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ASX / MEDIA RELEASE

Macquarie Group 2014 Operational Briefing

Key points

- **Market conditions continued to show signs of improvement, however client activity remains subdued for some capital markets facing businesses**
- **Annuity-style businesses (Macquarie Funds, Banking and Financial Services and Corporate and Asset Finance) continue to perform well with combined 3Q14 net profit contribution¹ up on pcp and prior quarter**
- **Capital markets facing businesses (FICC, Macquarie Securities Group and Macquarie Capital) experienced mixed trading conditions with combined 3Q14 net profit contribution down on pcp and up on prior quarter**
- **Following shareholder approval at Macquarie's general meeting on 12 December 2013, the distribution of SYD securities to eligible shareholders was completed in January 2014**
- **At 31 December 2013, Group capital surplus under APRA Basel III was \$A2.7 billion². The Bank Group APRA Basel III common equity Tier 1 ratio for Macquarie Bank Limited was 9.7% and the Tier 1 ratio was 10.8%**

Sydney, 11 February 2014 – 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 2014 (3Q14) and updated the outlook for the financial year ending 31 March 2014 (FY14).

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 2014 financial year, market conditions continued to show signs of improvement, however client activity remains subdued for some 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

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

² Calculated at 7% RWA

2014 net profit contribution up on the prior corresponding period, and the September 2013 quarter.

“Macquarie’s capital markets facing businesses - Fixed Income, Currencies and Commodities, Macquarie Securities and Macquarie Capital - experienced mixed trading conditions with combined third quarter 2014 net profit contribution down on the prior corresponding period and up on September 2013 quarter.”

Macquarie Securities and Macquarie Capital experienced increased levels of activity in ECM, particularly in Asia and Australia, although M&A activity levels continue to be subdued. Fixed Income, Currencies and Commodities’ (FICC) net profit contribution is up on September 2013 quarter but down on prior corresponding period which was a strong quarter across most FICC businesses.

Following shareholder approval at Macquarie’s general meeting on 12 December 2013, the distribution of Sydney Airport securities to eligible shareholders was completed in January 2014. The distribution had the following impact on Macquarie:

- A gain on distribution of approximately \$A228 million was recognised in the income statement
- Investment securities available for sale reduced by approximately \$A1.3 billion
- APRA Basel III regulatory capital surplus reduced by approximately \$A250 million after taking into account the release of capital currently held against the investment, profit on distribution and certain other capital initiatives, all of which have been completed. This reduction in capital surplus is consistent with the outstanding balance of the previously announced ordinary share buyback, which has now been cancelled.

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 (AUM) increase to \$A430.7 billion from \$A380.7 billion at 30 September 2013. Since 30 September 2013, MFG completed the acquisition of ING Investment Management Korea which has assets under management of \$A24.4 billion. Macquarie Quant Hedge Funds surpassed \$A2 billion in AUM. Macquarie Specialised Investment Solutions was awarded a mandate to invest in Infrastructure debt on behalf of a top 10 UK Corporate Pension fund with an initial allocation of £200 million.
- **Corporate and Asset Finance** (CAF): The newly established Macquarie Rotorcraft helicopter leasing business closed its first transactions. The energy leasing portfolio continued to grow, totalling \$A0.9 billion at 31 December 2013, which includes meters in the UK and the recently commenced financing of solar in Australia. Strong securitisation activity continued with \$A1.4 billion of motor vehicle and equipment leases secured during 3Q14. CAF continued its portfolio additions in corporate and real estate lending across all geographies with further profit realisations, particularly from European assets.
- **Banking and Financial Services** (BFS) increased its Australian mortgage portfolio to \$A15.8 billion, an eight per cent increase on the September 2013 quarter, which represents 1 per cent of the Australian mortgage market. During 3Q14, BFS sold its 19.9

per cent stake in OzForex via an initial public offering (IPO) and completed the sale of the Macquarie Private Wealth Canada business to Richardson GMP.

- **Macquarie Securities Group (MSG)** held the number one market share position for Australia/New Zealand IPOs by number and value of deals and was a top three broker in European commodity ETFs for the 2013 calendar year. MSG also arranged and executed structured equity financing deals for Japanese clients, raising approximately ¥9.2 billion in new equity capital.
- **Macquarie Capital** completed a number of transactions since 30 September 2013 including: joint lead manager on Meridian Energy's \$NZ1.9 billion IPO on the NZX and ASX which was New Zealand's largest ever IPO; adviser to Shui On Land on the \$US545 million sale of a prime Shanghai office asset to China Life; advisor to Bellatrix Exploration on the \$C576 million acquisition of Angle Energy; advisor to ESB International on the sale of its 50 per cent shareholding in Marchwood Power to MEAG and adviser to SHFL Entertainment on its \$US1.3 billion sale to Bally Technologies.
- **Fixed Income, Currencies and Commodities (FICC)** experienced stronger client flows and increased opportunities across the global energy platform however credit trading volumes were subdued during 3Q14. FICC also launched and priced a \$A153.4 million Sapphire XII securitisation for the Bluestone Group reflecting improved market conditions for the non-conforming residential mortgage market in Australia.

Strong capital, funding and balance sheet positions

At 31 December 2013, the Group's capital surplus under APRA Basel III was \$A2.7 billion³. The Bank Group APRA Basel III common equity Tier 1 ratio for Macquarie Bank Limited was 9.7 per cent and the Tier 1 ratio was 10.8 per cent.

The funded balance sheet remains strong and well funded with wholesale and retail deposits remaining broadly in line with 30 September 2013.

Outlook

Since our 2014 half year (1H14) result announcement on 1 November 2013, there have been no changes to the individual outlooks for each Operating Group with the exception of FICC who we still expect to be down on FY13, but now has the potential to be broadly in line with FY13 if recent improvements in market conditions persist.

Consistent with our previous statement to the market, while market volatility makes forecasting difficult, we continue to expect the FY14 net profit contribution from operating groups to be up on FY13.

The FY14 tax rate is currently expected to be broadly in line with FY13.

Accordingly, we continue to expect an improved result for FY14 on FY13 provided market conditions for the remainder of FY14 are not worse than FY13. In line with previous years, it is currently expected that the second half result will be stronger than the first half.

³ Calculated at 7% RWA

Our short term outlook remains subject to a range of challenges including:

- Market conditions
- The cost of our continued conservative approach to funding and capital; and
- Potential regulatory changes and tax uncertainties

Macquarie remains well positioned to deliver superior performance in the medium term, due to its deep expertise in major markets, strength in diversity, ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet, and a proven risk management framework and culture.

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