

# RatingsDirect®

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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:
<ul style="list-style-type: none"><li>• Well-diversified businesses across different asset classes and geographies.</li><li>• Strong risk-management capabilities.</li><li>• Group balance sheet strength provides substantial buffer and flexibility.</li></ul>	<ul style="list-style-type: none"><li>• Capital market-facing businesses exposed to volatility.</li><li>• More complex credit, market, and operational risk exposure compared with local and international peers.</li></ul>

### Outlook

Our stable outlook on Macquarie Group Ltd. (MGL), the non-operating holding company of the Macquarie group, reflects our expectation that the group will maintain its creditworthiness in the next two years. Our view is based on its well-diversified businesses across different asset classes and geographies; stable and repeatable income from asset management and banking activities; balance sheet strength that provides substantial buffer against COVID-19 volatility and flexibility should opportunities arise; and strong risk-management capabilities to manage the group's more complex credit, market, and operational risk exposure than local and international peers'.

#### Downside scenario

We believe 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 occurs--for example, resulting in a large trading or operational risk loss--or if the group's credit quality deteriorates sharply.

A downside scenario could also emerge if: (1) the Macquarie group's risk profile shifts materially toward the lower credit quality nonbank part of the group; (2) the risk-adjusted capital ratio of Macquarie Bank Ltd. (MBL), the group's main banking operations, deteriorates to less than 10%, or (3) leverage of the group's nonbank business increases 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**

In our view, MGL's earnings should continue to benefit from the group's well-diversified business. The Macquarie group is diversified across different asset classes and geographies and holds a niche market position in specialized commercial banking and investment banking in Australia and in global infrastructure asset management. MGL is headquartered and listed in Australia.

We believe the group is well positioned to absorb a drop in business volumes and increase in credit and market risk impairments that would emerge due to the COVID-19 outbreak. The Macquarie group's improved earnings profile over the past five years positions the group well to maintain a high degree of strength and stability in earnings (in line with its track record over several years), compared with a number of financial institutions operating in similar business lines. More than 60% of the group's earnings is derived from stable and repeatable income sources generated mainly by Macquarie Asset Management and Banking and Financial Services. The remaining 40% is derived from market-facing businesses that consist of Commodities and Global Markets and Macquarie Capital.

### **Sufficient risk-management capabilities**

In our opinion, the Macquarie group's risk-management capabilities allow it to manage a wide range of complex credit and noncredit risk exposures across businesses and geographies. We believe the group's organizational structure is well aligned with its operating activities, which supports management's ability to oversee and manage risks associated with different business lines.

We anticipate the group will be able to navigate the effects of COVID-19 on the back of its risk-management capabilities and robust balance sheet. This is notwithstanding the increase in credit and other impairment charges across all business units, reflecting changes in operating conditions because of the pandemic.

We expect the Macquarie group to maintain its track record of good risk management outcomes with no signs of an increase in risk appetite.

### **MGL's overall group credit risk profile benefits from diversification**

The Macquarie group's credit quality benefits from the diversification afforded by the group's different business activities and geographic locations. We assess the 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 rate MGL one notch lower than the group credit profile, reflecting MGL's reliance on dividends and other distributions from operating companies to meet obligations.

### **Group balance sheet strength provides substantial buffer and flexibility**

In our view, the consolidated group's regulatory capital surplus of A\$9.4 billion as of Sept. 30, 2020, provides substantial buffer for further and extended COVID-19 volatility, and allows for business growth where opportunities arise. The board decision to proceed with the dividend reinvestment program and reduce the group's full-year 2020 dividend payout ratio to 56% should further strengthen the group's capital position.

### **Bank group is strongly capitalized**

Over the past year, the bank group's capitalization was supported by its decision to not distribute any dividends for the year ended March 31, 2020.

We expect the bank to maintain its strong capitalization, with a risk-adjusted capital ratio well above 10% over the next two years. MBL is the main operating entity of the bank group. Its business activities comprise mainly banking and financial services, commodities and global markets, and corporate and asset finance. We assess the bank group's stand-alone credit profile (SACP) at 'a-'.

We view MBL as a moderately systemically important institution in Australia where the government is highly supportive of private sector banks. As a result, we assign MBL an issuer credit rating of 'A+', two notches above its SACP because 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 29, 2021).

### **Nonbank group houses asset management and investment banking activities**

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\$555 billion of assets under management as of Sept. 30, 2020) as well as it being the largest global alternative asset manager specializing in infrastructure and real assets, compared with peers. 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).

### **Environmental, social, and governance (ESG)**

ESG credit factors for the Macquarie group are broadly in line with those for its industry and domestic peers. In our opinion, 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.

The group's governance framework is sound in our view. We believe Australian policymakers have increasingly called for greater penalties for lapses in governance, at least partly on the basis that the profitable Australian banks must meet community expectations. We note that in the most recent inquiries by the Australian authorities, no significant adverse conduct issues emerged that affected MGL's brand or reputation.

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

We believe MGL is indirectly exposed to environmental factors because it operates in an economy where the commodities sector is significant. This is even though the group has generated about 70% of its income offshore in recent years. Evolution of domestic and global environment standards and legislation 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 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 the impact on the Australian economy or the financial system of such support not extending to the rest of the group is likely to be insignificant.

**Table 1**

Macquarie Group Ltd.--Key Figures					
	--Year ended March 31--				
(Mil. A\$)	2020*	2020	2019	2018	2017
Adjusted assets	205,681.0	225,643.0	168,863.0	172,356.0	166,526.0
Customer loans (gross)	88,557.0	88,407.0	74,331.0	80,806.0	76,586.0
Adjusted common equity	13,444.0	13,316.0	10,313.0	11,244.0	10,924.0
Operating revenues	2,899.0	5,782.0	5,269.0	5,421.0	5,100.0
Noninterest expenses	1,807.0	3,681.0	3,636.0	3,370.0	3,451.0
Core earnings	671.0	1,172.4	1,264.3	1,492.5	987.4

\*Data as of Sept. 30.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- 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: Principles Of Credit Ratings, Feb. 16, 2011

**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 28, 2021)\*****Macquarie Group Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB

**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/Negative/A-1+
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**Related Entities****Macquarie Bank Europe DAC**

Issuer Credit Rating	A+/Negative/A-1
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**Macquarie Bank Ltd.**

Issuer Credit Rating	A+/Negative/A-1
Commercial Paper	
<i>Foreign Currency</i>	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+
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**Ratings Detail (As Of March 28, 2021)\*(cont.)****Macquarie Finance Ltd.**

Junior Subordinated	BBB-
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**Macquarie Financial Holdings Pty Ltd**

Issuer Credit Rating	BBB+/Stable/A-2
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**Macquarie International Finance Ltd.**

Issuer Credit Rating	A/Negative/A-1
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\*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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