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ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A1.05B FULL YEAR PROFIT

Key points

- **Full year net profit after tax $A1.05 billion, up 21% on FY09**
- **Operating income $A6.6 billion up 20% on FY09**
- **Operating income, before write-downs, impairments, equity accounted gains/(losses) and one-off items down 2% on FY09 to $A7.0 billion after the impact of movements in foreign exchange rates**
- **Net impact of write-downs, impairments, equity accounted gains/(losses) and one-off items of $A(388) million**
- **Assets under management $A326 billion**
- **Group capital of $A11.8 billion, $A4.0 billion in excess of Group's minimum regulatory capital requirement**
- **Return on equity 10.0%, up from 9.9% in FY09**
- **EPS $A3.20, up 3% on FY09**
- **Final dividend $A1.00 per share unfranked, making full year dividend $A1.86 per share unfranked**
- **Employment expenses of $A3.1 billion, compensation ratio 43%**

SYDNEY, 30 April 2010 – Macquarie Group Limited (ASX:MQG, ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders for the year to 31 March 2010 (FY10) of $A1.05 billion, an increase of 21% on the 2009 financial year (FY09).

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore, said: "Our FY10 result reflects improved market conditions and the diversification and global reach of our businesses. International income accounted for 52% of total income.

"Each of our operating businesses delivered improved results on the prior year. Operating conditions continued to improve during the year, leading to greater activity across many of our businesses.

"During the year, Macquarie businesses continued to evolve to reflect our clients' needs. We expanded our global presence and product offering by organically growing existing businesses and made a number of strategic acquisitions, predominantly in North America and Europe.

“While we have deployed funding during the period for business initiatives and acquisitions, we have continued to maintain a conservative approach to capital and funding,” Mr Moore said.

As foreshadowed, the FY10 result had fewer writedowns, impairments, equity accounted gains and losses and one-off items, and higher employment expenses than FY09. The result was also impacted by the cost of excess liquidity on the balance sheet.

Assets under management (AUM) at 31 March 2010 increased significantly to $A326 billion predominantly reflecting the acquisition of Delaware Investments in January 2010.

The Group declared a final dividend of $A1.00 per ordinary share unfranked, up from the $A0.86 per ordinary share dividend unfranked paid in the first half, and up from the $A0.40 (60% franked) per ordinary share final 2009 dividend. The total dividend for the year is $A1.86 per ordinary share (FY09 $A1.85) unfranked. The record date is 14 May 2010 and the dividend payment date for the final dividend is 2 July 2010.

Strong funding and balance sheet position

Macquarie Group has a long-term policy of holding a level of capital which efficiently supports its businesses. The capital base is grown ahead of business requirements. Group capital at 31 March 2010 was $A11.8 billion which was $A4.0 billion in excess of the Group’s minimum regulatory capital requirement. Macquarie Bank’s tier 1 capital ratio was 11.5%, up from 11.4% at 31 March 2009.

Mr Moore said: “Macquarie remains very well funded. Our term assets are covered by term funding and equity and we have continued to grow our deposit base.“

Retail deposits increased to $A15.5 billion at March 2010 from $A13.9 billion at September 2009 and $A13.4 billion at March 2009.

On April 22, Macquarie Cash Management Trust (CMT) unit holders overwhelmingly approved the transfer of funds to the Macquarie Cash Management Account (CMA) effective 31 July 2010. Total funds under management in the Macquarie CMT as at 31 March 2010 were $A9.5 billion.[1]

In addition, active liability management activities during the year resulted in the buyback of approximately £158 million of hybrid capital securities and $US100 million of subordinated debt.

Proposed regulatory changes are likely to result in higher capital and tighter liquidity requirements for the banking sector. Macquarie continues to monitor regulatory and other market developments, and remains well capitalised and well funded.

Key drivers of the result

Macquarie Group Chief Financial Officer, Greg Ward, said: “Over the past financial year, Macquarie’s operating groups and divisions sought opportunities arising from generally improving market conditions.

“Cash equities were well up on the prior year due to improved equity markets and there were strong contributions from debt markets and the new credit trading business.

“The metals and energy capital business was up on the prior year and the Corporate and Asset Finance Division recorded significant growth in corporate lending activities.

“Equity capital markets activity was good and corporate finance and advisory deal flow was reasonable, although slightly down on the prior year,” Mr Ward said.

Growth in unlisted funds businesses continued with new offerings in Mexico, Russia and Africa.

There were one-off gains realised from initiatives undertaken by the listed funds, including the internalisation of the management of Macquarie Airports, Macquarie Leisure Trust and Macquarie Media Group, the restructure of Macquarie Infrastructure Group and the sale of Australian REIT investments to Charter Hall Group. One-off gains were also realised from the financing of Macquarie Income Preferred Securities and a buy-back of subordinated debt, offset by a substantial negative fair value adjustment on fixed rate issued debt.

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[1] This represents CMT balance at 31 March 2010 of $A10.0 billion net of amounts on deposit with Macquarie Bank Limited ($A0.5 billion)

Writedowns, provisions and net equity accounted losses totalled $A96 million in the second half, down from $A758 million in the first half.

As foreshadowed at last year's result, the compensation ratio is returning to historical levels, rising to 43% for the year from 41% in the 2009 year. There was also an increase in the effective tax rate to 16%, up from 2% in the previous year, largely due to a lower level of writedowns and impairment charges in FY10 compared to FY09. The result was also impacted by the conservative positioning of the balance sheet.

As a result of a number of acquisitions and the selective hiring of individuals and teams during the year, staff numbers exceeded 14,600 at 31 March 2010, up from approximately 12,700 at 30 September 2009, with more than 7,300 staff now employed in Macquarie offices outside Australia.

Outlook

Market conditions continue to improve but continuing uncertainty makes forecasting difficult.

Mr Moore said: "Subject to market conditions, we currently expect improved operating results for all of our businesses in FY11 compared to FY10."

In relation to FY11 trading, it is likely that the income statement will be characterised by fewer one-off items (e.g. assets sales, writedowns and provisions) as seen in the second half of FY10, the compensation ratio being consistent with historical levels, and continued higher cost of funding reflecting market conditions and high liquidity levels including the recent CMT/CMA initiative.

The balance sheet is likely to be characterised initially by high cash balances as a result of the CMT/CMA initiative, continued deployment of cash balance across the businesses, and maintenance of equity investments at or below existing levels.

In addition to market conditions, the FY11 result remains subject to a range of other challenges including increased competition across all markets, the cost of maintaining a conservative approach to funding and capital, and regulation, including the potential for regulatory changes to impact flows to capital markets.

Mr Moore said: "Over the medium-term, we continue to be well placed due to the global depth and reach of our businesses, the diversification of business mix, a strong committed team with interests aligned to shareholders, a strong balance sheet, capital and funding position and effective risk management.

"Subject to economic activity continuing to increase across all major markets, we expect continued growth in revenue and earnings across most businesses over time and continued growth in our global businesses driven by expanding our strong client franchise," he said.

Full year result overview

Total operating income from ordinary activities for the period increased 20% on the prior year to $A6.6 billion. Operating income before write-downs, impairments, equity accounted gains and losses and one-off items was down 2% on the prior year to $A7.0 billion after the impact of the movements in foreign exchange rates.

Performance of operating groups during the year:

- Macquarie Securities Group contributed $A580 million to total profit from operating groups, up from $A275 million in the prior year. Net trading income was up 17% on the prior year, with a strong contribution from arbitrage trading activities as a result of favourable spreads in exchange traded instruments, particularly in Taiwanese, Indian and Korean markets. Brokerage and commission income was up 4% on the prior year due to continued growth in US and European businesses, the impact of recent acquisitions including FPK and Tristone, and increased market share in Asia. ASX turnover was up 3% on the prior year, while Asia (excluding Japan) market turnover was up 11% on the prior year. Other fee and commission income was up 69% on the prior year with strong equity capital markets activity in Australia, Asia and Canada. Operating expenses were down 16% on prior year driven by lower average headcount, expense rationalisation and lower brokerage and commissions expense due to lower trading volumes and reduced brokerage rates.

- Macquarie Capital contributed $A657 million to total profit from operating groups, up from $A257 million in the prior year. Advisory activity was up on the prior year although average deal size was down with 448 deals valued at approx. $A121 billion (299 deals valued at approx. $A203 billion in the prior year). Interest expense was down 33% on the prior year driven by lower interest rates. Base fees were down 12% on the prior year, while equity investment income was down 70% in line with a reduction in asset sales. Gains on fund initiatives totalled $A572 million while writedowns and impairment charges totalled $A362 million. Expenses were down 18% on prior year due to a reduction in average headcount.

- Macquarie Funds Group contributed $A95 million to total profit from operating groups, up from $A45 million in the prior year. The acquisition of Delaware Investments in January 2010 resulted in increased AUM ($A151 billion at March 2010) and increased headcount by 521. Base fees were up 65% on the prior year driven by an increase in AUM, while other income benefitted from positive revaluations on seed investments that are carried at fair value. Operating expenses were up due to the Delaware acquisition, but were down 16% excluding Delaware due to lower employment costs and commission expenses.

- Fixed Income, Currencies and Commodities Group contributed $A827 million to total profit from operating groups, up from $A509 million in the prior year. Commodities trading income was up 10% on the prior year driven by consolidation and growth of the Macquarie Energy franchise in the US gas and power business, and the recovery of metal prices, particularly gold prices. The contribution from Agricultural Commodities was broadly in line with the prior year. Foreign exchange income was down 43% on the prior year due to a significant reduction in volatility and turnover in global foreign exchange markets and a strong AUD placing additional downward pressure on foreign exchange revenues. Interest rate products income was up significantly on the prior year with a substantial contribution from the emerging markets and credit trading businesses and improved Australian debt market conditions. Expenses were up 23% on prior year driven by increased average headcount.

- Corporate and Asset Finance contributed $A264 million to total profit from operating groups, up from $A66 million in the prior year. Interest income was up significantly due to increased loan and finance lease portfolios of $A12.9 billion at March 2010, up from $A6.9 billion in the prior year as a result of increased corporate lending and the acquisition of the $A1 billion Ford Credit portfolio in October 2009. Operating lease income was down 40% on prior year due to a decrease in the operating lease portfolio from $A1.4 billion at March 2009 to $A692 million at March 2010. Impairment charges were slightly higher largely due to collective provisioning resulting from substantial growth in the loan and lease portfolios. Operating expenses were up 33%.

- The Real Estate Banking division contributed a loss of $A152 million to total profit from operating groups, compared with a loss of $A362 million in the prior year driven by a significant reduction in writedowns and impairment charges. Base and performance fee income was up on the prior year due to the sale of the Macquarie Central Office CR-REIT Kukdong building in Korea. A $A33 million loss was recorded on the sale of A-REIT investments to Charter Hall in March 2010, which is part of the profitable transaction booked in Macquarie Capital. Writedowns and impairment charges of $A110 million mainly related to equity investments and loans. Operating expenses were down 45% due to lower headcount.

- The Banking and Financial Services Group contributed $A261 million to total profit from operating groups, compared with a loss of $A99 million the prior year which included the loss on the sale of the Italian mortgages portfolio. Retail deposits were up 16% to $A15.5 billion at March 2010 due to a focus on cash offerings including the Cash Management Account. The Australian mortgage portfolio was down from $A18.3 billion at March 2009 to $A14.3 billion at March 2010. Brokerage and commissions income increased 13% on the prior year due to the acquisition of Blackmont Capital in December 2009 and improved equity market conditions. Platform and other fee and commission income rose 10% on the prior year with funds under administration on the Australian Wrap platform of $A22.5 billion at 31 March 2010. Writedowns, impairment charges of $A53 million were predominantly in relation to loan impairments.

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