MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 April 2024

Update

Send Your Feedback

RATINGS

**Macquarie Group Limited**

| | |
|---|---|
| Domicile | Sydney, New South Wales, Australia |
| Long Term CRR | Not Assigned |
| Long Term Debt | A1 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Stable |
| Long Term Deposit | Not Assigned |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


Contacts

Francesco Mirenzi +61.2.9270.8176
*VP-Sr Credit Officer*
frank.mirenzi@moodys.com

Tom Ogden +61.2.9270.1713
*Lead Ratings Associate*
tom.ogden@moodys.com

Patrick Winsbury +61.2.9270.8183
*Associate Managing Director*
patrick.winsbury@moodys.com




# Macquarie Group Limited

## Update following rating action

## Summary


Macquarie Group Limited's (MGL) A1 senior unsecured and long-term issuer ratings are two-notches above Macquarie Bank Limited's (MBL) a3 Baseline Credit Assessment, reflecting our Advanced Loss Given Failure (LGF) analysis, with the holding company's senior ratings benefitting from loss absorption of more junior securities. MGL's strong overall credit profile is characterised by very strong profitability resulting from its highly diversified business mix, very strong capital adequacy and a conservative liquidity profile. The strength of the group's capital and liquidity provides a counterbalance to the group's trading and investment banking activities which can raise non-lending asset risks.

Moody's also maintains ratings for the group's banking subsidiary, Macquarie Bank Limited (MBL, Aa2 stable, a3), and MBL's non-extended licenced entities, Macquarie International Finance Limited (MIFL, A2 stable) and the group's non-banking businesses Macquarie Financial Holdings Pty Limited (A2 stable).

In particular we note:

» MGL maintains a solid balance sheet position, with high levels of capital and very strong liquidity metrics. As at 30 September 2023, its banking subsidiary reported an APRA Basel III Common Equity Tier 1 (CET 1) ratio of 13.2%, and a quarterly daily average Liquidity Coverage Ratio of 199%. Management's focus on maintaining a resilient balance sheet is key to maintaining the firm's strong credit profile.

» MGL's risk management is very strong with tight risk controls, cognizant of market, regulatory and reputational pressures both on an individual unit and on a portfolio basis. The well-embedded risk culture reflected in the firm's earnings performance are positive. Maintaining its disciplined risk culture remains a challenge as the group grows larger, or pursues further growth opportunities through acquisitions.

## Credit strengths

» A diversified business profile, constrained by exposure to non-lending risks.

» Conservative risk management is key to MGL's credit profile.

» Capital levels remain supportive; future positioning is a key credit consideration.

» Strong liquidity profile.

## Credit challenges

» Exposure to volatile capital markets businesses.

» Complex and diverse nature of MGL's operations, requiring disciplined and proactive risk management.

## Rating outlook

The outlook is stable for all the ratings of MGL and its subsidiaries.

## Factors that could lead to an upgrade

Further positive rating pressure is unlikely in the near-term. An upgrade would depend on Macquarie's ability to sustain a strong and stable performance with capital levels and profitability consistently above peer averages while also maintaining its conservative liquidity profile.

## Factors that could lead to a downgrade

Macquarie's ratings could be downgraded if (1) the funding intensity of the group's balance sheet continues to rise, (2) if earnings volatility leads to lower profitability with net income to tangible assets falling below 1.25% on a group consolidated basis, or (3) if residential mortgage lending problem loans rise materially.

We view the Macquarie legal entities as closely intertwined, with a high degree of operational and financial linkages. However, should in the medium-to-long run there be a sharpening of the boundaries between the group's bank and non-bank entities, it could lead to greater divergence of their credit profiles and rating outcomes.

## Key indicators

Exhibit 1

**Macquarie Group Limited (Consolidated Financials) [1]**

| | 09-23[2] | 03-23[2] | 03-22[2] | 03-21[2] | 03-20[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (AUD Million) | 365,349.0 | 354,807.0 | 320,959.0 | 227,270.0 | 211,982.0 | 16.8[4] |
| Total Assets (USD Million) | 235,795.7 | 237,632.7 | 241,023.5 | 173,100.1 | 129,743.9 | 18.6[4] |
| Tangible Common Equity (AUD Million) | 27,407.0 | 28,042.7 | 23,874.8 | 18,684.8 | 17,122.7 | 14.4[4] |
| Tangible Common Equity (USD Million) | 17,688.4 | 18,781.7 | 17,928.7 | 14,231.3 | 10,480.0 | 16.1[4] |
| Problem Loans / Gross Loans (%) | 0.9 | 1.3 | 1.2 | 1.9 | 2.1 | 1.5[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 25.4 | 25.8 | 20.0 | 21.8 | 19.3 | 22.5[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 5.0 | 6.9 | 6.7 | 10.2 | 11.0 | 8.0[5] |
| Net Interest Margin (%) | 1.1 | 1.0 | 1.2 | 1.2 | 1.2 | 1.1[5] |
| PPI / Average RWA (%) | 3.6 | 4.7 | 3.7 | 3.8 | 3.4 | 3.8[6] |
| Net Income / Tangible Assets (%) | 0.8 | 1.5 | 1.6 | 1.3 | 1.3 | 1.3[5] |
| Cost / Income Ratio (%) | 74.5 | 67.5 | 72.4 | 72.1 | 76.4 | 72.6[5] |
| Market Funds / Tangible Banking Assets (%) | 39.4 | 37.9 | 44.8 | 36.0 | 40.5 | 39.7[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 35.1 | 37.7 | 38.0 | 37.2 | 31.1 | 35.8[5] |
| Gross Loans / Due to Customers (%) | 124.1 | 118.7 | 133.5 | 126.1 | 141.1 | 128.7[5] |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

*Sources: Moody's Investors Service and company filings*

## Profile

Macquarie Group Limited (MGL) is the non-operating holding company of the Macquarie Group. The group offers asset management; finance, banking, advisory services and risk and capital solutions globally. Its activities are carried out through four primary business lines: Macquarie Asset Management (MAM), Banking and Financial Services (BFS), Commodities and Global Markets (CGM) as well as Macquarie Capital (MacCap). As at 30 September 2023, the group reported consolidated assets of AUD 394.6 billion.

## Detailed credit considerations

### A diversified business profile enables the bank to maintain strong profitability

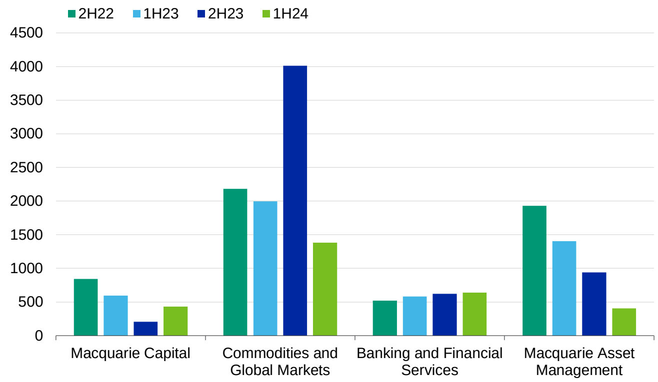
MGL benefits from a highly diverse business profile, by both product and geography, with a history of strong earnings contribution from its more stable lines of business, including asset management, asset finance and banking. This provides the group with a base of stable earnings, enabling it to better absorb earnings shocks that may arise from market volatility that would affect its markets facing businesses.

This has been demonstrated through its consistently strong profitability, with net income to tangible assets averaging 1.46% over the last five financial years. For the half year ending 30 September 2023, the group reported statutory earnings of AUD1,415 million, representing a net income to tangible assets ratio of 0.78%. The group's earnings for 1H24 are well below the 5 year average given the large decline in earnings from the group's Commodities and Global Markets (CGM) division, reflecting the reduced client hedging and trading activity during the period as market volatility subsided relative to 2H23. The group's asset management operations also experienced lower earnings due to lower asset sales and increase in operating expenses. However, base and performance fees were broadly in line with previous periods. We expect some cyclicality within the asset management division's earnings given that asset sales can be large in terms profit contribution and can be dependent upon broader market and economic sentiment.

Exhibit 2

**Earnings lower in 1H24 as commodity market volatility subsided**

**Net profit contribution by operating group (ex Corporate Centre charges)**

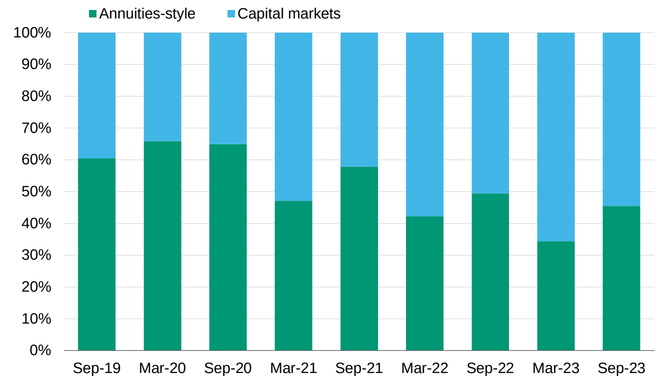



*Source: Company disclosures, Moody's Ratings*

Exhibit 3

**Annuity style businesses provides earnings stability**

**Net profit contribution (ex Corporate Center charges)**



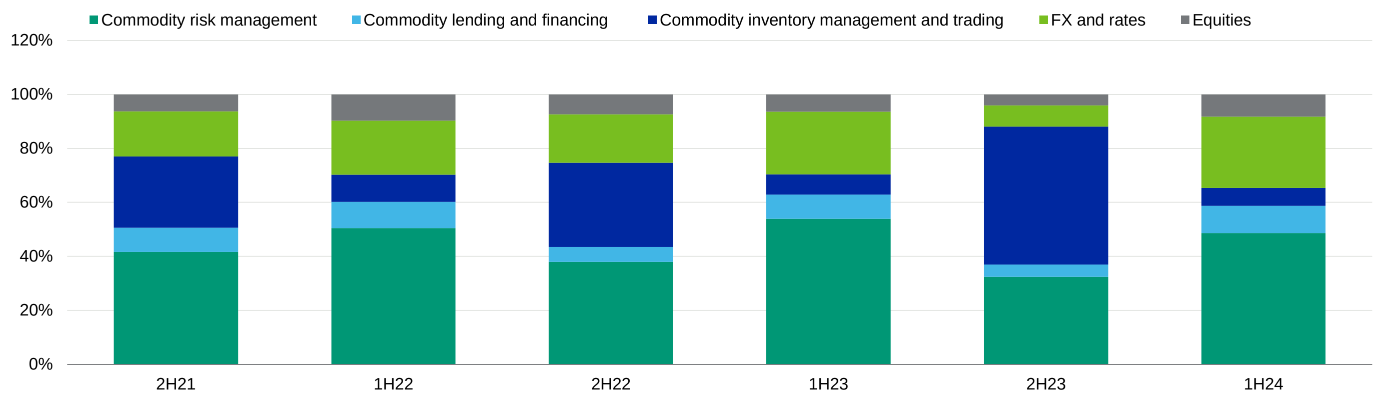

*Source: Company disclosures, Moody's Ratings*

Despite the large decline in CGM earnings during the period, it still remains the most significant revenue driver for the group, representing 48% of the group's profits (before tax and other corporate center costs). While the commodities business has benefited from market volatility, we expect the group's risk management products to be a more stable source of revenue given it's a client driven flow activity. Conversely, inventory management income will likely fluctuate in line with future dislocations in energy markets. As such, we expect the share of CGM earnings contribution to moderate in future periods. However, with the significant growth of the CGM division MGL's earnings are now more tilted towards its capital markets facing businesses and we expect this shift to persist over the short to medium term, meaning the group's earnings could exhibit higher levels of volatility than in previous years.

Exhibit 4

**Strong growth in commodities related products boosts CGM earnings**

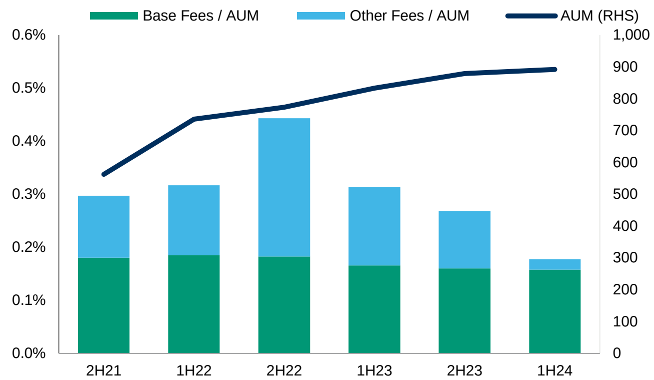
**CGM revenue by product**




*Source: Company disclosures, Moody's Ratings*

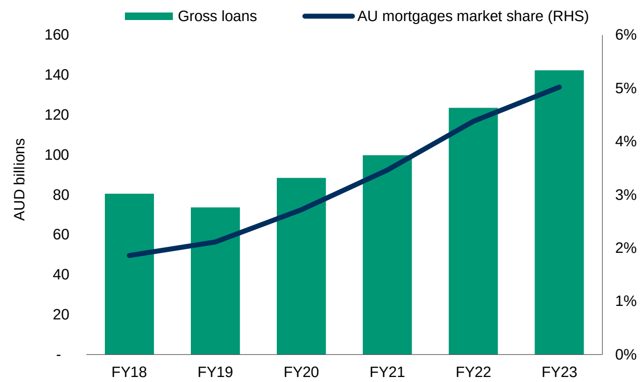
This earnings volatility can be counterbalanced by the stability of the group's asset management business (MAM), and Banking and Financial Services (BFS) divisions. MAM provides a strong source of stable, recurring revenues, generating high levels of base fee income. MAM's growing portfolio benefits from a mix of both public and private investments, with strong geographical diversification. Additionally, the group's large and growing Australian retail and commercial banking business supplements the group's stable revenue sources. Despite its smaller contribution the broader group, BFS has generated very strong franchise growth within Australia, and is now the clear 5th largest residential mortgage lender with a market share of 5% as of September 2023. We believe the growth in the asset management and retail and commercial banking operations will continue to provide a solid base stable revenue generation.

Exhibit 5
**Focus on base fees underpins stable asset management earnings**
**MAM's operating margin and assets under management (AUM)**




*Source: Company disclosures, Moody's Ratings*

Exhibit 6
**Strong loan growth sees Macquarie grow to the 5th largest AU mortgage lender**
**MBL's gross loans and domestic market share**




*Source: Company disclosures, Moody's Ratings*

## Conservative risk management is key to MGL's credit profile

The benefits of MGL's global scope and diversification also raises the level of operational complexities and risk management challenges. In addition it exposes the firm to and risks associated with the evolution of the group's business model. As a result, we adjusted MBL's financial profile negatively by one notch.

We consider MGL's ability to maintain a conservative risk culture as being one of the firm's most difficult tasks. The diversity of MGL's business requires tight risk controls, cognizant of market, regulatory and reputational pressures both on an individual unit and on a portfolio basis. To date, management has been focused on containing its markets exposure through a combination of tight risk management oversight and an emphasis on less volatile streams of trading revenue, though this remains a key challenge as the share of earnings contribution from more volatile capital markets facing activities grows.

MGL has a well-embedded risk culture and the firm's track record and ability to limit earnings volatility are positive. Maintaining its disciplined risk culture remains a challenge as the group grows larger, or pursues further growth opportunities through acquisitions.

## Capital levels remain strong, with the bank's capital management a relative strength

The firm's capital requirements are a combination of Basel III capital requirements for its banking operations contained within MBL and additional capital requirements in respect of its non-banking operations calculated on the basis of an economic capital adequacy model. The economic capital model is based on similar principles and models as the Basel III regulatory capital framework for banks, calculating capital requirements at a one year, 99.9% confidence level.

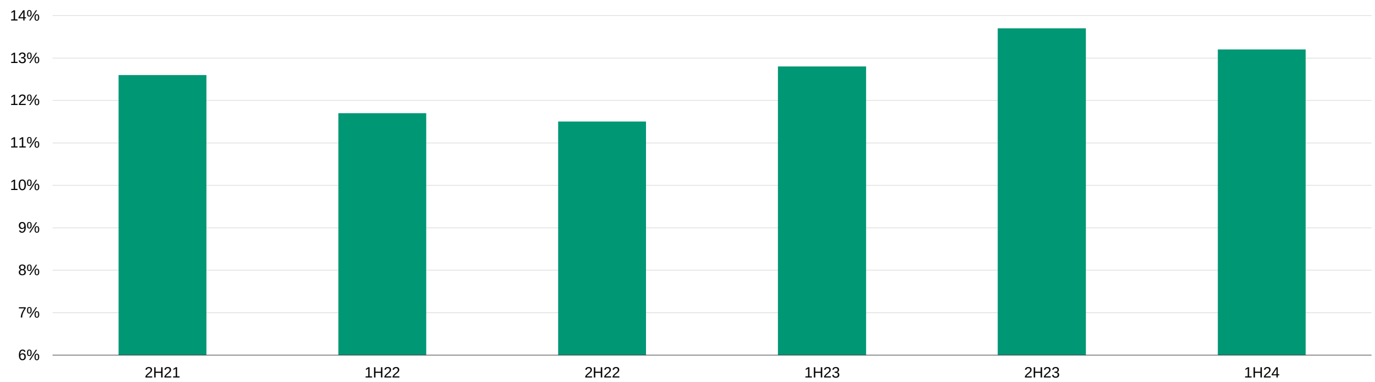
As at 30 September 2023, MBL, MGL's banking subsidiary, reported a Common Equity Tier 1 (CET1) ratio of 13.2%, calculated with APRA's capital methodology and a self-reported internationally “Harmonized” Basel III ratio of 18.0%, which reflect the more conservative risk-weighting of credit exposures under APRA's prudential framework.

For its non-bank operations, Macquarie holds additional capital calculated on the basis of an economic capital adequacy model. On a consolidated basis, including hybrids, MGL had surplus total capital above minimum requirements of AUD10.5 billion, as of September 2023. This surplus capital buffer is leveraged to support business growth, both organic and inorganic through the cycle, but also reflects Macquarie's conservative capital management planning.

Exhibit 7

**Bank capitalization remains strong**

**Common Equity Tier 1 ratio of Macquarie Bank Limited**




*Source: Company disclosures, Moody's Investors Service*

### Substantial liquidity buffers support the bank's wholesale funding reliant profile

The group maintains a conservative liquidity policy, reflected through substantial liquidity buffers. This is balanced against the high funding needs of the group, underpinned by a relatively high, albeit with good term structure, market funds ratio.

As part of its liquidity management, Macquarie ensures that it is able to meet all of its liquidity obligations during a period of liquidity stress, defined as a twelve-month period with constrained access to funding markets for MBL, no access to funding markets for Macquarie Group Limited and with only a limited reduction in Macquarie's franchise businesses. The group's conservative liquidity management is underlined by MBL's very high average Liquidity Coverage Ratio of 199% for the three months to 30 September 2023. These considerations are reflected in MBL's very high 'a1' Liquid Resources score.

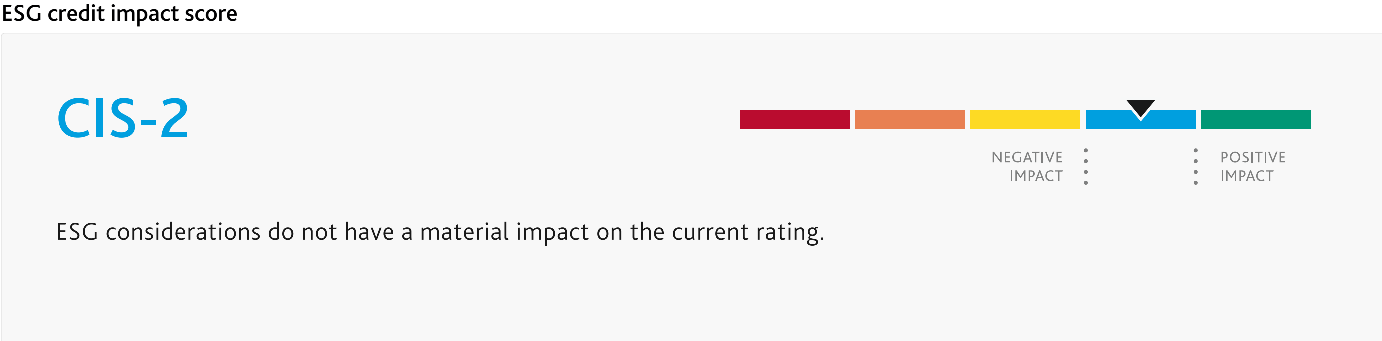
The group's external wholesale funding is raised by both MBL and MGL. MGL's market funding finances the group's non-banking businesses. The funding intensity of both parts of the group remains high and bonds and unsecured loans represent c.70% of the non-bank groups funded assets. The market funding reliance of the bank has reduced recent years, with MBL focused on growing its deposit franchise. Despite the extent of the group's market funding reliance the term structure is relatively long, providing some mitigant to refinance risk. Particularly within the non-banking group, where 77% of unsecured debt has a term to maturity greater than 3 years, of which c.50% has a term to maturity greater than 5 years.

## ESG considerations

### Macquarie Group Limited's ESG credit impact score is CIS-2

Exhibit 8

**ESG credit impact score**




*Source: Moody's Investors Service*

ESG scores and narratives are aligned with those of Macquarie Bank Limited. MBL's **CIS-2** indicates that ESG considerations do not have a material on the credit rating. The bank's well articulated carbon transition targets and strong risk management and compliance policies and functions limit the credit impact of environmental, social and governance risk factors.

Exhibit 9
**ESG issuer profile scores**


*Source: Moody's Investors Service*

### Environmental

ESG scores and narratives are aligned with those of Macquarie Bank Limited. Macquarie Bank faces moderate exposure to environmental risks, in line with peers, primarily because of its portfolio exposure to carbon transition risk as a diversified universal bank. In response, Macquarie is actively engaging in developing its climate risk management and reporting frameworks by incorporating environmental considerations in its strategy and lending policies, including policies related to financing of coal-related businesses.

### Social

ESG scores and narratives are aligned with those of Macquarie Bank Limited. Macquarie Bank Limited faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards), and the area of data security and customer privacy. The bank also faces industrywide moderate social risks related to societal trends – in particular, digitalization --- and the extent to which such measures could hurt earnings.

### Governance

ESG scores and narratives are aligned with those of Macquarie Bank Limited. Macquarie Bank faces low governance risks. The bank's risk management, policies and procedures are in line with industry practices and are suitable for its risk appetite. Additionally, Macquarie benefits from a strong risk management culture and a diversified, high-caliber board comprised of independent directors. The bank's diverse international operations expose it to moderate risk from organizational complexity.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### MGL'S relationship to the ratings of its operating subsidiaries

We assign the following ratings to MGL's principal operating subsidiaries:

» Macquarie Bank Limited has a baseline credit assessment of a3. The bank's Aa2 / P-1 for deposit and debt ratings incorporate one-notch of uplift for potential systemic support.

» Macquarie International Finance Limited is a subsidiary of the bank, operating both bank and non-bank businesses, including offshore entities of the CGM group and the group's domestic wealth management business. MIFL's issuer rating incorporates uplift for systemic support as a result of its close integration with the bank.

» Macquarie Financial Holdings Pty Limited is an intermediate holding company for some of the group's non-bank's entities. MFHPL's operations are closely interlinked: one of the group's four business lines cross over the boundaries between MBL and MFHPL. MFHPL's issuer rating incorporates uplift for systemic support as a result of its close integration with the bank.

We continue to view the Macquarie businesses as closely intertwined, with a high degree of operational and financial linkages. However, should in the medium-to-long run the transfer serve to sharpen the boundaries between the group's bank and non-bank entities, it could lead to greater divergence of their credit profiles and rating outcomes.

## Ratings

Exhibit 10

| Category | Moody's Rating |
|---|---|
| **MACQUARIE GROUP LIMITED** | |
| Outlook | Stable |
| Issuer Rating | A1 |
| Senior Unsecured | A1 |
| ST Issuer Rating | P-1 |
| Other Short Term | (P)P-1 |
| **MACQUARIE FINANCIAL HOLDINGS PTY LIMITED** | |
| Outlook | Stable |
| Issuer Rating | A2 |
| ST Issuer Rating | P-1 |
| **MACQUARIE BANK LIMITED** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa2/P-1 |
| Bank Deposits | Aa2/P-1 |
| Baseline Credit Assessment | a3 |
| Adjusted Baseline Credit Assessment | a3 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Issuer Rating | Aa2 |
| Senior Unsecured | Aa2 |
| Subordinate | A3 (hyb) |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |
| **MACQUARIE BANK LIMITED, LONDON BRANCH** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa2/P-1 |
| Deposit Note/CD Program | --/P-1 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Senior Unsecured | Aa2 |
| Pref. Stock Non-cumulative | Baa3 (hyb) |
| Commercial Paper | P-1 |
| **MACQUARIE BANK LIMITED, SINGAPORE BRANCH** | |
| Counterparty Risk Rating | Aa2/P-1 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Senior Unsecured MTN | (P)Aa2 |
| **MACQUARIE INTERNATIONAL FINANCE LIMITED** | |
| Outlook | Stable |
| Issuer Rating | A2 |
| Commercial Paper | P-1 |

*Source: Moody's Investors Service*

REPORT NUMBER 1390665

## CLIENT SERVICES



| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |



Moody's INVESTORS SERVICE