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Macquarie Bank Ltd.

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Macquarie Bank Ltd.

SACP	bbb+	+	Support	+2	+	Additional Factors	0

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

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

Issuer Credit Rating
A/Positive/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	• More complex nature of credit, market, and operational risks relative to local and international peers • Capital market-facing businesses focused on volatile markets and products

Outlook: Positive

The positive outlook on Macquarie Bank Ltd. (MBL) reflects our view that the bank's risk profile could improve in the next year if it continues to deliver good risk management outcomes.

Upside scenario

We would review our rating on MBL for an upgrade if: 1) the group finalizes its internal restructure; 2) in our view, the bank demonstrates its ability to deal with global credit headwinds; and 3) we see no signs that the bank's risk appetite is increasing. In this scenario, and all other things remaining equal, we would expect to raise our issuer credit ratings on MBL and its senior debt by one notch to 'A+/A-1' from 'A/A-1', as well as raise our ratings on hybrid and subordinated debt issued by MBL to reflect the improvement in our assessment of the bank's stand-alone credit quality.

Downside scenario

We would revise our outlook on MBL to stable in the next two years if we believe that the bank has been impeded in its progress toward meeting the triggers identified in the above upside scenario such that an improvement in its risk profile has become improbable.

Rationale

Our ratings on MBL reflect the anchor stand-alone credit profile (SACP) for a financial institution operating mainly in Australia. We are of the view that the bank has a well-diversified business position across different asset classes and geographies. MBL also has a strong capital and liquidity position relative to peers' globally. 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.

The group's risk exposures are slightly elevated relative to traditional mainstream banks' due to the unique and wide range of the group's exposures and complex nature of credit, market, and operational risks these exposures introduce. That said, 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 a diversified financial institution that conducts approximately 62% of its exposures in its Australian home market, 14% in the U.K., 11% in the U.S., and the remainder broadly spread across a range of jurisdictions. The economic risk score of '4' 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 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. Despite ongoing orderly unwinding of imbalances in the housing markets, Australian banks remain exposed to risk emanating from a rapid growth in house prices and private sector debt for several years, in combination with 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 very low by historical and international standards. In our base case, we expect an orderly correction in house prices to continue in some parts of the country in the next one year.

We consider that Australia's prudential regulatory standards remain conservative. We expect the implementation of recommendations by the recently concluded Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) to boost the Australian financial sector's regulation and governance. We also believe that the structure of the banking industry is supportive of industry stability--with a small number of strong retail and commercial banks dominating the industry. These banks are able to price for risks, affording them a buffer for unforeseen losses. We note that the 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 of 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 'bbb+'.

Table 1

Macquarie Bank Ltd. Key Figures

	--Year-ended March 31--				
(Mil. A$)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	168,863.0	172,356.0	166,526.0	180,535.0	171,290.0
Customer loans (gross)	74,331.0	80,806.0	76,586.0	79,819.0	72,392.0
Adjusted common equity	10,313.0	11,244.0	10,924.0	11,301.0	10,352.0
Operating revenues	6,046.0	6,040.0	5,726.0	6,156.0	5,327.0
Noninterest expenses	4,413.0	3,989.0	4,077.0	3,879.0	3,756.0
Core earnings	1,264.3	1,492.5	987.4	1,339.2	764.8

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 the Europe, Americas, and Asia.

MBL's business position also 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), Macquarie 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.

On Oct. 10, 2018, the group transferred its Corporate and Asset Finance (CAF) Principal Finance and Transportation Finance businesses from the bank group to 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. The disposal of the bank group of these businesses resulted in a pre-tax gain of A$507 million for the bank. We note that the transfers are intended to simplify the structure of the Macquarie Group 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.

A strategic focus area of the group (and the bank's) 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. 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 addition, there are no specific businesses, markets, or regions in which Macquarie'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, Macquarie 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 its customers the ability to manage data sharing, in real time, through the Macquarie 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.

The group's governance framework is strong. The final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (The Royal Commission) was released on Feb. 1, 2019 and found no adverse conduct issues that affected the bank and the group's brand or reputation, in contrast to the

Australian major banks. Among other things, we note that two enforceable undertakings that the Australian corporate regulator (Australian Securities Investment Commission) imposed on the group in 2013 was the catalyst for bringing about changes in the group.

Table 2

Macquarie Bank Ltd. Business Position					
	--Year-ended March 31--				
(%)	2019	2018	2017	2016	2015
Total revenues from business line (currency in millions)	7,012.0	6,208.0	6,119.0	7,204.0	5,892.0
Commercial banking/total revenues from business line	32.8	28.2	23.3	23.1	24.7
Commercial & retail banking/total revenues from business line	32.8	28.2	23.3	23.1	24.7
Trading and sales income/total revenues from business line	46.5	37.5	40.3	26.7	34.9
Corporate finance/total revenues from business line	8.5	24.8	27.1	25.2	29.5
Brokerage/total revenues from business line	N/A	N/A	N/A	9.0	6.4
Asset management/total revenues from business line	N/A	2.8	3.0	2.6	3.8
Other revenues/total revenues from business line	12.2	6.6	6.3	13.4	0.7
Investment banking/total revenues from business line	55.0	62.4	67.4	51.9	64.4
Return on average common equity	17.3	12.6	10.0	17.8	10.8

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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' risk-adjusted capital (S&P RAC) ratio at around current strong 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 March 2019, the bank's Common Equity Tier 1 capital ratio was 11.4%, up from 11.0% on the prior year. The bank's harmonized CET1 ratio was 14.3%, reflecting the Australian Prudential Regulation Authority's conservative stance regarding capital standards.

We consider the impact of the transfer of MBL's corporate and asset finance division's 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.

On Aug. 28, 2019, MGL announced a common equity capital raising and A$1 billion was raised through an institutional placement and about A$700 million through the sale of new shares to retail investors. We note that the capital raised is in anticipation of an increased 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).

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).

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 (see discussion above). 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 Corporate and Asset Finance division assets.
- Credit loss provisions to remain flat.
- We estimate MBL's dividend payout ratio will be toward the lower end of the targeted range of 60% to 80%.

We note that the Australian economic risk trend is positive, reflecting the unwinding of housing-related risks in the economy. We note that if the Australian economic risk score improves to '3' from '4', MBL's RAC ratio would increase by about 90 basis points, remaining comfortably within the strong range of our assessment.

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.

Table 3

Macquarie Bank Ltd. Capital And Earnings

	--Year-ended March 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	13.5	12.8	13.3	11.8	11.0
Adjusted common equity/total adjusted capital	86.4	87.6	84.7	91.6	90.9
Double leverage	56.6	64.8	88.1	68.3	38.7
Net interest income/operating revenues	32.7	33.4	37.9	35.3	37.8
Fee income/operating revenues	20.4	14.7	14.3	15.1	16.8
Market-sensitive income/operating revenues	42.0	32.5	31.1	34.4	34.5
Noninterest expenses/operating revenues	73.0	66.0	71.2	63.0	70.5
Preprovision operating income/average assets	1.0	1.2	0.9	1.3	1.0
Core earnings/average managed assets	0.7	0.9	0.6	0.8	0.5

Table 4

Macquarie Bank Ltd. RACF [Risk-Adjusted Capital Framework] Data					
(Mil. A$)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	3,776	0	0	90	2
Of which regional governments and local authorities	960	0	0	35	4
Institutions and CCPs	33,357	0	0	7,326	22
Corporate	36,846	0	0	27,444	74
Retail	65,563	0	0	30,268	46
Of which mortgage	48,928	0	0	18,726	38
Securitization§	3,052	0	0	1,576	52
Other assets†	899	0	0	1,952	217
Total credit risk	143,492	0	0	68,656	48
Credit valuation adjustment					
Total credit valuation adjustment	--	3,088	--	4,014	--
Market Risk					
Equity in the banking book	317	0	0	2,561	807
Trading book market risk	--	5,382	--	6,573	--
Total market risk	--	5,382	--	9,134	--
Operational risk					
Total operational risk	--	0	--	16,106	--
(Mil. A$)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	8,469	--	97,909	100
Total Diversification/ Concentration Adjustments	--	--	--	3,873	4
RWA after diversification	--	8,469	--	101,782	104
(Mil. A$)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		10,465	123.6	11,939	12.2
Capital ratio after adjustments‡		10,465	123.6	11,939	11.7

*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 'March. 31 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

We are of the view that the bank manages 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 bank's activities is still more complex, especially in so far as legal and compliance risks are concerned given the group's geographic and industry reach.

That said, there are signs pointing toward gradual improvement in the bank's risk profile that lead us to conclude that the risk profile of the bank is transitioning. The key factors that are pointing toward this transitioning are the following:

- The reorientation of 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 capital-market focused.
- The bank's performance pre and post the global financial crisis. Compared with a peer group of international investment banks, the volatility of the group's earnings has been lower for a sustained period.
- The activities of the bank is significantly more diversified in terms of geography and product relative to the Australian major banks, which are largely Australia-focused residential mortgage banks and which we assess at one notch stronger.
- The bank's trading activities are largely client driven and proprietary trading positions are not significantly different relative to 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.

In 2018, the group embarked on an internal group restructure, which will near completion toward the end of 2019. The aim of the restructure is to simplify the group and the bank structure, better reflecting the activities of the individual parts of the group's business. It is our view that the completion of the internal restructure would improve the visibility of individual businesses and alleviate some of the complexities associated with the group.

We also note that no material adverse findings on the group emerged from the Royal Commission final report, released Feb. 1, 2019. In our view, the group's conduct risk management framework appears to be sound relative to Australian major banks'. We note that in the past, the group has effectively dealt with previous enforceable undertakings and made the necessary changes in line with expectations.

In our view, the bank's risk-management philosophy is sound. In addition, we believe that the group's approach that focuses 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 somewhat offsets the complex nature of the business model. We also note the bank's resourcing of its risk management group, with staff levels having nearly doubled over the past 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 the group's risk limits and policies.

Table 5

Macquarie Bank Ltd. Risk Position

	--Year-ended March 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	(8.0)	5.5	(4.1)	10.3	24.0
Total managed assets/adjusted common equity (x)	16.4	15.4	15.3	16.1	16.7
New loan loss provisions/average customer loans	0.2	0.0	0.3	0.6	0.6
Net charge-offs/average customer loans	0.1	0.5	0.2	0.9	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.9	1.2	1.9	1.9	3.0

Table 5

Macquarie Bank Ltd. Risk Position (cont.)

	--Year-ended March 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Loan loss reserves/gross nonperforming assets	37.1	37.6	50.8	47.4	41.1

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.

MBL's net stable funding ratio (NSFR) was 113% as of March 31, 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. The aim 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 166% as of the quarter ended June 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 recently clarified 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 1.65x and higher than the peer average of the Australian major banks, at 1.13x as of March 2019.

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. Macquarie'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 impacting derivatives positions, or a multiple-notch credit rating downgrade.

Table 6

Macquarie Bank Ltd. Funding And Liquidity

	--Year-ended March 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	57.7	48.0	46.2	37.7	38.1
Customer loans (net)/customer deposits	107.2	135.5	131.5	151.4	151.1
Long-term funding ratio	76.7	75.5	78.2	75.4	70.1
Stable funding ratio	96.5	94.7	96.5	100.7	87.3
Short-term wholesale funding/funding base	25.7	27.3	24.2	26.9	32.8
Broad liquid assets/short-term wholesale funding (x)	1.7	1.5	1.4	1.3	1.0
Net broad liquid assets/short-term customer deposits	35.7	27.6	20.8	23.5	3.8
Short-term wholesale funding/total wholesale funding	58.9	51.2	43.7	42.7	52.3

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 announcement 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 even though MBL is not assessed as a systemically important bank by APRA, it is expected that MBL will be subject to an additional loss-absorbing capacity requirement 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 that:

- Unlike for Australian regional banks and other predominately 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 four notches below our SACP on MBL of 'bbb+'. 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--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
- 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 | 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
- 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

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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 September 29, 2019)*

Macquarie Bank Ltd.	
Issuer Credit Rating	A/Positive/A-1
Commercial Paper	
Foreign Currency	A/A-1
Junior Subordinated	BB

Ratings Detail (As Of September 29, 2019)*(cont.)	
Preference Stock	BB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Subordinated	BBB-
Issuer Credit Ratings History	
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 Ltd. (London Branch)	
Senior Unsecured	A
Macquarie Finance Ltd.	
Junior Subordinated	BB+
Macquarie Financial Holdings Pty Ltd	
Issuer Credit Rating	BBB/Positive/A-2
Macquarie Group Ltd.	
Issuer Credit Rating	BBB/Positive/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BBB-
Macquarie International Finance Ltd.	
Issuer Credit Rating	A-/Positive/A-2

*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.