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Ratings

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Macquarie Group Ltd.

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Macquarie Group Ltd.

Major Rating Factors

Issuer Credit Rating
BBB+/Stable/A-2

Strengths:	Weaknesses:
• A well-diversified business across different asset classes and geographies. • Stable and repeatable income, which strengthens the business profile. • Strongly capitalized bank, representing the majority of the group. • Strong risk-management capabilities to manage risk exposures.	• Capital market-facing businesses focused on volatile markets and products. • More complex nature of credit, market, and operational risk exposures relative to local and international peers.

Outlook

Our outlook on Macquarie Group Ltd. (MGL) is stable, reflecting the group's well-diversified business across different asset classes and geographies; stable and repeatable income sources from the group's asset management and banking activities, which strengthens the business profile; a strongly capitalized bank that represents the majority of the group's exposures; and strong risk-management capabilities to manage the group's more complex nature of credit, market, and operational risk exposures relative to local and international peers. The stable outlook also factors in the challenges the group may face from the coronavirus outbreak.

Downside scenario

We believe that a downside scenario could emerge over the next two years if contrary to our expectations an unexpected lapse in the Macquarie group's risk management occurred--for example, resulting in a large trading or operational risk loss--or if its credit quality deteriorated sharply. A downside scenario could also emerge if: (1) the Macquarie group's risk profile shifted materially toward the lower credit quality nonbank part of the group, or (2) Macquarie Bank Ltd.'s (MBL) risk-adjusted capital ratio deteriorated to below 10%, or (3) leverage within the nonbank part of the group increased significantly.

Upside scenario

We see very limited upside to our issuer credit rating on MGL in the next two years.

Rationale

Well-diversified financial services group

MGL is a diversified financial services institution headquartered and listed in Australia.

The group benefits from a well-diversified business position across different asset classes and geographies, and has a niche market position in specialized commercial banking and investment banking in Australia and global infrastructure asset management.

MGL's earnings profile has improved over the past five years. About 60% of the group's earnings is derived from stable and repeatable income sources generated by Macquarie Asset Management, Corporate Asset Finance, and Banking and Financial Services. The remaining 40% of the group's earnings is derived from its market-facing businesses that consists of Commodities and Global Markets and Macquarie Capital.

We expect the group's credit profile to remain unchanged despite the challenges the group may face from the coronavirus outbreak.

Group risk-management capabilities are sufficient to manage a wide range of complex credit and noncredit risk exposures across businesses and geographies

The group's recent streamlining of its operating activities has resulted in some moderation of its complexity, which in our view supports management's ability to oversee and manage associated risks across different business lines. In addition, we are of the view that the Macquarie group has sustained its good risk-management outcomes over a period of time and that there are no signs of an increase in its risk appetite.

In our assessment of the group's risk-management capabilities, we take into account the following:

- The Macquarie group and MBL's performance and risk-management outcomes pre and post the global financial crisis. Compared with a peer group of international banks, the volatility of the Macquarie group's earnings has been lower for a sustained period and the group has been able to deal with global credit headwinds.
- The Macquarie group's internal reorganization is substantially complete. In our view, the internal reorganization will improve the transparency of the group's business activities. The reorganization will also simplify the group's business activities and lead to divisions being organized along business lines with similar risk profiles and customer needs.
- The reorientation of the Macquarie group and the bank's earnings toward repeatable and sustainable income sources, which will benefit the group and bank's future earnings profile as well as risk-management outcomes relative to international peer banks, which are more focused on capital market-related activities.
- The significant diversity of the Macquarie group's activities in terms of geography and product.
- The resourcing of the Macquarie group's risk-management team, with staff levels having nearly doubled post the global financial crisis.

Environmental, social, and governance credit factors are in line with those for its industry and domestic peers

In our view, the Macquarie group's risk-management and governance frameworks are commensurate with the unique and complex nature, and broad range of, the group's businesses. No significant adverse conduct issues have emerged in relation to the Macquarie group in recent years.

Retail banking in Australia accounted for 13% of the group's earnings in the last financial year and we believe the group is exposed to the broader Australian banking industry. No specific findings were made against Macquarie in the Banking Royal Commission but criticism faced by Australian banks included overcharging customers, nonadherence to responsible lending standards, and failure to timely report suspicious transactions to the financial crimes regulator. We believe policymakers have increasingly called for greater penalties for such lapses, at least partly on the basis that these profitable banks must meet community expectations.

We see environmental factors as less relevant (than social and governance factors) to the creditworthiness of the Macquarie group. Nevertheless, following the acquisition of Green Investment Bank in the U.K., we believe the Macquarie group is well placed to capitalize on opportunities arising from environmental sustainability-related projects in its asset management and investment banking activities.

The mining sector accounts for only about 1% of domestic lending by Australian banks. While approximately 70% of MGL's income was generated offshore in recent years, we still believe the group is indirectly exposed to environmental factors because it operates in an economy where the commodities sector is significant. Evolution of domestic and global environment standards and legislations, and changing customer preferences leading to a transition toward less carbon intensive forms of energy could weaken the broader economy and the group's lending portfolio.

MGL's overall group credit risk profile benefits from diversification

We assess MGL's overall group credit profile at 'a-', reflecting a combination of our assessment of the group's two key operating units--the bank group and the nonbank group. We consider that group credit quality benefits from the diversification afforded by the different business activities and geographic locations of the combined group's business activities. The rating on MGL is one notch lower than the group credit profile, reflecting MGL's reliance on dividends and other distributions from operating companies to meet obligations.

Group capital raising is unlikely to have a significant impact on capital and leverage ratios

On Aug. 28, 2019, MGL announced a capital raising and A$1 billion was raised through an institutional placement and about A$700 million through the sale of new shares to retail investors. We note that the capital raised is in anticipation of higher capital usage by the group and will provide the group with flexibility to invest in new opportunities. In our view, given potential growth opportunities, the additional capital raised is unlikely to have a significant impact on the group's capital and leverage ratios.

Bank group is strongly capitalized

The bank group has MBL as the main operating entity and its business activities comprise mainly corporate and asset finance, banking and financial services, and commodities and global markets. We assess the bank group's stand-alone credit profile (SACP) at 'a-' and expect the bank to remain strongly capitalized. The MBL issuer credit rating is assessed at 'A+' and is two notches above its SACP as the bank is a potential recipient of extraordinary Australian government support, in the unlikely event it were required (see the full analysis, "Macquarie Bank Ltd.," published on March 26, 2020).

Nonbank group houses asset management and investment banking activities of MGL

The nonbank group consists primarily of Macquarie Infrastructure and Real Assets, Macquarie Investment Management (both divisions of Macquarie Asset Management Holdings), and Macquarie Capital (which houses the investment banking activities of the group). We assess the credit quality of the nonbank group as weaker than that of the bank group. In our view, the nonbank group's credit profile benefits from its sizable asset management activities (about A$562 billion of assets under management as of Sept. 30, 2019), as well as being the largest global alternative asset manager specializing in infrastructure and real assets, compared with peers.

MGL has a low likelihood of receiving extraordinary government support

The issuer credit rating on MGL at 'BBB+' is one notch below the group credit profile considering its status as a holding company. In our view, MGL has a low likelihood of receiving extraordinary government support in a crisis. We consider that in the event of a banking systemwide crisis or an MGL-specific crisis, the bank--which accepts customer deposits and has significant linkages within the Australian financial system--is likely to receive financial support from the Australian government. We believe that the impact of not extending such support to the rest of the group on the Australian economy or the financial system is likely to be relatively insignificant.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Key Credit Factors For Asset Managers, Dec. 9, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

Macquarie Bank Ltd., March 26, 2020

Table 1

Macquarie Group Ltd.--Key Figures					
	--Year ended March 31--				
(Mil. A$)	**2019***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	216,455.0	200,795.0	189,725.0	181,147.0	194,827.0
Customer loans (gross)	85,630.0	79,014.0	82,060.0	78,098.0	81,767.0
Adjusted common equity	16,476.0	14,415.0	15,430.0	13,810.0	12,445.0
Operating revenues	6,134.0	12,148.0	10,292.0	10,105.0	10,676.0
Noninterest expenses	4,449.0	8,840.0	7,415.0	7,225.0	7,059.0
Core earnings	1,239.0	2,407.0	2,113.0	1,902.0	2,126.0

*Data as of Sept. 30

Note

The below Ratings Detail section should also include:

Macquarie Securities South Africa Ltd.

Senior Unsecured BBB+

Senior Unsecured zaAAA

Short-Term Debt A-2

Short-Term Debt zaA-1+

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Ratings Detail (As Of March 26, 2020)*	
Macquarie Group Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB

Ratings Detail (As Of March 26, 2020)*(cont.)	
Issuer Credit Ratings History	
11-Dec-2019	BBB+/Stable/A-2
10-Dec-2018	BBB/Positive/A-2
21-May-2017	BBB/Stable/A-2
30-Oct-2016	BBB/Negative/A-2
Sovereign Rating	
Australia	AAA/Stable/A-1+
Related Entities	
Macquarie Bank Europe DAC	
Issuer Credit Rating	A+/Stable/A-1
Macquarie Bank Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Foreign Currency	A+/A-1
Junior Subordinated	BB+
Preference Stock	BBB-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Subordinated	BBB+
Macquarie Bank Ltd. (London Branch)	
Senior Unsecured	A+
Macquarie Finance Ltd.	
Junior Subordinated	BBB-
Macquarie Financial Holdings Pty Ltd	
Issuer Credit Rating	BBB+/Stable/A-2
Macquarie International Finance Ltd.	
Issuer Credit Rating	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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