S&P Global
Ratings

RatingsDirect®

Macquarie Bank Ltd.

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

Secondary Contacts:
Lisa Barrett, Melbourne (61) 3-9631-2081; lisa.barrett@spglobal.com
Sharad Jain, Melbourne (61) 3-9631-2077; sharad.jain@spglobal.com

Table Of Contents

Macquarie Bank Ltd.

SACP	a-		
Anchor	bbb+		
Business Position	Adequate	0	
Capital and Earnings	Strong	+1	
Risk Position	Adequate	0	
Funding	Average	0	
Liquidity	Adequate		

+

Support	+2
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+2

+

Additional Factors	0

Issuer Credit Rating
A+/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• A well-diversified business across different asset classes and geographies. • Strong level of capitalization. • A potential recipient of extraordinary Australian government support.	• Capital market-facing businesses focused on volatile markets and products. • More complex nature of credit, market, and operational risks relative to local and international peers.

Outlook: Stable

Our outlook on Macquarie Bank Ltd. (MBL) is stable, reflecting our expectation that the bank will maintain solid operating performance, strong capital levels, low credit losses, and good risk management outcomes in the next two years, despite the challenges the bank may face from the coronavirus outbreak.

Downside scenario

We believe that a downside scenario could emerge over the next two years if contrary to our expectations an unexpected lapse in risk management occurred--for example, resulting in a large trading or operational risk loss--or if its credit quality deteriorated sharply. A downside scenario could also emerge if the bank's risk-adjusted capital (RAC) ratio deteriorates to below 10%.

Upside scenario

We see very limited upside to our issuer credit rating on MBL in the next two years.

Rationale

Our ratings on MBL reflect the anchor stand-alone credit profile (SACP) for a financial institution operating mainly in Australia (62%), the U.K. (13%), and the U.S. (12%). We are of the view that the bank has a well-diversified business position across different asset classes and geographies, and that MBL will maintain a strong capital and liquidity position relative to peers' globally, despite the challenges from the coronavirus outbreak. In our view, as a moderately systemically important bank, MBL is a potential recipient of extraordinary Australian government support, in the unlikely event it were required. We are of the view that the risk-management capabilities and track record of the group are very good.

Anchor: Diversified financial institution with the majority of its exposures in Australia

Our bank criteria use the BICRA economic risk and industry risk scores to determine a bank's anchor SACP, the starting point in assigning an issuer credit rating. The anchor SACP for a bank operating only in Australia is 'bbb+'.

MBL is the banking subsidiary of the Macquarie Group Ltd. (MGL). It is a diversified financial institution that conducts approximately 62% of its exposures in its Australian home market, 13% in the U.K., 12% in the U.S., and the remainder broadly spread across a range of jurisdictions. The economic risk score of '3' is based on the weighted average of these geographic loan exposures on an exposure at default (EAD) basis.

In our view, Australia (62% of the bank's exposure at default) benefits from being a diversified, wealthy, open, and resilient economy that has performed relatively well during and following negative cycles and external shocks, including the global recession in 2009. We forecast that solid economic growth will continue over the short to medium term. We believe that the national house price index has bottomed out following an orderly correction in the most populous cities of Sydney and Melbourne. Consequently, the economic risks faced by the banks operating in Australia have reduced, in our view. In our base case, we expect relatively modest growth in house prices and household debt in the next two years.

Nevertheless, we consider that Australian banks remain exposed to imbalances emanating from still high house prices and household debt, subdued consumer and business sentiment, and Australia's external weaknesses--in particular its persistent current account deficits and high level of external debt. We consider that these imbalances expose the banks in Australia to a scenario of a sharp correction in property prices, and its severe consequences. Nevertheless, we consider that the probability of such a scenario remains relatively remote and loan losses in the next two years are likely to remain low by historical and international comparison.

We consider that Australia's prudential regulatory standards remain conservative. We expect that the implementation of recommendations by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (concluded earlier this year) should boost the Australian financial sector's regulation and governance. We also believe that the structure of the banking industry is supporting stability--with a small number of strong retail and commercial banks dominating the sector. These banks are able to price for risks, affording them a buffer for unforeseen losses. We note that Australian banks have strengthened their funding and liquidity profile over recent years by increasing retail deposits, reducing dependence on short-term wholesale borrowing, lengthening average maturities, and increasing diversification.

Nevertheless, we consider that the structural challenges with funding in the Australian banking system are likely to persist and the system remains exposed to the risk of a disruption in access to external borrowing--whether triggered by domestic or international stresses. The SACP for MBL is 'a-'.

Table 1

Macquarie Bank Ltd.--Key Figures

	--Year-ended March 31--				
(Mil. A$)	**2019***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	185,061.0	168,863.0	172,356.0	166,526.0	180,535.0
Customer loans (gross)	80,816.0	74,331.0	80,806.0	76,586.0	79,819.0
Adjusted common equity	11,507.9	10,313.0	11,244.0	10,924.0	11,301.0
Operating revenues	3,273.0	6,046.0	6,040.0	5,726.0	6,156.0
Noninterest expenses	2,099.0	4,413.0	3,989.0	4,077.0	3,879.0
Core earnings	822.3	1,264.3	1,492.5	987.4	1,339.2

*Data as of Sept. 30.

Business position: Well-diversified across different asset classes and geographies

MBL is the registered bank in the group and primarily houses the group's corporate and asset finance, retail banking, business banking, wealth management, risk management, and trading businesses. Asset management and investment banking activities are housed in the nonbanking group.

The bank's revenue streams are well-diversified across products, and given the niche focus on various sectors, product concentration compares favorably with peers'. Similarly, the bank's geographic diversification is also significant, with about 38% of its credit exposures outside Australia and spread across Europe, the Americas, and Asia.

MBL's business position benefits from its strong market position and market share in its Australian home market and its identified niches across a range of standard and specialized commercial banking, asset finance, retail banking, business banking, broking, advisory, and financial markets business lines. Over a long time frame (more than 20 years), MBL has successfully fended off competition in most core business lines from foreign international financial institutions and investment banks that have persistently made aggressive forays into the Australian market.

While MBL's business position is diverse relative to its size, by international standards it is smaller than some highly rated financial institutions with corporate and commodities and financial markets business lines; as well as compared with the strong market positions of Australia's four major banking groups in domestic retail and commercial banking. We also believe that some of the markets in which MBL operates are complex and volatile compared to the relatively vanilla retail and commercial banking activities of the Australian major banks, which act as a further counterbalance to our view of MBL's business stability.

During the past year, the group transferred its Corporate and Asset Finance (CAF) Principal Finance and Transportation Finance businesses from the bank group to the nonbank group. Certain fiduciary businesses, such as the Macquarie Infrastructure Debt Investment Solutions (MIDIS), also moved from CAF to Macquarie Asset Management (MAM) in the nonbank group. The CAF Principal Finance business provides flexible primary financing solutions and engages in secondary market investing across the capital structure. CAF Transportation Finance involves the financing of aircraft, rotorcraft, and rail assets. We note that the transfers are intended to simplify the structure of MGL by better reflecting activities of the individual parts of the group. Although businesses transferred are material in nature, we are of the view that the transfer leaves our business position assessment of the bank unchanged because MBL still benefits from the diversified nature of its income streams and strong market position in Australia. These segments have been set up based on the different core products and services offered.

A strategic focus area of the group (and the bank) is on increasing income from repeatable stable income sources (which the group terms as "annuity-style businesses"), which is supportive of our current business position assessment. In our opinion, MBL's targeted business mix diversifies the bank's businesses between market-facing businesses and annuity-style businesses to deliver solid returns in a range of market conditions.

We are also of the view that the bank will continue to pursue growth opportunities as they present themselves. For example, the increased importance worldwide of environmental concerns creates opportunities, and as a result green energy is becoming a more important part of the group's and MBL's overall strategy. We note that the group is open to developing business partnerships and expanding by "pursuing adjacencies". This could involve capitalizing on the expertise that it has developed over the years (for example, the group is currently actively involved with opportunities in green energy management where it has invested in developmental projects.)

Looking ahead, we believe that MBL will continue to target continued evolution and growth through innovation. We also observe that the bank encourages ingenuity and an entrepreneurial spirit coupled with accountability to generate new business opportunities. In our view, there are no specific businesses, markets, or regions in which MBL's strategy demands it operates. This means it retains operational flexibility and can adapt its portfolio mix to changing market conditions within the boundaries of the risk appetite and limits set by the board.

On the technology front, MBL rebuilt its technology stack and invested in a real-time core banking platform for loans and retail deposits. The bank's open banking platform allows its customers to share their banking data without giving login details to a third party. The platform also gives MBL's customers the ability to manage data sharing in real time through its mobile banking app, which is also currently connected with Pocketbook, a personal budgeting app. We believe that MBL will also be adding more third parties to its open banking platform, allowing customers to connect securely with more banking experiences.

In our opinion, MBL has a well-developed environmental, social, and governance (ESG) framework. Assessing and managing MBL's ESG risks is a key business priority and an important component of MGL's broader risk management framework. MGL recognizes that failure to manage ESG risks could expose the group to commercial, reputational, and regulatory impacts and affect communities, the environment, and other external parties. Compared to local and international peers, green energy is a key focus area for the group.

A Banking Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry held in Australia in 2018 identified a number of governance shortfalls in the practices and operations of the major banks and some other financial institutions. MGL was the only large Australian deposit-taking institution to escape negative findings (and accompanying remediation). That said, we note that the group had to deal with enforceable undertakings in 2013 and addressed recommended shortcomings. In our view, the enforceable undertakings raised the bar in how the group manages conduct risk. The group's risk-management framework now separately identifies conduct risk management as an essential element.

Table 2

Macquarie Bank Ltd.--Business Position					
	--Year ended March 31--				
(%)	**2019***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	3,515.0	7,012.0	6,208.0	6,119.0	7,204.0
Commercial banking/total revenues from business line	39.1	32.8	28.2	23.3	23.1
Trading and sales income/total revenues from business line	60.9	46.5	37.5	40.3	26.7
Return on average common equity	17.4	17.3	12.6	10.0	17.8

*Data as of Sept. 30.

Capital and earnings: Strong level of capitalization

Capital and earnings is a strength to the rating because we believe that the bank will manage its S&P Global Ratings' RAC (S&P RAC) ratio at around current levels over the short to medium term.

In the event that the bank's RAC ratio comes under pressure due to a rise in unexpected losses, we are of the view that the bank and management have the willingness to defend its RAC ratio above 10%. Potential capital management actions that the bank may choose to deploy include revising its dividend payout ratio; divesting stand-alone assets, businesses, and investments; or raising external capital.

As of Sept. 30, 2019, the bank's Common Equity Tier 1 (CET1) capital ratio was 11.4%, the same as the prior year. The bank's harmonized CET1 ratio was 14.0%, reflecting the Australian Prudential Regulation Authority's (APRA) conservative stance regarding capital standards.

We consider the impact of the transfer of MBL's CAF Principal Finance and Transportation Finance businesses to the nonbanking group on the bank's capital position as well as the return of up to A$2 billion in capital from MBL to MGL to be neutral to our assessment of MBL's capital and earnings.

In August and September 2019, MGL raised approximately A$1.7 billion common equity capital in the form of an institutional placement and an associated share purchase plan. We note that the capital raised is in anticipation of an increase in capital usage by the group and will provide the group with flexibility to invest in new opportunities. In our view, given potential growth opportunities, the additional capital raised is unlikely to have a significant impact on MBL's capital ratios (regulatory and S&P RAC ratios) and MGL's leverage ratios.

We view the quality of MBL's capital as good by international standards. In our projections, we estimate that MBL's use of hybrid debt instruments remains limited and would not exceed 15% of its total capital base (S&P Global Ratings' definition of total adjusted capital).

We forecast MBL's RAC ratio to level out in the 12%-13% range over the next 12-18 months. In arriving at our forecast RAC ratio, the key assumptions underpinning our base case include:

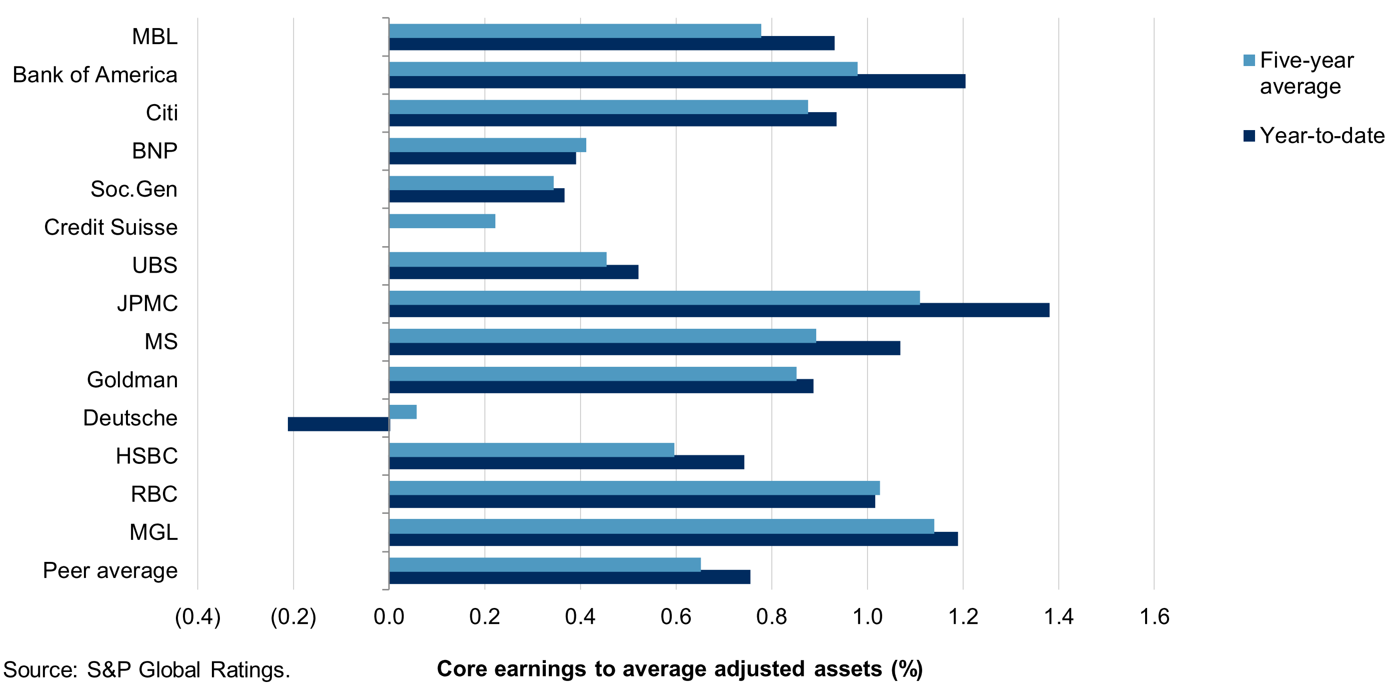
- No material acquisitions over the forecast period by the bank. In the event that they occur, we are of the view that any such acquisition would be accompanied by a capital raising to restore the bank's overall capital position within our forecast range. In our view, that capital raising would also leave the quality of the bank's capital base intact.

- Continued growth in stable repeatable income sources, reflecting the focus of the bank and the continued strengthening of the Macquarie franchise.
- The net interest margin to flatten out over the forecasting period, reflecting the impact of increasing competition in the local market (Australia) as well as internationally, the low interest rate environment, as well as the impact of the sale of the CAF division assets.
- Credit loss provisions to remain flat.
- Hybrid debt instruments issued to replace instruments up for redemption.
- We estimate MBL's dividend payout ratio will be toward the lower end of the targeted range of 60%-80%.

We believe that MBL's profitability prospects remain strong by international standards, and its historical profitability track record over recent years--despite very difficult markets in the aftermath of the global financial crisis--has been good by international standards.

Chart 1

MBL's Core Earnings Compare Favorably With The Average Of Peers



Source: S&P Global Ratings.

Table 3

Macquarie Bank Ltd.--Capital And Earnings

	--Year ended March 31--				
(%)	**2019***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	13.3	13.5	12.8	13.3	11.8
Adjusted common equity/total adjusted capital	87.3	86.4	87.6	84.7	91.6
Net interest income/operating revenues	30.0	32.7	33.4	37.9	35.3
Fee income/operating revenues	18.1	20.4	14.7	14.3	15.1
Market-sensitive income/operating revenues	44.4	42.0	32.5	31.1	34.4
Noninterest expenses/operating revenues	64.1	73.0	66.0	71.2	63.0
Preprovision operating income/average assets	1.3	1.0	1.2	0.9	1.3
Core earnings/average managed assets	0.9	0.7	0.9	0.6	0.8

*Data as of Sept. 30.

Table 4

Macquarie Bank Ltd.--Risk-Adjusted Capital Framework Data

(Mil. A$)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	3,170.6	199.0	6.3	78.2	2.5
Of which regional governments and local authorities	831.4	0.0	0.0	30.4	3.7
Institutions and CCPs	33,566.2	2,251.0	6.7	7,077.5	21.1
Corporate	43,234.3	35,899.0	83.0	34,779.4	80.4
Retail	72,083.5	26,914.0	37.3	32,277.3	44.8
Of which mortgage	56,309.9	16,710.0	29.7	21,371.3	38.0
Securitization§	2,995.1	740.0	24.7	1,167.3	39.0
Other assets†	889.3	2,426.0	272.8	2,086.2	234.6
Total credit risk	155,939.0	68,429.0	43.9	77,465.9	49.7
Credit valuation adjustment					
Total credit valuation adjustment	--	5,034.6	--	6,545.0	--
Market Risk					
Equity in the banking book	257.3	0.0	0.0	2,033.5	790.4
Trading book market risk	--	4,934.2	--	7,011.0	--
Total market risk	--	4,934.2	--	9,044.5	--
Operational risk					
Total operational risk	--	10,386.0	--	16,029.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	88,783.8	--	109,084.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	921.2	0.8
RWA after diversification	--	88,783.8	--	110,005.8	100.8

Table 4

Macquarie Bank Ltd.--Risk-Adjusted Capital Framework Data (cont.)

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	11,716.0	13.2	13,189.0	12.1
Capital ratio after adjustments‡	11,716.0	13.3	13,189.0	12.0

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Sept. 30 2019, S&P Global Ratings.

Risk position:Historically strong risk management outcomes despite the wide range and complex nature of credit, market, and operational risks; streamlining of operating activities resulted in a moderation of complexity

The strengthening in the credit profile of MBL reflects our view that the group's risk-management capabilities have improved in the context of a wide and complex range of credit and noncredit risk exposures across various businesses and geographies. The group's recent streamlining of its operating activities has resulted in some moderation of its complexity, which in our view supports management's ability to oversee and manage associated risks across different business lines. In addition, we are of the view that MGL has sustained its good risk-management outcomes over a period of time and that there are no signs of an increase in risk appetite.

In our assessment of MBL's risk-management capabilities, we take into account the following:

- MBL's performance and risk-management outcomes pre and post the global financial crisis. Compared with a peer group of international banks, the volatility of MGL's earnings has been lower for a sustained period and the group was able to deal with global credit headwinds.
- MGL's internal reorganization is substantially complete. In our view, this will improve the transparency of the group's business activities. The reorganization will also simplify the group's business activities and lead to divisions being organized along business lines with similar risk profiles and customer needs.
- The reorientation of the bank's earnings toward repeatable and sustainable income sources, which will benefit the group's and bank's future earnings profile as well as risk-management outcomes relative to international peer banks', which are more focused on capital market-related activities.
- The diversity of the bank's activities in terms of geography and product.
- The resourcing of the group's risk-management team, with staff levels having nearly doubled post the global financial crisis.

We view the risk-management capability of MGL as commensurate with the unique, complex nature and the broad range of the group's business activities. In our opinion, the group's risk appetite framework is well developed. We understand that the group delegates the ownership of risk at the business unit level, and focuses on understanding worst-case outcomes. Also, the risk-management team performs an independent review, as needed. In addition, the activities of MBL is well diversified in terms of geography and products.

The group's governance framework is sound, in our view. The final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released in February 2019, and no significant adverse conduct issues emerged that affected MBL and the group's brand or reputation.

Table 5

Macquarie Bank Ltd.--Risk Position

	--Year ended March 31--				
(%)	**2019***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	17.4	(8.0)	5.5	(4.1)	10.3
Total managed assets/adjusted common equity (x)	16.1	16.4	15.4	15.3	16.1
New loan loss provisions/average customer loans	0.2	0.2	0.0	0.3	0.6
Net charge-offs/average customer loans	N.A.	0.1	0.5	0.2	0.9
Gross nonperforming assets/customer loans + other real estate owned	N.A.	1.9	1.2	1.9	1.9
Loan loss reserves/gross nonperforming assets	N.A.	37.1	37.6	50.8	47.4

*Data as of Sept. 30. N.A.--Not available.

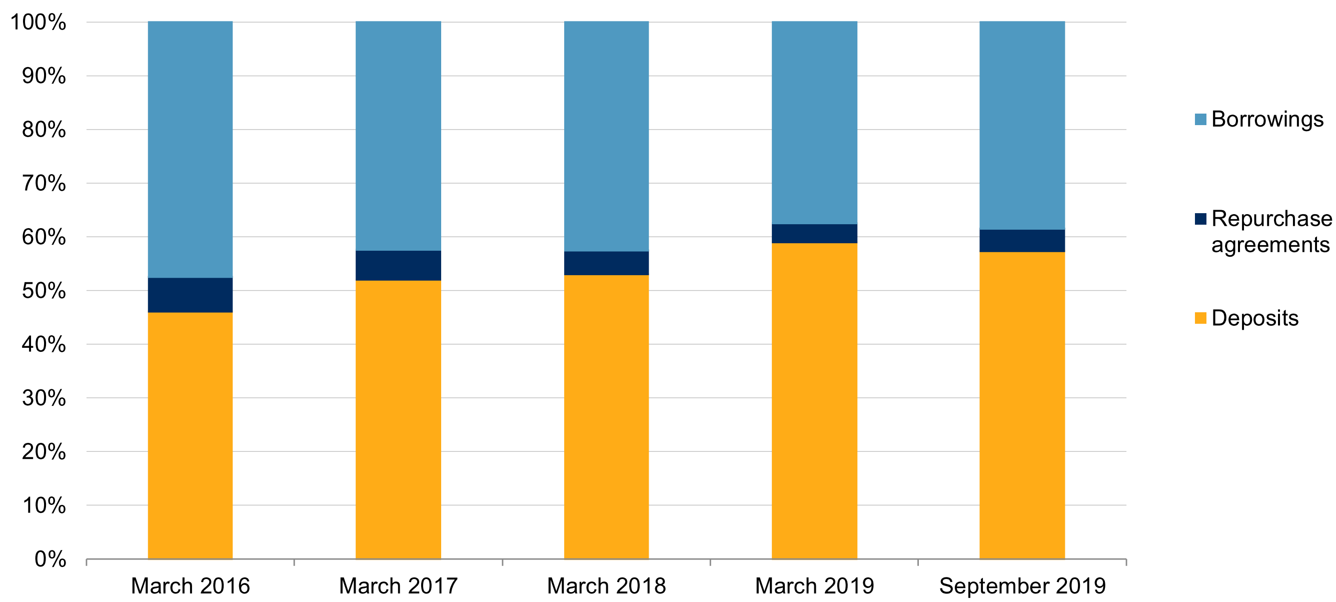
Funding and liquidity: Funding profile does not materially differ from the funding profile represented in the industry risk score

We assess MBL's funding as average and liquidity as adequate.

While we consider MBL to be partly reliant on wholesale funding, we do not consider MBL as materially differing from the funding profile represented in the industry risk score because, on balance, funding exhibits broadly similar metrics when compared with banks in Australia, taking into account idiosyncratic features associated with MBL's business base compared with retail and commercial banks. We retain our view that the Australian major banks demonstrate some qualitative funding strengths compared with MBL and all other Australian financial institutions, such as superior deposit-gathering capabilities, branch coverage, and inculcation of its brand in the Australian retail sector. That said, we note that MBL's funding profile over the past years indicates a higher propensity toward deposits.

Chart 2

MBL's Movement In Funding Profile Indicates Increasing Propensity Toward Deposits



Source: S&P Global Ratings.

MBL's net stable funding ratio (NSFR) was 111% as of Sept. 30, 2019, and is on par with that of the other major banks.

The group prepares a funding strategy on an annual basis and monitors the progress against the strategy throughout the year. The funding strategy is reviewed by the asset and liability committee (ALCO) and approved by the board of the bank. We note that one of the aims of the funding strategy is to maintain the group's diversity of its current and projected funding sources.

We believe that MBL has good liquidity management capabilities. MBL had an average liquidity coverage ratio (LCR) of 172% as of the quarter ended Sept. 30, 2019, which is well above regulatory minimums and includes MBL's APRA-approved Australian-dollar committed liquidity facility (CLF) allocation of A$8.4 billion for the 2019 calendar year. That said, APRA clarified in July 2019 that the existence of a material adverse change clause in the master loan agreements between MGL and MBL means that the repayment of intragroup funding could be accelerated, and therefore, falls short of the regulatory LCR horizon of 30 days. Excluding intragroup funding would have had a material impact on the bank's LCR ratio. Subsequently, the group removed the material adverse change clause and there will be no impact on MBL's LCR calculation going forward. We believe that the LCR is supportive of our adequate assessment under our rating criteria for MBL.

MBL's broad liquid assets to short-term wholesale funding ratio was 1.5x and higher than the peer average of the

Australian major banks at 1.1x.

Scenario analysis is central to the bank's liquidity management framework and the group models a number of liquidity scenarios covering both market-wide and name-specific crises. MGL's liquidity policy stipulates that both the bank and group be able to meet all obligations on a daily basis and during a period of stress for a 12-month period with constrained or no access to funding markets. As an example, one scenario projects the expected cash and liquid assets position during a combined market-wide and group name crisis over a 12-month period. The scenario also assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows from undrawn commitments, market movements affecting derivatives positions, or a multiple-notch credit rating downgrade.

Table 6

Macquarie Bank Ltd.--Funding And Liquidity

	--Year ended March 31--				
(%)	**2019***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	56.0	57.7	48.0	46.2	37.7
Customer loans (net)/customer deposits	107.7	107.2	135.5	131.5	151.4
Long-term funding ratio	75.9	76.7	75.5	78.2	75.4
Stable funding ratio	97.2	96.5	94.7	96.5	100.7
Short-term wholesale funding/funding base	26.5	25.7	27.3	24.2	26.9
Broad liquid assets/short-term wholesale funding (x)	1.5	1.7	1.5	1.4	1.3
Net broad liquid assets/short-term customer deposits	29.9	35.7	27.6	20.8	23.5
Short-term wholesale funding/total wholesale funding	58.7	58.9	51.2	43.7	42.7

*Data as of Sept. 30.

Support: A potential recipient of extraordinary Australian government support

Our issuer credit rating on MBL is two notches higher than the group credit profile, reflecting our opinion that MBL is a moderately systemically important institution and, as such, is a potential recipient of government support in a crisis and in the unlikely event that support were ever required.

We are of the view that the Australian government is highly supportive toward systemically important banks. In July 2019, APRA announced that it is proceeding with the implementation of its plan to strengthen Australian banks' loss-absorbing capacity. APRA has set the target additional amount of loss-absorbing capacity by Jan. 1, 2024, to 3% of regulatory risk weighted assets for systemically important banks. Our expectation is that these banks would predominantly use tier-2 capital instruments to strengthen their loss-absorbing capacity.

In our view, the increased loss-absorbing capacity could lessen the need for the Australian government to provide financial assistance to banks in a stress scenario and thus lessen the financial burden on taxpayers. (see "Major Australian Bank Outlooks Revised To Stable, Macquarie Bank To Positive, After Policy Clarity On Government Support," July 9, 2019). We note that MBL is not assessed as a systemically important bank by APRA and additional loss-absorbing capacity would be considered on a case-by-case basis as part of the resolution planning process.

In our view, MBL is a moderately systemically important banking institution (note that S&P Global Ratings has a three-point scale to assess systemic importance compared to the binary regulatory assessment). We base our opinion concerning MBL's moderate systemic importance on factors including the following:

- Unlike for Australian regional banks and other predominantly retail Australian financial institutions, we believe that the government may have additional incentives to support MBL--in particular including Australian stakeholders in MBL. This is because, in the unlikely and hypothetical event that MBL was at risk of failing, there would likely be fewer market-based workout solutions for MBL's rescue. Our opinion is that MBL is unlikely to be a natural fit for one of Australia's four major banks--which have a retail and commercial banking orientation--and that some parts of its business profile are not likely to be of interest to a potential foreign acquirer.
- MBL has a somewhat unique role in Australia as the only Australian bank with some specialized commercial and investment banking business lines that we consider important to Australia's economic prosperity.
- MBL is highly interconnected with Australia's financial sector infrastructure, including as a major counterparty to other Australian institutions in the derivatives markets. We believe that if MBL were to falter, there could be a material adverse impact on the Australian economy.

Additional rating factors:
Hybrid debt instruments

We rate the Macquarie Additional Capital Securities (MACS) issued by MBL's branch in London 'BB+', four notches below our SACP on MBL of 'a-'. The following factors reflect the difference:

- MACS subordinated status (one notch);
- MACS risk of partial or untimely payment of coupons (two notches); and
- MACS contingent capital clauses for mandatory conversion into common equity or write-down (one notch).

In our view, financial support from the Australian government is unlikely to extend to hybrid capital instruments issued by MBL. We have assessed MACS issuances as having intermediate equity content. In our view, MACS would be able to absorb losses on a going-concern basis through nonpayment of coupons. Loss absorption would also take place in a nonviability event that would result in exchange or write-down, or conversion into common equity.

Subordinated debt instruments

We rate MBL's Basel III subordinated debt two notches from the SACP at 'BBB'--one notch for subordination and the second notch for the contractual conversion or write-down feature. The issue ratings on MBL's Basel II legacy nondeferrable senior subordinated debt are 'BBB+', which is one notch below MBL's SACP. We notch these issue ratings from MBL's SACP because we believe that Australia's legal and regulatory framework could allow authorities to instigate restructuring of a failing bank to the detriment of nondeferrable subordinated debt. We note, however, that the short-to-medium term prospect for MBL experiencing financial distress of this magnitude is low.

Related Criteria

- 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

- 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 | 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 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 | Banks: Commercial Paper I: Banks, March 23, 2004

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of March 26, 2020)*	
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+
Issuer Credit Ratings History	
11-Dec-2019	A+/Stable/A-1
09-Jul-2019	A/Positive/A-1
10-Dec-2018	A/Developing/A-1
30-Oct-2016	A/Negative/A-1
Sovereign Rating	
Australia	AAA/Stable/A-1+
Related Entities	
Macquarie Bank Europe DAC	
Issuer Credit Rating	A+/Stable/A-1
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 Group Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Macquarie International Finance Ltd.	
Issuer Credit Rating	A/Stable/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.