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CREDIT OPINION
31 July 2023

Update

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RATINGS

Macquarie Bank Limited

Domicile	Sydney, New South Wales, Australia
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
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

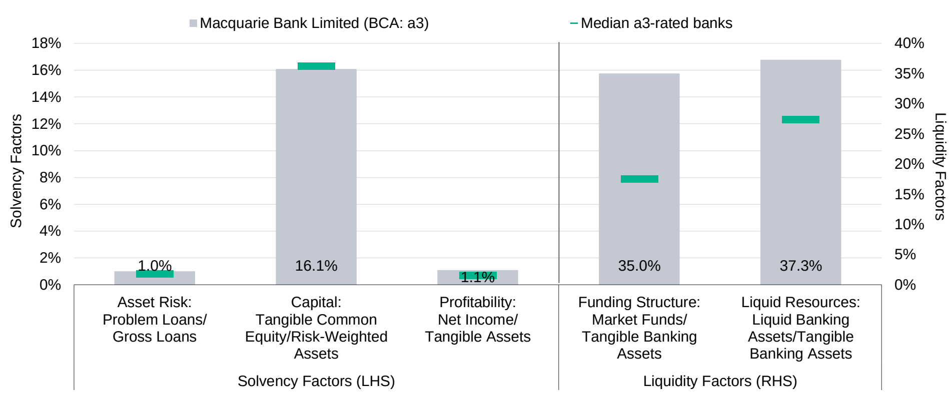
Update following rating action

Summary

The A1 long-term rating and a3 baseline credit assessment of Macquarie Bank Limited (MBL) reflects its strong overall credit profile, underpinned by the bank's sound and improving asset quality, and very strong capital and liquidity position. The A1 rating also includes two notches of uplift to reflect our view that depositors and senior bondholders would benefit from systemic support, if needed.

MBL is the principal banking operating entity of Macquarie Group Limited (MGL, rated A2 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 profiles balances the risks of the group's continual evolution, and the evolution of its earnings profile – which places greater emphasis on annuity-like businesses with a lower 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 Financial Metrics

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]

	03-23[2]	03-22[2]	03-21[2]	03-20[2]	03-19[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	298,399.0	271,827.0	198,649.0	183,535.0	152,222.0	18.3[4]
Total Assets (USD Million)	199,853.3	204,128.0	151,300.9	112,332.8	108,130.6	16.6[4]
Tangible Common Equity (AUD Million)	20,180.5	17,872.2	14,030.0	13,788.9	10,763.3	17.0[4]
Tangible Common Equity (USD Million)	13,515.9	13,421.1	10,685.9	8,439.5	7,645.7	15.3[4]
Problem Loans / Gross Loans (%)	0.8	0.8	1.3	1.3	1.8	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	16.1	13.7	14.9	14.4	13.9	14.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.6	5.6	9.0	8.1	11.9	8.1[5]
Net Interest Margin (%)	1.0	1.2	1.2	1.3	1.4	1.2[5]

PPI / Average RWA (%)	4.2	2.8	2.8	2.4	1.8	2.8[6]
Net Income / Tangible Assets (%)	1.3	1.0	0.8	0.8	1.3	1.1[5]
Cost / Income Ratio (%)	56.9	64.5	64.2	68.5	73.6	65.5[5]
Market Funds / Tangible Banking Assets (%)	35.0	43.4	36.8	45.5	42.7	40.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.3	37.1	38.8	33.5	37.2	36.8[5]
Gross Loans / Due to Customers (%)	105.7	121.6	118.6	131.5	131.3	121.7[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 31 March 2023, MBL had total assets of AUD 330.8 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 been relatively stable, falling 1bps 0.83% at March 2022 to 0.82% as at 31 March 2023. 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%, representing almost three quarters of its total loan book.

Despite this, the economic outlook remains uncertain, as a result of surging inflation and rising rates. We expect these pressures to lead to a small increase in non-performing loans over the next 12 months. That said we believe the bank's strong capital position and substantial loan loss provisions will provide a buffer against an increase in expected credit losses, with the bank reporting expected credit loss allowance for loan assets of AUD624 million for full-year 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 31 March 2023, MBL, MGL's banking subsidiary, reported a Common Equity Tier 1 (CET1) ratio of 13.7%, calculated with APRA's capital methodology and a self-reported internationally “Harmonized” Basel III ratio of 18.4%, which reflect the more conservative risk-weighting of credit exposures under APRA's prudential framework. On an overall group basis, as at 31 March 2023, Macquarie group had AUD 12.6 billion of surplus capital and buffers relative to APRA's requirements, including hybrids.

Earnings benefit from strong performance in commodities business and strong loan growth

MBL reported statutory profit of AUD3.9 billion in full-year 2023, up by 44% on the prior corresponding period, and representing 77% of the group's aggregate pre-tax profits. The strong performance was primarily driven by higher trading revenues in its global commodities business, which as a major provider of oil and gas storage contracts and transport agreements the business benefitted from the heightened volatility in those commodity markets throughout 2023.

The bank continues to benefit from strong growth in its mortgage lending franchise, which continues to grow well-above system growth rates. Given the bank's strong loan and deposit growth we expect there will be limited uplift to its net interest margin over the next 12 months.

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 38% as at 31 March 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, in addition to significant fiscal and monetary stimulus over as part of pandemic packages, has contributed to an average of 32% p.a. in the four years to March 2023. Resulting in the bank growing its market share from 3% at March 2019, to 5% at March 2023.

On a consolidated level, MGL's liquidity metrics remain strong. As at 31 March 2023, the group's cash and liquid asset portfolio stood at AUD85.4 billion and MBL's quarterly daily average Liquidity Coverage Ratios was 214%. MGL's standard liquidity policy is to ensure that at least twelve months' maturities can be met from internal sources. This is reflected in MBL's very high `a1' Liquid Resources score.

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 projects real GDP growth will slow to 1.9% in 2023 as higher interest rates constrain growth, before improving to 2.3% in 2024.

The Australian economy has continued to perform strongly after a period of fiscal and monetary stimulus provided to combat the dampening economic effects of the pandemic-related health measures. Very tight labor markets and strong economic growth, boosted by strong household consumption and high levels of public and private investment, have resulted in the unemployment rate falling to a very low 3.5% as of December 2022. Rising interest rates, in response to high inflation, are likely to temper growth in 2023. High levels of household debt, combined with an increase in debt burden as interest rates rise, are key economic vulnerabilities. Household debt relative to income remained high at 187.8% as of December 2022, and rising interest rates led to national average house prices falling 9.1% from April 2022 to February 2023, although they have since stabilized and increased modestly from the February trough. Further improvement in banks' asset quality is unlikely as rising interest rates could reduce buffers built by borrowers or put some borrowers under financial pressure. However, low unemployment, and low LVRs on home loans and small business loans, which are typically secured by residential properties, should provide buffers against asset-quality risk.

Australian banks' very strong pricing power has historically been supported by the high level of concentration in the banking sector. Net interest margins are expanding as interest rates rise; however, funding costs will rise as banks begin to repay cheap funding provided by the central bank from 2023 onward. This could constrain further net interest margin gains in 2023.

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 several years and pre-funding upcoming maturities well in advance.

Macquarie's gross credit exposures are domiciled 72% in Australia, 14% in EMEA, 12% in Americas and 3% in Asia Pacific. These exposure lead to a weighted average Macro Profile of Strong+.

Support and structural considerations

Strong potential for government support

We judge the probability of systemic support for MBL in the event of stress to be high. This is based on MBL's significant position in the Australian financial market. Additionally, the regulator's own Probability And Impact Rating System - which measures the systemic impact of the failure of an individual institution - uses asset size as a major input. As one of Australia's larger banks, MBL scores well by this metric. It also plays a significant role in Australia's financial markets. Although the bank does not have a big presence in the retail deposit market, it has been growing consistently and its overall deposits are comparable in size to Australia's regional banks. In recognition of these factors, MBL's A1 senior ratings benefit from 2 notches of government support.

MBL's relationship to the ratings of its operating subsidiaries

MBL's A1 rating is positioned one notch above the A2 rating of MGL. MBL dominates the group both in terms of assets and earnings. MGL's rating is positioned in line with Moody's usual notching practice for holding companies, which recognizes the structural subordination of MGL's creditors to those of its principal operating subsidiary.

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.

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.

Loss Given Failure analysis

There is currently no statutory bail-in in Australia. As a result, we do not consider Australia to have an operational resolution regime (as defined in our Banks rating methodology). We apply a basic Loss Given Failure approach in rating Australian banks' junior securities.

To determine whether Australia has an operational resolution regime, we take both the current resolution framework and Australian policymakers' public stance into account. Although Australia is a member of the Financial Stability Board, which has highlighted the lack of statutory bail-in as a gap compared with international standards, the authorities have so far adopted a more nuanced public stance on this issue.

In contrast to loss-absorbing capacity requirements in many other jurisdictions, the Australian Prudential Regulation Authority (APRA) has not proposed a new form of loss-absorbing instrument or a statutory bail-in framework. There are also no proposed legislative changes to impose explicit burden-sharing on bank creditors.

In 2021, APRA announced that Australia's largest banks, including MBL, would need to lift Total Capital by 4.5 percentage points of RWA by 1 January 2026, increasing loss absorbing capacity to support their orderly resolution. Banks will be able to meet this requirement with existing capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments.

Counterparty Risk (CR) Assessment

MBL's CR Assessment is A1(cr)/Prime-1(cr)

The CR Assessment is positioned one notch above the bank's Adjusted Baseline Credit Assessment (a reflection of its standalone credit profile, including intragroup support) and, therefore, above the Preliminary Rating Assessment of senior unsecured debt obligations. The assessment reflects our view that the probability of default of obligations represented by the CR Assessment is lower than that of senior unsecured debt. We believe that, in the event of resolution, the specific senior obligations of the bank represented by the CR Assessment will be more likely to be preserved to limit contagion, minimize losses and avoid disruption of critical functions.

For MBL, the CR Assessment also benefits from government support in line with Moody's `High' support assumptions on long-term issuer ratings and senior unsecured debt. This reflects Moody's view that any support provided by governmental authorities to the bank which benefits senior unsecured debt is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with Moody's belief that governments are likely to maintain such operations as a going concern in order to reduce contagion and preserve the bank's critical functions.

Counterparty Risk Ratings (CRRs)

MBL's CRRs are A1/Prime-1

The long-term CRRs are positioned one notch above the bank's Adjusted Baseline Credit Assessment and do not benefit from any government support, in line with our support assumptions on senior unsecured debt.

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 3
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	1.0%	aa2	↔	baa1	Market risk	Non lending credit risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.1%	aa2	↔	a3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	1.1%	a3	↔	a3		
Combined Solvency Score		aa3		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		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	a2	2	Aa3	Aa3
Counterparty Risk Assessment	1	0	a2 (cr)	2	Aa3(cr)	
Deposits	0	0	a3	2	A1	A1
Senior unsecured bank debt	0	0	a3	2	A1	A1
Dated subordinated bank debt	-1	-1	baa2	0	Baa2 (hyb)	Baa2 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
MACQUARIE BANK LIMITED	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa2 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
ULT PARENT: MACQUARIE GROUP LIMITED	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
ST Issuer Rating	P-1
Other Short Term	(P)P-1
MACQUARIE BANK LIMITED, LONDON BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A1
Pref. Stock Non-cumulative	Baa3 (hyb)
Commercial Paper	P-1
MACQUARIE BANK LIMITED, SINGAPORE BRANCH	
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured MTN	(P)A1

Source: Moody's Investors Service

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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

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