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MACQUARIE

ASX / Media Release

MACQUARIE GROUP ANNOUNCES $A956 MILLION FULL-YEAR PROFIT

Key points

- **Full-year net profit of $A956 million, down 9% on FY10**
- **Second-half profit of $A553 million, up 37% on first half**
- **Full-year operating income of $A7.6 billion, up 15% on FY10**
- **International income 60% of total income in FY11; 64% in 2H11**
- **Estimated negative impact of FX translation approximately 5%, based on strengthening of $A by an average of 10% against major currencies**
- **Assets under management of $A310 billion**
- **Good activity levels continued throughout 2H11 in Macquarie Funds Group, Corporate and Asset Finance and Banking and Financial Services**
- **Improved market conditions in 2H11 led to higher activity levels for Fixed Income, Currencies and Commodities and Macquarie Capital**
- **Subdued equity market conditions continued to impact activity levels in Macquarie Securities Group**
- **Group capital of $A12.1 billion, $A3.0 billion in excess of minimum regulatory capital requirement**
- **Earnings per share of $A2.83, down 12% on FY10; 2H11 EPS up 37% on 1H11**
- **Return on equity 8.8%, down from 10.1% for FY10; 2H11 ROE of 10.2%**
- **Final dividend of $A1.00 per share (unfranked); full-year dividend of $A1.86 per share (unfranked), in line with FY10**

SYDNEY, 29 April 2011 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A956 million for the full-year ended 31 March 2011 (FY11), down nine per cent on the full-year ended 31 March 2010 (FY10). Profit for the second half of the year (2H11) was $A553 million, up 37 per cent on the first half (1H11).

Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: “As foreshadowed, 2H11 profit increased significantly on 1H11. Improved general market conditions in 2H11 led to higher activity levels for Fixed Income, Currencies and Commodities (FICC) and Macquarie Capital. Macquarie Funds Group, Corporate and Asset Finance, and Banking and Financial Services continued to experience good activity levels throughout the year, benefiting from organic growth and a range of recent initiatives. Macquarie Securities Group continued to be impacted by subdued equity market conditions.

“International income for the full year was 60 per cent of total operating income. Notably, in the second half, international income comprised 64 per cent of operating income.”

Assets under management at 31 March 2011 were $A310 billion, down from $A326 billion as at 31 March 2010. This was due to the transfer of the Cash Management Trust to the Cash Management Account in July 2010 and a foreign exchange effect of $A27 billion which more than offset net fund inflows and positive equity movements of $A21 billion.

Foreign exchange translation was estimated to have a negative impact of approximately five per cent due to strengthening of the Australian dollar by an average of 10 per cent against major currencies during the year.

Macquarie also announced today a final unfranked dividend of $A1.00 per share, up from the 1H11 dividend of $A0.86 per share. The total FY11 unfranked dividend of $A1.86 per share is in line with FY10, with a payout ratio of 67 per cent. The record date is 13 May 2011 and the payment date for the final dividend is 4 July 2011.

Full-year result overview

Chief Financial Officer Greg Ward said: “The Group’s income statement reflects growth in interest income, fee and commissions income, trading income and other income.”

Interest income was up 18 per cent on FY10 to $A1.28 billion. The Group experienced growth in lending and leasing volumes, including the acquisition of the $A1.0 billion GMAC portfolio in April 2010 and the full-year impact of the Ford Credit portfolio acquisition in October 2009. Fee and commissions income was up five per cent on FY10 to $A3.89 billion with base fees up three per cent on the prior year driven by the full-year effect of the Delaware Investments business, however overall ECM activity was down, particularly in Australia and Europe. Other income was up 66 per cent on FY10 to $A1.08 billion, reflecting increased income from the sale of investments in resource markets, particularly in the gold sector, and higher dividend and distribution income.

Trading income was up five per cent on FY10 to $A1.37 billion. Challenging market conditions impacted equities and commodities-related income, particularly in the first half.

As foreshadowed, the impact of write-downs, impairments, equity accounted gains and losses and one-off items was significantly lower. These items contributed a profit of $A39 million in FY11, compared to an FY10 loss of $A388 million.

Operating expenses were up 19 per cent on the prior year to $A6.4 billion, primarily due to the full-year effect of the expanded global platform. Employment expenses were up 25 per cent on FY10 to $A3.9 billion, primarily due to a 17 per cent increase in average headcount on FY10. Average headcount was 15,325 in FY11 and 13,136 in FY10. Staff numbers at 31 March 2011 were 15,556.

Again, as foreshadowed, the tax rate increased to be more in line with historical levels. Tax expense was higher, with an effective rate of 23 per cent in FY11, up from 16 per cent in FY10.

Strong funding and balance sheet position

Mr Ward said Macquarie continued to maintain well-diversified funding sources, with minimal reliance on short-term wholesale funding markets.

The Group continued to pursue its strategy of diversifying its funding sources through growing its deposit base. Retail deposits increased by 72 per cent from March 2010 to $A26.6 billion, primarily due to the transfer of the Cash Management Trust to the Cash Management Account in July 2010.

The loan and lease asset portfolio also grew during the year to $A36.2 billion at March 2011 from $A29.5 billion at March 2010. The increase was primarily attributable to the acquisition of the GMAC auto lease and ILFC aircraft operating lease portfolios in April 2010 and the consolidation of Macquarie AirFinance. There were also increases in the corporate lending portfolio and Mortgages Canada.

Macquarie maintained its strong capital base throughout the year. Regulatory capital of $A12.1 billion at 31 March 2011 was $A3.0 billion in excess of the Group’s minimum regulatory capital requirement.

On the impact of Basel III and other regulatory changes, Mr Ward said: “Some uncertainties remain, however, our current assessment of the revised capital rules is that Macquarie has sufficient capital to meet the Basel III capital and leverage ratio requirements.”

The Global Specialist

Macquarie enhanced its position as a Global Specialist in FY11, pursuing growth opportunities in new markets, developing new and expanded product offerings and making selective acquisitions. Global specialisations which strengthened during the year include resources, agriculture and commodities, energy and infrastructure, as well as Macquarie’s deep knowledge of Asia-Pacific financial markets.

Mr Moore said: “The depth and breadth of our capabilities in Asia-Pacific is evidenced by industry and client rankings and market share, including holding the top position for listed warrants in Singapore and Korea and top three in Australia and Hong Kong. Macquarie participated in some of the region’s most significant transactions, including the $US22.1 billion Agricultural Bank of China dual listing, the world’s largest IPO.” Macquarie’s research offering of more than 1,200 stocks is one of the largest in the region and highly-ranked for the accuracy of stock selections. The Group has one of the region’s largest dedicated equities sales teams and was recently ranked by Bloomberg as the No. 1 broker in Asia for execution. It is increasingly using its deep expertise and local knowledge to facilitate cross-border transactions between this vital region and the rest of the world, as evidenced by the recent IPO of China’s Powerland on the Frankfurt Stock Exchange. In funds management, Macquarie manages a number of Asia-specific funds with infrastructure a particular focus. Macquarie launched Korea’s leading private sector infrastructure fund in 2002 and now has eight infrastructure funds in the region.

Macquarie’s resources, agriculture and commodities platform operates across four continents and covers markets including agriculture, energy, metals, environmental and freight. It offers debt, equity capital and price risk management solutions to producers and consumers of metals, bulk commodities and upstream oil and gas. The metals and mining research team was ranked number one by European and US investors in the 2010 Greenwich Survey of Australian Equities. The resources and energy advisory team has worked on more than 450 deals valued at over $A158 billion over the past three years.

Macquarie’s specialist capabilities in energy are an extension of its commodities platform. Macquarie is now the number four-ranked physical gas marketer in North America and the highest-ranked non-producer. From this base, Macquarie has expanded into the physical trading of coal, power, natural gas, liquefied natural gas, oil and ethanol. A US physical oil business was established in 2010, with a Latin America origination team added in January 2011. Physical oil trading and marketing teams also operate from Singapore, Calgary and London.

Macquarie continues to be the largest infrastructure funds manager globally with more than $A90 billion in infrastructure assets under management. Macquarie has received numerous awards for its infrastructure management, advisory and research capabilities. The infrastructure equities research team was ranked number one by Australian and Asian and European investors in the 2010 Peter Lee Surveys of Australian Equities and by Asian and European investors in the 2010 Greenwich Survey of Asian Equities.

Outlook

Mr Moore said that market uncertainty made forecasting difficult.

The net profit contributions for FICC and Corporate and Asset Finance for the year ending 31 March 2012 (FY12) are currently expected to be up on FY11. The net profit contributions for Macquarie Securities Group and Macquarie Capital for FY12 are currently expected to be up on FY11, assuming better market conditions. The net profit contributions for Macquarie Funds Group and Banking and Financial Services for FY12 are currently expected to be broadly in line with FY11.

Movements in foreign exchange rates will impact the contribution of each group.

The Group’s compensation ratio and effective tax rate are expected to be consistent with historical levels. Higher cost of funding, reflecting market conditions and high liquidity levels, are also expected to continue.

“Overall, we expect an improved FY12 result on FY11. However, the FY12 result will be dependent upon market conditions, particularly for Macquarie Securities and Macquarie Capital which are assuming better market conditions than FY11.

“The FY12 result also remains subject to a range of other challenges including increased competition across all markets, the cost of our continued conservative approach to funding and capital, and regulation, including the potential for regulatory change,” said Mr Moore.

"Over the medium term, our businesses are increasingly well positioned to benefit from future growth due to our position as a global specialist, growing global market share, strength in diversity, a balance sheet positioned for growth and an effective risk management culture" he said.

Operating group performance

Operating group performance for the year was as follows:

- **Macquarie Securities** contributed $A175 million to operating profit. Net trading income was down 24 per cent on FY10, with 2H11 showing signs of improvement over 1H11. Market share was maintained in core Asian markets. Brokerage and commission income was in line with FY10, with continued growth in the US and Europe driven by the acquisition of Fox-Pitt Kelton Cochran Caronia Waller and Sal. Oppenheim. Other fee and commission income was down 19 per cent on FY10. Equity capital markets activity in Australia and Europe was down on the prior year, while activity in America and Asia increased during the year.
- **Macquarie Capital** contributed $A281 million to operating profit. The group completed 547 deals valued at $A159 billion in FY11, up from 448 deals valued at $A121 billion in FY10. Write-downs and impairment charges were significantly down on FY10, partly offset by reduced equity income. The underlying performance of associates and JVs improved on the prior year.
- **Macquarie Funds** contributed $A602 million to operating profit. Base fees were up 25 per cent on FY10 to $A873 million, benefiting from the full-year effect of the Delaware Investments acquisition. Base fee income was partially offset by decreases due to listed fund initiatives and the strengthening of the Australian dollar. Other fee and commission income was up 31 per cent on FY10, mainly due to distribution service fees in Delaware Investments. These were offset with associated brokerage and commissions expenses. Equity investment and other income (excluding listed fund initiatives) was significantly up on FY10, mainly due to distribution income from MAp Group.
- **FICC** contributed $A575 million to operating profit. Commodities trading income was down eight per cent on FY10 with challenging trading conditions during the first half of the year and lower client term hedging activity in some commodities markets. Foreign exchange income was down 59 per cent on FY10 with global currency markets subject to intermittent volatility. Interest rate products income was down 19 per cent on FY10 with normalisation in credit markets following rallies in the prior period. Fee and commission income was up 10 per cent on the prior year, with improved brokerage revenues in futures execution and clearing markets. Other income was up significantly

on the prior year driven by sales of net profit interests and royalties from participants in the metals and energy sector.

- **Corporate and Asset Finance** contributed $A501 million to operating profit. Net interest income was up significantly, with the loan and finance lease portfolio up 12 per cent on the prior year. Operating lease income was up significantly on FY10 due to the acquisition of an aircraft operating lease portfolio from ILFC. Write-downs and impairment charges were lower than FY10, reflective of reduced underlying loss rates in loan and lease portfolios and the reduced level of impairments in real estate assets.
- **Banking and Financial Services** contributed $A275 million to operating profit. Retail deposits were up 72 per cent to $A26.6 billion at March 2011, primarily due to the conversion of the Cash Management Trust to the Cash Management Account in July 2010. The conversion was the main driver of a 62 per cent reduction in base fees. Brokerage and commissions income was up 16 per cent on FY10, driven by improved market conditions globally and the contribution of Macquarie Private Wealth Canada. Platform and other fee and commission income was up 38 per cent on FY10.

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