

# RatingsDirect®

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## Macquarie Group Ltd.

**Primary Credit Analyst:**

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

**Secondary Contact:**

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/Positive/A-2

Strengths:	Weaknesses:
<ul style="list-style-type: none"><li>• A well-diversified business across different asset classes and geographies</li><li>• Stable and repeatable income strengthens the business profile</li><li>• Strong capitalized bank representing a majority of the group</li></ul>	<ul style="list-style-type: none"><li>• More complex nature of credit, market, and operational risks relative to traditional main stream banks, but trend improving</li><li>• Nonbank group leverage</li></ul>

## Outlook

The positive outlook on Macquarie Group Ltd. (MGL) reflects our view that the rating on the group could benefit from an improvement in the group and Macquarie Bank Ltd.'s (MBL) risk profile.

### Upside scenario

We see a one-in-three chance of an upside scenario over the next two years. A potential upgrade could occur if we formed the view that the group's risk profile has improved, including an improvement in the bank's risk profile. Triggers that we would consider could include 1) the finalization of the group internal restructure; 2) the ability of the group to deal with global credit headwinds; and 3) no signs that the group's risk appetite is increasing. In this scenario, and all other things remaining equal, we would expect to raise our issuer credit ratings on MGL and its senior debt by one notch to 'BBB+ / A-2' from 'BBB / A-2'.

### Downside scenario

We see limited downside risk to the rating over the next two years. Pressure on group credit quality could emerge in the low-probability event that leverage at the bank or the nonbank group significantly increased.

## Rationale

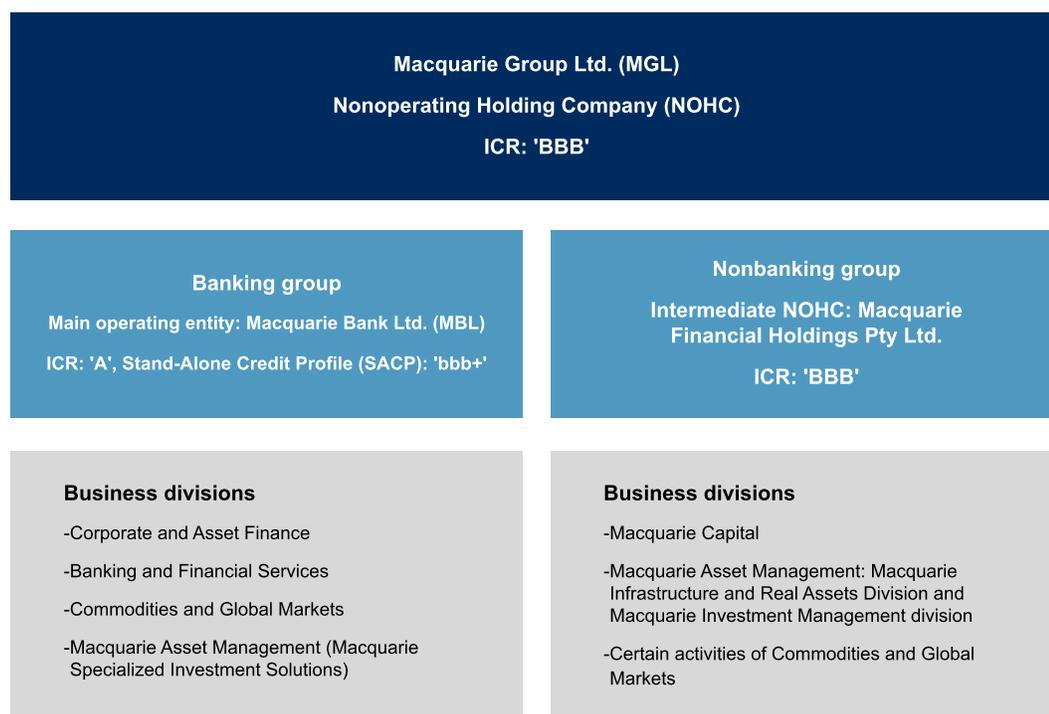
## Well diversified financial services group

MGL is a diversified financial services institution headquartered and listed in Australia.

The group benefits from a well-diversified business position across different asset classes and geographies and niche market position in specialized commercial banking and investment banking in Australia and global infrastructure asset management.

The group's earnings profile has improved over recent years with a greater proportion of earnings coming from stable and repeatable income sources.

## Macquarie Group Structure



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**Table 1**

Macquarie Group Ltd. Key Figures						
--Year-ended March 31--						
(Mil. A\$)	2019*	2018	2017	2016	2015	2014
Adjusted assets	203,081	189,725	181,262	194,827	185,753	151,570
Customer loans (gross)	77,464	82,060	78,098	81,767	74,456	60,353
Adjusted common equity	14,120	15,430	12,856	12,445	11,478	9,148
Operating revenues	5,547	10,292	10,105	10,676	9,499	8,362
Noninterest expenses	4,103	7,415	7,225	7,059	6,676	5,988

**Table 1**

<b>Macquarie Group Ltd. Key Figures (cont.)</b>						
	<b>--Year-ended March 31--</b>					
<b>(Mil. A\$)</b>	<b>2019*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Core earnings	1,095	2,113	1,902	2,126	1,546	1,322

\*Data as of Sept. 30.

### **Change at helm of group will not impact strategy for now**

We are of the view that a change at the helm of the bank will not result in a significant change in the group strategic direction. We note that Ms Shemara Wikramanayake had been with the group for more than 30 years and served on the executive committee before being appointed as CEO for the group.

### **Group and bank manages a wide range of complex credit and noncredit risks, but gradual improvement over time is visible**

Our current risk profile assessment factors in that the group and the bank manage a wide and complex range of credit and noncredit risks across various businesses and geographies relative to traditional mainstream banks. It is our view that the nature of the group's activities are still more complex, especially in so far as legal and compliance risks are concerned, given the group's geographic and industry reach.

That said, we see signs of a gradual improvement in the group and the bank's risk profile over time, including:

- The group and the bank's performance and risk management outcomes pre and post the global financial crisis. Compared to a peer group of international banks, the volatility of the group's earnings has been lower for a sustained period.
- The reorientation of the group and the bank's earnings toward repeatable and sustainable income sources, which will benefit the group and bank's future earnings profile as well as risk management outcomes relative to international peer banks, which are more focused on capital markets.
- The activities of the group continues to be significantly more diversified in terms of geography and product relative to the Australian major banks, which are largely domestic-focused residential mortgage banks and which we assess at one notch stronger.
- The bank's trading activities continue to be largely client driven and proprietary trading positions are not out of kilter with international peers whose risk positions we assess a notch higher. We are also of the view that the bank has a lower risk appetite for proprietary trading positions relative to international peers.

The group is also currently undertaking an internal group restructure. The aim of the restructure is to simplify the group structure to better reflect the activities of the individual parts of the group's diverse businesses. It is our view that the completion of the internal restructure would improve the visibility of individual businesses as well as lessen the complexities associated with the group structure.

We also note that, to date, no material adverse findings have emerged from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the final report of which is due Feb. 1, 2019. In our view, the group's risk management framework with regard to conduct appears to be sound relative to Australian major banks. We note that, in the past, the group has effectively dealt with enforceable undertakings and addressed

recommended shortcomings in line with expectations. The groups risk management framework also separately identify conduct risk management as an essential element.

In our view, the group's risk-management philosophy is sound, evidenced by an approach that focusses on the ownership of risk at the business unit level, understanding worst-case outcomes, and the requirement for the independent sign-off by risk management. We also note the bank's resourcing of its risk management group, with staff levels having nearly doubled over the last eight years. The group's risk appetite framework is well developed and sets out groupwide risk appetite principles that ensure that the group only accepts risks that comply with key criteria and within the group's risk limits and policies.

### **MGL overall group credit risk profile: benefits from diversification**

We assess the MGL overall group credit profile at 'bbb+', reflecting a combination of our assessment of the group's two key operating units--the bank group and the nonbank group. We consider that group credit quality benefits from the diversification afforded by the different business activities and geographic locations the combined group's business activities. The rating on MGL is one notch lower than the group credit profile reflecting its reliance on dividends and other distributions from operating companies to meet obligations.

### **Bank group: 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 'bbb+' and expect the bank to remain strongly capitalized. The MBL issuer credit rating at 'A' is two notches above its SACP as the bank is a potential recipient of extraordinary Australian government support, in the unlikely event it were required (for more detail, please see the full analysis, "Macquarie Bank Ltd.," published on Dec. 21, 2018).

### **Non-bank group: leveraged**

The nonbank group consists primarily of Macquarie Infrastructure and Real Assets, Macquarie Investment Management (both divisions of Macquarie Asset Management), 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 primarily due to the leverage within the nonbank group. Relative to peers, we are of the view that the nonbank group's credit profile benefits from its sizeable asset management activities (about A\$551 billion of assets under management as of Sept. 30, 2018) as well as being the largest global alternative asset manager specializing in infrastructure and real assets.

### **Support:**

The issuer credit rating on MGL at 'BBB' is one notch below the group credit profile considering its 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--within the group is likely to receive financial support from the Australian government. We believe that the impact of not extending such support to the rest of the group on the Australian economy or the financial system is likely to be relatively insignificant.

## Related Criteria

- 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 - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- 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
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 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 - General: Update: Intermediate Equity Content For Certain Mandatory Convertible Preferred Stock Hybrids, Nov. 26, 2008
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Macquarie Bank Ltd., Dec. 21, 2018

## 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 December 21, 2018)

#### Macquarie Group Ltd.

Issuer Credit Rating	BBB/Positive/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BBB-

#### Issuer Credit Ratings History

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

##### Macquarie Bank Ltd.

Issuer Credit Rating	A/Developing/A-1
Commercial Paper	
<i>Foreign Currency</i>	A/A-1
Junior Subordinated	BB
Preference Stock	BB+
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	BB+
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##### Macquarie Financial Holdings Pty Ltd

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

Issuer Credit Rating	A-/Developing/A-2
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**Ratings Detail (As Of December 21, 2018) (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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