

RatingsDirect®

Macquarie Group Ltd.

Primary Credit Analyst:

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

Secondary Contact:

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

Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria

Macquarie Group Ltd.

Major Rating Factors

Issuer Credit Rating

BBB+/Stable/A-2

Key strengths

Well-diversified businesses across asset classes and geographies.

Strong risk-management capabilities.

Group balance-sheet strength provides substantial capital buffer and flexibility.

Key risks

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, including around funding and liquidity, to manage the group's more complex credit, market, and operational risk exposure than traditional banking groups.

Although Macquarie Bank Ltd. contributes to the group's credit strength at the current rating level, its ability to support nonbanking entities of the group could be constrained due to regulatory separation, in our view.

Downside scenario

We believe downside risk to our rating on MGL could emerge over the next two years if the group credit profile weakens. For example, if: (1) the nonbank part of the group--which in our view is of weaker credit quality relative to the bank--becomes a materially bigger contributor to the group earnings on a sustained basis; (2) a lapse in the Macquarie group's risk management, including its funding and liquidity management occurs; 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. This is because we do not believe the credit profile of any of the underlying businesses will strengthen significantly during that time.

Rationale

Well-diversified financial services group

MGL's earnings should continue to benefit from the group's 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 five 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 more stable and repeatable income sources, mainly from Macquarie Asset Management Holdings Pty. Ltd. (MAMHPL), 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, including its management of funding and liquidity, 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. The operational management of risks within businesses is particularly strong, in our view. Macquarie follows the "three lines of defence" model. The business, the first line, owns the risk and is responsible for having systems, resources, management processes, and operational controls to identify, measure, evaluate, monitor, and control or mitigate material risks. 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. MGL took A\$54 million in credit and other impairment charges in the six months ended Sept. 30, 2024. This reflected the non-recurrence of credit impairment reversals in the prior corresponding period.

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 credit quality benefits from diversification afforded by the group's business and geographic diversity.

Group balance-sheet strength provides substantial buffer and flexibility

In our view, the consolidated group's regulatory capital surplus of A\$9.8 billion as of Sept. 30, 2024, provides a substantial buffer for volatility amid tough macroeconomic conditions.

The surplus capital allows for business growth where opportunities arise. This is notwithstanding the board's decision to pay a dividend of 61% of earnings for the six months ended Sept. 30, 2024, at the midpoint of its stated 50%-70% range, and its decision to extend by 12 months its A\$2 billion on market share buyback that was announced in November 2023 and is about half complete.

Group credit profile reflects key operating units

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.

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 the payment of the bank's A\$1.1 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 one notch 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. 12, 2024).

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

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\$915 billion of assets under management as of Sept. 30, 2024. 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 MAMHPL and Macquarie Financial 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 two-thirds 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.

Likelihood of 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 | General: Risk-Adjusted Capital Framework Methodology, May 1, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Ratings Detail (As Of December 11, 2024)*

Macquarie Group Ltd.

Issuer Credit Rating

BBB+/Stable/A-2

Ratings Detail (As Of December 11, 2024)*(cont.)	
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+
Related Entities	
Macquarie AirFinance Holdings Limited	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
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	
<i>Foreign Currency</i>	A+/A-1
<i>Local Currency</i>	A-1
Junior Subordinated	BBB-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+
Macquarie Financial Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Macquarie International Finance Ltd.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
<i>Foreign Currency</i>	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.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.