

# 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>• Stable and repeatable income strengthens business profile.</li><li>• Strong risk-management capabilities to manage risk exposures.</li><li>• Group balance sheet strength provides a substantial buffer and flexibility.</li></ul>	<ul style="list-style-type: none"><li>• Capital market-facing businesses exposed to volatile markets and products.</li><li>• More complex credit, market, and operational risk exposure than of 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 the group's well-diversified businesses across different asset classes and geographies; stable and repeatable income from asset management and banking activities; balance sheet strength that provides a 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., the group's main banking operations, deteriorates to less than 10%, or (3) leverage of the group's nonbank part 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 position across different asset classes and geographies, and its niche market position in specialized commercial banking and investment banking in Australia and in global infrastructure asset management. The company is headquartered and listed in Australia.

MGL has shown a high degree of strength and stability in earnings over a number of years, compared with a number of financial institutions operating in similar business lines.

MGL's earnings profile has improved over the past five years. 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.

In our view 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.

### Sufficient risk-management capabilities

In our view, 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 expect the group to be able to navigate the effects of COVID-19 on the back of its risk management capabilities and a robust balance sheet. Credit and other impairment charges have increased across all business units, reflecting changes in operating conditions as a result of the pandemic.

We believe the group's internal reorganization has realigned its operating activities and moderated complexities, supporting management's ability to oversee and manage risks associated with different business lines.

In our view, the group has sustained its good risk management outcomes over a period of time (that included significant credit headwinds) with no signs of an increase in risk appetite. For example, compared with a peer group of international banks, the volatility in Macquarie group's earnings and in MBL's performance and risk-management pre and post the global financial crisis has been lower for a sustained period.

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

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 group in recent years.

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. in 2017, 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.

While approximately 67% 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. The group credit quality benefits from the diversification afforded by the group's different business activities and geographic locations. 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 balance sheet strength provides substantial buffer and flexibility**

In our view, the consolidated group's regulatory capital surplus of A\$8.1 billion as of June 30, 2020, provides a substantial buffer for further and extended COVID-19 volatility, and also allows for business growth where opportunities arise. The board decision to proceed with the dividend reinvestment program at a discount of 1.5% 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**

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, maintaining our risk-adjusted capital ratio of well above 10%, supported by its decision to not distribute any dividends for the year ended March 31, 2020. The 'A+' issuer credit rating on MBL is 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 26, 2020).

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

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\$568 billion of assets under management as of June 30, 2020) as well as it 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 is one notch below the group credit profile considering MGL's 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 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.

## **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

**Table 1**

<b>Macquarie Group Ltd.--Key Figures</b>					
<b>--Year ended March 31--</b>					
<b>(Bil. A\$)</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Adjusted assets	252.6	200.8	189.7	181.1	194.8
Customer loans (gross)	95.0	79.0	82.1	78.1	81.8
Adjusted common equity	17.3	14.4	15.4	13.8	12.4
Operating revenues	12.0	11.0	9.5	9.3	10.7
Noninterest expenses	7.9	7.7	6.6	6.4	7.1
Core earnings	2.6	2.4	2.1	1.9	2.1

**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 September 30, 2020)\*****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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## Ratings Detail (As Of September 30, 2020)\*(cont.)

**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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**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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