MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Macquarie's ratings, changes outlook to positive

14 Feb 2022

Sydney, February 14, 2022 -- Moody's Investors Service has today affirmed the A2 long-term senior unsecured debt rating of Macquarie Bank Limited (MBL). It has also affirmed the A3 long-term senior unsecured debt rating of Macquarie Group Limited (MGL) and the A3 long-term issuer rating of Macquarie Financial Holdings Pty Limited (MFPHL). Moody's has also affirmed MBL's Baseline Credit Assessment (BCA) and Adjusted BCA at baa1. At the same time Moody's has revised the outlook on MBL, MGL and MFHPL's ratings, where applicable, to positive from stable.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL462605 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

The change in the outlook to positive reflects the potential improvement in the bank's asset risk profile with the significant growth in MBL's retail banking franchise, which has seen its market share of residential mortgage lending in Australia rise to 4.2%. We consider the rise in mortgage lending, which has historically been a low loss asset class, as providing an offset to the group's trading and investment banking activities. The outlook change also reflects the group's strong and improving profitability as its franchise matures across a number of business lines.

RATINGS RATIONALE

The rating affirmation reflects Macquarie's strong balance sheet reflected by high levels of capital and liquidity and low levels of problem loans. Macquarie's capital position remains very strong with a Common Equity Tier 1 ratio of 12.2% for MBL as of 31 December 2021. For its non-bank operations, Macquarie holds additional capital calculated on the basis of an economic capital adequacy model, reviewed by APRA. On an overall group basis, MGL maintains surplus total capital above minimum requirements of AUD8.4 billion, including AUD4.9 billion of hybrids, as of 2021. Macquarie continues to demonstrate a commitment to prudent capital management, raising AUD2.8 billion in additional core equity capital in late 2021 in order to bolster the group's capital position and ensure it is well placed to meet future capital needs.

The group also maintains a conservative liquidity policy, ensuring it is able to meet all of its obligations for a period of 12 months, assuming no access to new funding sources and substantial outflows. It maintains high levels of liquid assets reflected by MBL's Liquidity Coverage Ratio of 177% as of 31 December 2021.

While the group maintains very strong capital and liquidity, the external funding needs of the group remains high leading to a market funds-to-tangible assets ratio of 40.83%. This exposure to confidence sensitive funding remains a constraint to the rating. We expect the funding intensity of the group will remain high; however, this risk is in part mitigated by the good term structure of market funding and the quality of the group's market funding. This good term structure is reflected by the MBL's high Net Stable Funding Ratio of 121% as of December 2021.

Macquarie's earnings profile benefits from high levels of diversification across a number of business lines comprising traditional banking, asset management and capital markets activities. In aggregate the group has produced high and improving returns on tangible assets and seen a number of its business lines grow in terms of their customer bases. We expect profitability to continue to improve with further revenue growth likely. However, this may be at the expense of earnings quality with some of the growth deriving from commodity related trading businesses, which potentially exhibit higher volatility than Macquarie's banking and asset management activities.

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

The ratings could be upgraded if (1) growth in residential mortgage lending is sustained without any material deterioration in residential mortgage problem loans, or (2) if earnings continue to improve with net income to tangible assets remaining above 1.5% on a group consolidated basis.

With the ratings on positive outlook a downgrade is unlikely. However, the outlook could return to stable 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.

A downgrade of MBL's BCA could occur if the bank increases 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 Bank Limited, Macquarie Bank Limited, London Branch, Macquarie Bank Limited, Singapore Branch, Macquarie Finance Limited, Macquarie Group Limited was Banks Methodology published in July 2021 and available https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . The principal methodology used in rating Macquarie Financial Holdings Pty Limited was Securities Industry Market Makers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187332 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Macquarie Bank Limited and Macquarie Financial Holdings Pty Limited are wholly owned subsidiaries of Macquarie Group Limited. Headquartered in Sydney, Australia, Macquarie Group Limited is a large financial services provider. As at 30 September 2021 the group reported profits of AUD2.0 billion for first half of fiscal year 2022 and shareholders' equity of AUD24.4 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 www.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_ARFTL462605 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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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 ratings tab on the issuer/entity page for the respective issuer on www.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 http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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