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MACQUARIE

ASX / Media Release

MACQUARIE GROUP ANNOUNCES $A501 MILLION HALF YEAR PROFIT

Key points

- **1H14 net profit of $A501 million, up 39% on 1H13, up 2% on 2H13**
- **1H14 operating income of $A3.7 billion, up 20% on 1H13**
- **1H14 operating expenses of $A2.9 billion, up 13% on 1H13**
- **Assets under management at 30 September 2013 $A385 billion[1], up from $A347 billion at 31 March 2013**
- **International income 66%[2] of total income in 1H14**
- **Annuity-style businesses (Macquarie Funds Group, Corporate and Asset Finance and Banking and Financial Services) combined net profit contribution[3] up 24% on 1H13**
- **Capital Markets facing businesses (Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities) delivered a combined net profit contribution up significantly on 1H13**
- **APRA Basel III Group regulatory capital of $A13.7 billion, $A3.1 billion[4] in excess of minimum regulatory capital requirement**
- **Effective tax rate of 38%, in line with FY13**
- **On market acquisitions of shares for the MEREP ($A216 million at a weighted average price of $A43.56) and DRP ($A81 million at a weighted average price of $A43.43) completed**
- **Subject to shareholder approval, Macquarie proposes to distribute to its shareholders one Sydney Airport stapled security for each Macquarie ordinary share held**
- **1H14 earnings per share (EPS) $A1.50, up 42% on 1H13**
- **Annualised Return on Equity (ROE) 8.7%, up from 6.6% in 1H13**
- **Interim dividend of $A1.00 per share (40% franked) up on 1H13 dividend of $A0.75 (unfranked) and down on 2H13 dividend of $A1.25 (40% franked)**

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[1] Excludes ING Investment Management Korea AUM $A25 billion, which MFG entered into an agreement to acquire during 1H14, subject to certain closing conditions, including regulatory approval.
[2] Operating income net of impairment charges for the half-year to 30 September 2013. Net operating income in each region excludes income from the Corporate segment.
[3] All references to net profit contribution are pre profit share, income tax and unallocated corporate costs
[4] Calculated at 7 per cent RWA

SYDNEY, 1 November 2013 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A501 million for the half year ended 30 September 2013 (1H14), up 39 per cent on the half year ended 30 September 2012 (1H13) and up 2 per cent on the half year ended 31 March 2013 (2H13).

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore said: “The six months to 30 September 2013 saw Macquarie’s annuity-style businesses continue to perform well with 1H14 combined results up 24 per cent on 1H13 and up 15 per cent on 2H13.

Mr Moore added: “Macquarie’s capital markets facing businesses’ combined results were up significantly on 1H13 and down 25 per cent on 2H13.

“Macquarie Securities and Macquarie Capital experienced improved activity levels in ECM, although M&A continued to be subdued. Fixed Income, Currencies and Commodities was impacted by further impairments in the Metals and Energy Capital business (MEC), reflecting continued weak investor sentiment and confidence in resource equity markets.

"1H14 operating expenses were $A2.9 billion up 13 per cent on 1H13 and up 6 per cent on 2H13.

“The effective tax rate of 38 per cent was in line with FY13.

“Macquarie’s assets under management at 30 September 2013 were $A385 billion[5], up from $A347 billion at 31 March 2013.

“The Group remains well positioned, with a strong and diverse global platform and specialist skills across a range of products and asset classes. All of this is built on the foundation of a strong balance sheet, significant surplus capital, a robust liquidity and funding position and a conservative approach to risk management.”

Macquarie also announced today an interim dividend of $A1.00 per share 40 per cent franked, up from the 1H13 dividend of $A0.75 per share unfranked and down from the 2H13 dividend of $A1.25 per share 40 per cent franked. This represents a payout ratio of approximately 67 per cent. The record date is 15 November 2013 and the payment date for the interim dividend is 12 December 2013.

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[5] Excludes ING Investment Management Korea AUM $A25 billion, which MFG entered into an agreement to acquire during 1H14, subject to certain closing conditions, including regulatory approval.

Proposed distribution of Sydney Airport securities to Macquarie shareholders

Macquarie also announced today that, subject to shareholder approval, it proposes to distribute to its shareholders one stapled security in ASX listed Sydney Airport (SYD) for each Macquarie ordinary share held. This amounts to approximately 340 million SYD securities.

Mr Moore said: "Sydney Airport is one of Australia's premier infrastructure assets. With Macquarie's strong balance sheet and excess regulatory capital, we believe that it is a good time for Macquarie to distribute Sydney Airport stapled securities to our shareholders, so they can directly participate in its ownership."

A shareholder meeting to approve the distribution, including a change to Macquarie's Constitution to facilitate the proposal and provide greater flexibility for payments of distributions in the future, is scheduled for 12 December 2013. If approved the distribution of SYD securities to eligible shareholders is expected to occur on 13 January 2014.

The meeting will also consider a consolidation of Macquarie shares on a 0.9438-for-one basis to adjust for the capital reduction. This will facilitate greater comparability of share prices and financial metrics before and after the distribution.

A share sale facility will be established for small and ineligible shareholders. Further detail about the proposal is outlined in the attached appendix.

Impact on Macquarie

If the proposal is approved, the impact of the distribution on Macquarie would be:

- A gain on distribution will be recognised in the income statement on the distribution date based on SYD's closing share price on the trading day prior to distribution (which is expected to be 10 January 2014). Based on SYD's closing share price of $A4.17 on 30 October 2013, the gain on distribution would be approximately $A377 million.
- AVS equity investments on the balance sheet will be reduced by the market value of SYD securities distributed to shareholders. The carrying value of the 340 million units in SYD as at 30 October 2013 is $A1.4 billion.
- APRA Basel III regulatory capital surplus is expected to reduce 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 (the majority of which have been completed or are under contract to be completed). This expected reduction in capital surplus is consistent with the outstanding balance of the ordinary share buyback previously announced. If the proposal is implemented, the outstanding buyback will be cancelled.

Board changes

John Niland has notified the Board of his intention to retire as a Director of Macquarie Group Limited and Macquarie Bank Limited, effective from 31 December 2013. John has served as a Non-Executive Director since February 2003. He currently chairs the Board Governance and Compliance Committee and is a member of the Board Remuneration Committee and Board Risk Committee. We thank John for his commitment and service over this period.

Gary Banks and Patricia Cross joined the Boards of Macquarie Group Limited and Macquarie Bank Limited on 1 August 2013 and 7 August 2013 respectively.

Gary Banks heads the Australia and New Zealand School of Government and was Chairman of the Productivity Commission from its inception in 1998 until 2012. He holds or has held roles with the Organisation for Economic Co-operation and Development (OECD), the General Agreements on Tariffs and Trade (GATT) Secretariat, the World Bank and the World Trade Organisation (WTO). He brings deep experience across economics, public policy and regulation in Australia and internationally.

Patricia Cross has served as a Non-Executive Director on a range of boards over the past 17 years. She has extensive financial services experience, having held senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank.

Outlook

Consistent with our previous statements to the market, while market volatility makes forecasting difficult, we continue to expect the FY14 net profit contribution from operating groups[6] to be up on FY13.

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 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.

This short term outlook excludes the impact of the proposed distribution of Sydney Airport securities to Macquarie shareholders.

The FY14 result also remains subject to a range of other challenges including:

- the cost of our continued conservative approach to funding and capital; and
- regulation, including the potential for regulatory changes.

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

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[6] All references to net profit contribution are pre profit share, income tax and unallocated corporate costs

changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet, and a proven risk management framework and culture.

Half year result overview

Chief Financial Officer, Patrick Upfold said: “The Group recorded an increase in net interest and trading income, fee and commission income and other income on 1H13. Investment impairments decreased during the six month period while operating expenses increased on 1H13 as a result of the depreciation of the Australian dollar as well as higher staff compensation driven by the improved performance of the Group.”

Staff numbers were 13,901 at 30 September 2013, up from 13,663 at 31 March 2013.

The tax expense was $A307 million, with an effective tax rate of 38 per cent in 1H14 which is consistent with the effective tax rate for FY13. The effective tax rate is higher than the Australian corporate tax rate of 30 per cent due to the geographic mix of income and tax uncertainties.

Strong funding and balance sheet position

Mr Upfold said Macquarie continued to maintain well diversified funding sources and continued to pursue its strategy of diversifying its funding including growth in its deposit base.

Retail deposits increased by 7 per cent from March 2013 to $A33.1 billion, while total deposits increased from $A36.2 billion at 31 March 2013 to $A38.0 billion at 30 September 2013. Since 31 March 2013, $A7.9 billion of new term funding was raised.

Macquarie remains very well capitalised with APRA Basel III Group capital of $A13.7 billion at 30 September 2013, a $A3.1 billion surplus in excess of Macquarie’s minimum regulatory capital requirement, in line with the surplus at 31 March 2013[7].

“The MBL APRA core equity Tier 1 capital ratio was 9.8 per cent at 30 September 2013, which was up from 9.7 per cent at 31 March 2013” Mr Upfold said.

Capital Management

Since 31 March 2013, Macquarie completed the on market purchase of shares to satisfy the FY13 MEREP (Macquarie Group Employee Retained Equity Plan) requirements of $A216 million at a weighted average weighted price of $A43.56 as well as the 2H13 DRP (Dividend Reinvestment Plan) of $A81 million at a weighted average price of $A43.43.

On 7 Jun 2013, $A600m Macquarie Group Capital Notes (MCNs) were issued in replacement of the $A600m Convertible Preference Securities which were redeemed 1 July 2013. The MCNs were issued by MGL and will receive 100 per cent transitional treatment under the forthcoming APRA conglomerates proposals.

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[7] Calculated at 7 per cent RWA

In May 2013, APRA issued its draft rules for Conglomerates. Whilst the rules are yet to be finalised, our current assessment is that Macquarie has sufficient capital to meet the minimum APRA capital requirements for Conglomerates, which will be effective from 1 January 2015.

Macquarie noted that APRA is yet to publish standards relating to the leverage ratio requirements which will apply to MBL only. Disclosure will only be required from 1 January 2015. Based on draft BIS leverage ratio requirements, MBL is well in excess of the Basel III 3% minimum, with an estimated 5.5%[8] leverage ratio.

Operating Group performance

- **Macquarie Funds** delivered a net profit contribution[9] of $A500 million up 40 per cent on 1H13. The result includes a strong increase in base fees on 1H13 as a result of an increase in AUM, as well as performance fees earned predominantly from Macquarie Infrastructure Company LLC (MIC) and Macquarie Atlas Roads (MQA). AUM increased by 11 per cent to $A380.7 billion[10] from $A343.5 billion at 31 March 2013 driven by favourable currency and market movements across Macquarie Funds, and fund raising and investments in the infrastructure and real assets business, partially offset by asset disposals in the infrastructure and real assets business. During the period, $A3.2 billion of new equity commitments were raised, including MIP3 first close with $US1.3b in investor commitments. Over $A1.5 billion was invested across varied asset classes across the globe. In July 2013, an agreement was entered into to acquire ING Investment Management Korea from ING Group, which is a top 10 asset manager in Korea with AUM of KRW 24.1 trillion, approximately $A25 billion[11].
- **Corporate and Asset Finance** delivered a net profit contribution[9] of $A396 million up 18% on 1H13. CAF's asset and loan portfolio increased by 10 per cent to $A24.6 billion over the half year. The asset finance portfolio increased by 9 per cent to $A15.8 billion over the half due to the ongoing growth of the motor vehicle leasing business and the impact of foreign exchange movements. The Corporate Lending portfolio totalled $A8.8 billion up 11 per cent since 31 March 2013. Corporate Lending additions during the period of $A1.8 billion included $A800 million of new primary financings across corporate and real estate**.** During the period, CAF established Macquarie Rotorcraft, a full-service helicopter operating leasing business. Securitisation activity continued during the period, with $A750 million of motor vehicle and equipment leases and loans securitised.
- **Banking and Financial Services** delivered a net profit contribution[9] of $A111 million[12], down 10 per cent on 1H13. BFS maintained its No. 1 position for full-service retail stockbroking in Australia. The Macquarie Wrap platform funds under administration increased 41 per cent over the half to $A35.3 billion which includes migration of the Perpetual platform, and retail deposits increased to $A33.1 billion up 7 per cent since 31 March 2013. The Australian mortgage portfolio increased 26 per cent since 31 March 2013 to $A14.6 billion which represents 1 per cent of the Australian mortgage market. The

[8] As at 30 June 2013.
[9] All references to net profit contribution are pre profit share, income tax and unallocated corporate costs
[10] Excludes ING Investment Management Korea AUM $A25 billion, which MFG entered into an agreement to acquire during 1H14, subject to certain closing conditions, including regulatory approval.
[11] Subject to certain closing conditions, including regulatory approval.
[12] During the half year ended 30 September 2013, Group Treasury revised internal funding transfer pricing arrangements relating to BFS' deposit and lending activities. Comparatives have been restated to reflect the current methodology. 1H14 operating income and net profit contribution excludes the gain on sale of OzForex which will be recognised in 2H14.

ASIC Enforceable Undertaking compliance project in relation to Macquarie Private Wealth remains on track.

- **Macquarie Securities** reported a net profit contribution[9] of $A71 million, up from a loss of $A64 million in 1H13. Improved investor sentiment led to higher inflows to equities and an increase in ECM activity from low levels, along with improved trading conditions and reduced costs in legacy businesses. With top tier rankings among Australian and Asia-Pacific institutional clients for its research and sales strength, a strong Asia-Pacific ECM franchise and a global institutional securities platform, MSG remains well positioned for a continued improvement in market conditions.
- **Macquarie Capital** delivered a net profit contribution[9] of $A101 million, up from a $A10 million profit in 1H13. Macquarie Capital advised on 204 transactions valued at $A26 billion during the period, including Blue Transmission's acquisition of the offshore transmission assets of the Sheringham Shoal wind farm in the UK; WMS Industries' $US1.5 billion sale to Scientific Games[13], the largest ever M&A deal in the gaming supplier sector globally; Mighty River Power's $NZ1.7 billion partial initial public offering (IPO); and APTT's $US1.1 billion IPO on the Singapore Exchange. Macquarie Capital was ranked No. 1 in Australia for announced and completed M&A deals, No.1 in South East Asia for announced M&A deals and ranked No. 2 underwriter for public Canadian oil and gas exploration and production companies.
- **FICC** delivered a net profit contribution[9] of $A203 million, down 7 per cent on 1H13. There were mixed market conditions across the platform. Commodities trading income was up due to stronger producer hedging and trading opportunities generated by increased volatility and falling precious metals prices, growth in physical commodities financing activities and strong results in the US Gas and Global Oil energy businesses. However, ongoing weak investor sentiment and confidence in resource equity markets continued to impact the value of listed equities, resulting in further impairments on a number of equity holdings in the Metals and Energy Capital business, and reduced volatility in agricultural and base metals markets dampened both client hedging and trading. Volatility and volumes improved in foreign exchange and interest rate markets, while futures transactional volumes increased in all key regions. The credit environment was mixed with lower confidence experienced in higher yield markets, while the level of debt origination and issuances continued to increase.

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[13] Completion occurred in October 2013

Appendix A: Proposed distribution of Sydney Airport securities to Macquarie shareholders

1 November 2013

The Board of Directors of Macquarie Group Limited (Macquarie) today announced a proposed distribution of ASX listed Sydney Airport (SYD) stapled securities (SYD Securities) to Macquarie shareholders.

Macquarie Group holds approximately 17% of SYD Securities as an investment. Macquarie proposes to distribute approximately 340 million of these SYD Securities to eligible holders of ordinary fully paid Macquarie shares (Macquarie Shares) on a one for one basis (Distribution), subject to approvals to be sought from Macquarie Shareholders.

Distribution will comprise a special dividend and a return of capital

If approved by Macquarie Shareholders, the Distribution will be implemented through a special dividend equal to 31% of the Distribution per share (Special Dividend) and an equal reduction of capital equal to 69% of the Distribution per share (Capital Return). The Special Dividend and the Capital Return will be satisfied by the in specie distribution of SYD Securities to Macquarie Shareholders on the basis of one SYD Security for each Macquarie Ordinary Share.

The Special Dividend component of the Distribution will be 40% franked and all of the unfranked portion of the Special Dividend will be conduit foreign income. Macquarie's Dividend Reinvestment Plan will not operate for the Special Dividend as it is not a cash dividend.

Share consolidation

Macquarie also proposes to consolidate Macquarie's ordinary fully paid shares (Macquarie Shares), through the conversion of one Macquarie Share into 0.9438 Macquarie Shares to reflect the size of the Capital Return component of the Distribution (Consolidation). This will facilitate greater comparability of share prices and financial metrics of Macquarie before and after the Distribution.

The Consolidation ratio was determined by reference to the amount of the estimated Capital Return as a proportion of the Macquarie Share price. The calculations were performed using the average of the VWAPs for the 20 trading days up to and including 30 October 2013 (20 day average VWAP). The VWAP for SYD Securities was $A4.0341, implying a Capital Return of $A2.7835. The 20 day average VWAP for Macquarie Shares was $A49.5259 so that the estimated return of capital is 5.6% of the value of Macquarie Shares. Accordingly, the Consolidation ratio has been set at 0.9438 shares for one.

Sale facility

Macquarie will also offer Macquarie Shareholders holding 500 or fewer Macquarie Shares (on a pre-Consolidation basis) the opportunity to elect to participate in a sale facility which will allow those Macquarie Shareholders to sell the SYD Securities to which they are entitled for cash while minimising transaction costs (Sale Facility). In addition, Macquarie Shareholders who are deemed ineligible to receive SYD Securities will have the SYD Securities to which they would otherwise be entitled sold pursuant to the Sale Facility and proceeds remitted to them.

General meeting

The Special Dividend, Capital Return and Consolidation are subject to the approval of Macquarie Shareholders and a general meeting will be convened for this purpose, to be held on 12 December 2013. Shareholder approval will also be sought for an amendment to Macquarie's Constitution to facilitate the Distribution (Constitution Amendment). Macquarie Shareholders will receive the Notice of Meeting for the general meeting in coming days. The Board has resolved to pay the Distribution subject to Shareholders approving the Capital Return and the Constitution Amendment.

Timing

If approved, the record date for the Distribution is expected to be 20 December 2013 and the Distribution is expected to be made on 13 January 2014, with the proceeds from the Sale Facility to be paid in early March. These dates are subject to change and the key dates for the Distribution, Consolidation and the Sale Facility will be included in the Notice of Meeting