FitchRatings

Banks
Universal Commercial Banks
Australia

Macquarie Bank Limited

Key Rating Drivers

Stronger 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. MBL has publicly stated that its LAC requirements are in line with Australia's major banks. We believe the regulator sized MBL's LAC requirement to reduce the risk of taxpayer funds being required to recapitalise the bank on resolution, thus protecting third-party senior creditors.

Tier 2 capital made up about 5.9% of MBL's risk-weighted assets (RWAs) at end-June 2024, with additional Tier 1 making up another 1.8%. MBL's VR is in line with the implied VR, underpinned by the bank's sound business and financial profiles.

Internationally Diversified Operation: We take a blended approach when assigning 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.

Market Share Growth: We expect MBL to continue to expand its Australian lending and deposit market share over the next few years. We believe MBL has the strongest market position among Australian banks outside of the four majors, and this is likely to remain the case. Mortgage growth appears to have mainly been in the low-risk subsector and not at the expense of weakening underwriting, which should support MBL's financial profile through the cycle.

Robust Risk-Control Framework: MBL benefits from Macquarie Group Limited's (MGL, A/Stable/a) centralised risk management framework, oversight through a dedicated risk group and strong risk-management culture, which has resulted in robust financial outcomes over a sustained period. This offsets the bank's larger risk appetite than at most other Australian banking groups.

Modest Weakening in Asset Quality: We believe still high interest rates and a modest rise in unemployment will weaken MBL's asset quality over the next 12 months, with the stage 3 loan/gross loan ratio peaking at about 1.1%. MBL's asset quality score of 'a+' is below the implied 'aa' category score, as we apply a negative adjustment for historical and future metrics. Fitch expects provision levels to fall as impaired loan balances rise, but high levels of collateral coverage in the loan portfolio should limit losses.

Robust Capital Buffers: MBL's common equity Tier 1 (CET1) ratio, which stood at 12.8% at end-June 2024, is likely to retain sound capital buffers over regulatory minimums. The bank may manage the CET1 ratio down over the long-term through growth or other capital optimisation levers, but we do not anticipate it remaining below 12% for a sustained period.

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 some international peers. We account for this by considering other metrics in addition to the CET1 ratio to assess MBL's capitalisation.

Sound Liquidity Management: We expect funding and liquidity to remain well managed for the group and bank over the next 12 months. This offsets some of the risk stemming from a greater reliance on wholesale funding than at international peers. MBL's factor score of 'a' is consistent with the implied 'a' category' score. MBL's average liquidity coverage ratio was 191% in 2Q24 and its net stable funding ratio was 115% at FYE24.

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

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2024)

Bank Rating Criteria (March 2024)

Related Research

Macquarie Group Limited (September 2024)

Fitch Affirms Macquarie Group at 'A' and Macquarie Bank at 'A+'; Outlook Stable (September 2024)

Macquarie Bank Limited (June 2024)

Fitch Upgrades Macquarie Bank Limited to 'A+'; Stable Outlook (May 2024)

Upgrades of Australia's Five Largest Banks Followed Build-Up of Resolution Buffers (May 2024)

Global Economic Outlook (September 2024)

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Rating Sensitivities

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

MBL's 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 loans/gross loans ratio rising above 2.0% for a sustained period (FY21-FY24: 1.0%);
- The four-year average of operating profit/risk-weighted assets declining to below 1.5% for a sustained period (FY21-FY24: 3.1%);
- The CET1 ratio falling below 10% without a credible plan to raise it back above this level (end-June 2024: 12.8%);
- The business profile score being 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 it 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 be likely to require the factor score for either MBL's business profile, risk profile, earnings and profitability, which are at 'a', to be revised to 'a+', assuming all other factor scores are unchanged.

Other Debt and Issuer Ratings

Rating level	Rating	Outlook
Senior unsecured: Long term	A+	n.a.
Senior unsecured: Short term	F1	n.a.
Subordinated: Long term	BBB+	n.a.

Source: Fitch Ratings

Short-Term IDR

The Short-Term IDRs 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+'.

Senior Unsecured

MBL’s senior unsecured debt ratings are aligned with the IDRs, consistent with Fitch’s *Bank Rating Criteria*.

Subordinated Debt

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 MGL and 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

The senior unsecured instrument ratings will be downgraded if MBL’s IDRs are downgraded.

Subordinated Debt

The Tier 2 instrument ratings will be downgraded if MBL's VR is downgraded or if any of the reasons for higher 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

The Short-Term IDR could be upgraded if the Long-Term IDR is upgraded by one notch to 'AA-' or the funding and liquidity score is revised to 'aa-' or above, assuming no change to the Long-Term IDR.

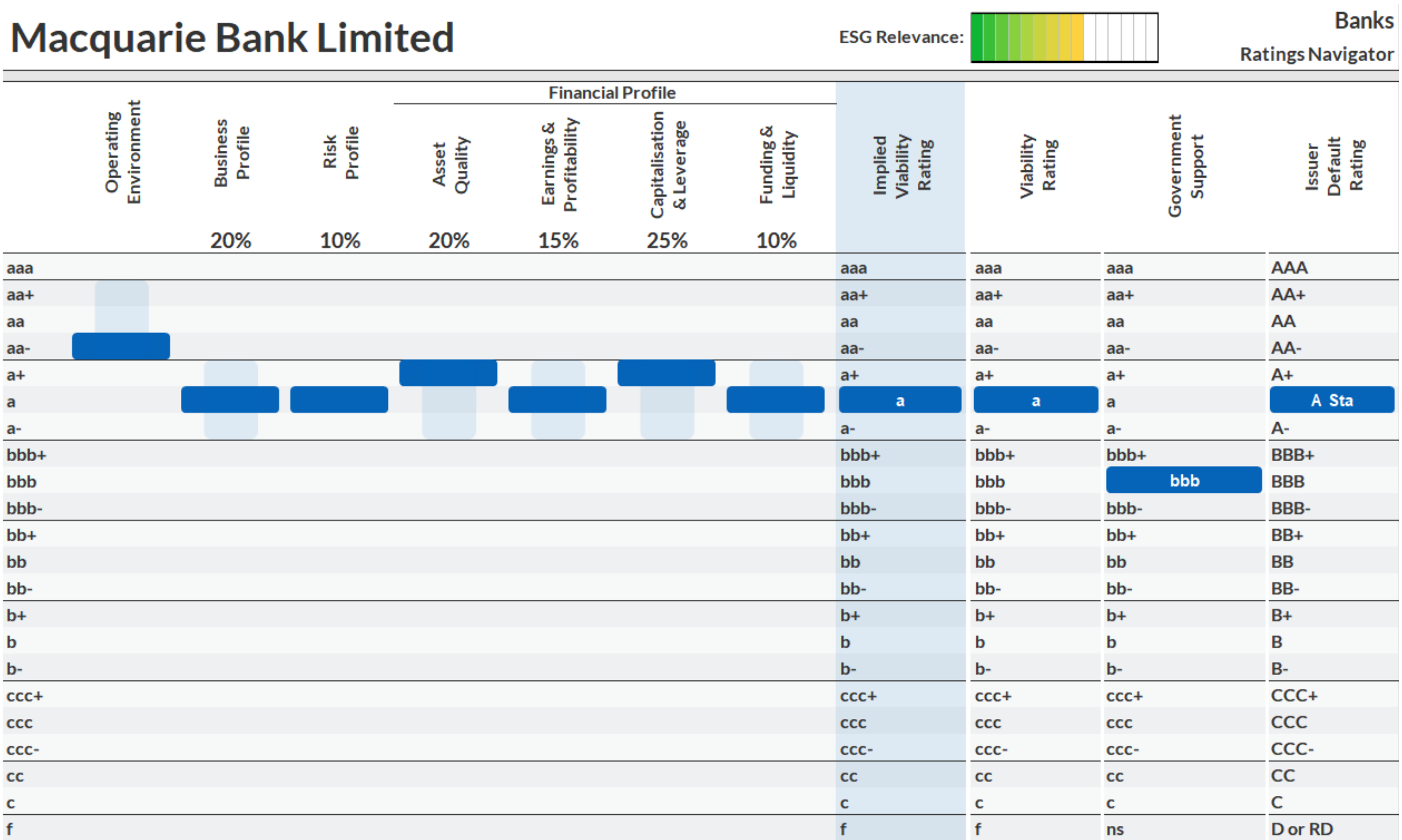
Senior Unsecured Instruments

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

Subordinated Debt

The Tier 2 instrument ratings will be upgraded if MBL's VR is upgraded or if any of the reasons for lower notching outlined in Fitch's *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 funding and liquidity score of 'a' for MGL has been assigned above the 'bbb' category implied score for following adjustment reason: liquidity coverage (positive).

Company Summary and Key Qualitative Factors

Operating Environment

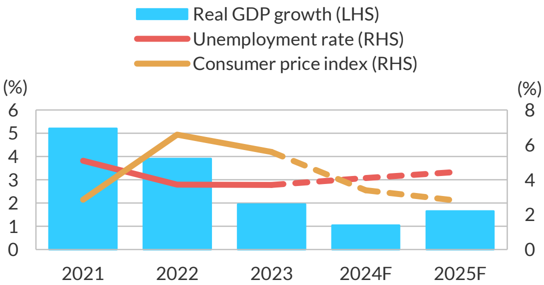
MGL is the most internationally active among the Australian banking groups that Fitch rates. Offshore revenue accounted for around 65% of total income at FYE24. North America (mainly the US), Europe and Asia are the main non-domestic markets. A significant proportion of group earnings and assets are situated in jurisdictions that Fitch assesses in the 'aa' range, which supports 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.

We expect the economic environment in Australia to remain challenging for banks for the remainder of 2024 and into 2025 although we do not expect conditions to worsen. Our base case is for the Reserve Bank of Australia (RBA) to maintain stable interest rates until late 2024 to address inflation concerns – this should continue to weigh on economic growth and result in higher unemployment. However, unemployment should remain lower than historical levels, preventing a sharp deterioration in asset quality across the system, although pockets of borrowers will likely come under stress.

Australian Economy

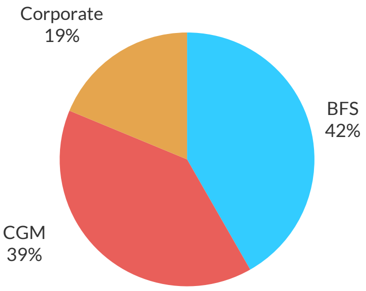
Year average (GDP year end)



Source: Fitch Ratings, Fitch Solutions

MBL Segment Assets

FYE24



Source: Fitch Ratings, MBL

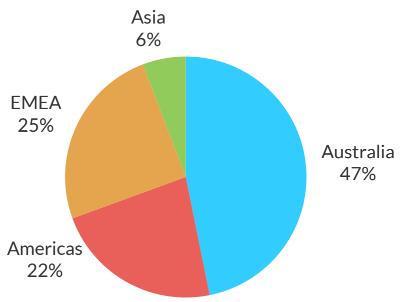
Business Profile

MBL is the registered bank within the Macquarie group. It was Australia's fifth-largest bank by domestic assets, accounting for nearly 5% of total system assets, as of end-June 2024. Although MBL's market share in Australia remains small compared to the major banks, it has consistently grown faster than the system and has secured a significant position in the retail market, which we believe will be sustained over the long term.

Within the broader group, MBL's key businesses include banking and financial services and a portion of the commodities and global markets segment. MBL's business model is more complex compared to most retail-oriented Australian banks, but this complexity enhances its geographic and revenue diversity. MBL's management quality, corporate governance, and strategy are aligned with those of MGL, reflecting the high level of integration within the group. For more details, see the rating report on Macquarie Group Limited.

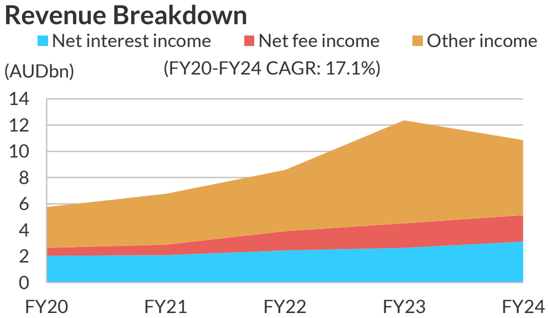
MBL Revenue

at FYE24



Source: Fitch Ratings, MBL

Revenue Breakdown



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

Risk Profile

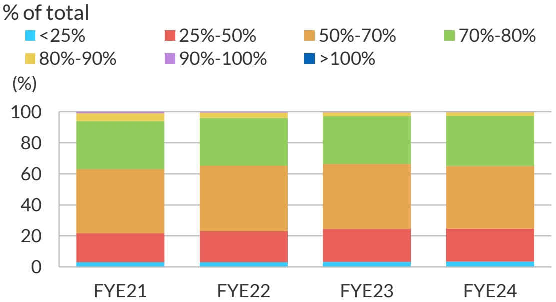
Credit risk is MBL's largest risk, accounting for around 76% of risk-weighted assets at FYE24. Most of this relates to the loan portfolio, which makes up 46% of total assets at FYE24. Unlike most other local banks, MBL has significantly larger exposure to securities and derivatives, which combined account for 20% of total assets. This reflects its more diverse business model.

MBL's risk framework and controls are aligned with the group, and its loan underwriting is consistent with domestic peers. Mortgages accounted for 77% of total loans at FYE24 and have been a key source of loan growth for the bank over the last three years. Loan growth continued to outperform system levels at FYE24 and appears to be driven by service offerings and investment in systems rather than a weakening of underwriting standards.

Securities exposure appears to be of better quality than the loan portfolio. Some exposures relate to client-initiated trades, although there is a small proportion of a proprietary nature. Derivative exposure mostly relates to client hedging activity. Exposures are subject to limit policies and stress testing set at the group level. Derivative exposures can significantly increase due to commodity-price volatility and mark-to-market adjustments during times of market uncertainty, such as the current environment. The bank reports that collateral is typically sought for exposures to weaker counterparties.

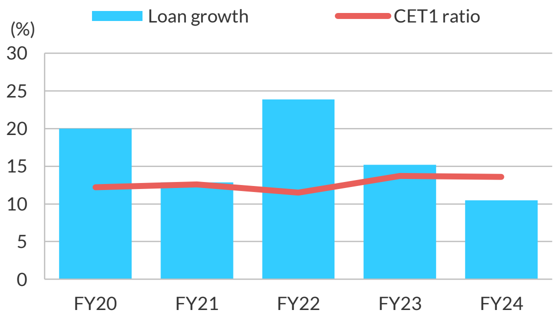
Market risk appears manageable, accounting for about 8% of risk-weighted assets at FYE24, with much of the risk associated with MBL's securities operations captured in the credit-risk charge. Traded-market risk is MBL's main form of market risk. The bank states that trading is mainly undertaken on behalf of clients and, where possible, interest-rate risk in the banking book is transferred to the trading portfolio and overseen by the centralized risk management group. Non-traded foreign-currency exposure is hedged, unless specifically approved by the risk management group.

Australian Mortgage LVR



Source: Fitch Ratings, MBL

Loan Growth



Source: Fitch Ratings, Fitch Solutions, MBL

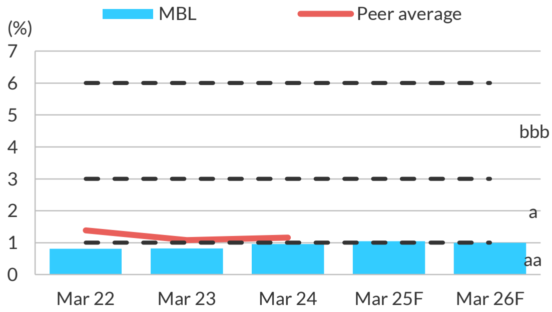
Financial Profile

Asset Quality

MBL's asset quality tends to be stronger than that of the group, reflecting the generally lower stage 3 loan numbers at the bank level. Similar to the consolidated group, MBL's asset quality has performed better than expectations over the last two years. However, the impact of high interest rates, in conjunction with a slowing economy, is likely to result in higher arrears and impairments over the next 12 months. We expect loan deterioration to be manageable, supported by low unemployment rates, conservative mortgage underwriting, and sound collateral held.

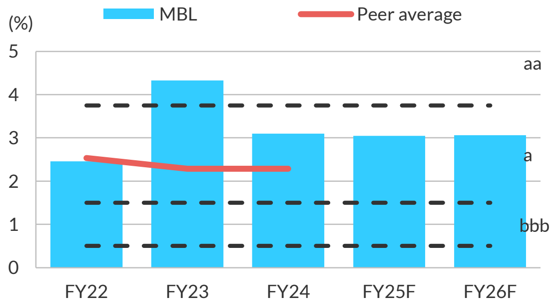
Loans made up around 46% of total assets at FYE24, most of which were residential mortgages. MBL has less exposure to large corporates relative to the group, which results in lower volatility in asset quality metrics. Historically, non-loan financial asset quality has been stronger than the loan portfolio, and we expect this to remain the case.

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 improve in FY25 and remain supportive of an 'a' range score. Underlying earnings should be supported by strong asset quality and a growing customer base in MBL's various business segments. The earnings diversity from MBL's market-facing businesses resulted in favorable earnings in recent years. Even so, we expect greater volatility through the cycle relative to more retail-oriented domestic peers.

Rising funding costs from deposit and loan competition will lead to contraction in the net interest margin (NIM) over the next year. These factors should begin to moderate in 2025, but interest rate cuts may add some pressure to the NIM. Still, we believe net interest income will increase as strong growth will provide an offset to the margin pressure.

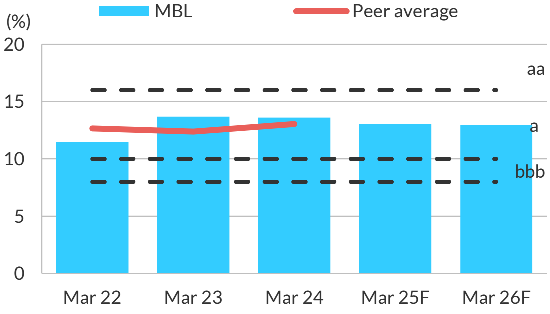
Capitalisation and Leverage

MBL maintains sound capital buffers over regulatory minimums, and we expect this to remain the case even if strong loan growth continues over the next year. MBL's capital position continues to be supported by sound profit and access to group capital if required. The CET1 ratio, which was at 12.8% at end-June 2024, compares well against those of domestic peers.

The bank estimates the CET1 ratio to be equivalent to 18.7% under the globally harmonised full Basel III framework at FYE24. 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.

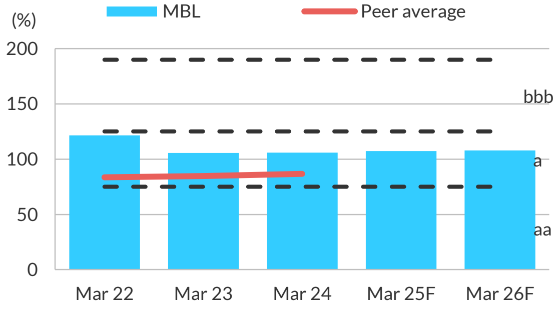
MBL's Basel III leverage ratio, as calculated by the Australian Prudential Regulation Authority, was 5.2% at FYE24 and remains well above the 3.5% minimum required by the regulator. MBL's capital has more stringent regulatory oversight relative to the broader group – dividends can only be paid out of 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

The improvement in the loan/customer deposit ratio over FY23 was maintained in FY24, and we expect this to remain the case. MBL is likely to keep deposit growth consistent with loan growth over the next few years, resulting in a ratio of around 105%-110%. MBL has continued to strengthen and expand its deposit franchise, which sits just above 5% market share in Australia.

MBL remains more reliant on wholesale funding sources than international peers, but this risk is offset by MBL's strong liquidity position and liquidity management. The bank's wholesale funding is well-managed and diversified by maturity, currency, and investor. Foreign-currency risk is managed through foreign-currency borrowings, which are either hedged into the currency of the funded asset or aligned to foreign-currency assets.

MBL's liquidity policies are set so that the bank is able to meet its obligations over a 12-month period in the event of funding market disruption or a downturn in its business. This has historically meant that the bank holds higher levels of liquid assets relative to domestic peers, and we expect this to remain the case

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core 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 M&A 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.

The 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-), 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, National Australia Bank Limited is 30 September. Financial year-end for Commonwealth Bank of Australia is 30 June. Latest average uses FY24 data for Commonwealth Bank of Australia.

Financials

Summary Financials

	31 Mar 24		31 Mar 23	31 Mar 22	31 Mar 21
	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	2,045	3,131.0	2,640.0	2,453.0	2,089.0
Net fees and commissions	1,304	1,997.0	1,876.0	1,449.0	801.0
Other operating income	3,765	5,764.0	7,869.0	4,714.0	3,905.0
Total operating income	7,115	10,892.0	12,385.0	8,616.0	6,795.0
Operating costs	4,508	6,901.0	6,858.0	5,406.0	4,172.0
Pre-impairment operating profit	2,607	3,991.0	5,527.0	3,210.0	2,623.0
Loan and other impairment charges	-22	-34.0	116.0	16.0	311.0
Operating profit	2,629	4,025.0	5,411.0	3,194.0	2,312.0
Other non-operating items (net)	33	50.0	n.a.	473.0	-14.0
Tax	760	1,163.0	1,506.0	950.0	622.0
Net income	1,902	2,912.0	3,905.0	2,717.0	1,676.0
Other comprehensive income	113	173.0	629.0	138.0	-764.0
Fitch comprehensive income	2,015	3,085.0	4,534.0	2,855.0	912.0
Summary balance sheet					
Assets					
Gross loans	102,740	157,287.0	142,384.0	123,594.0	99,768.0
- Of which impaired	982	1,504.0	1,174.0	1,005.0	1,333.0
Loan loss allowances	360	551.0	624.0	590.0	776.0
Net loans	102,380	156,736.0	141,760.0	123,004.0	98,992.0
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	15,525	23,767.0	35,820.0	84,616.0	20,552.0
Other securities and earning assets	61,217	93,718.0	79,107.0	64,582.0	66,213.0
Total earning assets	179,121	274,221.0	256,687.0	272,202.0	185,757.0
Cash and due from banks	18,326	28,055.0	41,612.0	48,972.0	15,966.0
Other assets	24,748	37,887.0	32,524.0	28,454.0	15,125.0
Total assets	222,194	340,163.0	330,823.0	349,628.0	216,848.0
Liabilities					
Customer deposits	96,896	148,340.0	134,648.0	101,614.0	84,140.0
Interbank and other short-term funding	26,100	39,957.0	44,477.0	16,947.0	4,542.0
Other long-term funding	42,662	65,313.0	62,147.0	94,059.0	68,150.0
Trading liabilities and derivatives	19,740	30,220.0	37,276.0	89,397.0	23,609.0
Total funding and derivatives	185,398	283,830.0	278,548.0	302,017.0	180,441.0
Other liabilities	21,275	32,571.0	29,563.0	27,349.0	20,637.0
Preference shares and hybrid capital	1,555	2,381.0	2,360.0	2,294.0	1,696.0
Total equity	13,966	21,381.0	20,352.0	17,968.0	14,074.0
Total liabilities and equity	222,194	340,163.0	330,823.0	349,628.0	216,848.0
Exchange rate		USD1 = AUD1.530925	USD1 = AUD1.489869	USD1 = AUD1.336541	USD1 = AUD1.315443

Source: Fitch Ratings, Fitch Solutions, MBL

Key Ratios

	31 Mar 24	31 Mar 23	31 Mar 22	31 Mar 21
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.1	4.3	2.5	2.5
Net interest income/average earning assets	1.2	0.9	1.0	1.1
Non-interest expense/gross revenue	63.6	55.5	63.0	61.8
Net income/average equity	14.1	19.9	17.0	12.0
Asset quality				
Impaired loans ratio	1.0	0.8	0.8	1.3
Growth in gross loans	10.5	15.2	23.9	12.9
Loan loss allowances/impaired loans	36.6	53.2	58.7	58.2
Loan impairment charges/average gross loans	0.0	0.1	-0.1	0.2
Capitalisation				
Common equity Tier 1 ratio	13.6	13.7	11.5	12.6
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	15.4	13.1	14.0
Tangible common equity/tangible assets	6.2	5.8	4.9	6.1
Basel leverage ratio	5.2	5.2	5.0	5.5
Net impaired loans/common equity Tier 1	5.4	n.a.	n.a.	4.7
Net impaired loans/Fitch Core Capital	n.a.	2.9	2.4	4.2
Funding and liquidity				
Gross loans/customer deposits	106.0	105.8	121.6	118.6
Gross loans/customer deposits + covered bonds	105.3	105.0	n.a.	n.a.
Liquidity coverage ratio	191.0	214.0	188.9	174.0
Customer deposits/total non-equity funding	56.9	54.2	46.2	51.1
Net stable funding ratio	115.0	124.0	125.0	115.0

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 a number of years, underpinned by its position as Australia's fifth-largest bank by deposit and mortgage market shares of about 5%. We believe there is a high probability of support for MBL by the Australian authorities. We rate MBL's GSR higher than for its domestic non-major bank peers. MBL is also a significant participant in domestic financial markets, and is the only non-major bank that is subject to the Australian government's bank levy.

Subsidiaries and Affiliates

The Long-Term IDRs on Macquarie International Finance Limited (MIFL) and Macquarie Bank Europe Designated Activity Company (MBE) which are driven by their respective SSRs, are equalised with the VR their parent, MBL. Their SSRs reflects their position as key and integral parts of the banking group, which increases the propensity of MBL to extend support. If either of these 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 also be reflected in the IDRs of MIFL and MBE, assuming no change to Fitch's 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 downward revision of their SSR and therefore IDRs.

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

An upgrade in the VR of MBL would be also be reflected in the IDRs of MIFL and MBE, assuming no change to Fitch's assumption around the propensity to support. The IDRs of MIFL and MBE may also be upgraded if Fitch believed there was sufficient junior debt buffers positioned into these entities and the anchor rating was switch to the IDR of MBL instead of the VR.

Criteria Variations

Fitch applied a variation from our *Bank Rating Criteria* by upgrading MBL's Long-Term IDR to one notch above the VR. The criteria states that an uplift can be applied where a banking group's resolution plan envisages that the bank's third-party senior creditors will be protected on a failure by a sufficient volume of qualifying junior debt and equity. We have applied the uplift without access to MBL's plan, as Australia's resolution and LAC framework envisages that senior creditors are protected on a bank failure. We believe this effectively meets the intent of Fitch's criteria.

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
not a rating driver	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

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

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.

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 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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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