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<u>ASX/Media Release</u>

MACQUARIE GROUP ANNOUNCES $A403M HALF YEAR PROFIT

Key points

- **Half year net profit after tax $A403 million, down 16% on 1H10 and down 29% on 2H10**
- **Operating income $A3.7 billion up 18% on 1H10 and up 4% on 2H10**
- **Operating income before write-downs, impairments, equity accounted gains/(losses) and one-off items $A3.6 billion up 2% on 1H10 and up 3% on 2H10**
- **Continued platform growth across each of the operating groups**
- **Assets under management $A317 billion**
- **Group capital of $A11.6 billion, $A2.9 billion in excess of the Group's minimum regulatory capital requirement**
- **Annualised return on equity 7.1%, down from 9.6% for 1H10 and 10.3% for 2H10**
- **EPS $A1.19, down 21% on 1H10, down 30% on 2H10**
- **Half year dividend $A0.86 per share unfranked, in line with the 1H10 dividend and down 14% on the 2H10 dividend of $A1.00**

SYDNEY, 29 October 2010 – Macquarie Group Limited (ASX:MQG, ADR: MQBKY) reported a consolidated after-tax profit for the half-year ended 30 September 2010 of $A403 million, a decrease of 16% on the prior corresponding period (1H10) and 29% on the prior half (2H10).

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore, said that as foreshadowed in a market update in September, subdued market conditions affected activity across a number of businesses, particularly Fixed Income, Currencies and Commodities (FICC), Macquarie Securities Group (MSG) and Macquarie Capital. However, each of the operating groups continued to grow their business platforms. Group profit was also adversely impacted by the cost of excess liquidity on the balance sheet.

"More favourable market conditions and benefits from recent initiatives resulted in improved performances for Macquarie Funds Group (MFG), Corporate and Asset Finance (CAF), and the Banking and Financial Services Group (BFS), demonstrating the benefits of diversity. Macquarie's businesses broadly maintained their market share over the half year," Mr Moore said.

"Base fee income from MFG, now one of the top 40 asset managers globally, increased 40% on the prior corresponding period following the completion of the Delaware Investments acquisition in January 2010.

"Another notable driver was the continued growth in CAF's leasing and loan portfolio.

"Despite substantially weaker activity in mergers and acquisitions (M&A), equity markets and debt markets, Macquarie Capital maintained its top two position for M&A deals completed in Australia. It also improved its M&A ranking in the Asian market, as well as its equity capital markets ranking in the Asian (ex-Japan), US and Canadian markets," Mr Moore said.

Total operating income for the first half was $A3.7 billion, an increase of 18% on 1H10 and 4% on 2H10. International income accounted for 56% of total operating income.

Earnings per share were $A1.19, a decrease of 21% on 1H10 and 30% on 2H10.

Assets under management decreased to $A317 billion at 30 September 2010 from $A326 billion at 31 March 2010, primarily reflecting the conversion of the Macquarie Cash Management Trust to the Cash Management Account.

The annualised return on equity for the first half was 7.1%, down from 9.6% in 1H10 and 10.3% in 2H10.

The Board declared an interim dividend of $A0.86 per ordinary share, in line with 1H10, to be paid on 15 December 2010. The dividend will be unfranked.

Global initiatives

Mr Moore said Macquarie continued growth initiatives to achieve greater scale in key markets and products.

"Macquarie's strong position in Asia-Pacific was demonstrated by its involvement in the $US22.1 billion dual listing of Agricultural Bank of China, the world's largest initial public offering.

"Since the acquisition of the ING cash equities business in 2004, Macquarie has built a full-service investment banking and securities platform in Asia.

"It is now one of the world's largest distributors of Asian equities, a top ranked equity capital adviser in Asia and has managed the largest IPO in Hong Kong in each of the past three years. Today, Macquarie's Asia-Pacific operations account for 60% of its operating income and the Group is increasingly seen as a global broker with strong Asia-Pacific foundations.

"Macquarie has continued to capitalise on recent acquisitions in the US. Delaware Investments has performed particularly well, with assets under management increasing by $US25 billion since acquisition to $US152 billion. The Tristone Capital and Fox-Pitt Kelton Cochran Caronia Waller acquisitions have boosted MSG's global market share, while strengthening the pipeline for financial institution and energy transactions.

"These acquisitions, combined with those of Blackmont Capital, Integrys Energy Services and Constellation Energy's downstream natural gas trading business, have boosted Macquarie's range of capabilities in the US and its ability to service its clients. The recent growth in the Group's corporate lending activities has broadened its client base and business in this key market. During the first half, Macquarie also announced the acquisition of US-based real estate capital markets specialist, Presidio Partners LLC," Mr Moore said.

Macquarie also continued to develop its European business during the first half following the acquisition of the Sal. Oppenheim equity derivatives and cash equities businesses. These acquisitions provide a foothold in one of the world's largest derivatives markets and expand Macquarie's product offering in Europe, while broadening its European equities and sales coverage. Macquarie is now a top ten global research house, with more than 2,400 stocks under coverage. The acquisition of Austrian asset manager INNOVEST

Kapitalanlage AG announced post balance date, further enhances Macquarie's funds management business in Europe.

Key drivers of result

Macquarie Chief Financial Officer Greg Ward said that as foreshadowed, there were fewer writedowns, impairments, equity accounted gains and losses and other one-off items for the first half.

Mr Ward said: "Net interest income was up 42% on 1H10 to $A605 million, primarily driven by growth in lending activities. Fee and commissions income rose 6% to $A1.99 billion, reflecting an increase in base fees driven by Delaware Investments, which was somewhat offset by subdued equity markets and lower equity capital markets activity. Trading income was down 34% to $A600 million due to subdued equity markets and adverse trading conditions impacting most FICC businesses."

Operating expenses increased 23% on 1H10 to $A3.2 billion reflecting the effect of the consolidation of recent acquisitions and Macquarie's investment in global platform growth. Staff numbers increased to over 15,500 at 30 September 2010, from 12,758 at 30 September 2009, driven primarily by recent acquisitions.

Trading conditions for cash equities weakened during the first half, affecting market volumes and investor confidence in key markets. However, Macquarie maintained its top-tier position for the Australian Securities Exchange market share in institutional and retail stockbroking. MSG held the number one market share position for listed warrants in Singapore and Korea, while growing its market share in global equity capital markets.

In the FICC business, metal prices continued to rise, particularly gold, while foreign exchange volumes remained subdued, with lower client term hedging activity resulting from the higher Australian dollar. Activity in energy markets and agricultural commodities was lower for the first half. Despite weaker conditions, FICC remains the Australian Asset-Backed Securities House of the Year for the 11th consecutive year, the number four ranked physical gas marketer in the US and is an increasingly active participant in the US and European credit markets.

MFG recorded strong total gross inflows from institutional and retail investors. Delaware Investments recorded top quartile performance over the three years to 30 September 2010 in 24 of its 40 funds.

Strong funding and balance sheet position

Mr Ward said Macquarie has a long-term policy of holding a level of capital which efficiently supports its business and grows the capital base ahead of business requirements. Capital at 30 September 2010 was $A11.6 billion which was $A2.9 billion in excess of the Group's minimum regulatory capital requirement.

Proposed Basel III changes are likely to result in more conservative risk-weighting of assets, a stricter capital deduction regime and increased minimum capital ratios for financial institutions globally. These proposals are currently under consideration by the Australian Prudential Regulation Authority.

Mr Ward said: "Macquarie Group remains very well funded, with diversified funding sources. Our deposit base continues to grow, representing a stable and reliable source of funding."

Total deposits were $A31.2 billion at 30 September 2010, up from $A17 billion at 30 September 2009, with retail deposits increasing to $A26.5 billion at 30 September 2010 from $A13.9 billion at 30 September 2009 due primarily to the conversion of the Macquarie Cash Management Trust to the Cash Management Account. Short-term wholesale issued paper remains a small portion of overall funding, with term assets covered by term funding and equity.

"As foreshadowed, surplus cash is being deployed into income-generating assets including investment in CAF's corporate lending and leasing business and the Group's overall global platform growth," Mr Ward said.

Outlook

Mr Moore said that as previously foreshadowed by the Group, uncertain market conditions continue to make short-term forecasting very difficult.

"Weak market conditions have impacted activity levels in FICC, MSG and Macquarie Capital, and the result for the year to 31 March 2011 is expected to be impacted by the cost of Macquarie's continued conservative approach to funding and capital.

"While market conditions in September and October have shown some signs of improvement, activity continues to track below normal levels. Subject to market conditions continuing to return to more normal levels, Macquarie currently expects its FY11 result to be broadly in line with the prior year," Mr Moore said.

Macquarie continues to expect that the income statement for FY11 is likely to be characterised by fewer one-off items, as seen in the first half, a compensation ratio consistent with historical levels and continued higher cost of funding reflecting market conditions and high liquidity levels. The balance sheet for FY11 is likely to be characterised by excess funding levels, which the Group anticipates will continue to be deployed across the businesses. The FY11 result may also be subject to government and regulator actions globally to deal with current economic imbalances.

Over the medium term, Macquarie's businesses are increasingly well positioned to benefit from future growth.

"With its deep expertise in major markets, growing global market share, strength in diversity, a balance sheet positioned for growth and an effective risk management culture, Macquarie will look to achieve continued expansion of its expertise globally across new products and in new markets," Mr Moore said.

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