

Macquarie Bank Limited

Key Rating Drivers

Standalone Assessment: Macquarie Bank Limited (MBL) is Macquarie Group Limited's (MGL, A/Stable/a) main operating subsidiary. Fitch Ratings believes MBL's creditors are reasonably ringfenced from the rest of the group due to the Australian authorities' strong preference to prioritise protection of bank depositors. As such, MBL is assessed on a standalone basis.

Internationally Diversified Operations: Fitch takes a blended approach when assigning the operating environment (OE) score to MBL given the scope of its international operations. MBL's score reflects the heavy weighting of its assets and exposures in jurisdictions that Fitch has scored in the 'aa' range for OE. 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.

Business Profile Score Revised: Fitch has upgraded MBL's business profile score to 'a' from 'a-' following sustained growth in its Australian mortgage market share, which we think will be maintained or grow further. We view MBL's market position as the strongest among Australian banks outside of the four majors. Mortgage growth appears to have mainly been in the low risk mortgage segment and not at the expense of weakening underwriting.

Robust Risk-Control Framework: MBL benefits from MGL's 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 helps to offset the bank's larger risk appetite than most other Australian banking groups.

Asset Quality to Weaken: We expect the asset quality of the loan book to deteriorate over the next two years, driven by the impact of high interest rates flowing to Australian mortgage borrowers, in conjunction with a slowing economy. We expect the unemployment rate to remain relatively low, which means loan weakening should remain manageable by the bank.

Moderation in Earnings and Profitability: We expect MBL's profitability to moderate in the financial year ending March 2024 (FY24) following a number of years of record profit as market volatility subsides and economies slow. However, we expect the earnings and profitability metrics to remain commensurate with the assigned factor score over the next two years. The diversity of the bank's operations and revenue has supported sound profit results over an extended period of time.

Robust Capital Buffers: Fitch has revised MBL's capital and leverage score to 'a+' from 'a' following a sustained improvement in the common equity Tier 1 (CET1) ratio. Fitch believes the bank is likely to maintain an operating CET1 ratio above 12% under the Australian Prudential Regulation Authority's final Basel III rules that went into effect in 2023. MBL's CET1 ratio was 13.6% at end-June 2023 but we expect the bank to manage this down over the next few years.

Sound Liquidity Management: Fitch expects pressure on funding and liquidity to be manageable for the bank over the next 12 months. MBL benefits from the group's strong liquidity management, which offsets some of the risks from its greater reliance on wholesale funding than international peers. MBL's average liquidity coverage ratio was 211% for the three months to end-June 2023, and the net stable funding ratio was 124% at end-March 2023.

GSR Upgrade: MBL's Government Support Rating (GSR) was upgraded to 'bbb' from 'bbb-' due to its growing market share and systemic importance. We believe that there is a high probability of support for the banking operations from authorities, if required. This rating is higher than those for other domestic non-major bank peers but lower than the major banks.

Ratings

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

Sovereign Risk (Australia)

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 \(May 2023\)](#)

[Bank Rating Criteria \(September 2023\)](#)

Related Research

[Macquarie Group Limited \(October 2023\)](#)

[Fitch Affirms Macquarie Group and Subsidiaries at 'A'; Outlook Stable \(October 2023\)](#)

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Rating Sensitivities

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

MBL's Viability Rating (VR) and Long-Term Issuer Default Rating (IDR) could be downgraded if a combination of the following were to occur:

- the four-year average of the stage 3 loans/gross loans ratio increases above 2.0% for a sustained period (FY19-FY23: 1.1%);
- the four-year average of the operating profit/risk-weighted asset (RWA) ratio declines below 1.5% for a sustained period (FY19-FY23: 2.8%);
- the CET1 ratio falls below 10% without a credible plan to raise it back above this level;
- the business profile score being revised down to 'a-', possibly reflecting in a significant reduction in lending or deposit market position.

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

A downgrade of MBL's Short-Term IDR to 'F2' would require the Long-Term IDR to be downgraded by at least two notches to 'BBB+' or by one notch to 'A-' combined with the funding and liquidity score also lowered to at least 'a-'.

GSR

MBL's GSR could be downgraded if there is a negative change in our assumptions around the propensity or ability of Australian authorities to provide timely support. This could be reflected in a significant decline in MBL's systemic importance. Neither appears probable over the next two years. 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 the ratings would require the asset-quality or earnings and profitability factor scores to be revised upward to 'a+' assuming all other factor scores remain unchanged.

An upgrade of MBL's GSR would require further significant increase in its systemic importance, which would most likely be reflected in its market share growing closer towards that 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.

Other Debt and Issuer Ratings

Rating level	Rating
Senior Unsecured: Long Term	A
Senior Unsecured: Short Term	F1
Subordinated: Long Term	BBB+

Source: Fitch Ratings

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

MBL's senior debt ratings are aligned with MBL's IDRs as Australia does not have a sophisticated resolution framework or full depositor protection.

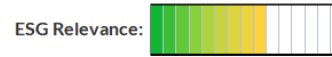
MBL's subordinated Tier 2 debt is rated two notches below its anchor rating - the VR - for loss severity, with non-performance risk adequately captured by the VR. The point of non-viability for these instruments is at the discretion of the regulator. None of the reasons for alternative notching from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

MBL's Short-Term IDR could be upgraded to 'F1+' if the Long-Term IDR were upgraded to at least 'AA-' or the funding and liquidity score were upgraded to at least 'aa-', from the current 'a'. This appears unlikely as it would require MBL's four-year average loan/customer deposit ratio to fall below 75% (FYE23: 122%).

MBL senior debt ratings are broadly sensitive to the same factors as its VR and IDR. Movements in MBL's VR would also be reflected in its subordinated Tier 2 debt rating.

Ratings Navigator

Macquarie Bank Limited



Banks
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
aaa								aaa	aaa	AAA
aa+								aa+	aa+	AA+
aa								aa	aa	AA
aa-								aa-	aa-	AA-
a+								a+	a+	A+
a								a	a	A Sta
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.

Company Summary and Key Qualitative Factors

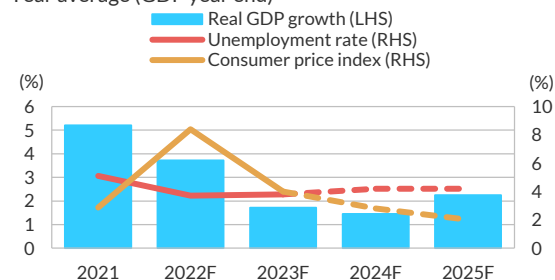
Operating Environment

MGL is the most internationally active among the Australian banking groups that Fitch rates. Offshore revenue accounted for around 71% of total income at FYE23. 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 MGL's OE score of 'aa-'.
 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 ratings are assessed on a standalone basis, although the ratings are at the same level as those for MGL.

We expect the economic environment in Australia to become increasingly challenging for banks for the remainder of 2023 and into 2024. The Reserve Bank of Australia's (RBA) rapid interest rate rises over the last year to address high inflation are likely to slow economic growth and increase 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 pressure.

Australian Economy

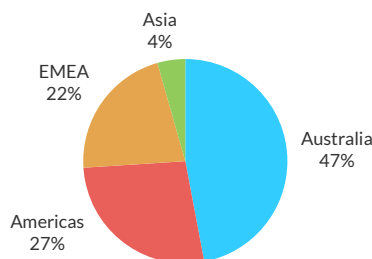
Year average (GDP year end)



Source: Fitch Ratings, Fitch Solutions

MBL Revenue

From external customers at FY23



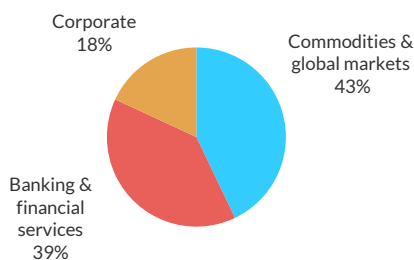
Source: Fitch Ratings, MBL

Business Profile

MBL is the registered bank within Macquarie group. It was Australia's fifth-largest bank by domestic assets at end-June 2023, accounting for nearly 5% of total system assets. MBL's Australian market share remains small relative to the major banks, but has continued to grow faster than the system and has established a significant position in the retail market over a sustained period. We think this is likely to be maintained and is the main driver for the revision of the business profile score to 'a' from 'a-'.
 MBL's key businesses within the wider group include banking and financial services and part of the commodities and global markets segment. MBL's business model adds complexity relative to most retail-oriented Australian banks, but boosts geographic and revenue diversity. MBL's management quality, corporate governance and strategy are consistent with those of MGL, reflecting the high level of integration throughout the group; for more details see the rating report on [Macquarie Group Limited](#), available via the link on page 1.

MBL Segment Assets

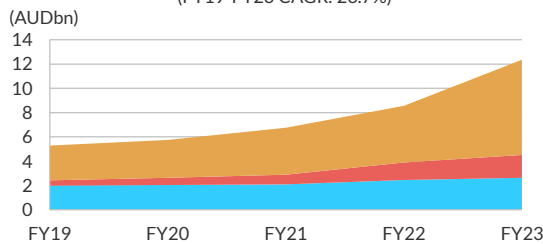
FYE23



Source: Fitch Ratings, MBL

Revenue Breakdown

(FY19-FY23 CAGR: 23.7%)



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

Risk Profile

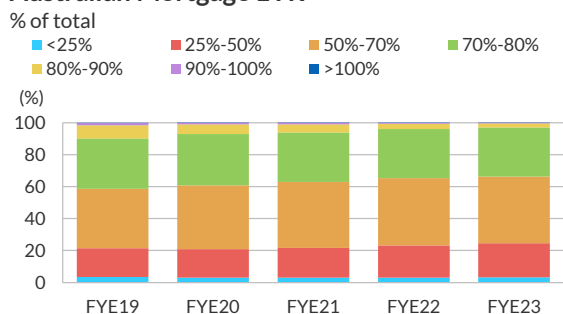
Credit risk is MBL's largest risk, accounting for around 78% of risk-weighted assets at end-June 2023. Most of this relates to the loan portfolio (43% of total assets at FYE23). MBL has significantly larger exposure to securities and derivatives (combined 20% of total assets), unlike most other local banks and 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 80% of total loans at FYE23 and have been a key source of loan growth for the bank over the last three years. At FYE23, loan growth continued to outperform system levels 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. During times of market uncertainty, such as the current environment, derivative exposures can significantly increase due to commodity-price volatility and mark-to-market adjustments. The bank says collateral is typically sought for exposures to weaker counterparties.

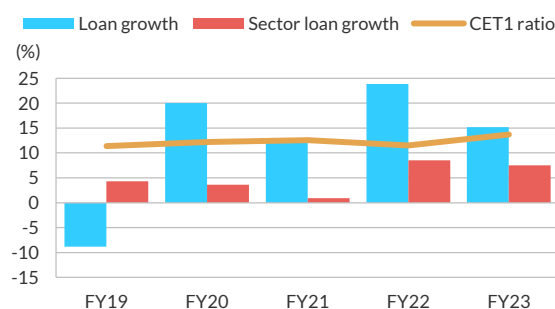
Market risk appears manageable, accounting for about 8% of risk-weighted assets at end-June 2023, with much of the risk associated with MBL's securities operations captured in the credit-risk charge. Traded-market risk is MBL's main form of market risk. The bank says trading is mainly undertaken on behalf 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.

Australian Mortgage LVR



Source: Fitch Ratings, MBL

Loan Growth



Source: Fitch Ratings, Fitch Solutions, MBL

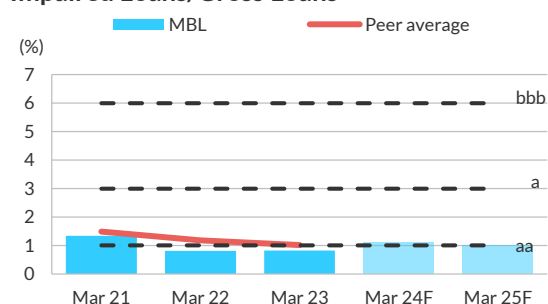
Financial Profile

Asset Quality

MBL's asset quality tends to be stronger than that of the group, reflecting the generally lower risk profile of the bank's operations. Similar to the consolidated group, MBL's asset quality has performed better than our expectations over the last two years, although we expect the impact of high interest rates, in conjunction with a slowing economy, to flow through to borrowers in 2024. We expect loan deterioration to be manageable by the bank, supported by unemployment rates that remain low and conservative mortgage underwriting.

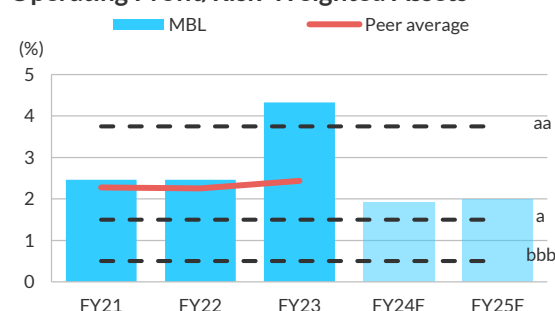
Loans made up around 43% of total assets at FYE23, most of which were residential mortgages. MBL has less exposure to large corporates relative to the group, which results in lower volatility in the asset quality metrics. Non-loan financial-asset quality has historically been stronger than the loan portfolio 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

While we expect MBL's earnings to moderate in FY24, underlying earnings should remain sound and consistent with the bank's earnings and profitability score, supported by asset quality that remains robust and a growing customer base in its various business segments. Earnings moderation is likely to come through the Commodities and Global Markets business, which had several years of high market volatility. We view margin pressure from competition and rising funding costs, as well as high investment expenses as the main challenges to earnings. While the earnings diversity from MBL's market-facing businesses resulted in favourable earnings in recent years, we also expect greater volatility through the cycle relative to more retail-orientated domestic peers.

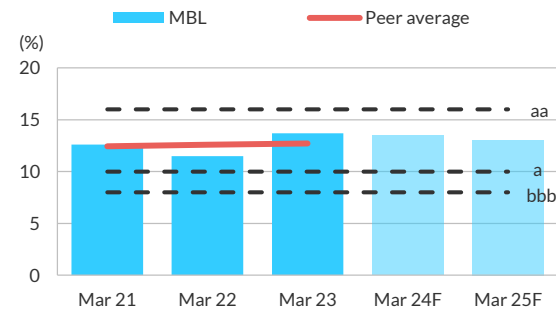
Capital and Leverage

MBL maintains large capital buffers over regulatory minimums and we expect for some of these to be reduced over the next few years to around 12% on a normal operating basis. MBL's capital position continues to be supported by sound profit and access to group capital, if required. The CET1 ratio, which was at 13.7 % at FYE23, compares well against those of domestic peers.

The bank estimates the CET1 ratio to be equivalent to 18.4% under the globally harmonised full Basel III framework. The difference between the Australian regulatory and harmonised ratios is driven by the regulator's conservative risk-weights for certain lending types and capital deductions that relate to equity investments, loan and lease origination fees and commissions, and deferred tax assets.

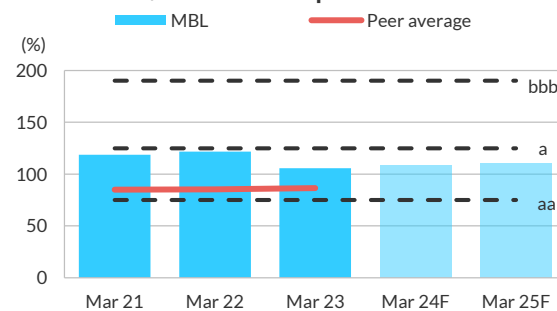
MBL's Basel III leverage ratio, as calculated by the Australian Prudential Regulation Authority, was 5.2% at end-March 2023 and remains well above the 3.5% minimum proposed by the regulator. Capital in MBL is ringfenced from the broader group – dividends can only be paid out of earnings from the previous 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

We expect pressure on MBL's funding and liquidity over the next 12 months to be manageable. The loan/customer deposit ratio strengthened considerably in FY23 on strong deposit gathering while loan growth slowed due to intense competition and pricing pressure. We expect the loan/customer deposit ratio to moderate in FY24 to around 110%, which will remain commensurate with the current factor score.

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 is 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 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 macro-economic 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 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. Light-blue columns represent Fitch's forecasts.

Peer average includes Commonwealth Bank of Australia (VR: a+), Westpac Banking Corporation (a+), Australia and New Zealand Banking Group Limited (a+), National Australia Bank Limited (a+), Morgan Stanley (a+), Citigroup Inc. (a), JPMorgan Chase & Co. (aa-), Bank of America Corporation (aa-), and BNP Paribas S.A. (a+). The financial year end of MBL is 31 March. The financial year end of Commonwealth Bank of Australia is 30 June. The financial year end of Westpac Banking Corporation, Australia and New Zealand Banking Group Limited and National Australia Bank Limited is 30 September. The latest average uses FY23 data for Commonwealth Bank of Australia; 1H23 data for Morgan Stanley, Citigroup Inc., JPMorgan Chase & Co., Bank of America Corporation, and BNP Paribas S.A.

Financials

Summary Financials

	31 Mar 23		31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
	Year end (USDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	1,772	2,640.0	2,453.0	2,089.0	2,040.0	1,978.0
Net fees and commissions	1,259	1,876.0	1,449.0	801.0	589.0	454.0
Other operating income	5,282	7,869.0	4,714.0	3,905.0	3,178.0	2,939.0
Total operating income	8,313	12,385.0	8,616.0	6,795.0	5,807.0	5,371.0
Operating costs	4,603	6,858.0	5,406.0	4,172.0	3,681.0	3,655.0
Pre-impairment operating profit	3,710	5,527.0	3,210.0	2,623.0	2,126.0	1,716.0
Loan and other impairment charges	78	116.0	16.0	311.0	458.0	233.0
Operating profit	3,632	5,411.0	3,194.0	2,312.0	1,668.0	1,483.0
Other non-operating items (net)	n.a.	n.a.	473.0	-14.0	391.0	952.0
Tax	1,011	1,506.0	950.0	622.0	586.0	394.0
Net income	2,621	3,905.0	2,717.0	1,676.0	1,473.0	2,041.0
Other comprehensive income	422	629.0	138.0	-764.0	525.0	45.0
Fitch comprehensive income	3,043	4,534.0	2,855.0	912.0	1,998.0	2,086.0
Summary balance sheet						
Assets						
Gross loans	95,568	142,384.0	123,594.0	99,768.0	88,407.0	73,668.0
- Of which impaired	788	1,174.0	1,005.0	1,333.0	1,176.0	1,344.0
Loan loss allowances	419	624.0	590.0	776.0	688.0	510.0
Net loans	95,149	141,760.0	123,004.0	98,992.0	87,719.0	73,158.0
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	24,042	35,820.0	84,616.0	20,552.0	44,845.0	14,022.0
Other securities and earning assets	53,097	79,107.0	64,582.0	66,213.0	67,280.0	53,567.0
Total earning assets	172,288	256,687.0	272,202.0	185,757.0	199,844.0	140,747.0
Cash and due from banks	27,930	41,612.0	48,972.0	15,966.0	7,847.0	6,550.0
Other assets	21,830	32,524.0	28,454.0	15,125.0	18,445.0	16,702.0
Total assets	222,048	330,823.0	349,628.0	216,848.0	226,136.0	163,999.0
Liabilities						
Customer deposits	90,376	134,648.0	101,614.0	84,140.0	67,253.0	56,120.0
Interbank and other short-term funding	29,853	44,477.0	16,947.0	4,542.0	2,322.0	4,216.0
Other long-term funding	41,713	62,147.0	94,059.0	68,150.0	75,708.0	56,199.0
Trading liabilities and derivatives	25,020	37,276.0	89,397.0	23,609.0	43,186.0	19,080.0
Total funding and derivatives	186,961	278,548.0	302,017.0	180,441.0	188,469.0	135,615.0
Other liabilities	19,843	29,563.0	27,349.0	20,637.0	22,067.0	15,652.0
Preference shares and hybrid capital	1,584	2,360.0	2,294.0	1,696.0	1,764.0	1,883.0
Total equity	13,660	20,352.0	17,968.0	14,074.0	13,836.0	10,849.0
Total liabilities and equity	222,048	330,823.0	349,628.0	216,848.0	226,136.0	163,999.0
Exchange rate		USD1 = AUD1.489869	USD1 = AUD1.336541	USD1 = AUD1.315443	USD1 = AUD1.619433	USD1 = AUD1.411034

Source: Fitch Ratings, MBL

Key Ratios

	31 Mar 23	31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	4.3	2.5	2.5	1.7	1.9
Net interest income/average earning assets	0.9	1.0	1.1	1.2	1.3
Non-interest expense/gross revenue	55.5	63.0	61.8	63.9	69.2
Net income/average equity	19.9	17.0	12.0	12.1	16.9
Asset quality					
Impaired loans ratio	0.8	0.8	1.3	1.3	1.8
Growth in gross loans	15.2	23.9	12.9	20.0	-8.8
Loan loss allowances/impaired loans	53.2	58.7	58.2	58.5	38.0
Loan impairment charges/average gross loans	0.1	-0.1	0.2	0.4	0.2
Capitalisation					
Common equity Tier 1 ratio	13.7	11.5	12.6	12.2	11.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	15.4	13.1	14.0	13.8	12.5
Tangible common equity/tangible assets	5.8	4.9	6.1	5.9	6.3
Basel leverage ratio	5.2	5.0	5.5	5.7	5.3
Net impaired loans/common equity Tier 1	n.a.	n.a.	4.7	4.2	9.4
Net impaired loans/Fitch Core Capital	2.9	2.4	4.2	3.7	8.6
Funding and liquidity					
Gross loans/customer deposits	105.8	121.6	118.6	131.5	131.3
Gross loans/customer deposits + covered bonds	105.0	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	214.0	188.9	174.0	163.0	154.0
Customer deposits/total non-equity funding	54.2	46.2	51.1	44.1	44.9
Net stable funding ratio	124.0	125.0	115.0	118.0	112.9

Source: Fitch Ratings, 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

Fitch believes that there is a high probability of support for MBL by the Australian authorities. MBL is also a significant player in domestic financial markets, and 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) are driven by their Shareholder Support Ratings of 'a', and are equalised with the Long-Term IDR on parent, MBL. The subsidiaries' SSRs reflect 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.

Any change in the IDRs 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. Additionally, a reduction in the role and relevance of these entities to the bank could lead to a downward revision of their SSRs and hence, their IDRs.

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 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 result in 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.

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 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.

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