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CREDIT OPINION
31 July 2023

Update

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RATINGS

Macquarie Group Limited

Domicile	Sydney, New South Wales, Australia
Long Term CRR	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Not Assigned

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 Group Limited

Update following rating action

Summary

The long-term rating of Macquarie Group Limited (MGL, A2 stable) reflects its strong overall credit profile, characterised by very strong profitability resulting from its highly diversified business mix, very strong capital adequacy and a conservative liquidity profile. The strength of the group's capital and liquidity provides a counterbalance to the group's trading and investment banking activities which can raise non-lending asset risks. The rating also includes two notches of uplift to reflect our view that depositors and senior bondholders would benefit from systemic support, if needed.

Moody's also maintains ratings for the group's banking subsidiary, Macquarie Bank Limited (MBL, A1/A1 stable, a3), and MBL's non-extended licenced entities, Macquarie International Finance Limited (MIFL, A2 stable) and the group's non-banking businesses Macquarie Financial Holdings Pty Limited (A2 stable).

In particular we note:

» MGL maintains a solid balance sheet position, with high levels of capital and very strong liquidity metrics. As at 31 March 2023, its banking subsidiary reported an APRA Basel III Common Equity Tier 1 (CET 1) ratio of 13.7%, and a quarterly daily average Liquidity Coverage Ratio of 214%. Management's focus on maintaining a resilient balance sheet is key to maintaining the firm's strong credit profile.

» MGL's risk management is very strong with tight risk controls, cognizant of market, regulatory and reputational pressures both on an individual unit and on a portfolio basis. The well-embedded risk culture reflected in the firm's earnings performance are positive. Maintaining its disciplined risk culture remains a challenge as the group grows larger, or pursues further growth opportunities through acquisitions.

» A high probability that MGL would receive systemic support in case of need, as a consequence of its significant presence in Australia's financial markets. We continue to view the regulatory and political framework in Australia to be favorable to the interests of senior bank creditors, in contrast to many developed markets. As a result, we incorporate two notches of systemic support uplift into the ratings of MBL, and, by extension, MGL.

Credit strengths

» A diversified business profile, constrained by exposure to non-lending risks.

» Conservative risk management is key to MGL's credit profile.

» Capital levels remain supportive; future positioning is a key credit consideration.

» Strong liquidity profile.

Credit challenges

» Exposure to volatile capital markets businesses.

» Complex and diverse nature of MGL's operations, requiring disciplined and proactive risk management.

Rating outlook

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

Factors that could lead to an upgrade

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

As the ratings of MGL, MBL, MIFL and MFHPL 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. In particular any signs of a reduction in the degree of a support available to, or expectation of greater loss absorbency by, holding companies could lead to downward pressure on the ratings of MGL.

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

Key indicators

Exhibit 1

Macquarie Group 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)	354,807.0	320,959.0	227,270.0	211,982.0	185,595.0	17.6[4]
Total Assets (USD Million)	237,632.7	241,023.5	173,100.1	129,743.9	131,837.1	15.9[4]
Tangible Common Equity (AUD Million)	28,042.7	23,874.8	18,684.8	17,122.7	14,846.3	17.2[4]
Tangible Common Equity (USD Million)	18,781.7	17,928.7	14,231.3	10,480.0	10,546.0	15.5[4]
Problem Loans / Gross Loans (%)	1.3	1.2	1.9	2.1	2.5	1.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	25.8	20.0	21.8	19.3	20.5	21.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.9	6.7	10.2	11.0	12.6	9.5[5]
Net Interest Margin (%)	1.0	1.2	1.2	1.2	1.2	1.2[5]
PPI / Average RWA (%)	4.7	3.7	3.8	3.4	3.0	3.7[6]
Net Income / Tangible Assets (%)	1.5	1.6	1.3	1.3	1.6	1.5[5]
Cost / Income Ratio (%)	67.5	72.4	72.1	76.4	78.2	73.3[5]
Market Funds / Tangible Banking Assets (%)	37.9	44.8	36.0	40.5	39.9	39.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.7	38.0	37.2	31.1	33.5	35.5[5]
Gross Loans / Due to Customers (%)	118.7	133.5	126.1	141.1	139.4	131.8[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 Group Limited (MGL) is the non-operating holding company of the Macquarie Group. The group offers asset management; finance, banking, advisory services and risk and capital solutions globally. Its activities are carried out through four primary business lines: Macquarie Asset Management (MAM), Banking and Financial Services (BFS), Commodities and Global Markets (CGM) as well as Macquarie Capital (MacCap). As at 31 March 2023, the group reported consolidated assets of AUD 387.9 billion.

MGL was formed in 2007 when Macquarie Bank Limited (MBL, established as Hill Samuel Australia Limited in 1969, renamed MBL in 1985, and listed in 1996) was reorganized under a holding company structure. Since 2007, MGL's shares have been listed on the Australian Securities Exchange (Ticker: MQG).

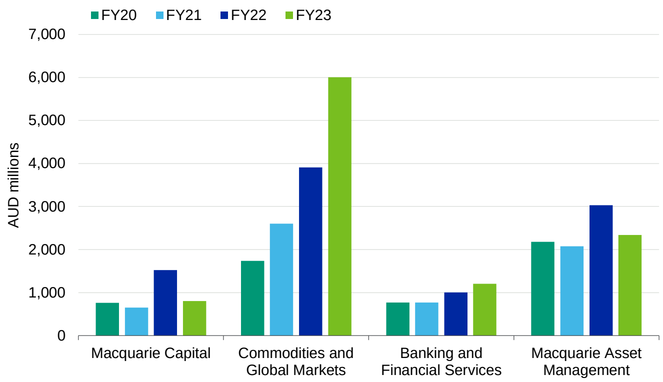
Detailed credit considerations

A diversified business profile enables the bank to maintain strong profitability

MGL benefits from a highly diverse business profile, by both product and geography, with a history of strong earnings contribution from its more stable lines of business, including asset management, asset finance and banking. This provides the group with a base of stable earnings, enabling it to better absorb earnings shocks that may arise from market volatility that would affect its markets facing businesses.

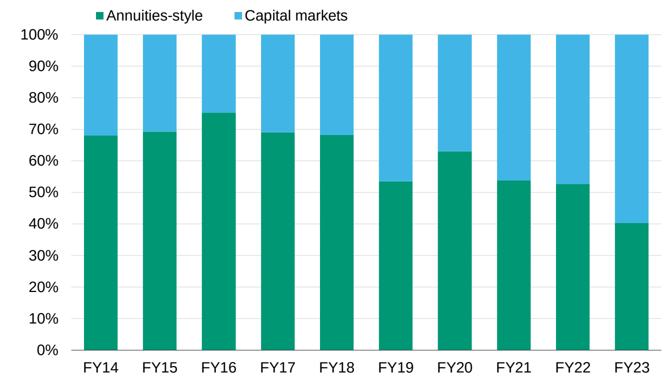
This has been demonstrated through its consistently strong profitability, with net income to tangible assets averaging 1.46% over the last five financial years. For the financial year ending 31 March 2023, the group reported statutory earnings of AUD5,182 million, representing a net income to tangible assets ratio of 1.47%.

Exhibit 2
Record level contributions from CGM underpins the strong result
Net profit contribution by operating group (ex Corporate Centre charges)



Source: Company disclosures, Moody's Investors Service

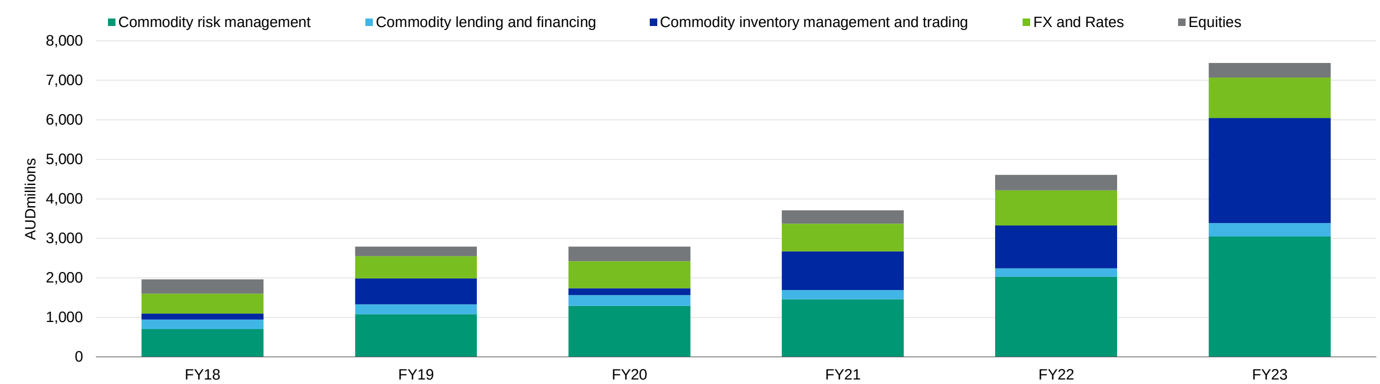
Exhibit 3
Annuity style businesses provies earnings stability
Net profit contribution (ex Corporate Centre charges)



Source: Company disclosures, Moody's Investors Service

Significant volatility in commodity markets has driven record earnings in the group's commodity and global markets business in the last two years, which contributed 57% of the Group's net profit contribution in fiscal 2023. This increase in commodities related trading income is primarily driven by client hedging activity, reflected in its risk management products income, as well as demand and supply imbalances in within energy markets which is reflected in its inventory management and trading income. While the commodities business has benefited from market volatility, we expect the group's risk management products to be a more stable source of revenue given it's a client driven flow activity. Conversely, inventory management income will likely fluctuate in line with future dislocations in energy markets. As such, we expect the share of CGM earnings contribution to moderate in future periods.

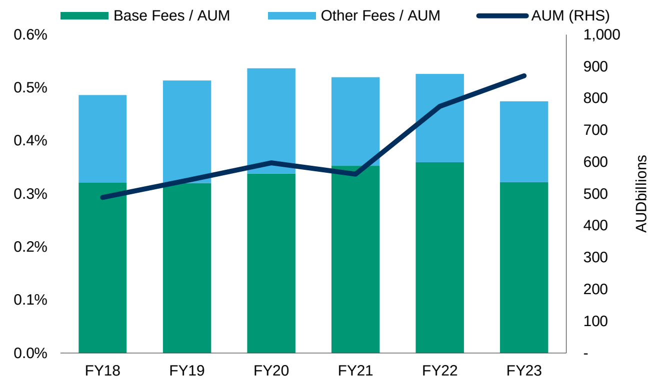
Exhibit 4
Strong growth in commodities related products boosts CGM earnings
CGM revenue by product



Source: Company disclosures, Moody's Investors Service

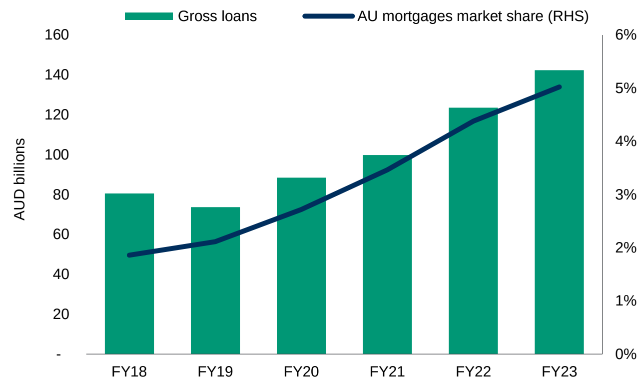
This earnings volatility in CGM balanced by the stability of the group's asset management business (MAM), which provides a strong source of stable, recurring revenues, generating high levels of base fee income. MAM's growing portfolio, fueled by both organic and inorganic growth, benefits from a mix of both public and private investments, with strong geographical diversification. Additionally, the group's large and growing Australian retail and commercial banking business supplements the group's stable revenue sources. Despite its smaller contribution the broader group, BFS has generated very strong franchise growth within Australia, and is now the clear 5th largest residential mortgage lender with a market share of 5% as of March 2023. We believe the growth in the asset management and retail and commercial banking operations will continue to provide a solid base stable revenue generation, counterbalancing the group's market driven revenue streams, which will enable the group to maintain is very strong profitability profile.

Exhibit 5
Focus on base fees underpins stable asset management earnings
MAM's operating margin and assets under management (AUM)



Source: Company disclosures, Moody's Investors Service

Exhibit 6
Strong loan growth sees Macquarie grow to the 5th largest AU mortgage lender
MBL's gross loans and domestic market share



Source: Company disclosures, Moody's Investors Service

Conservative risk management is key to MGL's credit profile

The benefits of MGL's global scope and diversification also raises the level of operational complexities and risk management challenges. In addition it exposes the firm to and risks associated with the evolution of the group's business model. As a result, we adjusted MBL's financial profile negatively by one notch.

We consider MGL's ability to maintain a conservative risk culture as being one of the firm's most difficult tasks. The diversity of MGL's business requires tight risk controls, cognizant of market, regulatory and reputational pressures both on an individual unit and on a portfolio basis. To date, management has been focused on containing its markets exposure through a combination of tight risk management oversight and an emphasis on less volatile streams of trading revenue, though this remains a key challenge as the share of earnings contribution from more volatile capital markets facing activities grows.

MGL has a well-embedded risk culture and the firm's track record and ability to limit earnings volatility are positive. Maintaining its disciplined risk culture remains a challenge as the group grows larger, or pursues further growth opportunities through acquisitions.

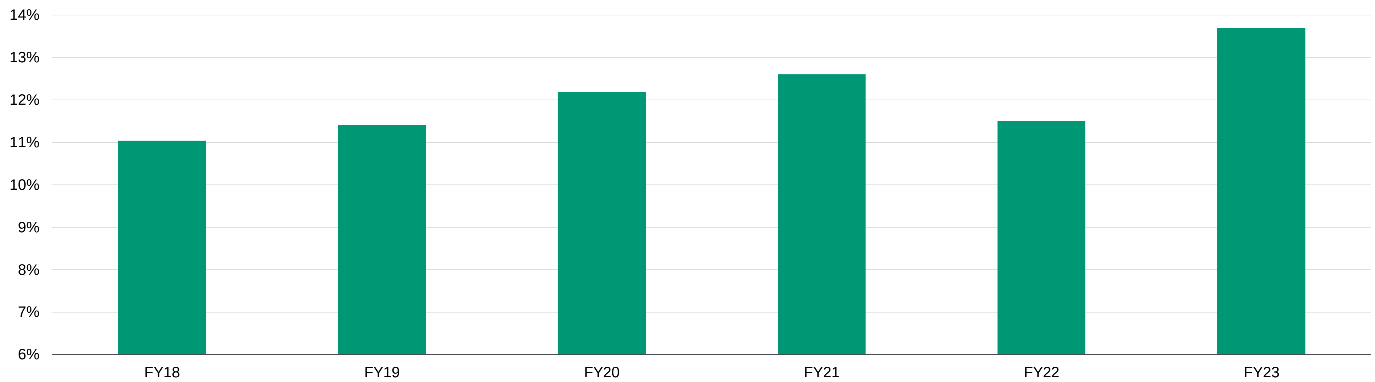
Capital levels remain strong, with the bank's capital management a relative strength

The firm'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. The economic capital model 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.

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.

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, including hybrids, as of March 2023. This surplus capital buffer is leveraged to support business growth, both organic and inorganic through the cycle, but also reflects Macquarie's conservative capital management planning.

Exhibit 7
Bank capitalization remains strong
Common Equity Tier 1 ratio of Macquarie Bank Limited



Source: Company disclosures, Moody's Investors Service

Substantial liquidity buffers support the bank's wholesale funding reliant profile

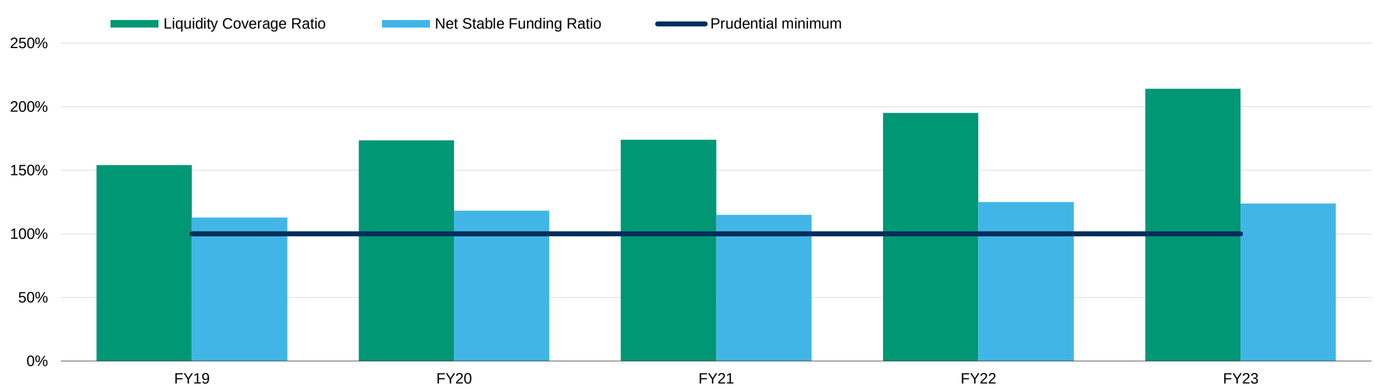
The group maintains a conservative liquidity policy, reflected through substantial liquidity buffers. This is balanced against the high funding needs of the group, underpinned by a relatively high, albeit with good term structure, market funds ratio.

As part of its liquidity management, Macquarie 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 is liquidity management in underlined by MBL's very high average Liquidity Coverage Ratio of 214% for the three months to 31 March 2023. These considerations are reflected in MBL's very high `a1' Liquid Resources score.

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.

Furthermore, the group's funding profile is supported by the longer term structure in it non-bank funding profile reflected in majority of the non-bank funding maturing in greater than 5 years.

Exhibit 8
Macquarie maintains strong liquidity and funding metrics
Prudential liquidity ratios

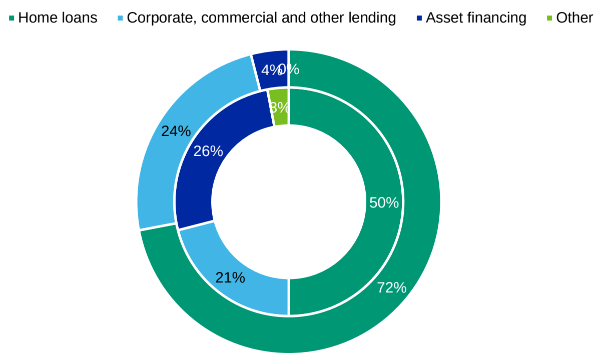


Source: Company disclosures, Moody's Investors Service

Macquarie's asset risk profile is improving as its share of lower-risk residential mortgages grows

The group's risk profile has continued to improve with its strategy of growing its retail bank by focussing on lower-risk residential mortgage lending. This has seen the bank's share of the Australian mortgage market has risen substantially, from 1.8% at the end of 2017 to 5% as of March 2023, representing almost three quarters of its total loan book. In turn, this has contributed an improvement in the bank's share of problem loans ratio, falling from 1.8% at March 2019, to 0.8% at March 2023.

Exhibit 9
Residential mortgages have grown significantly
MBL's loan book composition



Inner ring is 2017, outer ring is March 2023
Source: Company disclosures, Moody's Investors Service

Exhibit 10
Asset quality has improved despite a challenging outlook
Problem loans ratio

Source: Company disclosures, Moody's Investors Service

Non-lending risks are well-managed through the group's adherence to strict market limits, which constrains Macquarie's aggregate level of risk arising from its managed fund holdings and equity positions. These limits are informed by strong firm-wide stress testing.

An increase in group-wide net credit impairment charges from AUD250 billion for fiscal 2022 to AUD388 billion for fiscal 2023 are largely reflective of the deterioration in economic outlook, as a result of surging inflation and rising rates, which we expect 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.

MGL'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 Bank'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

Government Support

We believe the probability that MGL would benefit from systemic support in case of need to be high. In contrast to many crisis-hit economies, we view the regulatory and political framework in Australia to continue to be favorable to bank creditor interests. We also note that, to date, the regulatory focus in Australia has been heavily on the preservation of systemic stability and that the Macquarie group as a whole has a significant presence in Australia's financial markets.

Within the group, we believe that the chief beneficiary of support would likely be MBL, and accordingly we incorporate two notches of systemic support in its A1 rating. We note that during the global financial crisis in 2008-10, only MBL was eligible under the government's guarantee programme for debt and large deposits.

Nevertheless, considering the high degree of operational and financial integration between MGL and its operating subsidiaries, we view their credit profiles to be closely linked. In particular, although there is a global regulatory trend towards “pre-positioning”, such as requiring separate, or easily separable, IT systems for different legal entities; we view the probability that, in a crisis, the Macquarie group could swiftly be unbundled to be relatively low and, consequently, we believe it increases the probability that the group would be supported as a whole.

MGL'S relationship to the ratings of its operating subsidiaries

MGL's A2 rating is positioned one notch below the A1 rating of MBL. 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.

We assign the following ratings to MGL's principal operating subsidiaries:

» Macquarie Bank Limited has a baseline credit assessment of a3. The bank's A1 / P-1 for deposit and debt ratings incorporate two notches of uplift for potential systemic support.

» Macquarie International Finance Limited is a subsidiary of the bank, operating both bank and non-bank businesses, including offshore entities of the CGM group and the group's domestic wealth management business. MIFL's issuer rating incorporates uplift for systemic support as a result of its close integration with the bank.

» Macquarie Financial Holdings Pty Limited is an intermediate holding company for some of the group's non-bank's entities. MFHPL's operations are closely interlinked: one of the group's four business lines cross over the boundaries between MBL and MFHPL. MFHPL's issuer rating 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.

Ratings

Exhibit 11

Category	Moody's Rating
MACQUARIE GROUP LIMITED	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
ST Issuer Rating	P-1
Other Short Term	(P)P-1
MACQUARIE FINANCIAL HOLDINGS PTY LIMITED	
Outlook	Stable
Issuer Rating	A2
ST Issuer Rating	P-1
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
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
MACQUARIE INTERNATIONAL FINANCE LIMITED	
Outlook	Stable
Issuer Rating	A2
Commercial Paper	P-1

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