FitchRatings

**Banks**
Universal Commercial Banks
Australia

# Macquarie Bank Limited

## Key Rating Drivers

**Junior Debt Buffers:** Macquarie Bank Limited's (MBL) Long-Term Issuer Default Rating (IDR) is above its Viability Rating (VR) to reflect the junior debt buffers built by the bank to address loss-absorbing capacity (LAC) requirements. The bank continues to build its LAC in line with that of Australia's major banks, which Fitch Ratings believes is at a sufficient level that would reduce the risk of taxpayer funds being needed to recapitalise the bank in a resolution, protecting third-party senior creditors.

The VR is in line with the implied VR, underpinned by MBL's sound business and financial profiles. The Stable Outlook on the IDR reflects our view that MBL has sufficient headroom in its financial metrics to maintain its VR, even in a scenario that is moderately weaker than our base case.

**Internationally Diversified Operations:** We take a blended approach to assign the operating environment (OE) score to MBL, given the scope of its international operation. MBL's score reflects the heavy weighting of its assets and exposures to jurisdictions that we score in the 'aa' OE range. We also factor in MBL's higher exposure to Australian mortgages and high household leverage, resulting in a score at the lower end of the 'aa' category.

**Strong Growth in Banking Business:** MBL has continued to grow its Australian residential mortgage and deposit market share to about 6% and we expect this growth to continue into the medium term. The bank's above-system growth has been concentrated in low-risk mortgages and does not appear to be at the expense of weakening underwriting. MBL's business model is more diverse relative to domestic peers but some parts of the business can also be more volatile and dependent on market conditions.

**Credit Risk Well Managed:** The group's centralised risk management framework and oversight of its subsidiaries through a dedicated risk group have underpinned strong credit risk-management practices that have resulted in robust financial outcomes over a sustained period. This offsets the group's larger risk appetite than other Australian banking groups.

**Impaired Loans Near Peak:** We expect MBL's impaired-loan ratio to improve in the financial year ending March 2026 (FY26) as interest rates fall and economic conditions improve. Losses from impaired loans are likely to remain low due to high levels of collateral and adequate provisioning. MBL's asset quality score of 'a+' is below the implied 'aa' category score as we apply a negative adjustment for its high loan growth. Gross loans have grown 82% over the last four years, which we believe understates the impaired-loan ratio.

**Diversified Earnings Profile:** We expect the diversity of MBL's operations and revenue to continue supporting its sound profitability. We expect a modest increase in profitability in FY26 with loan and non-interest income growth partly offset by pressure on the net interest margin.

**Robust Capital Buffers:** We believe MBL's common equity Tier 1 (CET1) ratio, which stood at 12.8% at FYE25, will be maintained above 12% over the long term. Australia's regulator retains a level of conservatism in its application of the final Basel III rules, meaning the CET1 ratio appears modest relative to that of some international peers. We account for this by considering additional metrics to assess MBL's capitalisation.

**Sound Liquidity Management:** We expect funding and liquidity to remain well managed for the bank over the next 12 months. MBL's factor score of 'a' is consistent with the implied 'a' category score. MBL's average liquidity coverage ratio was 175% in 4QFY25 and its net stable funding ratio was 113% at FYE25.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | A+ |
| Short-Term IDR | F1 |
| Viability Rating | a |
| Government Support Rating | bbb |
| **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 |

## Highest ESG Relevance Scores

| | |
|---|---|
| Environmental | 2 |
| Social | 3 |
| Governance | 3 |

## Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2025)

Bank Rating Criteria (March 2025)

## Related Research

Fitch Affirms Macquarie Group at 'A' and Macquarie Bank at 'A+'; Outlook Stable (September 2025)

Global Economic Outlook (September 2025)

Developed Markets 100 Largest Banks Monitor (July 2025)

Asia-Pacific Developed Market Banks Outlook 2025 (November 2024)

## Analysts

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## Rating Sensitivities

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

MBL's VR could be downgraded if the operating environment score were to be revised into the 'a' category from the 'aa' category as this would probably result in a reassessment of most other factors. This is most likely to occur if there is a sharp and structural decline in Australia's GDP growth or if the bank's exposures skewed away from jurisdictions where we score the operating environment in the 'aa' range.

The Long-Term IDR would be downgraded if the VR is downgraded or if the regulator no longer envisages MBL's junior debt buffers as sufficient to protect senior creditors in a resolution.

The VR could be downgraded if a combination of the following were to occur:

- the four-year average of the stage 3 loan/gross loan ratio rising above 2.0% for a sustained period (FY22-FY25: 0.9%)
- the four-year average of operating profit/risk-weighted assets (RWAs) declining to below 1.5% for a sustained period (FY22-FY25: 3.1%)
- the CET1 ratio falling below 10% without a credible plan to raise it back above this level (FYE25: 12.8%)
- the business profile score is revised down to 'a-', possibly due to a large drop in lending or MBL's deposit market position.

Deterioration or findings of significant deficiencies in MBL's risk-management framework and liquidity management could also pressure the ratings, as this would most likely result in a lower risk-profile score. This could negatively affect our assessment of some financial profile factors.

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

Positive momentum in MBL's VR and IDR would require the factor scores for one or more of MBL's business profile, risk profile, and earnings and profitability to be revised to 'a+', from 'a', assuming all other factor scores are unchanged. An upward revision in the score for these factors could be reflected in continued mortgage and deposit market share growth in Australia, a sustained increase in the operating profit/RWA core metric or removal of the regulatory operational risk charge, which is set at AUD500 million.

## Other Debt and Issuer Ratings

| Rating Level | Rating | Outlook |
|---|---|---|
| Senior unsecured: long term | A+ | - |
| Senior unsecured: short term | F1 | - |
| Subordinated: long term | BBB+ | - |

Source: Fitch Ratings

### Senior Unsecured

MBL's senior unsecured debt ratings are aligned with the IDRs, consistent with our *Bank Rating Criteria* as Australia does not have statutory senior debt bail-in and therefore there is only one class of senior debt.

### Short-Term IDR

The Short-Term IDRs of MBL is at the lower of the two options available at a Long-Term IDR of 'A+' because the 'a' funding and liquidity score is lower than the minimum 'aa-' score to achieve the higher option of 'F1+'.

### Tier 2 Instruments

MBL's subordinated Tier 2 debt is rated two notches below its anchor rating - the VR - for loss severity, with non-performance risk adequately captured by the VR. The point of non-viability for these instruments is at the discretion of the regulator. None of the reasons for alternative notching from the anchor rating, as described in the criteria, are present.

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

***Short-Term IDR***

A downgrade of MBL's Short-Term IDRs would occur if the Long-Term IDRs are downgraded to 'A-' or below and the funding and liquidity score is revised to below 'a'.

### *Senior Unsecured Instruments*

MBL's senior unsecured instrument ratings would be downgraded if its IDRs are downgraded.

### *Tier 2 Instruments*

The Tier 2 instrument ratings will be downgraded if MBL's VR is downgraded or if any of the reasons for wider notching outlined in our *Bank Rating Criteria* apply, although we view this as unlikely to occur.

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

### *Short-Term IDR*

MBL's Short-Term IDRs could be upgraded if the Long-Term IDRs are upgraded to 'AA-', or the funding and liquidity score is revised to 'aa-' or above if there is no change to the Long-Term IDRs.

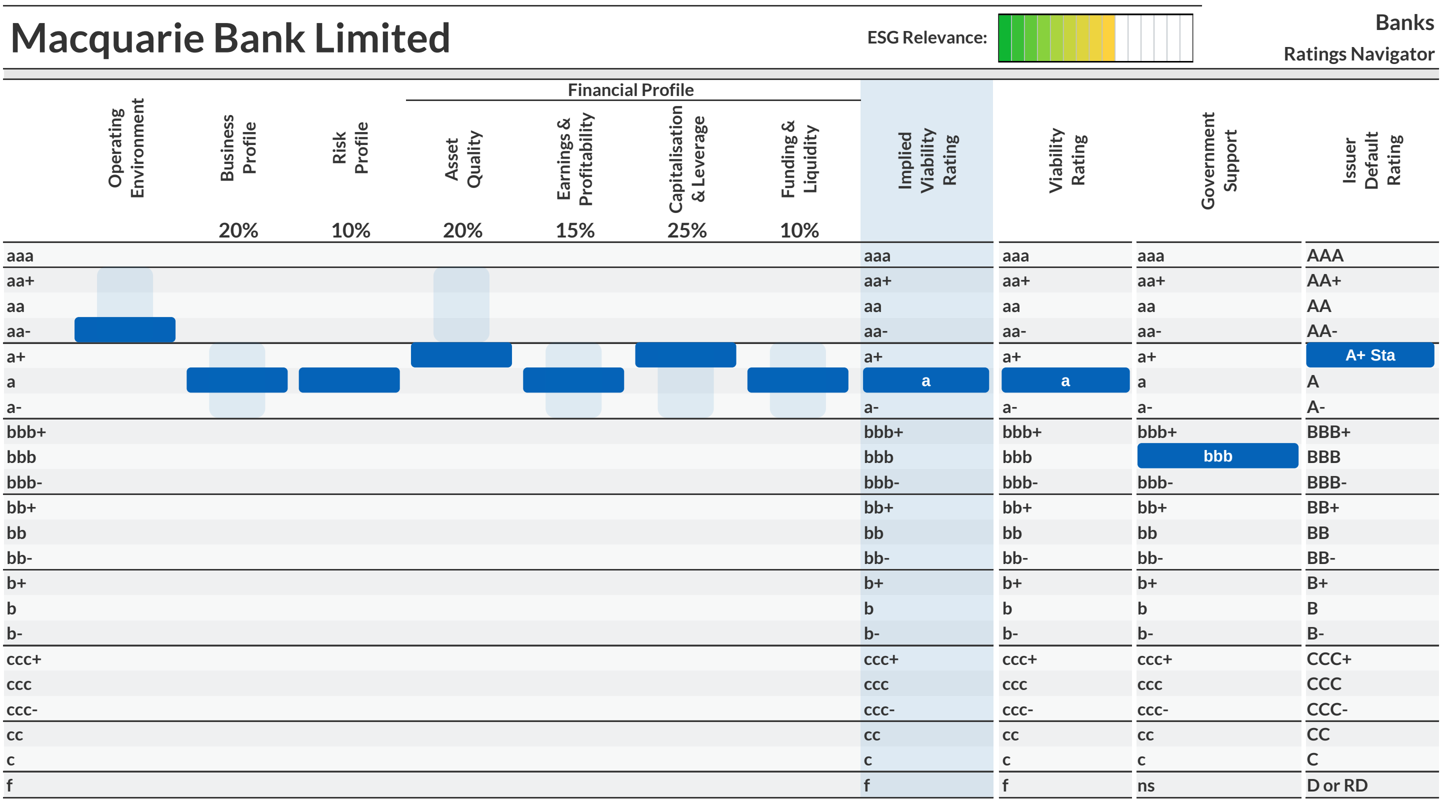
### *Senior Unsecured Instruments*

The long-term senior unsecured instrument ratings will be upgraded if MBL's Long-Term IDRs are upgraded.

### *Tier 2 Instruments*

The Tier 2 instrument ratings will be upgraded if MBL's VR is upgraded or if any of the reasons for narrower notching outlined in our *Bank Rating Criteria* apply, although we view this as unlikely to occur.

## Ratings Navigator




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.

## VR - Adjustments to Key Rating Drivers

The asset quality score of 'a+' for MBL has been assigned below the 'aa' category implied score for the following adjustment reason: underwriting standards and growth (negative). The adjustment for MBL is driven by its strong loan growth. The bank’s loan underwriting is sound and has remained consistent.

## Company Summary and Key Qualitative Factors

### Operating Environment

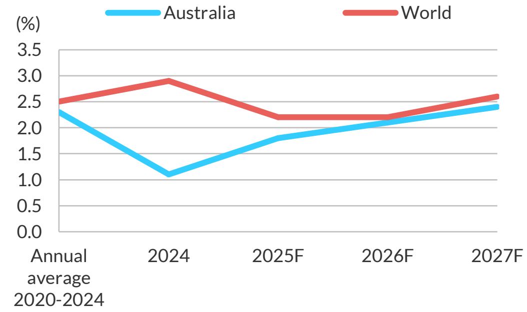
Macquarie Group Limited (MGL, A/Stable) is the most internationally active among the Australian banking groups that Fitch rates. Offshore revenue accounted for around 66% of total income at FYE25. North America (mainly the US), Europe and Asia are the main non-domestic markets. A significant proportion of group earnings and assets are situated in jurisdictions that Fitch assesses in the 'aa' range, which supports an OE score of 'aa-' for both MGL and MBL, the group's main operating subsidiary.

Prudential regulation in Australia remains focused on the protection of bank depositors rather than group creditors, which is one of the key reasons why MBL's VR is assessed on a standalone basis and may be differentiated from the group VR, although they are currently at the same level.

Easing monetary policy should support a gradual improvement in operating conditions for Australian banks during 2025. Interest rates remain high compared with pre-Covid-19 pandemic levels while the benefits of a recent rate reduction have yet to be fully realised. Higher interest rates have reduced borrowing capacity, leading to an improvement in Australia's household debt/disposable income ratio to 182% by end-2024 from around 189% at end-2022. However, the ratio remains high compared with that of most other global markets. We incorporate this factor into our OE assessment by placing the score at the lower end of the 'aa' category.

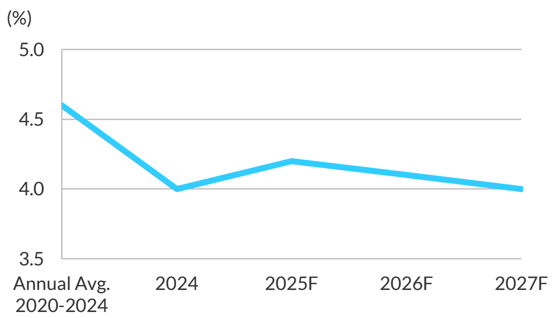
We expect Australian unemployment to peak below 4.5% in 2025. This is unlikely to result in significant asset-quality deterioration, although some borrowers may experience pressure until rates decline further. Rate reductions should support borrowers and, ultimately, bank asset quality, particularly for mortgage holders, most of whom have variable-rate loans. The rise in house prices throughout 2024 provides an additional buffer against potential losses.

**GDP Growth Forecast**




Source: Fitch Ratings, Fitch Solutions

**Australia Unemployment Rate**




Source: Fitch Ratings, Fitch Solutions

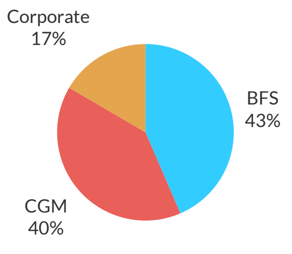
### Business Profile

MBL is the registered bank within the Macquarie group. As of end-June 2025, it was Australia's fifth-largest bank by domestic assets, accounting for 5% of total system assets. The bank has grown its residential mortgage share to 6.2% from 5.4% over the last 12 months and deposit market share has expanded to 5.8% from 5.1%. We believe MBL will continue to grow faster than the system and expand its domestic franchise, underpinned by the bank's technology platform, which is amongst the strongest in the system.

MBL's key businesses include banking and financial services (BFS) and a portion of the commodity and global market (CGM) segment. MBL's business model is more complex than that of most retail-oriented Australian banks, but this complexity enhances its geographic and revenue diversity. We expect the group restructuring announced in August 2025 to result in a more stable business model and reduce the potential for earnings volatility in the long term.

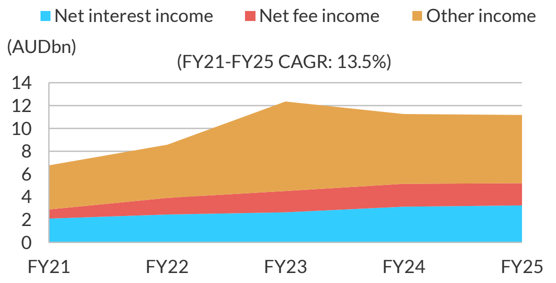
### MBL Segment Assets

FYE25




Source: MBL

### Revenue Breakdown




CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, MBL

## Risk Profile

Credit risk is MBL's largest risk, accounting for around 80% of RWAs at FYE25. Most of this relates to the loan portfolio, which made up 49% of total assets at FYE25. Unlike most other local banks, MBL has significantly larger exposure to securities and derivatives, which combined account for 20% of total assets. This reflects its more diverse business model.

MBL's risk framework and controls are aligned with the group. Mortgages accounted for 79% of total loans at FYE25 and have been the key source of loan growth for the bank. Strong loan growth has not been at the expense of weaker underwriting but rather driven by MBL's sector-leading technology platform. Mortgage underwriting has remained relatively consistent throughout the high growth period and concentrated in low loan-to-value ratio and amortising loans.

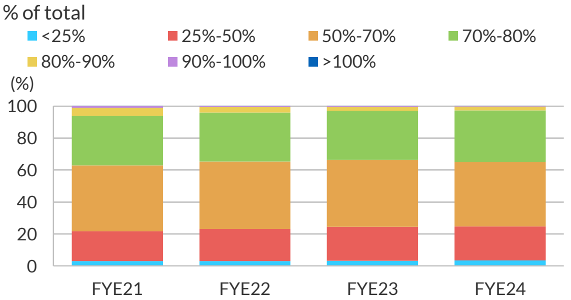
Securities exposure appears to be good quality. Derivative exposures primarily relate to client-initiated trades, although there is a proportion that relate to proprietary trading activities. Exposures are subject to limit policies and stress testing set at the group level. Derivative exposures can increase significantly during times of market uncertainty due to commodity-price volatility and mark-to-market adjustments. The bank reports that collateral is typically sought for these exposures outside of very large and highly rated utility entities.

Market risk appears manageable, accounting for about 8% of RWAs at FYE25, with much of the risk associated with MBL's securities operations captured in the credit-risk charge. Traded-market risk is MBL's main form of market risk. The bank states that trading is mainly undertaken on behalf of clients and, where possible, interest-rate risk in the banking book is transferred to the trading portfolio and overseen by the centralised risk management group. Non-traded foreign-currency exposure is hedged, unless specifically approved by the risk management group.

Several non-financial risk issues have arisen over the last two years, resulting in fines and additional licence conditions placed on MBL, which were manageable. The bank also retains AUD500 million in capital overlay for historical reporting breaches relating to operational risk and the management of its intra-group structure. Fitch believes there is unlikely to be positive momentum in the risk profile score until the bank is closer to the finalisation of the remediation programme or removal of the charge.

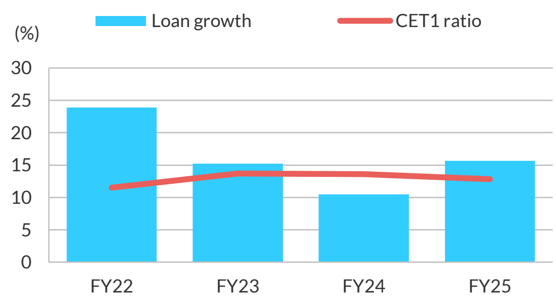
### MBL's Australian Mortgage Loan-to-Value Ratio

% of total




Source: Fitch Ratings, MBL

### Loan Growth




Source: Fitch Ratings, Fitch Solutions, MBL

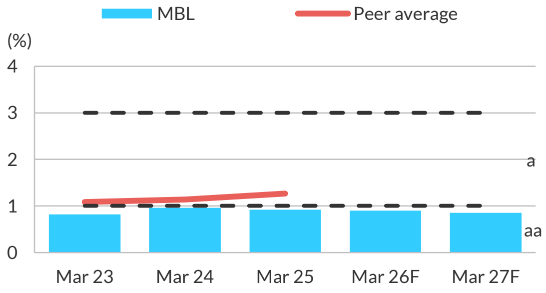
# Financial Profile

## Asset Quality

MBL's asset quality has less exposure to larger corporates and tends to be stronger than that of the group, reflected in its consistently lower stage 3 loan ratios. We expect MBL's loan quality to improve modestly over the next two years as interest rates fall, with the Australian mortgage portfolio also supported by a still strong labour market. MBL's loan growth has been high at 82% over the last four years and is the reason we adjust the asset quality down from the implied score. However, most of the growth has been into relatively low risk residential mortgages and we expect collateral in the book to remain high.

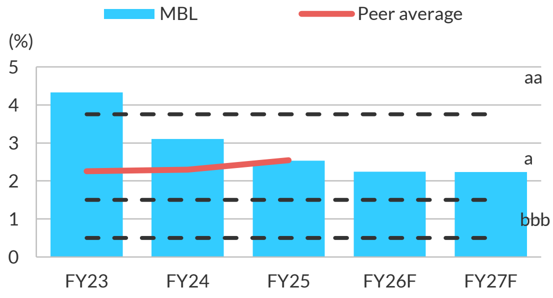
Loans made up only 48% of MBL's balance sheet at FYE25, significantly lower than the 63%-75% range of the Australian major banks. MBL holds higher levels of trading securities and derivative assets relative to domestic peers, which adds diversity to its business model. The stage 3 ratios for non-loan assets have typically been below that of loans. Loan provisioning levels appear adequate, considering the high collateral in the loan book.

### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions, banks

## Earnings and Profitability

We expect MBL's earnings and profitability to be broadly flat in FY26 and the operating profit/RWA ratio to modestly decline over the next two years due to net interest margin pressure from falling rates and the group restructuring, which will result in a portion of non-interest income being transferred to its non-bank operations. The restructuring will result in lower absolute earnings for MBL, but we also expect earnings stability to increase. We anticipate the core earnings metric to remain above 2%, which would continue to support a score in the 'a' range.

The bank has undergone a period of high investment, which affected the cost-to-income ratio, although we anticipate the ratio will improve steadily over the next few years, supported by continued loan and business growth, which should deliver scale benefits.

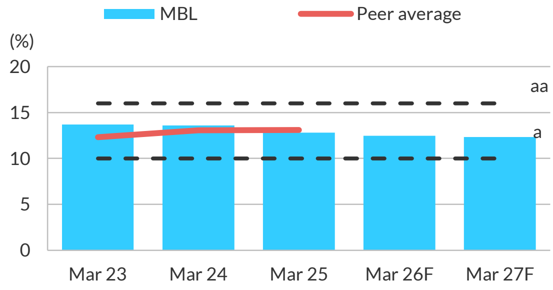
## Capitalisation and Leverage

MBL maintains sound capital buffers over regulatory minimums, and we expect this to remain the case even though we anticipate strong loan and RWA growth to continue. MBL's capital position continues to be supported by sound profit and access to group capital if required. The CET1 ratio, at 12.8% at end-March 2025, compares well against those of domestic peers.

The bank estimates the CET1 ratio was equivalent to 17.6% under the globally harmonised full Basel III framework at FYE25. The difference between the Australian regulatory and harmonised ratios is driven by the regulator's conservative risk-weights for certain loan types and capital deductions that relate to equity investments, loan and lease origination fees and commissions, and deferred tax assets.

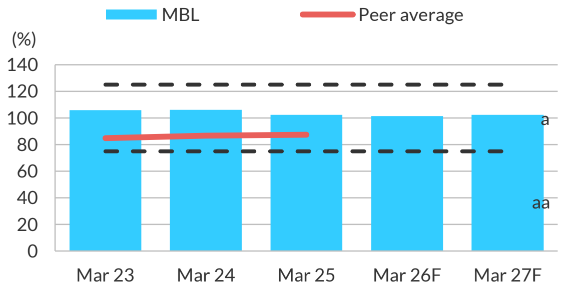
MBL's Basel III leverage ratio, as calculated by the Australian Prudential Regulation Authority, was 5.1% at FYE25, remaining well above the 3.5% minimum required by the regulator. Capital in MBL is ringfenced from the broader group as dividends can only be paid out of earnings from the previous 12 months unless approved by the regulator.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

Loans/customer deposits continued to improve in FY25 despite high loan growth, reflective of the banks efforts to grow deposits at the same or faster pace than loans. We expect the ratio to be maintained at around 100% over the next two years.

MBL remains more reliant on wholesale funding sources to fund loans than international peers, but this risk is offset by its strong liquidity and liquidity management. The bank's wholesale funding is well-managed and diversified by maturity, currency, and investor. Foreign-currency risk is managed by either hedging into the currency of the funded asset or borrowing in the currency of the asset.

MBL's liquidity policies require the bank to be able to meet its obligations over a 12-month period in the event of funding market disruption or a downturn in its business. This means the bank has historically held more liquid assets than its domestic peers, which we expect to continue.

## Additional Notes on Forecasts and Charts

Years denoted with an 'F' in tables and charts in this report represent Fitch's forecasts. The forecasts reflect Fitch's forward view on the bank's financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macroeconomic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market. To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Peer average includes Westpac Banking Corporation (VR: a+), Commonwealth Bank of Australia (a+), Australia and New Zealand Banking Group Limited (a+), National Australia Bank Limited (a+), BNP Paribas SA (a+), JPMorgan Chase & Co. (aa-), Morgan Stanley (a+), Bank of America Corporation (aa-) and Citigroup Inc. (a). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. Financial year-end for Westpac Banking Corporation, Australia and New Zealand Banking Group Limited and National Australia Bank Limited is 30 September. Financial year-end for Commonwealth Bank of Australia is 30 June.

# Financials

## Summary Financials

| | 31 Mar 25 | | 31 Mar 24 | 31 Mar 23 | 31 Mar 22 |
|---|---|---|---|---|---|
| | Year end | Year end | Year end | Year end | Year end |
| | (USDm) | (AUDm) | (AUDm) | (AUDm) | (AUDm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 2,029 | 3,231.0 | 3,131.0 | 2,640.0 | 2,453.0 |
| Net fees and commissions | 1,235 | 1,966.0 | 1,997.0 | 1,876.0 | 1,449.0 |
| Other operating income | 3,789 | 6,034.0 | 6,187.0 | 7,869.0 | 4,714.0 |
| Total operating income | 7,053 | 11,231.0 | 11,315.0 | 12,385.0 | 8,616.0 |
| Operating costs | 4,583 | 7,298.0 | 7,324.0 | 6,858.0 | 5,406.0 |
| Pre-impairment operating profit | 2,470 | 3,933.0 | 3,991.0 | 5,527.0 | 3,210.0 |
| Loan and other impairment charges | 69 | 110.0 | -34.0 | 116.0 | 16.0 |
| Operating profit | 2,401 | 3,823.0 | 4,025.0 | 5,411.0 | 3,194.0 |
| Other non-operating items (net) | 388 | 618.0 | 50.0 | n.a. | 473.0 |
| Tax | 625 | 996.0 | 1,163.0 | 1,506.0 | 950.0 |
| Net income | 2,163 | 3,445.0 | 2,912.0 | 3,905.0 | 2,717.0 |
| Other comprehensive income | 237 | 377.0 | 173.0 | 629.0 | 138.0 |
| Fitch comprehensive income | 2,400 | 3,822.0 | 3,085.0 | 4,534.0 | 2,855.0 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 114,224 | 181,885.0 | 157,287.0 | 142,384.0 | 123,594.0 |
| - Of which impaired | 1,048 | 1,668.0 | 1,504.0 | 1,174.0 | 1,005.0 |
| Loan loss allowances | 313 | 499.0 | 551.0 | 624.0 | 590.0 |
| Net loans | 113,910 | 181,386.0 | 156,736.0 | 141,760.0 | 123,004.0 |
| Interbank | n.a. | n.a. | n.a. | n.a. | n.a. |
| Derivatives | 15,037 | 23,944.0 | 23,767.0 | 35,820.0 | 84,616.0 |
| Other securities and earning assets | 64,739 | 103,088.0 | 97,261.0 | 79,107.0 | 64,582.0 |
| Total earning assets | 193,686 | 308,418.0 | 277,764.0 | 256,687.0 | 272,202.0 |
| Cash and due from banks | 13,985 | 22,269.0 | 28,055.0 | 41,612.0 | 48,972.0 |
| Other assets | 27,967 | 44,534.0 | 34,344.0 | 32,524.0 | 28,454.0 |
| Total assets | 235,639 | 375,221.0 | 340,163.0 | 330,823.0 | 349,628.0 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 111,577 | 177,671.0 | 148,340.0 | 134,648.0 | 101,614.0 |
| Interbank and other short-term funding | 28,718 | 45,729.0 | 39,957.0 | 44,477.0 | 16,947.0 |
| Other long-term funding | 28,114 | 44,767.0 | 44,581.0 | 62,147.0 | 94,059.0 |
| Trading liabilities and derivatives | 18,552 | 29,542.0 | 30,643.0 | 37,276.0 | 89,397.0 |
| Total funding and derivatives | 186,961 | 297,709.0 | 263,521.0 | 278,548.0 | 302,017.0 |
| Other liabilities | 26,367 | 41,985.0 | 44,436.0 | 29,563.0 | 27,349.0 |
| Preference shares and hybrid capital | 7,875 | 12,540.0 | 10,825.0 | 2,360.0 | 2,294.0 |
| Total equity | 14,436 | 22,987.0 | 21,381.0 | 20,352.0 | 17,968.0 |
| Total liabilities and equity | 235,639 | 375,221.0 | 340,163.0 | 330,823.0 | 349,628.0 |
| Exchange rate | | USD1 = AUD1.592357 | USD1 = AUD1.530925 | USD1 = AUD1.489869 | USD1 = AUD1.336541 |

Source: Fitch Ratings, Fitch Solutions, MBL

## Key Ratios

| | 31 Mar 25 | 31 Mar 24 | 31 Mar 23 | 31 Mar 22 |
|---|---|---|---|---|
| **Ratios (%, annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.5 | 3.1 | 4.3 | 2.5 |
| Net interest income/average earning assets | 1.1 | 1.2 | 0.9 | 1.0 |
| Non-interest expense/gross revenue | 65.2 | 65.0 | 55.5 | 63.0 |
| Net income/average equity | 15.8 | 14.1 | 19.9 | 17.0 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 0.9 | 1.0 | 0.8 | 0.8 |
| Growth in gross loans | 15.6 | 10.5 | 15.2 | 23.9 |
| Loan loss allowances/impaired loans | 29.9 | 36.6 | 53.2 | 58.7 |
| Loan impairment charges/average gross loans | 0.0 | 0.0 | 0.1 | -0.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 12.8 | 13.6 | 13.7 | 11.5 |
| Fully loaded common equity Tier 1 ratio | n.a. | n.a. | n.a. | n.a. |
| Fitch Core Capital ratio | n.a. | n.a. | 15.4 | 13.1 |
| Tangible common equity/tangible assets | 5.8 | 6.0 | 5.8 | 4.9 |
| Basel leverage ratio | 5.1 | 5.2 | 5.2 | 5.0 |
| Net impaired loans/common equity Tier 1 | 6.1 | 5.4 | n.a. | n.a. |
| Net impaired loans/Fitch Core Capital | n.a. | n.a. | 2.9 | 2.4 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 102.4 | 106.0 | 105.8 | 121.6 |
| Gross loans/customer deposits + covered bonds | n.a. | n.a. | 105.0 | n.a. |
| Liquidity coverage ratio | 175.0 | 191.0 | 214.0 | 188.9 |
| Customer deposits/total non-equity funding | 61.9 | 59.6 | 54.2 | 46.2 |
| Net stable funding ratio | 113.0 | 115.0 | 124.0 | 125.0 |

Source: Fitch Ratings, Fitch Solutions, MBL

## Support Assessment

| Commercial Banks: Government Support | |
|---|---|
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | a+ to a- |
| Actual jurisdiction D-SIB GSR | a |
| Government Support Rating | bbb |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | AAA/ Stable |
| Size of banking system | Negative |
| Structure of banking system | Negative |
| Sovereign financial flexibility (for rating level) | Positive |
| | |
| **Government propensity to support D-SIBs** | |
| Resolution legislation | Neutral |
| Support stance | Neutral |
| | |
| **Government propensity to support bank** | |
| Systemic importance | Negative |
| Liability structure | Neutral |
| Ownership | Neutral |

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

MBL's Government Support Rating (GSR) reflects its rising systemic importance over several years, underpinned by its position as Australia's fifth-largest bank by deposit and mortgage market shares of 5%-6%. We believe there is a high probability of support for MBL from the Australian authorities. MBL's GSR higher than that of domestic non-major bank peers. MBL is also a significant participant in domestic financial markets and the only non-major bank that is subject to the Australian government's bank levy.

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

MBL's GSR could downgraded if there is a negative change in our assumptions around the propensity or ability of Australian authorities to provide timely support. This could stem from a significant decline in MBL's systemic importance, but this does not appear probable in the medium term. Negative rating action will not directly affect MBL's IDRs, which are driven by its VR.

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

An upgrade of MBL's GSR would require a further significant increase in its systemic importance, which would most likely be reflected in rising market share closer to the level of the major banks. The GSR may also be upgraded if the Australian authorities provide additional, explicit statements of support for MBL, or otherwise provide greater certainty that support would be provided if needed.

## Subsidiaries and Affiliates

### Core and Integral Subsidiaries

Macquarie Global Finance Pty Limited's (MGF, A/Stable) and Macquarie Bank Europe Designated Activity Company's (MBE, A/Stable) Long-Term IDRs, which are driven by their respective Shareholder Support Ratings (SSRs), are equalised with the VR of their parent, MBL. The SSRs of the entities reflect Fitch's view that, despite their relatively small size, they undertake core operations and functions for the banking group, which increases the propensity of MBL to extend support. If either of the entities were to default, it would have a huge impact on the reputation and franchise of MBL and the wider group.

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

A downgrade in the VR of MBL would be reflected in the SSRs and IDRs of MGF and MBE, assuming no change to our assumption around the propensity to support. In addition, a reduction in the role and relevance of these entities to the bank could lead to a downgrade of their SSRs and therefore IDRs.

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

An upgrade in the VR of MBL would be reflected in the SSRs and IDRs of MGF and MBE, assuming no change to our assumption around the propensity to support. The SSRs and IDRs may also be upgraded if we believe the entities are likely to benefit in a resolution from the junior debt buffers being built by MBL. This would result in the anchor rating switching to MBL's Long-Term IDR.

## Environmental, Social and Governance Considerations

FitchRatings

## Macquarie Bank Limited

**Banks**
**Ratings Navigator**

### Credit-Relevant ESG Derivation

Macquarie Bank Limited has 5 ESG potential rating drivers

- Macquarie Bank 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.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | ESG Relevance to Credit Rating |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 4 | 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.h scores of 3, 4 or 5) and provides a brief explanation for the score.

**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.

### 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 | 2 | 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 |

### 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. |

The highest level 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.