

Macquarie Bank (MQG AU)

FUNDAMENTAL VIEW ¹

As of 12 Oct 2023

- Macquarie was tested during the global financial crisis, but managed to steer through the crisis without reporting net losses; in fact it hasn't reported a loss in its 50+ years of existence. A strong balance sheet mitigated liquidity problems, but its banking unit had to turn to Australia's central bank at that time for support.
- The group has an impressive track record of managing risks and achieving good returns, and has built capabilities in a number of areas. Divestments are controlled based on the market environment. More recently, it has been a beneficiary of market volatility in the commodity space. Its Australian mortgage book has also shown strong but sensible growth.

RISKS & CATALYSTS

As of 12 Oct 2023

- Macquarie has sizable exposures to credit and equity risk, and so could be adversely impacted by falls in asset prices. In addition, volatile/weak markets could impede its ability to exit some of its investments. Its earnings profile partially depends on exits and therefore is lumpy in nature. So far it has managed this risk well.
- As a relatively small group operating mainly in wholesale markets, it is vulnerable to a liquidity freeze, but it mitigates this through running a well-matched and liquid balance sheet.
- It is a global leader in infrastructure investments and is well positioned for the green transition. It has been a strong beneficiary of volatility in commodity markets, a testament to its risk management capabilities.
- Its banking unit, MBL, has been subject to enforcement action in Apr-21 by APRA over the incorrect treatment of some intra-group funding arrangements resulting in a A\$500 mn operational risk overlay being applied as well as LCR and NSFR add-ons.

CREDIT QUALITY SCORE (CQS)²

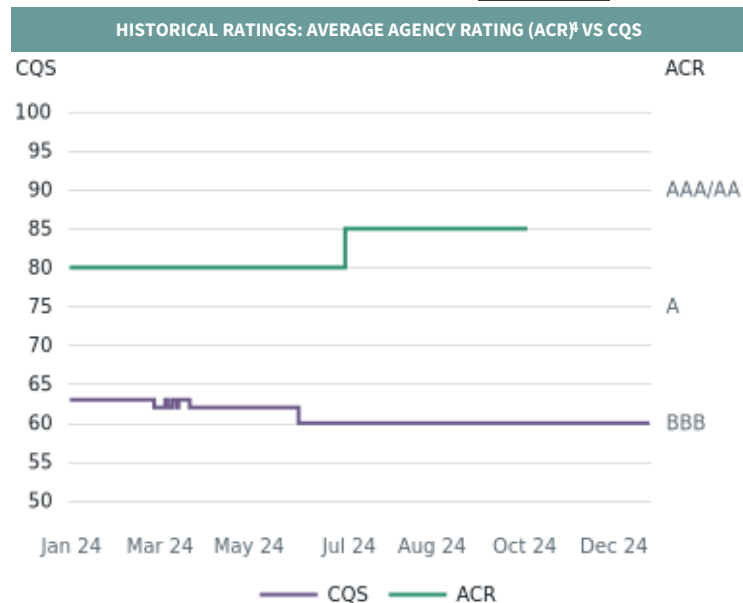
As of 19 Dec 2024

CURRENT CQS

60

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE



KEY METRICS

As of 04 Mar 2024

AUD MN	2H23	1H23	2H22	1H22	2H21
Operating Income	10,649	8,927	9,799	8,034	7,332
Operating Expense/Operating Income	61.2%	62.9%	58.3%	63.1%	62.8%
Net Profit	2,877	2,305	2,663	2,043	2,030
ROAE	18.1%	15.6%	19.6%	17.8%	9.5%
Total Impairments/Op Profit	4.1%	8.6%	6.8%	7.8%	2.8%
Annuity Business Profit Contribution	27.0%	43.3%	44.7%	39.6%	38.3%
MBL CET1 Ratio (APRA)	13.7%	12.8%	11.5%	11.7%	12.6%
MBL Liquidity Coverage Ratio	214%	172%	175%	179%	174%
MBL Net Stable Funding Ratio	124%	116%	121%	122%	115%

BUSINESS DESCRIPTION

As of 12 Oct 2023

- Macquarie grew out of the Australian business of Hill Samuel Australia, commencing operations in 1969. Macquarie Group Ltd (MGL) is the holding company and listed entity, under which there is the banking group Macquarie Bank Ltd (MBL) which consists of the Banking & Financial Services (BFS) and Commodities & Global Markets (CGM) businesses, and a non-banking group which consists of the Macquarie Asset Management (MAM) and Macquarie Capital (MC) businesses.
- From the 1990s, the group has been associated with the "Macquarie Model" which focused on identifying cash-generating infrastructure assets & packaging them into funds that could be sold, with Macquarie taking fees as banker, arranger and asset manager.
- The global financial crisis prompted it to diversify its operations which it did through acquisitions of asset managers including Delaware Investments in the US and Blackmont Capital in Canada, boutique investment bank Fox-Pitt Kelton and specialists such as Tristone Energy (Canada). More recently, it acquired US asset manager, Waddell & Reed in April 2021, which added around US\$76 bn of assets under management.
- MAM has AUM of ~A\$796 bn, mostly in "traditional" funds management but also including its specialist infrastructure and real assets funds.

GLOSSARY

- ¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.
 - ² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.
 - ³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.
 - ⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.
- Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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