

Financial Services
Australia
Credit Analysis

Macquarie Group Limited

Ratings

Macquarie Group Limited	
Long-Term IDR	A
Short-Term IDR	F1
Individual Rating	B
Support Rating	5
Support Rating Floor	NF
Macquarie Bank Ltd.	
Long-Term IDR	A+
Short-Term IDR	F1
Individual Rating	B
Support Rating	3
Support Rating Floor	BB
Macquarie Financial Holdings Limited	
Long-Term IDR	A
Short-Term IDR	F1
Sovereign Risk	
Foreign-Currency Long-Term IDR	AA+
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	
Macquarie Group Limited	Stable
Macquarie Bank Ltd.	Stable
Macquarie Financial Holdings Limited	Stable
Sovereign Foreign-Currency Long-Term IDR	
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Macquarie Group Limited		
	31 Mar 09	31 Mar 08
Total assets (USDm)	102,505	133,881
Total assets (AUDm)	149,144	167,250
Total equity (AUDm)	9,444	9,928
Operating profit (AUDm)	416	1,296
Net income (AUDm)	896	1,804
Comprehensive income (AUDm)	457	1,880
Operating ROAA (%)	0.2	0.8
Operating ROAE (%)	4.2	14.2

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Related Research

- Fitch Comments on Macquarie Group Limited's Exposure to BrisConnections (April 2009)

Rating Rationale

- Macquarie Group Limited's (MGL) Long-Term Issuer Default Rating (IDR), Short-Term IDR and Individual Rating reflect a diverse business mix, a prudent risk management framework, and strong liquidity and capital positions. The Long-Term IDR of the group's banking subsidiary, Macquarie Bank Ltd. (MBL), is one notch higher than MGL's reflecting MBL's lower risk profile relative to MGL.
- The Individual Ratings of MGL and MBL were downgraded to 'B' from 'A/B' on 9 February 2009, reflecting Fitch Ratings' view that a marked deterioration in the operating environment has increased volatility in earnings to a level that is not consistent with an 'A/B' Individual Rating.
- Highlighting this, MGL's operating profit fell by 68% to AUD416m in the financial year-ended 31 March 2009 (FY09), while net income halved. The main driver of this decrease was a substantial increase in impairment charges (240%), although a 19% fall in non-interest revenue also contributed. Partly offsetting these factors was a significant decline in staff profit-share payments, which resulted in operating expenses falling 28%.
- Conversely, MGL has significantly strengthened its funding position during FY09. Deposits grew by 42% and now account for 25% of MGL's funded balance sheet (FYE08: 18%). The group's reliance on short-term wholesale funding has also reduced significantly – at FYE09, just 31% (AUD14bn) of MGL's wholesale funding matured during FY10 (this primarily resided within MBL).
- While MGL has historically had a robust liquidity position, with long-term assets match-funded by long-term liabilities, its position improved significantly in FY09 – liquid assets increased to AUD30.3bn from AUD20.8bn, which is more than double the wholesale funding set to mature during FY10.
- As a bank holding company, MGL is required to hold a minimum level of regulatory capital – at FYE09, MGL had a surplus over this requirement of AUD3.1bn, or 44%. Post-FYE09, the group has raised a further AUD1.2bn in ordinary equity.

Support

- As a bank holding company, Fitch believes that support for MGL from the Australian authorities, although possible, cannot be relied upon should it be required. Fitch believes there is a moderate probability of external support for its banking subsidiary, MBL, should it encounter difficulties.

Key Rating Drivers

- The strong liquidity and capital positions of MGL and MBL are the key drivers of the Stable Outlooks on their Long-Term IDRs. Any significant erosion of these positions combined with a sustained weak operating environment could place negative pressure on these ratings.

Profile

Established in 2007, MGL is the holding company of Australia's largest locally owned investment banking group. Operations span markets in Australia, the UK, Europe, Asia and the US.

Profile

MGL was established in 2007, becoming the listed parent and non-operating holding company of the Macquarie group. The group itself was established in 1969 as a wholly owned subsidiary of UK-based Hill Samuel Bank Limited and is Australia's only substantial locally owned investment banking group. It was listed on the Australian stock exchange in 1996.

A group restructure on 13 November 2007 involved the formation of MGL, a non-operating holding company, which became the listed parent of the Macquarie group. The previous parent of the group, MBL, became a wholly owned subsidiary of MGL upon completion of the restructure. At the same time, MBL's investment banking operations were transferred to a non-banking subsidiary, Macquarie Financial Holdings Limited (MFHL; 'A'/Outlook Stable), which is also a wholly owned subsidiary of MGL.

Fitch rates MBL one notch above MGL and MFHL, reflecting the agency's view that the risk profile of MBL is lower than that of MFHL, while also recognising that MBL remains prudentially regulated as a bank by the Australian Prudential Regulation Authority (APRA) (MGL is regulated as a bank holding company).

MGL operates five business groups and two business divisions, with their contribution to MGL's profit shown in Table 1.

- **Macquarie Capital:** This group comprises MGL's corporate advisory, equity underwriting and specialised funds management businesses (specialist funds accounted for about 13% of FY09 group operating income, including merger and acquisition income and income from asset sales). These listed and unlisted funds are independent vehicles, although they typically carry the Macquarie name, which engenders a level of reputation risk.
- **Macquarie Securities:** Macquarie Securities is organised along geographic lines, and trades, issues, structures and makes markets in equity derivatives, as well as being a major issuer of listed warrants. Trading consists largely of client-initiated transactions – proprietary trading is only a small part of the business.
- **Treasury and Commodities:** Activities include trading and related activities in a broad range of financial and commodity markets. Again, trades are primarily client-initiated.
- **Banking and Financial Services:** The banking and financial services group runs MBL's retail banking operations, as well as providing a range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end-consumer.
- **Macquarie Funds:** Distinct from the Macquarie group's infrastructure and property funds, the Macquarie Funds group focuses on more traditional investment strategies (ie, investing in securities). At end-FY09, the division had assets under management (AUM) of AUD49.7bn (end-FY08: AUD47.3bn).
- **Real Estate Banking:** This division offers a range of services, including property funds management, investment and development finance, development management, asset management, advisory and research.
- **Corporate and Asset Finance:** This division provides a number of services to clients, including leasing and asset finance, tailoring debt and finance to suit their needs, and asset remarketing, sourcing and trading.

During FY09, MGL undertook a number of internal restructures to better align products and businesses within the banking and non-banking groups. These included:

- The merger of the equity markets group (bank) and the Macquarie capital

securities division of Macquarie Capital (non-bank) to form Macquarie Securities (bank) in April 2008;

- The combination of funds management (bank) with the funds and associated products of Macquarie Securities (bank) and the Macquarie capital products division of Macquarie Capital (non-bank) to form Macquarie Funds (bank) in August 2008;
- Macquarie Capital Finance was separated from Macquarie Capital in September 2008, renamed the corporate and asset finance division and transferred to MBL; and
- The real estate group (bank) was reorganised in January 2009, with the majority of operations transferred to Macquarie Capital (non-bank). The remaining business was renamed the real estate banking division (bank).

Table 1: Contribution to Profit - Divisions

(%)	FY09	FY08
Macquarie capital	36	49
Macquarie securities	40	27
Treasury and commodities	74	13
Banking and financial services	-14	5
Macquarie funds	6	7
Real estate banking division	-52	-3
Corporate and asset finance division	10	2
Total contribution to profit by operating groups^a	100	100

^a Differs from net profit after tax due to corporate costs and one-off gains
Source: MGL FY09 annual report and Fitch

Throughout the global financial crisis, MGL has focused on improving the strength of its balance sheet. To that end, it has exited or wound down a number of businesses (including its mortgage operations in Australia, the US and Italy and the sale of its margin lending business) totalling AUD15bn that were relatively low-yielding and balance-sheet intensive. In addition, as investors have increasingly shifted their focus away from MGL's listed specialist funds model, the group and the funds have pursued a number of different options to maximise unit-holder value – eg, the purchase by some funds of MGL's management rights, and the privatisation of a fund through the sale of all units to one investor. On the other hand, the unlisted specialist funds business continues to grow.

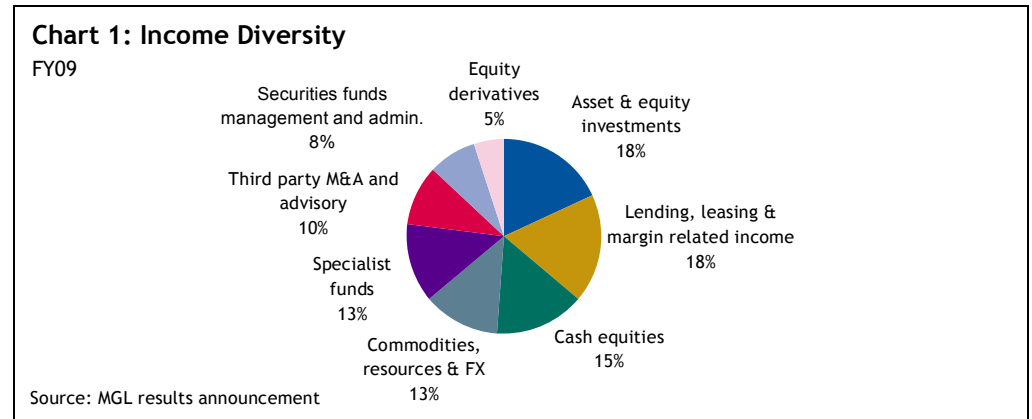
MGL's balance sheet strength has allowed it to take a number of opportunities that have emerged during the crisis, including the acquisition of several energy and energy related assets as well as a sizeable asset management operation in North America and the expansion of the group's equity capital markets and advisory business into markets previously dominated by global investment banks. Fitch anticipates that MGL will remain proactive in seeking such opportunities in the current economic environment.

There was one change to MGL's board composition during FY09 – Mr Allan Moss, the former CEO and managing director of MGL, retired from the board and from the group in May 2008. In addition, Mr David Clarke, the bank's chairman, was granted a leave of absence from 27 November 2008 due to illness, although he subsequently returned as chairman on 31 August 2009. At FYE09, MBL's board consisted of a non-executive chairman, two executive directors and six independent directors.

Performance

Numbers in this analysis are based on Fitch's calculations and may vary from those reported by MGL. As MGL only began operations in FY08, the prior comparative numbers are based on the pre-restructure MBL.

MGL's operating profit fell by 68% to AUD416m in FY09, driven by a trebling of impairment charges and a reduction in net trading income and net fees and commissions as transaction levels declined and volatile markets led to trading losses. These were partly offset by a significant decline in staff bonus expenses.



Operating Revenue

Table 2 provides a breakdown of MGL's operating profit while Chart 1 illustrates the diversity within MGL's income. It should be noted that specialist funds only accounted for 13% of income in FY09. Further detail on revenue categories is provided below.

Table 2: Operating Revenue and Expense Growth and Mix

	FY09		FY08	
	(AUDm)	(%) ^a	(AUDm)	(%) ^a
Net interest income	909	15.0	824	11.5
Net fee and commission income	3,360	55.5	3,943	55.0
Net trading income	1,157	19.1	1,835	25.6
Other operating revenue	630	10.4	563	7.9
Operating revenue	6,056	100.0	7,165	100.0
Personnel expenses	-2,359	61.2	-4,177	78.2
Other operating expenses	-1,493	38.8	-1,164	21.8
Operating expenses	-3,852	100.0	-5,341	100.0
Impairment charges	-1,788		-528	
Operating profit	416		1,296	

^a % of operating revenue and expense, respectively
Source: MGL FY09 annual report and Fitch

Net Interest Income

Net interest income is derived primarily from MGL's lending activities, most of which are conducted within MBL. Growth of 10% in FY09 was driven by a 9bp increase in the net interest margin (NIM) to 0.89%, with average interest earning assets flat during the year. The increase in the NIM resulted from higher risk premiums and pricing to reflect increased funding costs – sharp declines in official interest rates assisted.

Growth in net interest income is likely to be moderate in FY10 – the sale of the Italian mortgage portfolio and the margin lending portfolio combined with the effective closure and run-off of the Australian and US mortgage portfolios will have an impact over the full period (there was only a partial impact in FY09), while funding costs are likely to remain well above pre-global financial crisis levels.

Net Fee and Commission Income

Primarily derived in the non-banking group, net fee and commission income was

down 15% in FY09 compared with FY08. Three areas account for most of the total: funds management, advisory and other traditional investment banking work, and brokerage and commissions.

Base and performance fees are generated through MGL's management of funds and assets. Base fees, which are typically closely aligned to AUM levels, fell by 4% during FY09 to AUD921m despite AUM rising by 5%. This discrepancy was due to a change in the mix of AUM towards assets that pay lower base fees. Performance fees, which are paid only when managed funds and assets exceed predetermined benchmarks, fell by 39% in FY09, with minimal performance fees recorded in H209. A significant fall in the price of listed securities was the main reason for the decline.

M&As and advisory and underwriting fee income was down 16% to AUD1.2bn due to lower average fees per deal – total deal numbers and value were relatively flat during FY09.

Net brokerage and commission income, largely derived from client-initiated cash equities transactions, declined by 36% in FY09 due to significantly lower equity market volumes and turnover.

Net Trading Income

Net trading income, which is derived primarily in the banking group, was down 37% to AUD1.2bn in FY09. This decline was due entirely to an 88% decline in income from equity products – reduced client demand following substantial equity market volatility, hedge fund de-leveraging and redemptions were the main reasons for the fall. Also included in this decline was an AUD101m mark-to-market loss on a US listed investment and a provision for losses on MGL's exposure to BrisConnections, an Australian toll road company (please see 'Fitch Comments on Macquarie Group Limited's Exposure to BrisConnections' published on 3 April 2009 on www.fitchratings.com for more detail).

Conversely, commodities trading income (AUD583m) and trading income from foreign exchange and interest rate products (AUD430m) both increased strongly, benefiting from increased demand for hedging products from clients due to market volatility. The commodities business also benefited from the exit of competitors across a number of its markets. The foreign exchange and interest rate trading income was negatively affected by AUD50m in mark-to-market write-downs on CLO and CDO investments (FY08: AUD38m).

Other Operating Revenue

MGL's other operating revenue rose by 12% during FY09, driven by higher rental income. This was partly offset by reduced profit from associates and joint ventures.

Operating Expenses

MGL's operating expenses fell by 28% in FY09, driven by a 44% decline in staff costs. While staff numbers fell by 3% during the year, the decline was largely the result of reduced profit share payments. As a result, MGL's pre-impairment cost/income ratio fell to 64.4% in FY09 (FY08: 76.2%). This ratio is likely to be somewhat volatile through time as staff profit share payments fall when the operating environment (and subsequently profit) deteriorates and increase during periods in which MGL performs well.

Impairment Charges

MGL reported a 240% increase in impairment charges to AUD1.8bn in FY09. This equated to 81% of pre-impairment operating profit, a very high level compared with other Australian banks (FY08: 29%).

There were four components to this charge.

- MGL's equity investments (including investments in Macquarie managed

infrastructure and real estate funds) were written down by AUD1,079m following a significant decline in market value for a number of funds and assets. (It is important to note that these investments are not subject to mark-to-market accounting – please see ‘Equity Risk’ below for more detail.)

- AUD496m relates to loan impairments, up from AUD114m in FY08. Growth was largely in individual provisions, although the collective provision increased substantially as well. Industry-wise, the bulk of the charge related to real estate (34%) and resource (32%) loans, two sectors that have been heavily affected by the global financial crisis.
- MGL reported an AUD189m loss on the sale of the Italian mortgage portfolio and an associated AUD4m loan provision over MBL’s residual exposure to the portfolio. A further AUD55m of restructuring and redundancy costs were recognised in trading income and operating expenses.
- AUD20m relates to trading assets.

Taxation

The effective tax rate of 1.7% in FY09 (FY08:15.0%) is extremely low and reflects a large rate differential on income earned in offshore jurisdictions. MGL has indicated that it expects the effective tax rate to return to historical levels of 15%-20% in FY10.

Outlook

Although conditions have improved since the fallout from the collapse of Lehman Brothers in September 2008, the weak operating environment is likely to continue throughout FY10. Impairment charges are likely to remain high, although not necessarily at the level reported in FY09; a large part of the FY09 impairment charges related to MGL’s equity investments, the market prices of which dropped significantly in weak equity markets. Revenues may remain under some downward pressure.

However, MGL has stated that all major businesses except Macquarie Capital reported improved operational performance in Q110 relative to Q409. Also, MGL has significantly strengthened its balance sheet since the onset of the global financial crisis – wholesale debt maturing in FY10 is covered more than two times by liquid assets, while capital is 44% above the minimum regulatory requirement. This balance-sheet strength should not only allow MGL to withstand further deterioration in the operating environment but also take advantage of acquisition opportunities as they arise.

Risk Management

MGL employs a robust, diligent and proven approach to risk management. Nevertheless, the group seeks to take advantage of suitable opportunities and could not be described as risk-averse: risks are considered thoroughly and carefully, and appropriate limits are set.

An economic capital framework is used to assist in setting risk appetite and measuring risk-adjusted performance. In addition, it is used for capital adequacy assessment, particularly in MGL’s non-banking business, where it has been approved by the regulator for this purpose (see *Capital* below).

Day-to-day ownership and management of risks resides with the individual business units. Oversight is provided by the risk management group (RMG), while a board risk committee, which meets quarterly, is responsible for monitoring risk profiles and approving changes to risk policies.

While there are risk resources within each business, risk acceptance decisions must be validated by the RMG. Business areas cannot establish new businesses, activities or products or enter new markets without first obtaining approval from the RMG.

As part of the risk management framework, MGL seeks to understand the consequences of worst-case outcomes and to determine if the risks are acceptable. This is conducted through the application of numerous different stress tests – very few of the worst-case loss scenarios have been exceeded over the last 18 months despite severe market volatility.

Growth in RMG staff numbers has kept pace with group staff number increases. At FYE09, RMG employed 314 people, with a further 400 staff within the individual business units having a largely risk management role.

Credit Risk

Credit risk resides largely within the banking group as most of MGL's lending and trading activities are conducted by MBL. On a consolidated basis, MGL's balance sheet consisted of the following major asset classes at FYE09.

Loans (33% of Total Assets)

Included in this category are loans at amortised cost (AUD44.7bn) and loans at fair value (AUD4.7bn). Almost all of these assets reside in MBL. Within the loans at amortised cost 46% were securitised at FYE09 (ie non-recourse to MGL).

MGL's impaired loans increased five-fold during FY09 to AUD1.43bn, or 2.85% of gross loans (FY08: AUD285m and 0.51% respectively), due mainly to ongoing weakness in the UK and US real estate markets and the impact of falling commodity prices on metals and energy counterparties. Further deterioration is likely in FY10.

Securities Holdings (23% of Total Assets)

MGL's securities holdings include trading assets (AUD9.3bn), AFS investment securities (AUD18.1bn), investment securities at fair value (AUD3.2bn) and life insurance assets (AUD4.3bn).

Trading securities consisted of the following at FYE09:

- Government securities (50%);
- Equities (35%);
- Corporate bonds (12%); and
- Certificates of deposit and bank bills (3%).

MGL also has AUD171m of commodity trading assets. Trading liabilities (essentially short positions) totalled AUD2.2bn at FYE09, with 95% in listed equities and the rest almost exclusively government bonds. MGL's trading activities focus primarily on client-initiated transactions and as such the group aims to hedge its trading exposures. This is conducted largely through the use of repurchase agreements and derivative instruments.

Debt securities accounted for 96% of MGL's AFS investment securities at FYE09, with the remainder split between listed and unlisted equities. Negotiable certificates of deposit account for 50% of the debt AFS securities, while 1% was in the form of bank bills – the majority of these assets are eligible for the Reserve Bank of Australia repo facility and constitute part of the bank's liquid asset holding. At FYE09, AUD188m or 1.1%, of debt in AFS investment securities was deemed impaired, covered by AUD137m of individual provisions. MGL recorded an impairment charge of AUD242m over these exposures in FY09, with a further AUD64m charge attributable to equity AFS investment securities.

The group's life insurance assets are largely self-funded, with the net asset position on MGL's balance sheet being immaterial.

Other Assets

The only other asset class that accounted for more than 10% of total assets at

FYE09 was derivative assets (18%) – as mentioned previously, these are used primarily for client transactions or hedging purposes.

Equity Risk

Equity risk is MGL's largest risk category. MGL manages equity risk within a board imposed limit, which is reviewed semi-annually by the RMG. Additional limits around the level of exposure to the property and resource sectors, as well as lease residuals and the acquisition of seed assets, are also employed. Minimum capital to be set aside for these exposures is determined using the group's economic capital model (please see 'Capital' below) – at FYE09, the model required, on average, 47% of the face value of equity investments to be held in capital.

The group's equity investments consist of exposures to assets and funds, including infrastructure and real estate funds managed by MGL, and totalled AUD7.2bn (4.8% of total assets) at FYE09. MGL reported an impairment charge of AUD1.1bn on these exposures during FY09, with equity-accounted losses totalling a further AUD394m. It is important to note that only AUD2.2bn of these exposures are carried at fair value; the remainder is subject to periodic impairment tests which should reduce volatility in impairment charges. For listed equity investments, a significant or prolonged decline in market value below carrying value is a trigger for an impairment review, while for unlisted investments the trigger is a period of asset underperformance.

The impact on capital from impairment charges on equity investments is not dollar for dollar, but rather about 20%-25% of the charge. Not only is there a tax impact (eg, every AUD1 of impairment charge reduces taxable income, which in turn reduces tax expense by AUD0.30) but the high capital holdings as noted above provide a further buffer.

Operational Risk

Responsibility for operational risk lies with the management of each division, with the operational risk sub-unit of the RMG providing oversight. The group has a board-approved operational risk capital framework that meets the requirements of the advanced measurement approach under Basel II. As part of the framework all divisions within MGL conduct annual scenario assessment with statistical modelling of potential losses at the 99.9th percentile over a one-year holding period. A scorecard analysis is used on a quarterly basis to update operational risk capital between scenario analyses. All operational risk incidences greater than AUD10,000 (including gains and near misses) are recorded in a central database.

Market Risk

Market risk in MGL is generated primarily through the group's trading activities, although there is a level of non-traded market risk that arises due to its lending activities, foreign operations and non-trading holdings of investment securities.

Trading is undertaken primarily on behalf of clients, with only relatively small proprietary positions recorded. All positions are marked-to-market and reported to senior management on a daily basis.

Traded market risk is managed within three complementary limit structures. Contingent loss limits are implemented and tested using a range of rigorous price and volatility stress tests on a daily basis, including comprehensive worst-case scenarios, with findings reported to senior management. Multiple scenarios are set for each market, with the worst-case multi-market scenario analysis used as the basis for calculating the total capital requirement for market risk in MGL's economic capital model.

Volume, maturity and open position limits are used to constrain concentration risk and to avoid the accumulation of risky, illiquid positions. Value-at-risk (VaR) limits are set based on Monte Carlo simulations using a 10-day holding period and 99%

confidence interval. Daily VaR averaged just AUD13m during FY09, with a maximum of AUD24m.

From time to time, MGL can also accept significant underwriting risk. This is generally short-term (ie, less than a few days) and is often supported by sub-underwriting agreements with third parties.

Reputation Risk

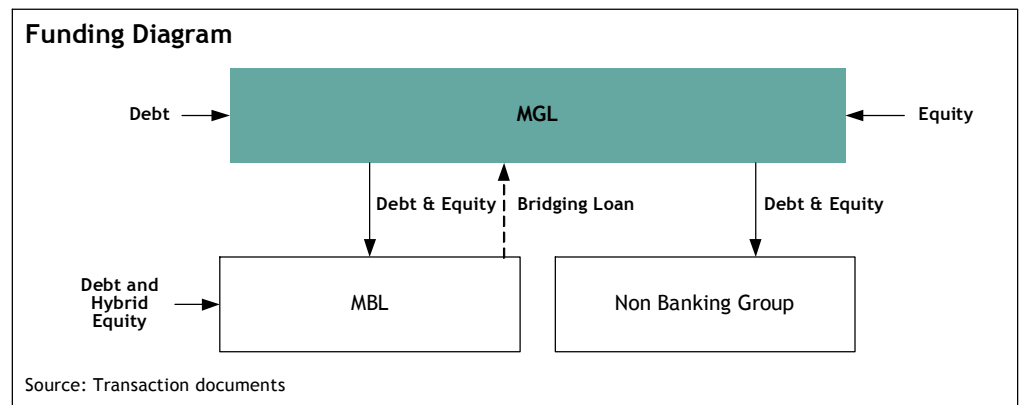
As with any financial institution, reputational risk is a key issue for MGL, particularly in relation to the listed funds. Not only is MGL responsible for managing the funds on behalf of investors, but many of the funds carry the Macquarie name. While Fitch believes it is highly unlikely that MGL would compromise its own position to support a distressed fund, such a scenario would most probably have a negative impact on the group's reputation.

Reputation risk is managed by MGL through a number of channels: regular reporting to the executive committee and the board, including an annual reputation report, regular education of staff and promotion of the group's goals and values, a strong risk management culture, and compensation aligned with the longer term performance of the group.

Funding, Liquidity and Capital

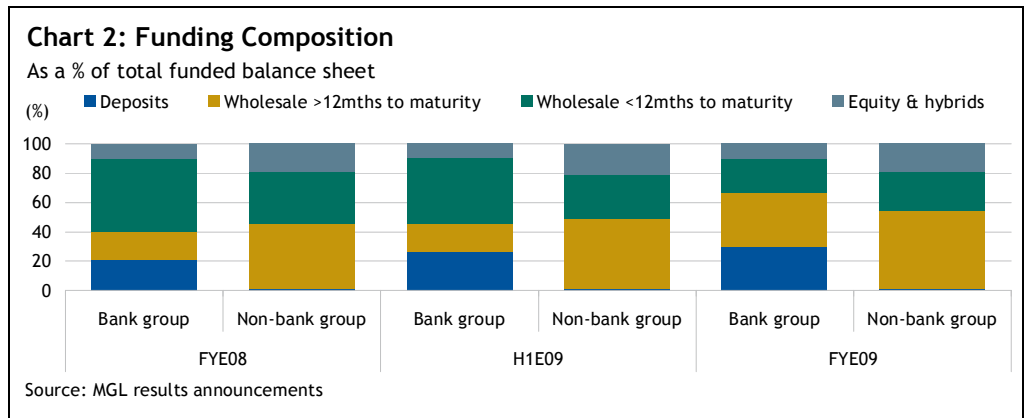
Funding

Two entities within the Macquarie group fund externally – MGL and MBL. MGL provides equity to MBL and the non-bank group, as well as providing debt funding to the non-bank group – MBL raises debt in its own name.



MGL splits its balance sheet into assets that require funding and those that are self-funding – at FYE09, assets that required funding totalled AUD75bn, well below the group's total statutory balance-sheet asset level of AUD149bn (FYE08: AUD74bn and AUD167bn, respectively). The difference is explained by the large proportion of assets that have matching funding with no recourse to MGL (eg securitised assets and self-funded trading assets).

MGL raised AUD21.5bn in long-term wholesale funding during FY09, two-thirds of which was sourced by MBL utilising an Australian government guarantee. This guarantee, which can be accessed only by banks (ie MBL can utilise it, but not MGL), covers for free all deposits of less than AUD1m, and wholesale funding and deposits above AUD1m on a case-by-case basis. Banks must apply for the guarantee on these instruments and pay a fee based upon their credit rating. MBL's use of the guarantee has assisted the group to increase the average term to maturity of its long-term funding (FYE09: 3.7 years; FYE08: 3.5 years) and significantly decrease MBL's reliance on short-term wholesale funding, as shown in Chart 2.



Deposits (which are almost exclusively contained in MBL) grew by 42% to AUD18.8bn in FY09. In particular, MBL has focused on growing its retail deposit base - at FYE09, retail deposits totalled AUD13bn, or 70% of deposits (H1E09: AUD9.4bn and 56% respectively).

MGL (and by proxy the non-banking group) has several sources of debt funding: an AUD7.7bn senior facility, a bridging loan from MBL and a number of wholesale funding programmes in different markets.

The senior facility was syndicated to over 40 domestic and international banks and contains a number of different tranches (three term and revolving credit facilities each of AUD2.47bn totalling AUD7.4bn and an AUD0.3bn term facility). These facilities have maturities ranging from 1.5 years to 3.5 years. An AUD0.1bn standby facility remains following the early unwind and term out of the original AUD1.6bn standby facility in FY09. At FYE09, MGL had drawn down approximately AUD7.4bn of this facility.

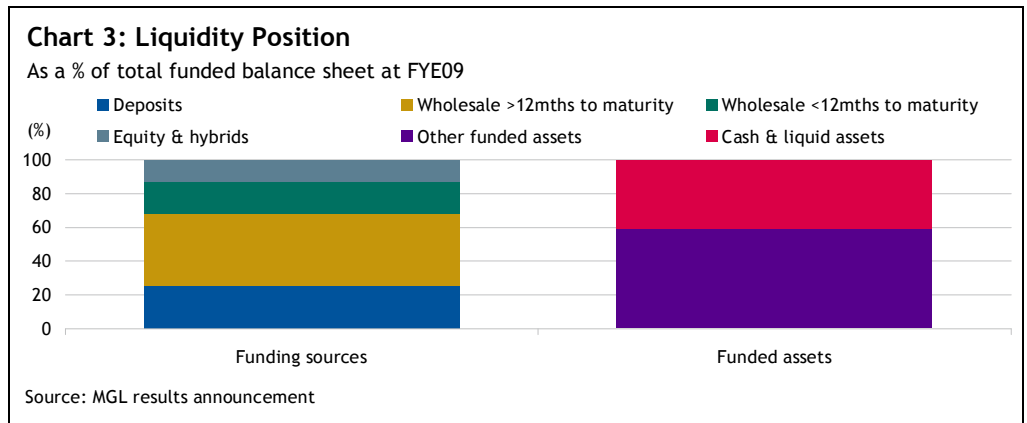
As part of the restructure, MBL provided an intra-group loan of AUD10bn to MGL to fund the non-bank assets; at FYE09, AUD3.8bn was outstanding. Subsequent to this date a further AUD1.9bn was repaid and the remaining AUD1.9bn was termed out, now maturing in 2012 (previously the loan was to mature in December 2009). At mid-September 2009, the balance outstanding had been further reduced to about AUD1.5bn.

Liquidity

Day-to-day liquidity management is the responsibility of the group treasury, with oversight from the group asset and liability committee. Independent oversight, including validation of liquidity scenario assumptions, liquidity policies and the required funding maturity profile, is performed by the RMG.

MGL's liquidity policy requires that it be able to meet all of its repayment obligations for the next 12 months with no access to wholesale funding markets and that all long-term assets must be funded with long-term liabilities. A number of liquidity scenarios are employed to determine MGL's ability to operate under a range of market conditions.

MGL's liquidity position has improved significantly since the onset of the global financial crisis, with cash and liquid assets accounting for 41% (AUD30.3bn) of total funded assets at FYE09 – this is double the level of wholesale liabilities that mature during FY10, as shown in Chart 3. These assets are all highly liquefiable; either directly in the market or through repurchase agreements with central banks – at FYE09, 97% of AUD-denominated liquid assets were eligible for central bank repo schemes.



Capital

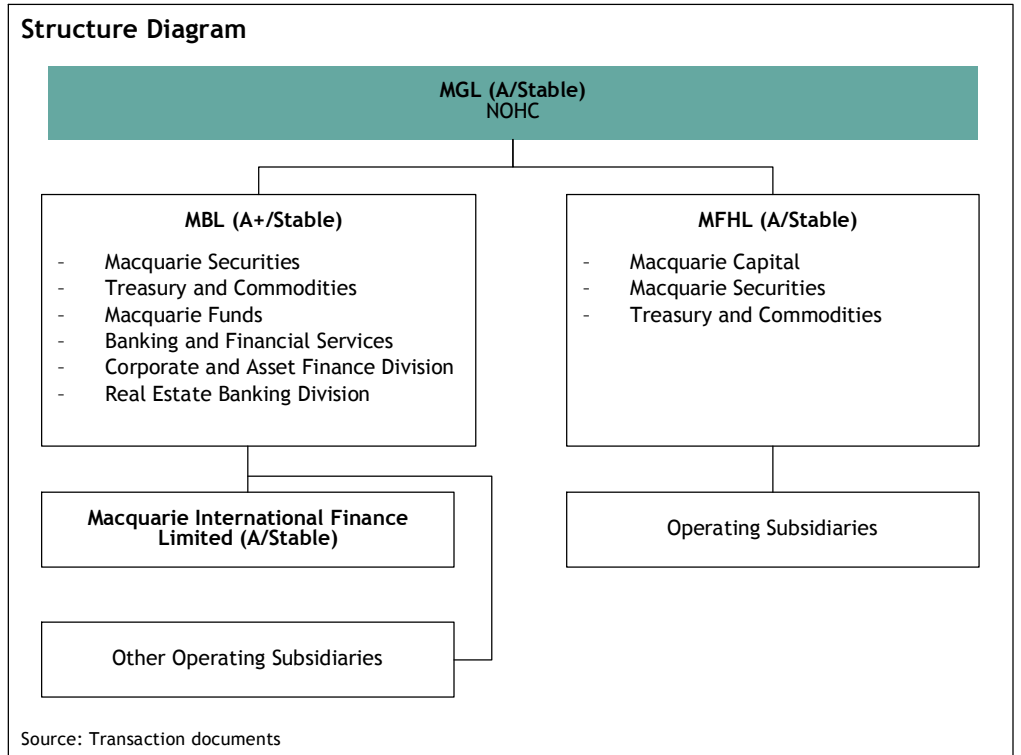
MGL appears well capitalised, reporting a capital surplus to the minimum regulatory requirement of AUD3.1bn, or 44%, at FYE09. Subsequent to this date, MGL raised a further AUD1.2bn in ordinary equity through an institutional placement and a retail share purchase plan. Double leverage at FYE09 was 105% (FYE08: 99%). MGL has indicated that this ratio is limited to a maximum of 110%.

As a bank holding company, MGL is subject to prudential regulation by the APRA. While this regulation is not as extensive as that applied to its banking subsidiary, MBL, MGL is required to hold a minimum level of capital, calculated as the sum of the minimum capital required to be held in each of its operating subsidiaries; at FYE09, this was AUD7.1bn, made up of AUD2.4bn attributable to the non-banking group and AUD4.7bn attributable to the banking group.

MBL has been accredited to use the foundation internal-ratings based approach for credit risk and the advanced measurement approach for operational risk under Basel II. At FYE09, MBL's Tier 1 capital ratio was 11.4%, while its total capital ratio was 14.4%. Core Tier 1, which excludes hybrid instruments, equated to 9.0% of risk-weighted assets.

An internal economic capital adequacy model (ECAM, part of the group's economic capital model) is used to determine the minimum capital requirement for the non-banking group. The ECAM is based on similar principles and models as Basel II specifications and calculates potential losses using a 99.9% confidence interval where statistical tests are used. Economic capital requirements are calculated across a broad spectrum of risks, including (in order, from largest to smallest economic capital required) equity, credit, operational and market risk.

Appendix 1



MACQUARIE GROUP LIMITED (c.)

Income Statement

	31 Mar 2009				31 Mar 2008			31 Mar 2007	
	Year End USDm Original	Year End AUDm Original	As % of Earning Assets Original	Average AUDm Original	Year End AUDm Original	As % of Earning Assets Original	Year End AUDm Original	As % of Earning Assets Original	
Income Statement									
1. Interest Income on Loans	2,654.3	3,862.0	3.76	3,868.0	3,874.0	3.79	2,986.0	4.18	
2. Other Interest Income	1,758.1	2,558.0	2.49	2,691.0	2,824.0	2.76	1,646.0	2.30	
3. Dividend Income	33.7	49.0	0.05	70.0	91.0	0.09	84.0	0.12	
4. Gross Interest and Dividend Income	4,446.0	6,469.0	6.30	6,629.0	6,789.0	6.64	4,716.0	6.60	
5. Interest Expense on Customer Deposits	666.7	970.0	0.94	915.5	861.0	0.84	498.0	0.70	
6. Preferred Dividends Paid & Declared	53.6	78.0	0.08	81.0	84.0	0.08	85.0	0.12	
7. Other Interest Expense	3,101.0	4,512.0	4.39	4,766.0	5,020.0	4.91	3,406.0	4.76	
8. Total Interest Expense	3,821.3	5,560.0	5.41	5,762.5	5,965.0	5.83	3,989.0	5.58	
9. Net Interest Income	624.7	909.0	0.89	866.5	824.0	0.81	727.0	1.02	
10. Net Gains (Losses) on Trading and Derivatives	795.2	1,157.0	1.13	1,496.0	1,835.0	1.79	1,047.0	1.46	
11. Net Gains (Losses) on Other Securities	98.3	143.0	0.14	133.0	123.0	0.12	160.0	0.22	
12. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
13. Net Insurance Income	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
14. Net Fees and Commissions	2,309.3	3,360.0	3.27	3,651.5	3,943.0	3.86	3,119.0	4.36	
15. Other Operating Income	283.8	413.0	0.40	348.5	284.0	0.28	272.0	0.38	
16. Total Non-Interest Operating Income	3,486.6	5,073.0	4.94	5,629.0	6,185.0	6.05	4,598.0	6.43	
17. Personnel Expenses	1,621.3	2,359.0	2.30	3,268.0	4,177.0	4.09	3,733.0	5.22	
18. Other Operating Expenses	1,026.1	1,493.0	1.45	1,328.5	1,164.0	1.14	1,099.0	1.54	
19. Total Non-Interest Expenses	2,647.4	3,852.0	3.75	4,596.5	5,341.0	5.22	4,832.0	6.76	
20. Equity-accounted Profit/ Loss - Operating	50.9	74.0	0.07	115.0	156.0	0.15	242.0	0.34	
21. Pre-Impairment Operating Profit	1,514.8	2,204.0	2.15	2,014.0	1,824.0	1.78	735.0	1.03	
22. Loan Impairment Charge	316.8	461.0	0.45	284.5	108.0	0.11	40.0	0.06	
23. Other Credit Impairment Charges	912.0	1,327.0	1.29	873.5	420.0	0.41	12.0	0.02	
24. Operating Profit	285.9	416.0	0.41	856.0	1,296.0	1.27	683.0	0.96	
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
26. Non-recurring Income	55.7	81.0	0.08	320.5	560.0	0.55	650.0	0.91	
27. Non-recurring Expense	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
28. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
29. Other Non-operating Income and Expenses	284.5	414.0	0.40	339.5	265.0	0.26	510.0	0.71	
30. Pre-tax Profit	626.1	911.0	0.89	1,516.0	2,121.0	2.07	1,843.0	2.58	
31. Tax expense	10.3	15.0	0.01	166.0	317.0	0.31	377.0	0.53	
32. Net Income	615.8	896.0	0.87	1,350.0	1,804.0	1.76	1,466.0	2.05	
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	
34. Change in Value of AFS Investments	-155.3	-226.0	-0.22	-115.5	-5.0	0.00	228.0	0.32	
35. Currency Translation Differences	-10.3	-15.0	-0.01	-17.5	-20.0	-0.02	1.0	0.00	
36. Remaining OCI Gains/(losses)	-136.1	-198.0	-0.19	-48.5	101.0	0.10	-3.0	0.00	
37. Fitch Comprehensive Income	314.1	457.0	0.45	1,168.5	1,880.0	1.84	1,692.0	2.37	
38. Memo: Profit Allocation to Non-controlling Interests	17.2	25.0	0.02	13.0	1.0	0.00	3.0	0.00	
39. Memo: Net Income after Allocation to Non-controlling Interests	598.6	871.0	0.85	1,337.0	1,803.0	1.76	1,463.0	2.05	
40. Memo: Common Dividends Paid & Declared in the Period	360.1	524.0	0.51	737.0	950.0	0.93	794.0	1.11	
Exchange Rate		USD1 = AUD 1.4550			USD1 = AUD 1.1200		USD1 = AUD 1.2392		

MACQUARIE GROUP LIMITED (c.)
Assets & Off-Balance Sheet Items

	31 Mar 2009				31 Mar 2008		31 Mar 2007	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of
	USDm	AUDm	Assets	AUDm	AUDm	Assets	AUDm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original
A. Loans								
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Other Consumer/ Retail Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Other Loans	34,411.7	50,069.0	33.57	53,081.0	56,093.0	33.54	47,948.0	35.16
5. Less: Reserves for Impaired Loans/ NPLs	450.9	656.0	0.44	447.5	239.0	0.14	162.0	0.12
6. Total Loans Net of Reserves	33,960.8	49,413.0	33.13	52,633.5	55,854.0	33.40	47,786.0	35.04
7. Memo: Gross Loans	34,411.7	50,069.0	33.57	53,081.0	56,093.0	33.54	47,948.0	35.16
8. Memo: Impaired Loans included above	981.4	1,428.0	0.96	856.5	285.0	0.17	166.0	0.12
9. Memo: Loans at Fair Value included above	3,204.1	4,662.0	3.13	4,054.5	3,447.0	2.06	1,990.0	1.46
B. Other Earning Assets								
1. Loans and Advances to Banks	11,936.1	17,367.0	11.64	25,191.5	33,016.0	19.74	32,029.0	23.48
2. Trading Securities	6,246.7	9,089.0	6.09	12,396.0	15,703.0	9.39	15,431.0	11.31
3. Derivatives	18,850.9	27,428.0	18.39	24,282.0	21,136.0	12.64	11,913.0	8.73
4. Available for Sale Securities	12,455.7	18,123.0	12.15	17,288.5	16,454.0	9.84	6,060.0	4.44
5. Held to Maturity Securities	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
6. At-equity Investments	4,208.2	6,123.0	4.11	5,811.5	5,500.0	3.29	4,071.0	2.98
7. Other Securities	2,232.3	3,248.0	2.18	1,966.0	684.0	0.41	789.0	0.58
8. Total Securities	43,993.8	64,011.0	42.92	61,744.0	59,477.0	35.56	38,264.0	28.06
9. Memo: Government Securities included Above	3,107.9	4,522.0	3.03	2,921.5	1,321.0	0.79	427.0	0.31
10. Investments in Property	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
11. Insurance Assets	2,964.9	4,314.0	2.89	5,006.5	5,699.0	3.41	5,847.0	4.29
12. Other Earning Assets	486.6	708.0	0.47	889.5	1,071.0	0.64	1,081.0	0.79
13. Total Earning Assets	93,342.3	135,813.0	91.06	145,465.0	155,117.0	92.75	125,007.0	91.65
C. Non-Earning Assets								
1. Cash and Due From Banks	96.9	141.0	0.09	74.0	7.0	0.00	3.0	0.00
2. Foreclosed Real Estate	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
3. Fixed Assets	415.8	605.0	0.41	490.0	375.0	0.22	378.0	0.28
4. Goodwill	340.2	495.0	0.33	435.5	376.0	0.22	39.0	0.03
5. Other Intangibles	181.4	264.0	0.18	191.0	118.0	0.07	61.0	0.04
6. Current Tax Assets	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
7. Deferred Tax Assets	815.1	1,186.0	0.80	952.0	718.0	0.43	457.0	0.34
8. Discontinued Operations	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
9. Other Assets	7,312.7	10,640.0	7.13	10,589.5	10,539.0	6.30	10,444.0	7.66
10. Total Assets	102,504.5	149,144.0	100.00	158,197.0	167,250.0	100.00	136,389.0	100.00
D. Off-Balance Sheet Items								
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Liquidity Lines to SPEs	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Guarantees	173.9	253.0	0.17	267.0	281.0	0.17	321.0	0.24
4. Acceptances Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Committed Credit Lines	2,732.0	3,975.0	2.67	5,396.5	6,818.0	4.08	7,850.0	5.76
6. Other Contingent Liabilities	1,684.5	2,451.0	1.64	2,001.0	1,551.0	0.93	2,052.0	1.50
7. Total Business Volume	107,094.8	155,823.0	104.48	165,861.5	175,900.0	105.17	146,612.0	107.50
8. Memo: Total Weighted Risks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
Exchange Rate		USD1 = AUD 1.4550			USD1 = AUD 1.1200		USD1 = AUD 1.2392	

MACQUARIE GROUP LIMITED (c.)

Liabilities and Equity

	31 Mar 2009				31 Mar 2008		31 Mar 2007	
	Year End USDm	Year End AUDm	As % of Assets	Average AUDm	Year End AUDm	As % of Assets	Year End AUDm	As % of Assets
	Original	Original	Original	Original	Original	Original	Original	Original
E. Interest-Bearing Liabilities								
1. Customer Deposits - Current	15,029.6	21,868.0	14.66	18,825.5	15,783.0	9.44	12,403.0	9.09
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Customer Deposits - Term	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Total Customer Deposits	15,029.6	21,868.0	14.66	18,825.5	15,783.0	9.44	12,403.0	9.09
5. Deposits from Banks	10,866.7	15,811.0	10.60	19,816.5	23,822.0	14.24	11,616.0	8.52
6. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
7. Total Deposits, Money Market and Short-term Funding	25,896.2	37,679.0	25.26	38,642.0	39,605.0	23.68	24,019.0	17.61
8. Long-term Borrowing	33,175.3	48,270.0	32.36	52,692.5	57,115.0	34.15	51,365.0	37.66
9. Subordinated Borrowing	1,028.2	1,496.0	1.00	1,600.0	1,704.0	1.02	1,783.0	1.31
10. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
11. Total Long Term Funding	34,203.4	49,766.0	33.37	54,292.5	58,819.0	35.17	53,148.0	38.97
12. Derivatives	18,811.7	27,371.0	18.35	24,385.0	21,399.0	12.79	11,069.0	8.12
13. Trading Liabilities	1,485.2	2,161.0	1.45	6,993.0	11,825.0	7.07	15,922.0	11.67
14. Total Interest Bearing Liabilities	80,396.6	116,977.0	78.43	124,312.5	131,648.0	78.71	104,158.0	76.37
F. Non-Interest Bearing Liabilities								
1. Fair Value Portion of Debt	4,573.2	6,654.0	4.46	6,794.0	6,934.0	4.15	6,440.0	4.72
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	129.9	189.0	0.13	184.0	179.0	0.11	153.0	0.11
4. Current Tax Liabilities	128.5	187.0	0.13	190.0	193.0	0.12	132.0	0.10
5. Deferred Tax Liabilities	2.7	4.0	0.00	62.5	121.0	0.07	78.0	0.06
6. Other Deferred Liabilities	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
7. Discontinued Operations	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00
8. Insurance Liabilities	2,963.6	4,312.0	2.89	5,000.5	5,689.0	3.40	5,781.0	4.24
9. Other Non-interest Bearing Liabilities	7,333.3	10,670.0	7.15	11,547.5	12,425.0	7.43	12,128.0	8.89
10. Total Liabilities	95,527.8	138,993.0	93.19	148,091.0	157,189.0	93.98	128,870.0	94.49
G. Hybrid Capital								
1. Pref. Shares and Hybrid Capital accounted for as Debt	406.2	591.0	0.40	n.a.	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	79.7	116.0	0.08	124.5	133.0	0.08	n.a.	-
H. Equity								
1. Common Equity	6,095.5	8,869.0	5.95	8,668.0	8,467.0	5.06	6,035.0	4.42
2. Non-controlling Interest	615.8	896.0	0.60	1,064.0	1,232.0	0.74	1,248.0	0.92
3. Securities Revaluation Reserves	-2.1	-3.0	0.00	110.0	223.0	0.13	228.0	0.17
4. Accumulated Other Comprehensive Income	-218.6	-318.0	-0.21	-156.0	6.0	0.00	8.0	0.01
5. Total Equity	6,490.7	9,444.0	6.33	9,686.0	9,928.0	5.94	7,519.0	5.51
6. Total Liabilities and Equity	102,504.5	149,144.0	100.00	158,197.0	167,250.0	100.00	136,389.0	100.00
7. Memo: Fitch Core Capital	10,723.7	15,603.0	10.46	15,685.5	15,768.0	9.43	13,463.0	9.87
8. Memo: Fitch Eligible Capital	10,723.7	15,603.0	10.46	15,685.5	15,768.0	9.43	13,463.0	9.87
Exchange Rate		USD1 = AUD 1.4550			USD1 = AUD 1.1200		USD1 = AUD 1.2392	

MACQUARIE GROUP LIMITED (c.)

Summary Analytics

	31 Mar 2009		31 Mar 2008		31 Mar 2007	
	Year End		Year End		Year End	
	%	%	%	%	%	%
	Original	Original	Original	Original	Original	Original
A. Interest Ratios						
1. Interest Income on Loans/ Average Gross Loans	7.64	7.73	7.24			
2. Interest Expense on Customer Deposits/ Average Customer Deposits	5.08	5.07	4.65			
3. Interest Income/ Average Earning Assets	6.30	6.64	6.60			
4. Interest Expense/ Average Interest-bearing Liabilities	5.56	6.04	5.35			
5. Net Interest Income/ Average Earning Assets	0.89	0.81	1.02			
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.44	0.70	0.96			
B. Other Operating Profitability Ratios						
1. Non-Interest Income/ Gross Revenues	84.80	88.24	86.35			
2. Non-Interest Expense/ Gross Revenues	64.39	76.20	90.74			
3. Non-Interest Expense/ Average Assets	2.24	3.30	4.04			
4. Pre-impairment Op. Profit/ Average Equity	22.18	20.00	11.02			
5. Pre-impairment Op. Profit/ Average Total Assets	1.28	1.13	0.61			
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	81.13	28.95	7.07			
7. Operating Profit/ Average Equity	4.19	14.21	10.24			
8. Operating Profit/ Average Total Assets	0.24	0.80	0.57			
9. Taxes/ Pre-tax Profit	1.65	14.95	20.46			
C. Other Profitability Ratios						
1. Net Income/ Average Total Equity	9.02	19.78	21.99			
2. Net Income/ Average Total Assets	0.52	1.11	1.23			
3. Fitch Comprehensive Income/ Average Total Equity	4.60	20.61	25.38			
4. Fitch Comprehensive Income/ Average Total Assets	0.27	1.16	1.41			
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.			
D. Capitalization						
1. Fitch Eligible Capital/ Regulatory Weighted Risks	n.a.	n.a.	n.a.			
2. Tangible Common Equity/ Tangible Assets	5.85	5.25	5.13			
3. Tangible Common Equity/ Total Business Volume	5.57	4.96	4.75			
4. Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.			
5. Total Regulatory Capital Ratio	n.a.	n.a.	n.a.			
6. Fitch Eligible Capital/ Tier 1 Regulatory Capital	n.a.	n.a.	n.a.			
7. Equity/ Total Assets	6.33	5.94	5.51			
8. Cash Dividends Paid & Declared/ Net Income	58.48	52.66	54.16			
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	114.66	50.53	46.93			
10. Net Income - Cash Dividends/ Total Equity	3.94	8.60	8.94			
E. Loan Quality						
1. Growth of Total Assets	-10.83	22.63	n.a.			
2. Growth of Gross Loans	-10.74	16.99	n.a.			
3. Impaired Loans(NPLs)/ Gross Loans	2.85	0.51	0.35			
4. Reserves for Impaired Loans/ Gross loans	1.31	0.43	0.34			
5. Reserves for Impaired Loans/ Impaired Loans	45.94	83.86	97.59			
6. Impaired Loans less Reserves for Imp Loans/ Equity	8.17	0.46	0.05			
7. Loan Impairment Charges/ Average Gross Loans	0.91	0.22	0.10			
8. Net Charge-offs/ Average Gross Loans	0.09	0.04	0.01			
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	2.85	0.51	0.35			
F. Funding						
1. Loans/ Customer Deposits	228.96	355.40	386.58			
2. Interbank Assets/ Interbank Liabilities	109.84	138.59	275.73			

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