

CREDIT OPINION

24 July 2025

Update



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RATINGS

BankVic

Domicile	Australia
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)Baa1
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BankVic

Update to credit analysis

Summary

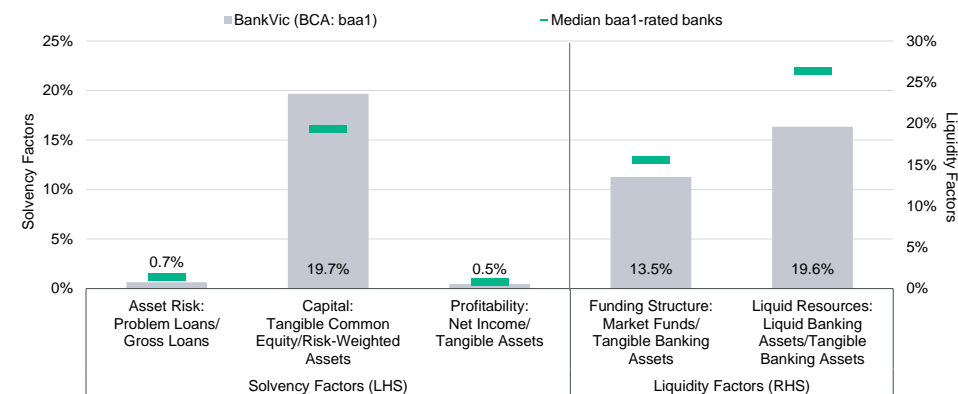
[BankVic's](#) Baa1 long-term issuer rating and stable outlook reflects the bank's very strong asset quality, robust capital adequacy, but constrained earnings. The bank focuses on conservatively underwritten residential mortgage lending with principal and interest repayments, and its membership base largely comprises workers from the essential services sector.

Margin pressures stemming from competition, and a structurally high-cost base, may persist in the near term and put pressure on the bank's core capital ratios. However, we expect the bank to continue to maintain robust levels of capital due to its currently strong capital base and its ability to balance credit growth with returns to preserve capital.

The bank has increased its wholesale funding in recent years to around 15% of total liabilities, driven by credit growth and deposit competition. Despite this, the bank continues to prioritize retail deposits and can utilize on-balance-sheet liquid assets to fund credit growth. It has also diversified its funding approach with committed warehouse funding introduced in 2025.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

- » Strong asset quality, underpinned by its lending focus and membership base
- » Strong capitalization
- » Conservative funding profile, dominated by retail deposits, and ample liquidity

Credit challenges

- » Profitability constraints from net interest margin (NIM) pressure and a structurally high cost base
- » Asset and geographic concentration

Outlook

The outlook on the rating is stable, reflecting our expectation that the bank's conservative loan underwriting standards will contain credit costs and that it will maintain robust capital adequacy over the next 12 months.

Factors that could lead to an upgrade

We could upgrade the bank's ratings if structural risks in the housing sector subside, or if the bank's credit profile strengthens; for example, its tangible common equity (TCE)/risk-weighted assets (RWA), or the TCE ratio, sustains above 20%, while it maintains stable asset quality and a conservative funding profile.

Factors that could lead to a downgrade

Conversely, we could downgrade BankVic's ratings if its asset quality deteriorates significantly, with its problem loans/gross loans rising above 1%; its TCE ratio drops below 15%; or its liquid asset coverage of unsecured wholesale debt maturities due within 12 months falls below 100%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

BankVic (Consolidated Financials) [1]

	06-24 ²	06-23 ²	06-22 ²	06-21 ²	06-20 ²	CAGR/Avg. ³
Total Assets (AUD Million)	3,096.6	3,020.6	2,827.7	2,664.1	2,308.0	7.6 ⁴
Total Assets (USD Million)	2,068.1	2,010.7	1,944.5	2,000.1	1,589.1	6.8 ⁴
Tangible Common Equity (AUD Million)	246.9	232.7	217.2	205.6	195.0	6.1 ⁴
Tangible Common Equity (USD Million)	164.9	154.9	149.4	154.4	134.3	5.3 ⁴
Problem Loans / Gross Loans (%)	0.7	0.5	0.6	0.8	0.5	0.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	19.7	19.8	17.3	17.5	18.4	18.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.4	5.0	5.7	6.7	4.7	5.7 ⁵
Net Interest Margin (%)	2.2	2.3	1.9	1.9	2.0	2.1 ⁵
PPI / Average RWA (%)	1.7	1.9	1.3	1.4	1.6	1.6 ⁶
Net Income / Tangible Assets (%)	0.5	0.5	0.4	0.4	0.4	0.4 ⁵
Cost / Income Ratio (%)	72.0	70.0	73.3	71.4	70.5	71.4 ⁵
Market Funds / Tangible Banking Assets (%)	13.5	13.8	5.0	3.8	8.1	8.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	19.6	23.9	29.7	33.3	24.7	26.2 ⁵
Gross Loans / Due to Customers (%)	103.2	97.4	80.7	75.5	90.5	89.5 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

BankVic is a mutually owned authorized deposit-taking institution in Australia, with total assets of AUD3.1 billion as of June 2024. Of its loan book, 99% comprised home loans, 96% originated from the state of Victoria, and more than half were to employees in the state's essential services, including police, health care, emergency and the public service sector.

Detailed credit considerations

Strong asset quality underpinned by conservative underwriting and favorable membership base

The bank has reported a ratio of problem loans to gross loans of 0.65%, a 13bps increase in the 12 months to June 2024. The ongoing monetary easing cycle will also help to reduce the debt servicing burden on borrowers, however it will take time for household finances to recover from the strain of past high interest rates. The bank has a high exposure to residential mortgage lending and the performance of this portfolio continues to be very strong reflected the bank's very low credit impairment charges equivalent to 2 basis points of gross loans.

BankVic's maintains a high concentration in Victoria, particularly Melbourne, which is experiencing a much slower recovery in the housing market relative to the rest of the nation, making it more difficult for troubled borrowers to realize a property price sufficient to repay their debt. That said, this concentration risk is partly offset by BankVic's wide presence across the state and the state's diversified economic base.

The bank's asset quality will continue to benefit from the strong operating environment, particularly Australia's strong employment conditions, with unemployment remaining low at 4.3% as of June 2025. The bank's borrowers also benefit from accumulated loan prepayments. Around 55% of the bank's borrowers had 1-month or more of prepayments, and with a significant portion of that having more 6-months of prepayments as of September 2024. Furthermore, the bank's customer base largely comprises essential workers, who typically have above-average employment and income stability. The bank's lending conservatism has also resulted in a large proportion of lower risk loans in its loan book. For fiscal 2024, principal and interest loans accounted for 94% of the bank's total loans; owner-occupier loans made up 85%; and loans with a loan-to-value ratio (LVR) of 80% or less constituted 78%.

Taken together, we make moderate downward adjustments to the Asset Risk and Business Diversification sections of our scorecard.

Consistent earnings performance and emerging scale efficiencies

BankVic's has demonstrated consistent earnings performance with an average return on assets over the last 5-years of 0.45%. The stability of earnings has been high with very low volatility, reflecting a relatively stable net interest margin and consistently low credit costs. However, the bank's earnings are constrained by its structurally high cost base.

The bank's earnings are highly reliant on net interest income, which represents 95% of its revenue. The bank's net interest margin (NIM) has benefited from higher interest rates with its NIM for fiscal 2024 being 2.2%, above the bank's 5-year average of 2%. The bank has managed its asset and liability pricing well through this period and this is also reflected in the stability of its net spread through this period. A lower interest rate environment over the next 12 months could create margin pressure, however we expect BankVic will be able to navigate this challenge with only moderate declines in NIM.

However, BankVic's structurally high cost base constrains its profitability, reflected by its relatively high cost to income ratio of 72%. We expect this high cost to income ratio will persist over the next 12 months, as the bank continues to invest in digital capabilities and distribution channels to maintain competitiveness. Some benefits of the investments have been realized in the form of reduced time to loan decision, and we expect further benefits of scale and efficiency, resulting from the bank's business growth, to materialize in the longer term.

Capitalization to remain strong

BankVic's strong level of capital is supported by its organic earnings generation and ability to moderate credit growth as a mutually owned organization. The bank continues to maintain robust levels of capital, with a Common Equity Tier 1 (CET1) capital ratio of 21.2% as of March 2025. The bank's mortgage loans grew at an annualized rate of 7.3% at April 2025, which was 1.3x system growth over the same period. We expect core capital levels will remain above the peer average for the mutual sector. This expectation is based on the bank's currently strong capital base and its ability to balance credit growth with returns to preserve capital.

The downward adjustment to the Capital sub-score in our scorecard reflects limited capital-raising options for mutuals. Although mutual capital instruments could enhance capital management flexibility, the issuance of such instruments has been rare and the bank has no immediate issuance plan.

Conservative funding profile and ample liquidity

BankVic decreased its share of wholesale funding to 14.5% from 14.9% over fiscal 2024 as its retail deposit franchise grew, with a slightly higher mix of term deposits compared to the prior year as members continued to switch to rate-sensitive deposits, though we expect this trend to slow with interest rates coming down. Prior to 2023, the bank maintained a significantly higher proportion of deposit funding of around 95%, but has since continued to diversify its funding sources, and we expect the share of wholesale funding to remain higher than historical levels. Though the bank is increasing its proportion of long-term wholesale funding, short-term funding in the form of wholesale term deposits remains the primary source. However, the bank continues to prioritize deposits and can use some on-balance-sheet liquid assets to fund credit growth. These factors explain the downward adjustments to the Funding Structure score in our scorecard.

The bank's retail deposits are largely sourced from households, with nearly the entire book consisting of small denomination accounts insured by the Financial Claims Scheme¹. A significant portion of its deposits is in transaction accounts and offset accounts associated with mortgages, which demonstrate stability.

BankVic's on-balance-sheet liquid assets to tangible banking assets ratio declined from 23.9% to 19.6% in the 12 months to June 2024, following the payoff of the central bank's term funding facility. We expect the level of liquid assets to decline modestly during fiscal 2025 as the bank optimizes its stock of liquid asset holdings. The bank has a track record of maintaining a high level of liquid assets and can also create additional liquidity through internal residential mortgage-backed securities (RMBS) that are repo-eligible with the Reserve Bank of Australia (RBA). These securities should constitute at least 10% of the bank's liabilities, with the capacity to increase to 20% within a month. As of June 2024, the bank's internal RMBS constituted more than 17% of its liabilities.

BankVic's rating is supported by Australia's strong operating environment

Australia's [Strong+ macro profile](#) reflects the country's robust economic strength, institutions and governance strength, and low susceptibility to event risk.

Our baseline scenario forecasts real GDP growth of 2.3% for both 2025 and 2026. As inflation has fallen within the central bank's target range of 2-3%, the Reserve Bank of Australia has commenced monetary policy easing in February 2025. Unemployment remains low with a seasonally adjusted unemployment rate of 4.3% as at June 2025, with the participation rate remaining exceptionally strong. The RBA and the Australian Prudential Regulation Authority (APRA) have been vigilant and responsive to changing economic and financial conditions, indicating strong institutions and governance strength.

High levels of household debt remain a key economic vulnerability. The ratio of household debt to income was high at 182% as of December 2024. Although the central bank has commenced monetary easing in early 2025, the lagging effects of high interest rates over the last two years exacerbate household and business debt burden. Despite this, Australian banks have risk mitigation measures in place, including a focus on low LVR home loans and small business loans collateralized by residential properties, and maintain high levels of loan loss reserves.

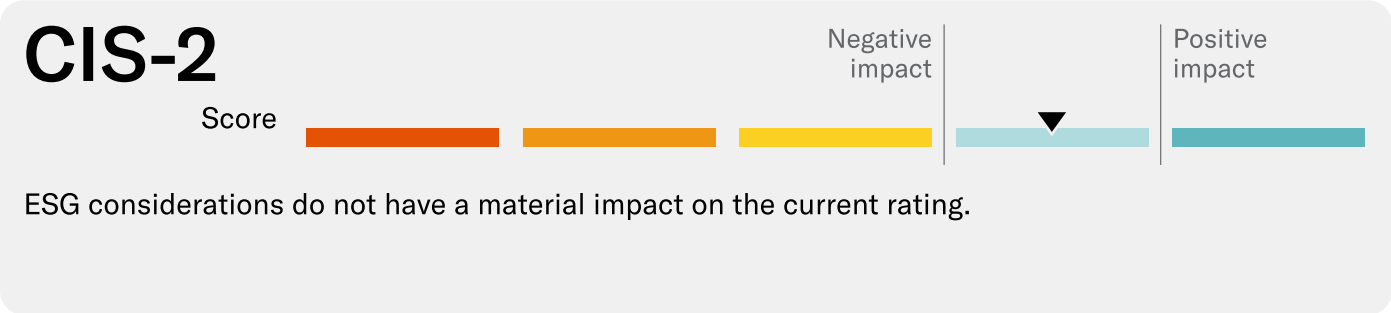
The Australian banking sector is dominated by four major banks, which bolsters their pricing power. Their prices are typically followed by smaller lenders. However, stiff competition for residential mortgages has squeezed margins. This, coupled with an increase in operating costs as a result of the lingering effects of inflation, creates earnings pressure. Nonetheless, it is likely that banks will collectively maintain robust capital buffers.

Australian banks continue to rely on wholesale funding, but the term structure of banks' funding profiles are good with a predominance of longer-term funding. However, banks source a large part of their wholesale funding from overseas, and this exposure to confidence-sensitive forms of funding is a challenge. This trend is likely to persist because household savings rates remain low, as it takes time for households to recover their finances from the strain of high interest rates and cost-of-living pressures over the last few years.

ESG considerations

BankVic's ESG credit impact score is CIS-2

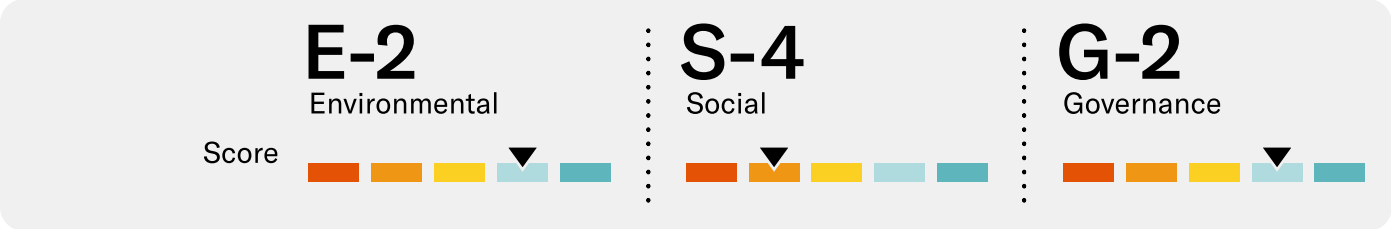
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

BankVic's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting the limited credit impact of environmental and social risk factors on the ratings to date and low governance risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

BankVic faces neutral-to-low environmental risks. The bank's lower-than-industry-average environmental risk is driven by its limited exposure to carbon transition risks because its loan book is concentrated in Australian residential mortgages, with very low exposures to commercial and unsecured loans.

Social

BankVic faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards). As a mutual banking institution, it is run for the benefit of the members and is focused on supporting the community from which its membership base is drawn. We see these attributes as positively supporting the bank's social risk profile. Nevertheless, the banking sector as a whole remains subject to a high level of scrutiny and accountability that heightens social risks from customer relations. In particular, digitalization and the extent to which the bank could be subject to data security and customer privacy breaches, as well as weigh on earnings, is an important consideration. Ongoing investment in technology will support the bank in meeting rising digital expectations from customers.

Governance

BankVic faces low governance risks. The bank's risk management policies and procedures are commensurate with its risk appetite, evident by its track record of strong asset quality and balance sheet strength. As a mutual bank, BankVic has a relatively simple organizational structure reflecting its domestic and retail-oriented franchise.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support considerations

We rate the bank as a standalone institution and do not factor in any affiliate support. As a result, its Baseline Credit Assessment (BCA) and Adjusted BCA are aligned at baa1.

Loss Given Failure (LGF) analysis

We apply a Basic LGF, a simple notching approach, to Australian banks that we expect to initially be excluded from the resolution planning requirements outlined in Prudential Standard CPS 900, and which do not have Total Loss-Absorbing Capital requirements. We have assessed BankVic to be one of these banks. The Preliminary Rating (PR) Assessment represents our view of the expected loss of a debt class without government support.

Our Basic LGF analysis aligns the PR Assessments of long-term deposits and senior unsecured debt with the Adjusted BCA. It positions the PR Assessments of Counterparty Risk (CR) Assessment and Counterparty Risk Rating (CRR) one notch above the Adjusted BCA. This positioning reflects our view that the probability of default on obligations represented by the CR Assessment and CRR is lower than that of senior unsecured debt, because we consider obligations represented by the CR Assessment and CRR to more likely be preserved to limit contagion, minimize losses and avoid the disruption of critical functions.

Government support considerations

We do not incorporate government support into any of the ratings for BankVic, based on our assessment of the bank's systemic importance.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (although it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees, and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor		Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency							
Asset Risk							
Problem Loans / Gross Loans		0.7%	aa2	↔	a1	Quality of assets	Geographical concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		19.7%	aa2	↔	a1	Expected trend	Access to capital
Profitability							
Net Income / Tangible Assets		0.5%	ba1	↔	ba1	Expected trend	
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		13.5%	a2	↔	baa1	Lack of market access	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		19.6%	baa2	↔	baa1	Expected trend	Additional liquidity resources
Combined Liquidity Score			a3		baa1		
Financial Profile					a3		
Qualitative Adjustments					Adjustment		
Business Diversification					-1		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					-1		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					a3 - baa2		
Assigned BCA					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF		
	volume +	ordination	volume +	ordination			Guidance	notching		Rating
	subordination		subordination				vs.			Assessment
							Adjusted			
							BCA			
Counterparty Risk Rating	-	-	-	-	-	-	-	1	0	a3
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	0	0	baa1
Senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1

Instrument Class	Loss Given		Additional	Preliminary Rating	Government	Local Currency	Foreign
	Failure	notching					
			notching	Assessment	Support	Rating	Currency
					notching		Rating
Counterparty Risk Rating	1		0	a3	0	A3	A3
Counterparty Risk Assessment	1		0	a3 (cr)	0	A3(cr)	
Deposits	0		0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	0		0	baa1	0	(P)Baa1	(P)Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANKVIC	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
Senior Unsecured MTN	(P)Baa1
ST Issuer Rating	P-2
Other Short Term	(P)P-2

Source: Moody's Ratings

Endnotes

- 1 The FCS is an Australian government scheme that provides protection to deposit holders with Australian incorporated banks, building societies and credit unions, and general insurance policyholders and claimants in the unlikely event that one of these financial institutions fails. The FCS is a government-backed safety net for deposits of up to \$250,000 per account holder per authorized deposit-taking institution (ADI). It also covers most general insurance policies for claims up to \$5,000, eligible if they fulfill certain criteria. The FCS was established in 2008 and is administrated by the Australian Prudential regulation Authority (APRA). The government provides the initial funding to remove doubts regarding the sufficiency of FCS funding. Any shortfalls after liquidation would be recouped by an industry levy.

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