/Watch Pos
Commercial Paper	A-1+	A-1/Watch Pos

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