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FITCH AFFIRMS IDRS OF MACQUARIE ENTITIES; UPGRADES SUPPORT RATINGS

Fitch Ratings-Brisbane/Singapore-29 September 2009: Fitch Ratings has today affirmed the Long- and Short-term Issuer Default Ratings (IDRs) of Macquarie Group Limited (MGL) and its wholly-owned operating subsidiaries, Macquarie Bank Ltd. (MBL), Macquarie Financial Holdings Limited (MFHL) and Macquarie International Finance Limited (MIFL). All Long-term IDRs have a Stable Outlook. At the same time, Fitch has upgraded the Support ratings of MBL and MIFL. A full list of rating actions is provided at the end of this release.

The ratings affirmations of MGL and its subsidiaries reflect the group's sound balance sheet position and strong corporate governance culture. A robust and proven centralised risk management function is an integral part of this culture and has helped the group withstand the global financial crisis in relatively good shape. The group significantly increased its holdings of liquid assets, and lengthened its funding profile through the financial year ended 31 March 2009 (FY09); MGL's liquid assets totalled AUD30.3bn at FYE09, more than double the level of wholesale liabilities set to mature during FY10.

Capital also strengthened in FY09, with MGL reporting a surplus (above the required regulatory minimum) of AUD3.1bn, or 44%; an additional AUD1.2bn of ordinary equity has been raised post-FYE09 further increasing the surplus. MBL, which is subject to bank prudential requirements, reported a Tier 1 capital ratio of 11.2% at 30 June 2009, while the core Tier 1 ratio equated to 9.0% at FYE09.

In the process of strengthening its balance sheet, MGL exited a number of businesses (such as margin lending and mortgage operations in a number of countries) that had contributed only modest returns relative to the level of funding required to maintain them. This allowed MGL the opportunity to undertake a number of acquisitions, including energy-related assets and a sizeable asset management operation in North America, as well as expanding a number of existing operations into areas previously dominated by global investment banks. While MGL is likely to continue seeking such opportunities, Fitch expects it to maintain a relatively conservative balance sheet position over the next 12 months.

Nonetheless, the weaker operating environment has had a significant impact on the group's profitability - MGL's operating profit (as calculated by Fitch) fell by 68% in FY09 relative to FY08. This decline was largely driven by higher impairment charges and a reduction in revenue, but was materially offset by lower staff profit share payments. While the group has only a modest exposure to distressed structured credit products, impairment charges increased significantly in FY09 due to loan impairments and write-downs of equity investments in funds. There is considerable potential for further asset quality deterioration in FY10 which would result in impairment charges remaining high relative to historical numbers.

MGL's banking subsidiary, MBL, has a long-term IDR that is one notch above MGL and MFHL (MGL's non-banking subsidiary), reflecting the agency's view that MBL's risk profile is lower than MFHL's. As with the group, MBL's balance strengthened during FY09, which allowed it to withstand a 56% reduction in operating profit. The upgrade of MBL's Support rating was driven by a number of factors: MBL is now the sixth-largest Australian bank by domestic assets following consolidation in the industry; it holds significant positions in wholesale markets; and it has experienced strong growth in deposits.

During FY09, MIFL repaid all external funding and is now funded entirely by MGL (debt) and MBL (equity) and this has been reflected in the upgrade of MIFL's Support Rating to '1' from '2'.

The ratings of MGL and its subsidiaries are listed below:

MGL:
Long-term Foreign Currency IDR: affirmed at 'A'; Stable Outlook;
Short-term Foreign Currency IDR: affirmed at 'F1';
Individual Rating: affirmed at 'B';
Support Rating: affirmed at '5';
Support Rating Floor: affirmed at 'NF';
Senior unsecured debt: affirmed at 'A'; and
Subordinated debt: affirmed at 'A-'.

MBL:
Long-term Foreign Currency IDR: affirmed at 'A+'; Stable Outlook;
Short-term Foreign Currency IDR: affirmed at 'F1';
Individual Rating: affirmed at 'B';
Support Rating: upgraded to '3' from '4';
Support Rating Floor: upgraded to 'BB' from 'B+';
AUD-denominated government guaranteed senior debt: affirmed at 'AAA';
Foreign currency denominated government guaranteed senior debt: affirmed at 'AA+';
Senior unsecured debt: affirmed at 'A+';
Subordinated debt: affirmed at 'A'; and
Hybrid capital instruments: affirmed at 'A-'.

MFHL:
Long-term Foreign Currency IDR: affirmed at 'A'; Stable Outlook; and
Short-term Foreign Currency IDR: affirmed at 'F1'.

MIFL:
Long-term Foreign Currency IDR: affirmed at 'A'; Stable Outlook;
Short-term Foreign Currency IDR: affirmed at 'F1';
Individual Rating: affirmed at 'B/C'; and
Support Rating: upgraded to '1' from '2'.

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