MOODY'S

Rating Action: **Moody's upgrades Macquarie Group's ratings, outlook stable**

02 Jun 2023

Sydney, June 02, 2023 -- Moody's Investors Service (Moody's) has upgraded Macquarie Group Limited's (Macquarie) ratings, including its senior unsecured debt and long-term issuer ratings to A2 from A3 and short-term issuer ratings to P-1 from P-2, based on its very strong profitability, supported by the evolution of its business mix to more stable income sources, and its conservative risk and balance sheet settings reflected by its high levels of liquidity and strong capital adequacy.

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At the same time, Moody's has upgraded the baseline credit assessment (BCA) of its banking subsidiary, Macquarie Bank Limited (MBL) to a3 from baa1, as well as the bank's long-term Counterparty Risk Ratings to Aa3 from A1; long-term Counterparty Risk Assessments to Aa3(cr) from A1(cr); senior unsecured debt rating to A1 from A2 and senior unsecured medium-term note program ratings to (P)A1 from (P)A2; subordinated debt ratings to Baa2(hyb) from Baa3(hyb). Moody's has also upgraded the ratings of Macquarie's subsidiaries, Macquarie Financial Holdings Pty Limited and Macquarie International Finance Limited.

The ratings outlooks have been changed to stable.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL476846 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The upgrade reflects Macquarie's very strong profitability, supported by the evolution of its business mix reflected by the growth of its residential mortgage lending, and its conservative risk and balance sheet settings reflected by its high levels of liquidity, and strong capital adequacy. Macquarie's profitability has been very strong and benefits from well-developed franchises in its chosen business segments, with net income to tangible assets of 1.47% for the financial year ended 31 March 2023. Macquarie's profitability has consistently been very high, with net income to tangible assets averaging 1.46% over the last five financial years.

In particular, the high revenue generation from the group's commodities business has led to a significant boost in profits over the last two years. While we view this earnings source to be more volatile through the cycle, we expect the well-developed commodities franchise to continue to be a significant contributor to the group's profitability.

The group's earnings diversification is a credit strength, with the potential earnings volatility of the group's commodities and capital markets businesses balanced by the stability of the group's asset management business, which provide a strong source of stable, recurring revenues, generating high levels of base fee income. Additionally, the group's large and growing Australian retail and commercial banking business supplements the group's stable revenue sources. In Australia, Macquarie is now the clear fifth largest residential mortgage lender, with a market share of 5% as of March 2023.

Macquarie maintains high levels of liquidity, reflecting its conservative liquidity policy, which ensures that it is able to meet all of its liquidity obligations during a period of liquidity stress, defined as a twelve-month period with constrained access to funding markets for MBL, no access to funding markets for Macquarie Group Limited, and with only a limited reduction in Macquarie's franchise businesses. The group's conservative liquidity management is underlined b MBL's very high average Liquidity Coverage Ratio of 214% for the three months to 31 March 2023.

While the group maintains very strong liquidity, the external funding needs of the group remain high, leading to a market funds-to-tangible banking assets ratio of 37.9%. We expect the funding intensity of the group will remain high; however, this risk is in part mitigated by the good term structure of the group's market funding and the diversification of its investor base. This good term structure is reflected in MBL's high Net Stable Funding Ratio of 124% as of March 2023.

Macquarie's capital position remains very strong, with a APRA regulatory Common Equity Tier 1 ratio of 13.7% for MBL as of 31 March 2023. For its non-bank operations, Macquarie holds additional capital calculated on the basis of an economic capital adequacy model. On a consolidated basis, MGL maintains surplus total capital above minimum requirements of AUD12.6 billion as of March 2023. Moody's expects that Macquarie will continue to demonstrate a commitment to prudent capital management.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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.

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.

The principal methodology used in rating Macquarie Group Limited, Macquarie Bank Limited, Macquarie Bank Limited, London Branch and Macquarie Bank Limited, Singapore Branch was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. The principal methodology used in rating Macquarie Financial Holdings Pty Limited and Macquarie International Finance Limited was Securities Industry Market Makers Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65549. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

Macquarie Bank Limited, Macquarie Financial Holdings Pty Limited and Macquarie International Finance Limited are wholly owned subsidiaries of Macquarie Group Limited. Headquartered in Sydney, Australia, Macquarie Group Limited is a large financial services provider. As at 31 March 2023 the group reported net profits of AUD5.2 billion for fiscal year 2023 and shareholders' equity of AUD34.1 billion.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL476846 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Endorsement

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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