MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Norfina's senior unsecured ratings; outlook stable

31 Jul 2024

Sydney, July 31, 2024 -- Moody's Ratings (Moody's) has today upgraded Norfina Limited's ("Norfina" formerly Suncorp-Metway Limited) long-term counterparty risk ratings to Aa1 from Aa2, long-term counterparty risk assessment to Aa1(cr) from Aa2(cr), long-term issuer ratings to Aa2 from A1, senior unsecured debt ratings to Aa2 from A1 and senior unsecured MTN ratings to (P)Aa2 from (P)A1. At the same time we affirmed the bank's short-term counterparty risk ratings and short-term issuer ratings at P-1 and affirmed Norfina's baa1 Baseline Credit Assessment and a2 adjusted Baseline Credit Assessment. The ratings outlooks are stable. Previously the ratings were on review for upgrade. This concludes our rating review, which was initiated in July 2022, following the announcement of the proposed acquisition by Australia and New Zealand Banking Group Limited (ANZ).

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL493912 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The upgrade of Norfina's senior unsecured long-term ratings results from changes in our government support assumptions following its acquisition by ANZ, and application of our Advanced Loss Given Failure (LGF) methodology.

With the acquisition by ANZ, Norfina is now part of a domestically systemically important banking group in Australia. As such, its senior ratings now benefit from 1 notch of government support, given our assumptions of a moderate level of government support in case of need. This is in line with our current government support assumptions and government support notching for ANZ.

The upgrade of Norfina's long-term counterparty risk ratings to Aa1 from Aa2 and long-term counterparty risk assessment to Aa1(cr) from Aa2(cr) is driven by the change in our government support assumptions and considers the extremely low loss given failure we expect for these senior-ranking obligations due to loss absorption provided by more junior creditors and the volume of deposits.

The upgrade of Norfina's long-term senior unsecured debt rating to Aa2 from A1 is driven by the change in our government support assumptions and the application of our Advanced LGF methodology. The upgrade reflects (1) the expected very low loss given failure for senior unsecured creditors due to the loss absorption provided by subordinated creditors; and (2) the volume of senior unsecured debt across which remaining losses are spread. This results in a 2-notch uplift to the preliminary rating assessment for senior unsecured debt above the bank's Adjusted BCA. The senior unsecured debt rating receives a further 1-notch uplift reflecting our expectation of a moderate probability of government support.

The affirmation of Norfina's BCA at baa1 reflects the bank's very strong asset quality, strong capital adequacy and good profitability. Norfina's asset quality is very strong with relatively low levels of non-performing loans. The bank's non-performing loans ratio was 0.8% as at December 2023. While problem loans could emerge given the high interest rate and high inflationary environment, we expect any potential rise in credit losses to be manageable given the bank's strong balance sheet fundamentals. Norfina's asset quality profile also benefits from its high level of loan loss reserves, which provide a strong buffer against future potential loan losses.

Norfina's capital position remains strong with a common equity Tier 1 (CET1) ratio of 10.45% as of December 2023 and remains in the top half of the bank's target operating range of 10% - 10.5%. We expect the bank will continue to produce sufficient organic capital (net of dividends) to grow and maintain relatively strong regulatory capital ratios.

Norfina's profitability is good with net profits after tax for the six-months to December 2023 of AUD 192 million, representing an annualized a return on assets of 0.47%. We expect profitability will be weaker in fiscal year 2024, with the outlook for margins and credit growth remaining relatively subdued over the next 6-months. In addition to this, costs are higher, despite slowing inflation, and we expect higher impairment costs to come through in the second half of the fiscal year as the economy continues to slow and unemployment is likely to rise.

The affirmation of Norfina's adjusted BCA at a2 incorporates 2 notches of affiliate support from its parent, ANZ, and reflects our view of a very high likelihood of support in case of need.

OUTLOOK

The stable outlook on Norfina's ratings is underpinned by our expectation that it will maintain its strong asset quality, sound capitalization and good profitability over the outlook period.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Norfina's senior unsecured ratings could be upgraded if there was an upgrade in the BCA of the bank's affiliate support provider, ANZ. But they would likely be capped at the same rating level as ANZ.

The bank's senior unsecured debt ratings could be upgraded upon the net issuance of a higher volume of loss absorbing instruments, providing greater protection to senior unsecured creditors in a resolution scenario.

Norfina's BCA could be upgraded if (i) the bank's problem loans ratio falls to below 0.7%, (ii) Moody's capital ratio (measured as tangible common equity as a % of RWA) increases to above 15%, or (iii) there is a reduction in the level of wholesale funding such that market funds as a % of tangible banking assets falls to 20%.

Norfina's senior unsecured ratings could be downgraded if there was a downgrade in the BCA of the bank's affiliate support provider, ANZ. They would likely remain at the same rating level as ANZ.

A downgrade of Norfina's senior unsecured debt ratings could also result from higher loss given failure if the volume of these instruments were to decrease or if there was a lower volume of more junior loss absorbing instruments.

Norfina's BCA could be downgraded if (i) the bank's problem loans ratio rises to above 3%, (ii) Moody's capital ratio (measured as tangible common equity as a % of RWA) declines to below 11%.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Headquartered in Brisbane, Australia, Norfina Limited is a diversified retail and commercial bank. As at 31 December 2023 Norfina Limited had total assets of AUD82.4 billion and total shareholders' equity of AUD4.5 billion.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL493912 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Endorsement

• Lead Analyst

• Releasing Office

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