S&P Global
Ratings

RatingsDirect®

Macquarie Group Ltd.

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

Secondary Contacts:
Sharad Jain, Melbourne + 61 3 9631 2077; sharad.jain@spglobal.com
Nico N DeLange, Sydney + 61 2 9255 9887; nico.delange@spglobal.com

Table Of Contents

Macquarie Group Ltd.

Major Rating Factors

Issuer Credit Rating
BBB+/Stable/A-2

Strengths:	Weaknesses:
• Well-diversified businesses across asset classes and geographies. • Strong risk-management capabilities. • Group balance-sheet strength provides substantial capital buffer and flexibility.	• 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 (1) well-diversified businesses across asset classes and geographies; (2) stable and repeatable income from asset-management and banking activities; (3) balance-sheet strength that provides a substantial buffer against market volatility and flexibility should opportunities arise; and (4) 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 that has lower credit quality; (2) the risk-adjusted capital ratio of Macquarie Bank Ltd. (A+/Stable/A-1), 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

The Macquarie group's earnings should continue to benefit from its well-diversified business. The 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 currently challenging macroeconomic conditions. The group's sound earnings profile over the past four years positions it well to maintain strength and stability in earnings. In this regard, MGL compares favorably 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, mainly Macquarie Asset Management Holdings Pty. Ltd., and banking and financial services. MGL derives the balance from market-facing businesses that consist of commodities and global markets, and the Macquarie Capital division.

Strong 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. 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.

MGL's risk-management capabilities and a robust balance sheet should help it navigate macroeconomic challenges. The group released A$117 million in credit and other impairment charges in the six months ended Sept. 30, 2023. This reflected normalization in sector and counterparty exposures as prices of some commodities returned to more stable levels. Specific provisions in the energy sector and loan expansion at the bank partially offset the reduction in releases.

We expect the Macquarie group to maintain its record of good risk-management with no signs of an increase in risk appetite. MGL's group credit risk profile benefits from diversification MGL's credit quality benefits from diversification afforded by the group's business and geographic diversity. 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 the nonbank group. We rate MGL one notch lower than the group credit profile, reflecting the holding company'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$10.5 billion as of Sept. 30, 2023, provides a substantial buffer for volatility amid tough macroeconomic conditions. It also allows for business growth where opportunities arise. This is notwithstanding the board's decision to pay a dividend of 70% of earnings for the six months ended Sept. 30, 2023, at the top end of its stated 50%-70% range, and undertake a A$2 billion on-market share buyback.

Bank group is strongly capitalized

We expect Macquarie Bank to maintain its strong capitalization, with a risk-adjusted capital ratio well above 10% over the next two years. Strong earnings over the past year supported payment of the bank's A$1.7 billion dividend to MGL. 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 rate the bank two notches above our assessment of 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, 2023).

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.

The nonbank group houses asset-management and investment-banking activities

We assess the credit quality of the nonbank group to be 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$890 billion of assets under management as of Sept. 30, 2023. The credit profile of the asset manager (and therefore 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 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 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

We consider that, in the event of a banking systemwide crisis or a 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

Ratings Detail (As Of December 7, 2023)*	
Macquarie Group Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB

Ratings Detail (As Of December 7, 2023)*(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
Sovereign Rating	
Australia	AAA/Stable/A-1+
Related Entities	
Macquarie AirFinance Holdings Limited	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Macquarie Bank Europe DAC	
Issuer Credit Rating	A+/Stable/A-1
Macquarie Bank Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A-1
Commercial Paper	
Foreign Currency	A+/A-1
Local Currency	A-1
Junior Subordinated	BB+
Preference Stock	BBB-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Macquarie Bank Ltd. (London Branch)	
Senior Unsecured	A+
Macquarie Financial Holdings Pty Ltd	
Issuer Credit Rating	BBB+/Stable/A-2
Macquarie International Finance Ltd.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Foreign Currency	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.