

## Macquarie Group Ltd.

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### Table Of Contents

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Major Rating Factors

Outlook

Rationale

Well-diversified financial services group

Sufficient risk-management capabilities

MGL's group credit risk profile benefits from diversification

Group balance-sheet strength provides substantial buffer and flexibility

Bank group is strongly capitalized

Nonbank group houses asset-management and investment-banking activities

Environmental, social, and governance (ESG) factors

MGL has a low likelihood of receiving extraordinary government support

Related Criteria

# 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 asset classes and geographies.</li><li>• Strong risk-management capabilities.</li><li>• Group balance-sheet strength provides a substantial capital 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 risks than traditional banking groups.</li></ul>

### Outlook

Our stable outlook on Macquarie Group Ltd. (MGL), the nonoperating holding company of the Macquarie group, reflects our expectation that the group will maintain its creditworthiness over the next two years. This is on the back of its well-diversified businesses across asset classes and geographies; stable and repeatable income from asset-management and banking activities; balance-sheet strength that provides a substantial buffer against market 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 traditional banking groups.

#### Downside scenario

We believe downside risk to our rating on MGL could emerge over the next two years if, contrary to our expectations, a 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 nonbank part of the group with lower credit quality; (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 business increases significantly.

#### Upside scenario

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

## Rationale

### Well-diversified financial services group

*In our view, the Macquarie group's earnings should continue to benefit from the group's well-diversified business.* The Macquarie group is diversified across asset classes and geographies. It 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 MGL is well-positioned to respond to the current challenging market conditions.* The group's improved earnings profile over the past five years positions it to maintain a high degree of strength and stability in earnings (in line with its track record over several years). This compares well with a number of financial institutions operating in similar business lines. The group derives about half of its net profit from stable and repeatable income sources generated mainly by Macquarie Asset Management, and banking and financial services. MGL derives the balance from market-facing businesses that consist of commodities and global markets, and Macquarie Capital.

### Sufficient risk-management capabilities

*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, in our assessment.* We believe the group's organizational structure is well-aligned with its operating activities. This supports management's ability to oversee and manage risks associated with different business lines.

*We expect MGL to be able to navigate the current challenging market conditions on the back of its risk-management capabilities and a robust balance sheet.* Credit and other impairment charges have been broadly flat across the group. This is due to the release of some specific provisions largely offset by increased modelled provisions reflecting some deterioration in the macroeconomic outlook.

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 group credit risk profile benefits from diversification

*The Macquarie group's credit quality benefits from diversification afforded by the group's varied business activities and geographical locations.* We assess the overall group credit profile at 'a-'. This reflects a combination of our assessment of the group's two key operating units: the bank group and 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\$12.2 billion as of Sept. 30, 2022, provides a substantial buffer for volatility in the current challenging market conditions and allows for business growth where opportunities arise.* The board's decision to maintain its dividend payout at 50%, the lower end of its stated 50%-70% range, should further support the group's capital position.

## Bank group is strongly capitalized

*We view MGL's bank group as strongly capitalized.* A A\$600 million capital injection from the group supported the bank's strong lending growth of more than 25% in the 12 months ended Sept. 30, 2022.

*We expect Macquarie Bank to maintain its strong capitalization, with a risk-adjusted capital ratio well above 10% over the next two years.* The bank is the main operating entity of MGL's bank group. 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-'.

*In our view, Macquarie Bank is a moderately systemically important institution in Australia where the government is highly supportive of private-sector banks.* As a result, we assign the bank an issuer credit rating of 'A+', two notches above its SACP. This reflects our view that the bank is a potential recipient of extraordinary Australian government support in the unlikely event this were required (see the full analysis, "Macquarie Bank Ltd.," published on Dec. 15, 2022).

Our ratings on Macquarie Bank are insulated from the MGL group credit profile because we expect government support, if needed, to flow directly to MBL.

## 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 with about A\$790 billion of assets under management as of Sept. 30, 2022. The credit profile of the asset manager (and thus the nonbank group) also benefits from its position as the largest global alternative asset manager specializing in infrastructure and real assets. The nonbank group consists primarily of Macquarie Asset Management Holdings Pty. Ltd. and Macquarie Financial Holdings Pty Ltd., which houses the investment-banking activities of the group.

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

*ESG credit factors for the Macquarie group are broadly in line with those of 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.

***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 profitable Australian banks must meet community expectations. We note that in the most recent inquiries by the Australian authorities, no significant adverse conduct issues have 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 environmentally-sustainable 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 notwithstanding that 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 to 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 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, Macquarie 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 Macquarie group is likely to be insignificant.

## **Related Criteria**

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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 | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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### Ratings Detail (As Of December 14, 2022)\*

#### 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

#### Sovereign Rating

Australia	AAA/Stable/A-1+
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#### Related Entities

##### Macquarie Bank Europe DAC

Issuer Credit Rating	A+/Stable/A-1
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##### Macquarie Bank Ltd.

Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A-1
Commercial Paper	
<i>Foreign Currency</i>	A+/A-1
<i>Local Currency</i>	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 Financial Holdings Pty Ltd

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

Issuer Credit Rating	A/Stable/A-1
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**Ratings Detail (As Of December 14, 2022)\*(cont.)**

\*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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