FitchRatings

Macquarie Bank Limited

Update

Banks
Universal Commercial Banks
Australia

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 2024)

Related Research

Global Economic Outlook (December 2024)

DM100 Banks Tracker (December 2024)

Macquarie Bank Limited (October 2024)

Macquarie Group Limited (October 2024)

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

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Key Rating Drivers

Strong Junior Debt Buffers: Macquarie Bank Limited's (MBL) Long-Term Issuer Default Rating (IDR) is above its Viability Rating (VR) and reflects the build-up of junior debt buffers to address loss-absorbing capacity (LAC) requirements. Australia requires LAC to be met through existing capital instruments. Fitch Ratings believes MBL's LAC will sufficiently reduce the risk of taxpayer funds being required to recapitalise the bank on 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 Operation: 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.

Market Share Growth: We expect MBL to continue expanding its Australian lending and deposit market share over the next few years. 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 (A/Stable) 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 expect asset quality to moderately weaken as the full impact of high interest rates plays out, but the weakening should peak during 2025, improving over 2026 as rates fall. Losses are likely to remain low, due to the high levels of collateral held in the loan book. 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.

Robust Capital Buffers: MBL's common equity Tier 1 (CET1) ratio, which stood at 12.6% at end-2024, is likely to retain a sound capital buffer over regulatory minimums. The bank may manage the ratio down over the long-term through growth or other capital optimisation levers, but we do not anticipate it to fall below 12.0%.

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. MBL's average liquidity coverage ratio was 196% in 4Q24 and its net stable funding ratio was 113% at end-2024.

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 (financial year ending March 2021 (FY21) to 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-2024: 12.6%)

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
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.

Short-Term IDR

The Short-Term IDRs of MBL are 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+'.

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 MBL's Short-Term IDRs would occur if the Long-Term IDR is 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.

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

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.

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

Macquarie Bank Limited

ESG Relevance:

Banks
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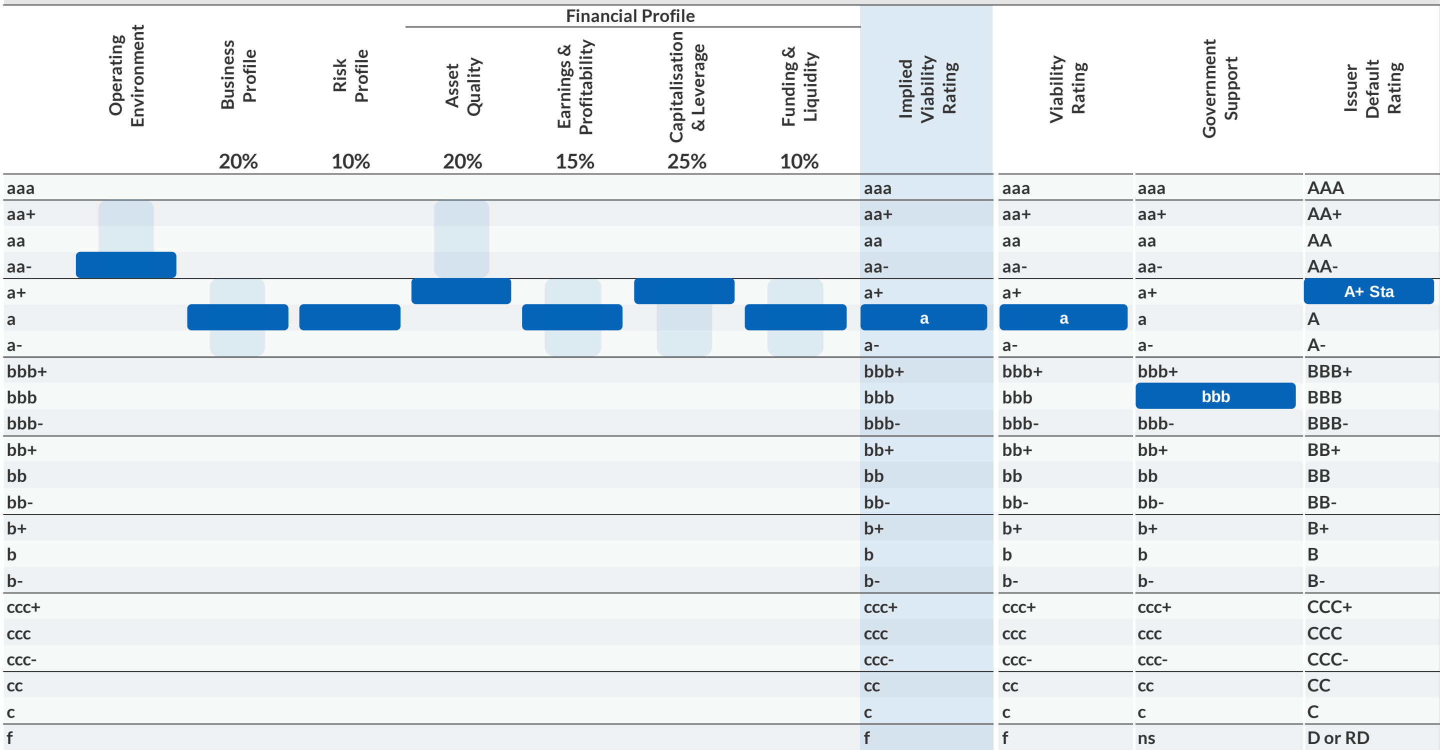

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The asset quality score of 'a+' has been assigned below the 'aa' category implied score for following adjustment reason: historical and future metrics (negative).

Financials

Summary Financials and Key Ratios

	30 Sep 24		31 Mar 24	31 Mar 23	31 Mar 22
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,088	1,570.0	3,131.0	2,640.0	2,453.0
Net fees and commissions	878	1,266.0	1,997.0	1,876.0	1,449.0
Other operating income	1,857	2,679.0	5,764.0	7,869.0	4,714.0
Total operating income	3,823	5,515.0	10,892.0	12,385.0	8,616.0
Operating costs	2,636	3,803.0	6,901.0	6,858.0	5,406.0
Pre-impairment operating profit	1,187	1,712.0	3,991.0	5,527.0	3,210.0
Loan and other impairment charges	8	11.0	-34.0	116.0	16.0
Operating profit	1,179	1,701.0	4,025.0	5,411.0	3,194.0
Other non-operating items (net)	3	5.0	50.0	n.a.	473.0
Tax	374	540.0	1,163.0	1,506.0	950.0
Net income	808	1,166.0	2,912.0	3,905.0	2,717.0
Other comprehensive income	-268	-387.0	173.0	629.0	138.0
Fitch comprehensive income	540	779.0	3,085.0	4,534.0	2,855.0
Summary balance sheet					
Assets					
Gross loans	115,559	166,703.0	157,287.0	142,384.0	123,594.0
- Of which impaired	n.a.	n.a.	1,504.0	1,174.0	1,005.0
Loan loss allowances	351	507.0	551.0	624.0	590.0
Net loans	115,207	166,196.0	156,736.0	141,760.0	123,004.0
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	16,276	23,479.0	23,767.0	35,820.0	84,616.0
Other securities and earning assets	72,884	105,141.0	97,261.0	79,107.0	64,582.0
Total earning assets	204,366	294,816.0	277,764.0	256,687.0	272,202.0
Cash and due from banks	10,995	15,861.0	28,055.0	41,612.0	48,972.0
Other assets	24,015	34,644.0	34,344.0	32,524.0	28,454.0
Total assets	239,377	345,321.0	340,163.0	330,823.0	349,628.0
Liabilities					
Customer deposits	109,799	158,395.0	148,340.0	134,648.0	101,614.0
Interbank and other short-term funding	28,084	40,513.0	39,957.0	44,477.0	16,947.0
Other long-term funding	39,889	57,543.0	65,313.0	62,147.0	94,059.0
Trading liabilities and derivatives	19,226	27,735.0	30,643.0	37,276.0	89,397.0
Total funding and derivatives	196,998	284,186.0	284,253.0	278,548.0	302,017.0
Other liabilities	27,760	40,046.0	32,148.0	29,563.0	27,349.0
Preference shares and hybrid capital	n.a.	n.a.	2,381.0	2,360.0	2,294.0
Total equity	14,619	21,089.0	21,381.0	20,352.0	17,968.0
Total liabilities and equity	239,377	345,321.0	340,163.0	330,823.0	349,628.0
Exchange rate		USD1 = AUD1.442585	USD1 = AUD1.530925	USD1 = AUD1.489869	USD1 = AUD1.336541

Note: Stage 3 loans not disclosed in interim accounts
Source: Fitch Ratings

Summary Financials and Key Ratios

	30 Sep 24	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	69.0	63.6	55.5	63.0
Net income/average equity	11.0	14.1	19.9	17.0
Asset quality				
Impaired loans ratio	n.a.	1.0	0.8	0.8
Growth in gross loans	6.0	10.5	15.2	23.9
Loan loss allowances/impaired loans	n.a.	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	6.2	5.8	4.9
Basel leverage ratio	5.0	5.2	5.2	5.0
Net impaired loans/common equity Tier 1	n.a.	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	105.3	106.0	105.8	121.6
Gross loans/customer deposits + covered bonds	n.a.	105.3	105.0	n.a.
Liquidity coverage ratio	n.a.	191.0	214.0	188.9
Customer deposits/total non-equity funding	60.4	56.8	54.2	46.2
Net stable funding ratio	n.a.	115.0	124.0	125.0

Note: Stage 3 loans not disclosed in interim accounts
Source: Fitch Ratings

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 about 5%. We believe there is a high probability of support for MBL by the Australian authorities. We rate MBL's GSR higher than that of 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 of Macquarie International Finance Limited (MIFL, A/Stable) and Macquarie Bank Europe Designated Activity Company (MBE, A/Stable) are driven by their respective Shareholder Support Ratings (SSRs) and are equalised with the VR of their parent, MBL. The SSRs reflect the subsidiaries' positions as key and integral parts of the banking group, which increases the propensity of MBL to extend support. A default by either of the two entities would have a huge impact on the reputation and franchise of MBL and the wider group.

The rating of MIFL's commercial paper programme is aligned with its Short-Term IDR, which is support-driven and equalised with the support provider, MBL.

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

A downgrade of MBL's VR would be reflected in the IDRs of MIFL and MBE, assuming no change to our assumption around the propensity for MBL to provide 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.

A downgrade of MBL's VR would also be reflected in MIFL's commercial paper programme rating.

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

An upgrade of MBL's VR would be reflected in the IDRs of MIFL and MBE, assuming no change to our assumption around the propensity for MBL to provide support. The IDRs may also be upgraded if we believe the entities have sufficient junior debt buffers and the anchor rating was switched to MBL's IDR instead of the VR.

An upgrade of MBL's VR would also be reflected in MIFL's commercial paper programme ratings.

Criteria Variations

We apply a variation from our Bank Rating Criteria to lift MBL's Long-Term IDR by one notch above the VR. The criteria states that uplift will likely be applied where a banking group's resolution plan envisages a bank's third-party senior creditors being protected on failure by a sufficient volume of qualifying junior debt and equity. We apply the uplift without access to a plan for MBL, as the resolution and LAC framework in Australia envisage senior creditors being protected on a bank failure. We view this as effectively meeting the intent of our criteria.

Environmental, Social and Governance Considerations

FitchRatings **Macquarie Bank Limited**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				ESG Relevance to Credit Rating
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.	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 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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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.

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