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ASX / MEDIA RELEASE

Macquarie Group Operational Briefing

Key points

- **Global economic uncertainty has deepened since October 2011, with substantially lower levels of client activity in many markets**
- **Annuity-style businesses (Macquarie Funds, Banking and Financial Services and Corporate and Asset Finance) performing in line with expectations with a combined FY12 net profit[1] contribution expected to be up approximately 20% on FY11**
- **Fixed Income, Currencies and Commodities Group (FICC) saw improved conditions in a number of markets to deliver December 2011 quarter (December quarter) net profit contribution which was up on pcp and significantly up on the September 2011 quarter**
- **Macquarie Securities Group and Macquarie Capital severely impacted by macroeconomic conditions with December quarter net profit contributions from both significantly down on pcp and prior period**
- **FY12 combined operating income [2] from capital markets facing businesses (Macquarie Securities, Macquarie Capital and FICC) expected to be down approximately 25% on pcp**
- **As previously indicated, Macquarie's FY12 result is expected to be lower than FY11. Based on current market conditions, anticipate FY12 result to be approximately 25% lower than FY11**
- **Group capital surplus on a proforma basis under Harmonised Basel III, is expected to be approximately $A3.7 billion at 31 March 2012 and the common equity Tier 1 ratio for Macquarie Bank Limited is expected to be 11.2% at 31 March 2012 (excluding capital surplus held in the non-banking group)**
- **Capital surplus is expected to allow commencement of a share buyback of up to 10% of Macquarie Group ordinary shares in the first half of FY13, subject to regulatory approval**

Sydney, 7 February 2012 – Macquarie Group Limited (Macquarie) (ASX:MQG;ADR: MQBKY) today provided an update on market conditions, business activity and the outlook for the second half of the financial year ending 31 March, 2012.

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[1] Net profit contribution represents operating income less operating expenses, and is reported before profit share and income tax.
[2] Operating income represents revenues less those expenses directly attributable to the revenues.

Overview

During a presentation at Macquarie's Operational Briefing in Sydney today, Macquarie Chief Executive Officer Nicholas Moore said: "Global economic uncertainty has deepened, resulting in substantially lower levels of client activity in many markets.

"However, Macquarie's three annuity-style businesses - Macquarie Funds, Banking and Financial Services and Corporate and Asset Finance - continue to perform in line with expectations with their combined FY12 net profit contribution expected to be up by approximately 20% on FY11.

"The Fixed Income, Currencies and Commodities Group saw improved conditions in a number of markets to deliver a December quarter net profit contribution up on pcp and significantly up on the prior period.

"Our two other capital markets facing businesses, Macquarie Securities Group and Macquarie Capital, were severely impacted by macroeconomic conditions with December quarter net profit contributions from both significantly down on pcp and the prior period," Mr Moore said.

"For example, cash equities industry-wide by value traded, were down 24% in Asia and 25% in Australia in the December quarter compared to the September quarter, while IPOs by value were down 61% in Australia and 4% in Asia for the same period. IPOs by value were down 48% in Asia and 87% in Australia for calendar year 2011 compared with 2010."

Macquarie Securities' second half operating income is expected to be down 55% on pcp, with FY12 operating income expected to be down 35% on FY11.

Macquarie Capital's second half operating income is expected to be down 35% on pcp with FY12 operating income expected to be down by 30% on FY11.

Mr Moore noted that the December quarter included the receipt of the $A300 million cash amount from MAp which has been recorded as income.

Cost reductions across the businesses continued in the quarter with FY12 operating expenses for the annuity-style businesses expected to be down 5% on pcp and operating expenses for the capital markets facing businesses down 10% on pcp.

Mr Moore said Macquarie was maintaining strong market positions and provided an overview of recent developments undertaken by the businesses:

- Macquarie Funds, the largest Australian-based asset manager and the largest manager of infrastructure assets globally, continued to build out its unlisted infrastructure funds platform and its global distribution platform with senior hires in the US, Europe and Japan. Assets Under Management has decreased from $A324 billion to $A314 billion due to $A16 billion of negative foreign exchange translation against $A6 billion of positive market movements, net inflows and acquisitions/restructurings.

- Corporate and Asset Finance - one of the largest providers of motor vehicle finance in Australia and one of North America's largest independent lessors of technology equipment - has acquired lending, meter and rail portfolios and divested non-scalable businesses such as aircraft engine leasing.
- Banking and Financial Services - the No 1 ranked full service retail stockbroker in Australia and Standard & Poor's Product Distributor of the Year (Professional Series) - broadened its annuity platforms to attract new funds and is migrating Macquarie Private Wealth Asia to Julius Baer.
- Macquarie Securities is ranked No 2 by Australian institutional investors, No 3 by Asian institutional investors and No 1 by US and European institutional investors for overall sales and research into Australian equities, and is the No 1 execution broker in Asia for execution quality. Macquarie Securities exited institutional derivatives in the US, UK, Asia and South Africa and listed public derivatives in Germany. It also closed derivatives activities in Paris, Munich and Zurich as well as selected US operations.
- Macquarie Capital, which to December 2011 was ranked No 1 in Australia and New Zealand M&A by number of deals[3] and No 1 for Australian Equity and Equity-related deals, entered a strategic collaboration with Julius Baer in Asia and reviewed front and back-office costs and team sizes to reflect market opportunities.
- Fixed Income, Currencies and Commodities, the No 4 US physical gas marketer in North America, selectively grew niche physical businesses including physical sugar.

Capital and share buyback
Reported capital surplus at December 2011 (APRA Basel II) remains unchanged from September 2011 at $A3.5 billion.

Capital surplus, measured on a proforma basis under Harmonised Basel III, is expected to be approximately $A3.7 billion at 31 March 2012, measured at current Tier 1 requirements of 7%. It is expected to be $A2.7 billion measured at 8.5%. The common equity Tier 1 ratio for Macquarie Bank Limited is expected to be 11.2% at 31 March 2012 (excluding capital surplus held in the non-banking group). Basel III capital surplus measured after APRA "super equivalence" expected to be $A0.9 billion as at 31 March 2012 (APRA 2016 requirements).

The capital surplus is expected to allow the commencement of a share buyback of up to 10% of Macquarie Group ordinary shares in the first half of FY13, subject to regulatory approval, and for the buyback to proceed concurrent with further capital actions.

Strong funding and balance sheet position
The funded balance sheet remains strong and well funded with continued growth in deposits.

Outlook
Since the Group's update to the market on 28 October 2011, Macquarie Securities and Macquarie Capital have continued to experience difficult trading conditions in many markets.

[3] Dealogic – Australia and New Zealand M&A completed deals (by deal count) for 1 April 11 - 31 December 11.

Accordingly, and as previously indicated, Macquarie's result for FY12 is expected to be lower than FY11. Based on current market conditions, FY12 is anticipated to be approximately 25% lower than FY11. It is also anticipated that 2H12 net profit after tax will be approximately 35% up on 1H12 and approximately 25% down on pcp. The expected increase between the first and second halves is principally due to a significantly improved contribution from FICC and the MAp cash amount which will offset a weaker contribution from Macquarie Securities.

The FY12 outlook is also subject to the completion rate of transactions and the conduct of period end reviews.

In addition to market conditions, the FY12 result remains subject to a range of other factors including: movements in foreign exchange rates; cost of a continued conservative approach to funding and capital; and regulation including the potential for regulatory changes.

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