Rating Action: **Macquarie Bank Limited**

Moody's affirms Macquarie Group at A2 / P-1, changes outlook to negative

Sydney, October 16, 2008 -- Moody's Investors Service has affirmed the long-term ratings of Macquarie Group Limited (senior debt at A2) and its subsidiaries, including Macquarie Bank Limited (deposits and senior debt at A1) and assigned a negative outlook to these ratings. The Prime-1 short-term ratings of the Group and Bank were affirmed and retain a stable outlook.

The negative outlook on the long-term ratings addresses the potential for an extended, global economic and capital markets slowdown to negatively affect Macquarie's earnings in calendar 2009 and possibly beyond. The outlook also reflects the challenges to wholesale banking business models created by the current environment, which may continue to some degree, even post-crisis.

Moody's commented that in other respects, Macquarie's credit profile remains very robust. It has excellent liquidity characteristics, now further supported by the Australian government's guarantee of Macquarie Bank's deposits and -- should the Bank choose to apply -- its debt securities. Macquarie's risk management track record has been very strong, with negligible exposure to troubled asset classes and counterparties during the past year's global credit crisis. The firm's capital level is also well positioned, at more than 40% in excess of regulatory requirements.

While Moody's ratings aim to provide a through-the-cycle view of credit risk, the potential for a pronounced, broad-based and global slow-down in capital markets activity carries implications for a significant number of Macquarie's business lines. In such an environment, Macquarie's geographic and product diversification affords less protection than in more normal cycles. However, it is expected that Macquarie Group's strong financial position should cushion any immediate impacts.

Also, to the extent that the crisis may lead to a long-lasting reduction in global leverage, this has negative implications for asset prices, potentially reducing returns across the board, including the firm's specialist funds business.

These impacts may not be fully felt until calendar 2009. Macquarie's immediate pipeline of business still appears relatively strong, and asset realisations from its specialist funds have largely continued to support current valuations.

However, if returns on equity remain weaker for the mid-term, this could increase pressure on Macquarie to increase its risk appetite.

Furthermore, as highlighted in Moody's October 2008 report entitled "Impact of the Credit Crisis on Moody's Rating Methodology and the Credit Profiles of Investment Banks", the credit crisis of the past year has reduced the tolerance of market participants for real or perceived position concentrations. Negative surprises, or even the prospect of a surprise, can erode confidence - even if a firm has sufficient liquidity or capital to absorb a loss.

Macquarie is actively engaged in restructuring its balance sheet to shed low margin, capital intensive businesses whose returns are weakened by higher funding costs -- it has announced its intention to sell its investment lending business and has effectively ceased mortgage originations.

Macquarie also has significant flexibility in its cost base due to the variable component of staff compensation. However, the firm's rise in non-compensation expenses has matched its swift rise in earnings in recent years, such that an earnings drop back to the levels of, say, two or three years ago, would be less easily absorbed.

Macquarie's liquidity position is very strong: the group targets a liquid asset position sufficient to fund 12 months of maturities at all times, and current restructuring initiatives are likely to free up additional cash. The Group's liquidity position has been further strengthened by the Australian government's recently-announced deposit and debt guarantee schemes.

All deposits at Macquarie Bank are guaranteed for a period of three years, which should enhance the stability of its retail funding. The Bank may also apply -- for a fee, and on a case by case basis -- for a government guarantee of existing and future senior unsecured debt issues with maturities up to 60 months. We expect this to support the bank's access to capital markets, in particular offshore.

Macquarie Group is not included on the government's list of entities eligible to participate in the debt guarantee scheme. However, the Group's funding flexibility is supported by the fact that it has no near-term debt maturities, and funds raised by the bank may also be upstreamed, subject to regulatory limits. Also, the consolidated group's strong cash position (A$21bn) provides an important buffer.

Moody's rating outlooks address potential credit trends over the next 12 to 18 months.

The ratings affected were:

Macquarie Group Limited

Issuer rating and senior debt rating affirmed at A2, with their outlook revised to negative from stable. Short-term obligations affirmed at Prime-1 with a stable outlook.

Macquarie Bank Limited

Deposit rating, issuer rating and senior debt rating affirmed at A1, and the bank financial strength rating at C+, with their outlook revised to negative from stable. Short-term obligations affirmed at Prime-1 with a stable outlook.

Macquarie International Finance Limited

Issuer rating and senior debt rating affirmed at A2, with their outlook revised to negative from stable. Short-term obligations affirmed at Prime-1 with a stable outlook.

Macquarie Group Limited is headquartered in Sydney, New South Wales, Australia. It reported assets of AUD167 billion (approximately USD133 billion) at 31 March 2008.

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