



ASX / MEDIA RELEASE

Macquarie Group 2013 Operational Briefing

Key points

- **Market conditions have shown some signs of improvement, however client activity remains subdued for capital markets facing businesses**
- **Annuity-style businesses (Macquarie Funds, Banking and Financial Services and Corporate and Asset Finance) continue to perform well with combined 3Q13 net profit contribution¹ up on pcp and 2Q13**
- **Whilst Macquarie's capital markets facing businesses (FICC, Macquarie Securities Group and Macquarie Capital) continued to face subdued market conditions, combined 3Q13 net profit contribution was up strongly on both a weak pcp and 2Q13**
- **Benefits from operating efficiencies continue with 3Q13 operating expenses down approximately 10% on pcp**
- **At 31 December 2012, Group capital surplus under Harmonised Basel III was \$A3.3 billion and the common equity Tier 1 ratio for Macquarie Bank Limited was 11.3%**

Sydney, 5 February 2013 – Macquarie Group Limited (Macquarie) (ASX: MQG; ADR: MQBKY) today provided an update on business activity in the third quarter of the financial year ending 31 March 2013 (3Q13) and updated the outlook for the financial year ending 31 March 2013 (FY13).

Overview

During a presentation at Macquarie's Operational Briefing in Sydney today, Macquarie Chief Executive Officer Nicholas Moore said: "Since our result announcement for the first half of the 2013 financial year, market conditions have shown some signs of improvement, however client activity remains subdued for capital markets facing businesses.

"Macquarie's annuity-style businesses - Macquarie Funds, Banking and Financial Services and Corporate and Asset Finance - continue to perform well with the combined third quarter 2013 net profit contribution up on the prior corresponding period, and the prior period ended 30 September 2012.

¹ All references to net profit contribution refer to operating income less operating expenses and is reported before profit share and income tax

“Whilst Macquarie’s capital markets facing businesses - Fixed Income, Currencies and Commodities, Macquarie Securities and Macquarie Capital - continued to face subdued market conditions, the combined third quarter 2013 net profit contribution was up strongly on both a weak prior corresponding period and September 2012 quarter.”

The cash equities business of Macquarie Securities remains marginally profitable and legacy expenses are continuing to decline. Macquarie Capital’s 3Q13 deal activity overall was up on both a weak prior corresponding period (pcp) and the September 2012 quarter (2Q13), although equity capital markets levels remain low, particularly in Asia and Australia.

Fixed Income, Currencies and Commodities (FICC) experienced continued good performance from Energy Markets and Credit Trading, however Metals & Energy Capital and Metals & Agricultural Sales and Trading continue to be impacted by market conditions.

The Group continued to benefit from operating efficiencies with 3Q13 operating expenses down approximately 10 per cent on pcp.

Mr Moore provided an overview of recent developments undertaken by the businesses:

- **Macquarie Funds** (MFG), Australia’s largest global asset manager, saw assets under management remain broadly in line with 30 September 2012 at \$A334 billion. Since 30 September 2012, Macquarie Mexican REIT successfully completed its global offering, Macquarie European Alpha Fund was awarded its first mandate and Macquarie was awarded a \$US500 million mandate to establish and manage an infrastructure debt portfolio.
- **Corporate and Asset Finance** expanded its leasing businesses in Europe with the acquisition of a European rail leasing platform and by entering the Independent Contract Hire market for motor vehicles in the United Kingdom. Strong securitisation activity has continued with \$A1.1 billion of motor vehicle and equipment leases and loans secured during 3Q13. It also continued to make portfolio additions in corporate and real estate lending across all geographies.
- **Banking and Financial Services’** \$A11.1 billion Australian mortgage portfolio was up five per cent on pcp. During 3Q13, BFS acquired 8.3 per cent of Yellow Brick Road Holdings Limited (YBR) and signed a financial product distribution agreement with YBR. It has also entered into an agreement to acquire Pacific Premium Funding. If the acquisition is approved by the Australian Competition and Consumer Commission, Macquarie Premium Funding will become the second largest premium funder in Australia.
- **Macquarie Securities** (MSG) was awarded \$US200 million of a China Qualified Foreign Institutional Investor quota during 3Q13. It also commenced issuing derivative warrants on the Stock Exchange of Thailand. Cost reductions from restructuring and other projects are now reflected in reduced monthly expense run rates and legacy expenses continued to decline.
- **Macquarie Capital** completed a number of transactions since 30 September 2012 including: AMP Capital’s shopping centre transaction and associated equity raising (adviser, sole lead manager and arranger); China Gas’ successful defence of an unsolicited pre-conditional offer (adviser); Macquarie Mexican REIT’s IPO (bookrunner);

Canada's Renegade Petroleum's asset acquisition and associated prospectus offering and private placement (adviser, co-lead underwriter and co-manager); and the sale of Wales & West Utilities (adviser).

- **FICC** completed MGL's first US Municipal pre-paid natural gas bond transaction of \$US1.5 billion to provide TexGas III with a 20-year supply of natural gas. It also arranged and acted as Joint Lead Manager for the Paragon Group of Companies PLC in its GBP200 million securitisation for Paragon Mortgages. During 3Q13, FICC expanded its Canadian Futures platform to include clearing services, and it provisionally registered as swap dealers with the CFTC in the US.

Strong capital, funding and balance sheet positions

As at 31 December 2012, the Group maintained its strong capital position, with a \$A3.3 billion surplus over its minimum regulatory capital requirement (on a harmonised Basel III basis at 8.5 per cent RWA).

The funded balance sheet remains strong and well funded with wholesale and retail deposits remaining broadly flat between 30 September 2012 and 31 December 2012.

Outlook

Subject to market conditions, the FY13 net profit contribution from the operating groups is expected to be materially up on FY12. The FY13 contribution from Corporate is expected to be down on FY12 due to the net impact of a number of items including the receipt of \$A295 million from Sydney Airport in FY12.

The tax rate is expected to increase from 28 per cent in FY12 to over 30 per cent for FY13 due to the ongoing strength of US businesses and weakness in Asian capital markets facing businesses.

Mr Moore said: "Whilst market conditions remain uncertain, we currently expect Macquarie's result for FY13 to be up approximately 10 per cent on FY12 with the probability of a stronger result should improved market conditions persist."

The FY13 result remains subject to market conditions, the completion rate of transactions and impairment testing as well as a range of other factors including: the cost of the Group's continued conservative approach to funding and capital; regulation, including the potential for regulatory changes; increased competition in some markets; and the overall cost of funding.

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