

RatingsDirect®

Macquarie Group Ltd.

Primary Credit Analyst:

Lisa Barrett, Melbourne + 61 3 9631 2081; lisa.barrett@spglobal.com

Secondary Contacts:

Nico N DeLange, Sydney + 61 2 9255 9887; nico.delange@spglobal.com

Sharad Jain, Melbourne + 61 3 9631 2077; sharad.jain@spglobal.com

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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">• Well-diversified businesses across asset classes and geographies.• Strong risk-management capabilities.• Group balance-sheet strength provides a substantial capital buffer and flexibility.	<ul style="list-style-type: none">• Capital-market-facing businesses exposed to volatility.• More complex credit, market, and operational risks than traditional banking groups.

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 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 traditional banking groups.

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:

- the Macquarie group's risk profile shifts materially toward the nonbank part of the group with lower credit quality;
- the risk-adjusted capital ratio of Macquarie Bank Ltd., the group's main banking operations, deteriorates to less than 10%, or
- 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 that the group is well-positioned to respond to market conditions that have emerged due to COVID-19. The Macquarie group's improved earnings profile over the past five years positions the group 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. 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 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 believe the group's organizational structure is well-aligned with its operating activities. In our view, this supports management's ability to oversee and manage risks associated with different business lines.

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. This is notwithstanding that credit and other impairment charges have increased across the 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 group credit risk profile benefits from diversification

The Macquarie group's credit quality benefits from diversification afforded by the group's different 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\$8.4 billion as of Sept. 30, 2021, provides a substantial buffer for extended COVID-19 volatility and allows for business growth where opportunities arise. The board's decision to lower the range for annual dividend payouts to 50%-70% from 60%-80% should further strengthen the group's capital position. A A\$1.5 billion institutional share placement and A\$1.3 billion retail share purchase plan, both in November 2021, have further bolstered the group's capital position.

Bank group is strongly capitalized

In our view, the bank group is strongly capitalized. Over the past year, this was supported by a modest dividend of A\$500 million paid in fiscal 2021 ending March 31.

We expect the bank to maintain its strong capitalization, with a risk-adjusted capital ratio well above 10% over the next two years. Macquarie Bank Ltd. (MBL) is the main operating entity of the 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, MBL is 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. 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. 8, 2021).

Our ratings on MBL are insulated from the MGL group credit profile because we expect government support, if needed, to flow directly to MBL. Nevertheless, the bank's insulation does not detract from its contribution to the strength of the group SACP and contributes to the holistic risk profile of the group, in our view. The bank is a substantial part of the group and there is strong management and regulatory integration across the group.

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\$735 billion of assets under management (AUM) as of Sept. 30, 2021. 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, compared with peers. The completion of the acquisition of Waddell & Reed Financial Inc. (BBB/Stable/A-2) on April 30, 2021, has added US\$76 billion in AUM to Macquarie Asset Management Holdings Pty Ltd. (MAMHPL). The nonbank group consists primarily of MAMHPL 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 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 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 legislations 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, 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: 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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Ratings Detail (As Of December 8, 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

Ratings Detail (As Of December 8, 2021)*(cont.)

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

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