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CREDIT OPINION
26 April 2024

Update

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RATINGS

Macquarie Bank Limited

Domicile	Sydney, New South Wales, Australia
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa2
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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Macquarie Bank Limited

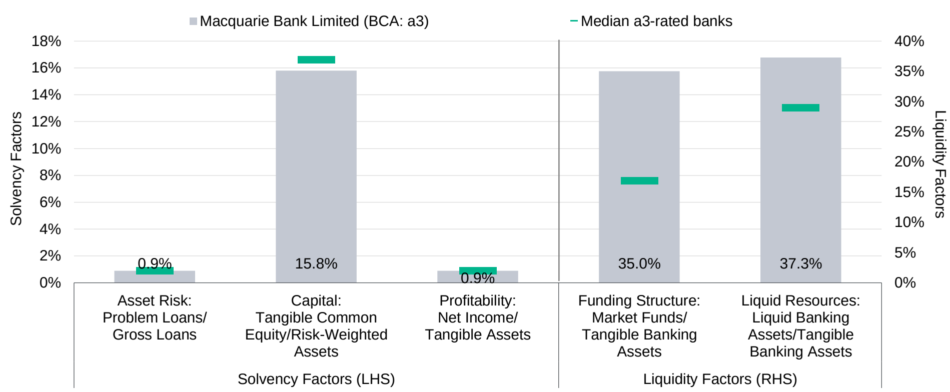
Update following rating action

Summary

Macquarie Bank Limited's (MBL) Aa2 senior unsecured debt ratings reflect its a3 Baseline Credit Assessment (BCA); a 3 notch uplift resulting from our Advanced Loss Given Failure (LGF) analysis; and an additional one-notch notch of government support uplift, resulting from our moderate assessment of government support in case of need.

MBL's a3 BCA reflects its very strong capital and liquidity positions and strong profitability. MBL is the principal banking operating entity of Macquarie Group Limited (MGL, rated A1 stable). Please refer to MGL's Credit Opinion for details of the credit profile of the consolidated Macquarie group. Our rating view of MGL's and MBL's standalone credit profile balances the risks of the group's continual evolution, its reliance on the potentially more volatile trading and capital markets businesses, against the credit positives of the group's strong capitalization and liquidity metrics and very strong risk management framework.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Ratings

Credit strengths

- » Very strong capital levels with prudent capital management.
- » High levels of liquidity with a conservative liquidity policy.
- » Improving profitability as business lines grow.

Credit challenges

- » High levels of wholesale market funding.
- » Growing revenues from capital markets business potentially introduce higher earnings volatility.
- » Diverse nature of MBL's operations, which raises the level of operational complexities and risk management challenges.

Rating outlook

The outlook is stable for all the ratings of MBL and its subsidiaries.

Factors that could lead to an upgrade

Given this rating action, further positive rating pressure is unlikely in the near-term. An upgrade would depend on Macquarie's ability to sustain a strong and stable performance with capital levels and profitability consistently above peer averages while also maintaining its conservative liquidity profile.

Factors that could lead to a downgrade

Macquarie's ratings could be downgraded if (1) increased earnings volatility leads to net income to tangible assets falling below 1.25% on a group consolidated basis, (2) the funding intensity of the group's balance sheet continues to rise, or (3) if residential mortgage lending problem loans rise materially.

A downgrade of MBL's BCA could occur if the bank increases its risk appetite, leading to credit quality deterioration, or if there are any indications of control or risk management failures. A significant deterioration in the domestic operating environment or any material regulatory, compliance or risk management failures could also lead to a downgrade of the bank's BCA. A lower BCA would likely lead to a credit rating downgrade.

As the ratings of MBL incorporate the potential for systemic support, any signal from the regulator or government that suggests a less creditor-friendly stance on bank resolution could create downward pressure on the supported ratings.

Further deterioration in the operating environment faced by MBL and MGL could lead to a change in their macro profile and place their ratings under downward pressure.

Key indicators

Exhibit 2

Macquarie Bank Limited (Consolidated Financials) [1]

	09-23[2]	03-23[2]	03-22[2]	03-21[2]	03-20[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	308,268.0	298,399.0	271,827.0	198,649.0	183,535.0	16.0[4]
Total Assets (USD Million)	198,955.7	199,853.3	204,128.0	151,300.9	112,332.8	17.7[4]
Tangible Common Equity (AUD Million)	20,022.0	20,180.5	17,872.2	14,030.0	13,788.9	11.2[4]
Tangible Common Equity (USD Million)	12,922.2	13,515.9	13,421.1	10,685.9	8,439.5	12.9[4]
Problem Loans / Gross Loans (%)	0.5	0.8	0.8	1.3	1.3	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.8	16.1	13.7	14.9	14.4	15.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.7	5.6	5.6	9.0	8.1	6.4[5]
Net Interest Margin (%)	1.1	1.0	1.2	1.2	1.3	1.1[5]

PPI / Average RWA (%)	2.8	4.2	2.8	2.8	2.4	3.0[6]
Net Income / Tangible Assets (%)	0.9	1.3	1.0	0.8	0.8	1.0[5]
Cost / Income Ratio (%)	67.3	56.9	64.5	64.2	68.5	64.3[5]
Market Funds / Tangible Banking Assets (%)	36.4	35.0	43.4	36.8	45.5	39.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	36.6	37.3	37.1	38.8	33.5	36.7[5]
Gross Loans / Due to Customers (%)	110.5	105.7	121.6	118.6	131.5	117.6[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 Investors Service and company filings

Profile

Macquarie Bank Limited (MBL) is a Sydney-based authorised deposit-taking institution that provides banking services to institutional, corporate and retail clients and counterparties around the world. As of 30 September 2023, MBL had total assets of c.AUD337 billion.

MBL is a wholly owned subsidiary of Macquarie Group Limited (MGL). The other main operating subsidiaries held by MGL are Macquarie Financial Holdings Pty. Limited (MFHPL, rated A2 stable), Macquarie International Finance Limited (MIFL, rated A2 stable) and Macquarie Asset Management Holdings.

Detailed credit considerations

Asset risk profile improved amid an uncertain outlook

The bank's problem loans ratio has continued to decrease, falling to 0.51% at September 2024 from 0.82 a year earlier. Asset quality has improved substantially in the past 5 years, largely reflective of a stronger asset risk profile as its share of lower-risk residential mortgages grows, and the quality of its corporate lending portfolio improves. The bank's share of the Australian mortgage market has risen substantially, from 1.8% at the end of 2017 to 5.1% in September 2023, representing 80% of its total loan book. However, MBL is a large capital markets intermediary, particularly throught its Commodities and Global Markets businesses, with high levels of derivatives assets, and the bank is exposed to market and counterparty credit risk. This risks are well managed through offsetting trades and through margining and collateral to mitigate potential losses through counterparty failures.

While the performance of MBL's loan book has improved, the economic outlook remains uncertain, as inflation remains elevated and interests rates remain high, with the prospect of slowing economic activity and rising unemployment through 2024. We expect these pressures to lead to a moderate increase in non-performing loans over the next 12 months. That said, MBL has substantial loan loss provisions which provide a buffer against an increase in expected credit losses, with the bank reporting expected credit loss allowance for loan assets of AUD597 million as at September 2023.

Macquarie's capital position and capital management is a relative strength underpinning its credit profile

MGL's capital requirements are a combination of Basel III capital requirements for its banking operations contained within MBL and additional capital requirements in respect of its non-banking operations calculated on the basis of an economic capital adequacy model which is based on similar principles and models as the Basel III regulatory capital framework for banks, calculating capital requirements at a one year, 99.9% confidence level. Please refer to MGL's credit opinion for details of the overall group's capital positioning.

As at 30 September 2023, MBL reported a Common Equity Tier 1 (CET1) ratio of 13.2%, calculated with APRA's capital methodology and a self-reported internationally “Harmonized” Basel III ratio of 18.0%, which reflect the more conservative risk-weighting of credit exposures under APRA's prudential framework. On a consolidated group basis, including hybrids, Macquarie group had AUD 10.5 billion of surplus capital and buffers relative to APRA's requirements, as at 30 September 2023.

Earnings lower as commodity volatility subsides, retail and commercial banking provide a solid revenue base

MBL reported statutory profit of AUD1.3 billion in 1H24, which was up 3% on the prior corresponding period, but down 40% on the prior half. The weaker performance in comparison to 2H23 was primarily driven by a significant decrease in revenues from its global commodities business which, had benefited from much higher client hedging and trading activity in the previous period due to more volatile commodities markets. As volatility subsided in the 6 months to September 2023, so did client and trading activity.

The bank continues to benefit from strong growth in its retail (mortgages up 6%) and business banking (business loans up 12%) franchises, which provide a stable and solid earnings base for MBL. While net interest income has continued to increase, we expect margin compression will be evident over the next 12-months as, across the industry, net interest margins have peaked. We believe MBL's deposit base is generally more expensive by comparison to other large banks, and with wholesale funding costs also higher, net interest margin compression is likely.

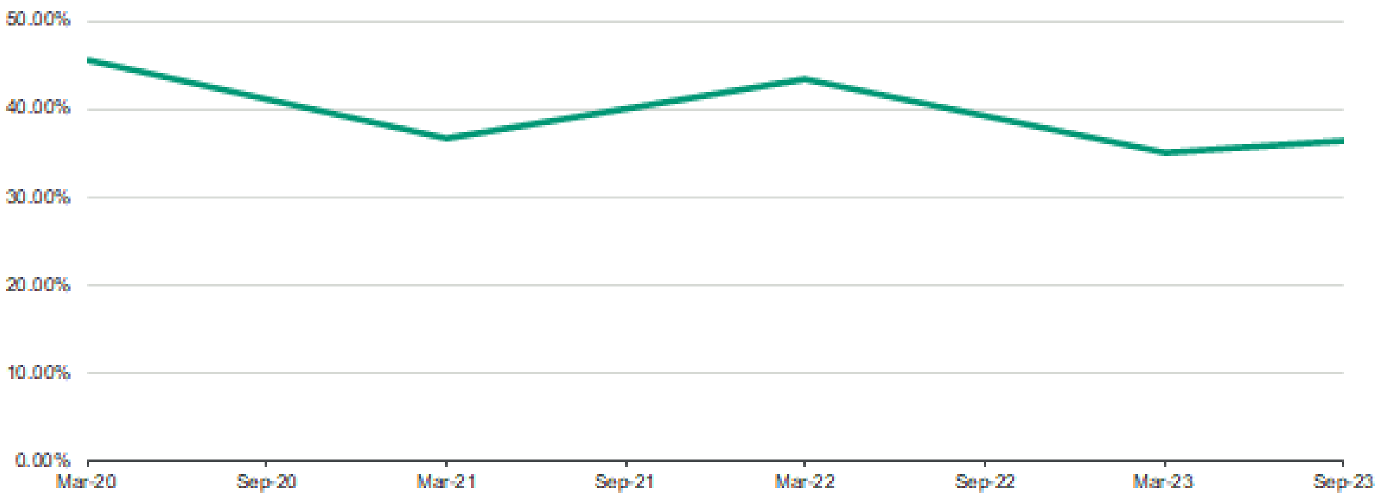
Macquarie's earnings profile is bolstered when considering the consolidated group, with high levels of profits being generated by its asset management and investment banking businesses. Please see Macquarie Group Limited credit opinion for more.

High levels of market funding, but strong deposit growth improves its funding profile

The group's external wholesale funding is chiefly raised by MBL, which has a high reliance on market funding, reflected by its market fund ratio of 36% as at 30 September 2023. However, its reliance on market funding has reduced recent years, with the bank focused on growing its deposit franchise to reduce reliance on wholesale funding markets. Its concerted push in retail banking has resulted in the bank growing its market share of deposits from 3% at March 2019, to 5% at September 2023.

The term structure of the bank's funding to an extent mitigates the high use of wholesale market funding. The weighted average term to maturity of term funding maturing beyond one year (excluding equity and securitisations) was 3.2 years as at 30 September 2023. The bank's net stable funding ratio as at 30 September 2023 was good at 114%.

Exhibit 3
Macquarie Bank Limited (Market Funds / Tangible Banking Assets)



Source: Moody's Ratings

MBL's liquidity metrics remain robust with the bank reporting a quarterly daily average Liquidity Coverage Ratio (LCR) was 199% for the 3-months to September 2023. Liquidity remains a strong point for MBL's credit profile. This is reflected in MBL's very high 'a1' liquid resources score. On a consolidated basis, the group's cash and liquid asset portfolio stood at AUD86.6 billion as at 30 September 2023. MGL's standard liquidity policy is to ensure that at least twelve months' maturities can be met from internal sources.

MBL'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 1.5% in 2024 before improving to 2.3% in 2025. Alongside this, we foresee a small uptick in the unemployment rate, rising from a very low level to 4.2% by 2025. High levels of household debt, along with high inflation and interest rates, remain a key economic vulnerabilities. As an indicator, household debt relative to income were high at 185.4% as of September 2023. High interest rates add to households' debt burden and reduce repayment buffers built by borrowers.

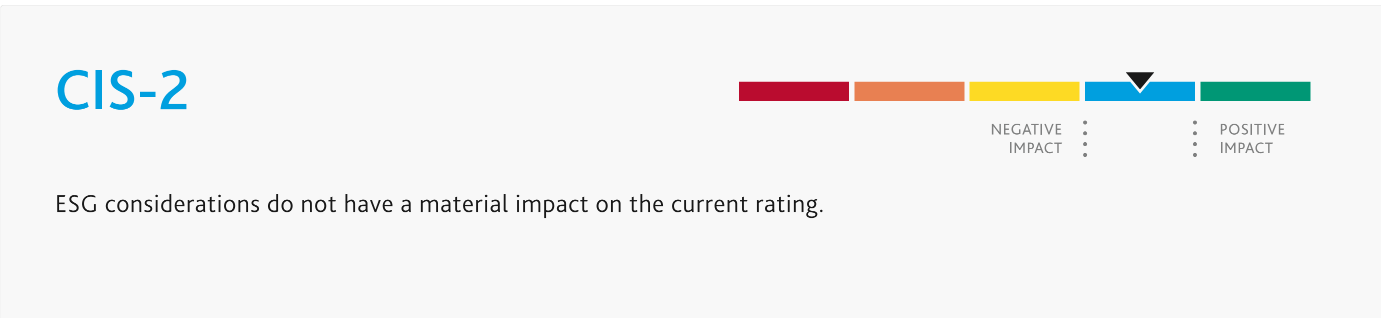
While we forecast to rises, the projected unemployment rate is still considered low by historical measures, and the banking sectors' focus on low LVRs on home loans and small business loans, which are typically secured by residential properties, should provide buffers against asset-quality risk. National average house prices underwent a 9.1% drop from April 2022 to February 2023, but they have rebounded rising by c.10% in the 12-months to February 2024.

Australian banks' very strong pricing power has historically been supported by the high level of concentration in the banking sector. Higher interest rate had helped improve banks' net interest margins. However, the cost of funding has risen in both wholesale debt markets and for retail deposits as customer preferences switch to higher yielding deposit products. These factors could constrain net interest margins in 2024.

Australia's structural reliance on external financing remains a key vulnerability. However, Australian banks have been extending the term structure of their wholesale market funding for a number of years and are pre-funding upcoming maturities well in advance.

Macquarie Bank Limited's ESG credit impact score is CIS-2

Exhibit 4
ESG credit impact score



Source: Moody's Ratings

MBL's **CIS-2** indicates that ESG considerations do not have a material on the credit rating. The bank's well articulated carbon transition targets and strong risk management and compliance policies and functions limit the credit impact of environmental, social and governance risk factors.

Exhibit 5
ESG issuer profile scores

Source: Moody's Ratings

Environmental
Macquarie Bank faces moderate exposure to environmental risks, in line with peers, primarily because of its portfolio exposure to carbon transition risk as a diversified universal bank. In response, Macquarie is actively engaging in developing its climate risk management and reporting frameworks by incorporating environmental considerations in its strategy and lending policies, including policies related to financing of coal-related businesses.

Social
Macquarie Bank Limited faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards), and the area of data security and customer privacy. The bank also faces industrywide moderate social risks related to societal trends – in particular, digitalization --- and the extent to which such measures could hurt earnings.

Governance

Macquarie Bank faces low governance risks. The bank's risk management, policies and procedures are in line with industry practices and are suitable for its risk appetite. Additionally, Macquarie benefits from a strong risk management culture and a diversified, high-caliber board comprised of independent directors. The bank's diverse international operations expose it to moderate risk from organizational complexity.

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

Loss Given Failure analysis

On 6 March 2024, Moody's designated Australia as having an operational resolution regime (ORR). As such, we now apply our Advanced LGF analysis and assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets together with a 5% run-off for preferred deposits, a 25% for local currency junior deposits and a 100% run-off rate for foreign currency junior deposits.

Our LGF analysis indicates that MBL's local and foreign currency deposit ratings and senior unsecured debt ratings are likely to face extremely low loss-given-failure due to loss absorption provided by more junior obligations, including those at the group's holding company MGL, in its liability structure. This results in a three-notch uplift from the bank's BCA.

For subordinated bank debt, our Advanced LGF analysis confirms a moderate loss-given-failure, given the smaller volume of debt and limited protection from more subordinated instruments and residual equity. This results in no uplift for subordinated bank debt from MBL's BCA.

Government support

We incorporate a moderate probability of government support for deposits and senior unsecured debt given MBL's systemic importance to the Australian economy, reflecting its market share of deposits and residential mortgages. This results in one-notch of additional uplift. For other junior securities, we believe that potential government support is low, and these ratings do not include any related uplift.

No rating uplift from parental support

MBL's ratings do not include any uplift from the potential for support from its parent, MGL because (i) MGL is rated lower as a result of being structurally subordinated to its operating subsidiaries, (ii) MGL's and MBL's performance are highly correlated as a result of their close operational integration and (iii) the group holds its liquidity resources at the operating company level.

In practice there is some potential for MGL to provide additional capital support to MBL -- but also for capital to flow the other way. MGL is the listed entity that would raise additional capital for the group if required. The regulator has also publicly indicated that so long as regulated entities -- such as both MBL and MGL -- individually meet minimum regulatory capital requirements, it is ambivalent where surplus capital is held within a group structure. Therefore, given that MBL operates at a relatively high level of capital, and in view of the close operational integration of MBL and the rest of the group, there is also a possibility that capital and dividends could flow from MBL up to MGL at certain times.

MBL's relationship to the ratings of its operating subsidiaries

Other than MBL, we assign ratings to Macquarie Financial Holdings Pty Limited (MFHPL), an intermediate holding company for some of the group's non-bank's entities, and Macquarie International Finance Limited (MIFL), a core MBL subsidiary, which includes the bank's non-extended licenced entities. Given the closely interlinked operations, MFHPL and MIFL issuer ratings incorporates uplift for systemic support as a result of its close integration with the bank.

We continue to view the Macquarie businesses as closely intertwined, with a high degree of operational and financial linkages. However, should in the medium-to-long run the transfer serve to sharpen the boundaries between the group's bank and non-bank entities, it could lead to greater divergence of their credit profiles and rating outcomes.

Counterparty Risk (CR) Assessment and Counterparty Risk Ratings (CRRs)

MBL's CR Assessments are Aa2(cr)/Prime-1(cr) and CRRs are Aa2/Prime-1. The long-term CR Assessments and CRRs, before government support, are three notches above the bank's BCA of a3. The uplift reflects the buffer against default provided to the operating obligations by substantial amount of debt and deposits. A moderate probability of government support results in one additional notch of uplift.

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 materially differ from that suggested by raw data alone (though 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 6

Macquarie Bank Limited

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	0.9%	aa2	↔	baa1	Market risk	Non lending credit risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.8%	aa3	↔	a2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	↔	baa1	Return on assets	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	35.0%	ba1	↔	baa3	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.3%	a1	↔	a1	Stock of liquid assets	
Combined Liquidity Score		baa1		baa1		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				-1		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	**in-scope (AUD Million)**	**% in-scope**	**at-failure (AUD Million)**	**% at-failure**
Other liabilities	179,218	49.6%	173,190	47.9%
Deposits	135,892	37.6%	109,053	30.2%
Preferred deposits	61,151	16.9%	58,094	16.1%
Junior deposits	67,946	18.8%	50,960	14.1%
Senior unsecured bank debt	26,000	7.2%	18,800	5.2%
Dated subordinated bank debt	7,100	2.0%	8,237	2.3%
Preference shares (bank)	2,463	0.7%	2,463	0.7%
Senior unsecured holding company debt			36,300	10.0%
Preference shares(holding company)			2,630	0.7%
Equity	10,846	3.0%	10,846	3.0%
Total Tangible Banking Assets	361,519	100.0%	361,519	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	36.0%	36.0%	36.0%	36.0%	3	3	3	3	0	aa3
Counterparty Risk Assessment	36.0%	36.0%	36.0%	36.0%	3	3	3	3	0	aa3 (cr)
Deposits	36.0%	21.9%	36.0%	21.9%	3	3	3	3	0	aa3
Senior unsecured bank debt	21.9%	16.7%	21.9%	16.7%	3	3	3	3	0	aa3
Dated subordinated bank debt	6.7%	4.4%	6.7%	4.4%	0	0	0	0	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2(cr)	
Deposits	3	0	aa3	1	Aa2	Aa2
Senior unsecured bank debt	3	0	aa3	1	Aa2	Aa2
Dated subordinated bank debt	0	0	a3	0	A3 (hyb)	A3 (hyb)

[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 7

Category	Moody's Rating
MACQUARIE BANK LIMITED	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured	Aa2
Subordinate	A3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
ULT PARENT: MACQUARIE GROUP LIMITED	
Outlook	Stable
Issuer Rating	A1
Senior Unsecured	A1
ST Issuer Rating	P-1
Other Short Term	(P)P-1
MACQUARIE BANK LIMITED, LONDON BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured	Aa2
Pref. Stock Non-cumulative	Baa3 (hyb)
Commercial Paper	P-1
MACQUARIE BANK LIMITED, SINGAPORE BRANCH	
Counterparty Risk Rating	Aa2/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured MTN	(P)Aa2

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454