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ASX / MEDIA RELEASE

Macquarie Group announces $A305 million half-year profit

Key points

- **Heightened levels of uncertainty in global financial markets in 1H12**
- **1H12 net profit of $A305 million, down 24% on 1H11**
- **1H12 net profit contribution from operating groups broadly in line with 1H11, due to strength of annuity-style businesses offsetting significantly lower result from capital markets-facing businesses**
- **1H12 operating income of $A3.2 billion, down 11% on 1H11**
- **1H12 operating expenses of $A2.8 billion, down 11% on 1H11**
- **Assets under management of $A327 billion, up 6% on 31 March 2011**
- **Group capital of $A12.4 billion, $A3.5 billion in excess of minimum regulatory capital requirement. Capital surplus up from $A3.0 billion at 31 March 2011**
- **Earnings per share of $A0.87, down 27% on 1H11**
- **Return on equity 5.7%, down from 7.4% in 1H11**
- **Half-yearly dividend of $A0.65 per share (unfranked), down 24% on 1H11**
- **Current plans to apply some capital generated from capital efficiency initiatives and potential future hybrid issuance to fund an on-market buyback of up to 10% of the Group’s ordinary shares (subject to regulatory approval)**

SYDNEY, 28 October 2011 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A305 million for the half-year ended 30 September 2011 (1H12), down 24 per cent on the prior corresponding period (1H11) and down 45 per cent on the prior half (2H11).

Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: “As we previously advised the market, the first half has seen heightened levels of uncertainty in global financial markets. This has resulted in low levels of client activity, significant volatility in capital and commodity markets and disruption to many capital markets functions.

“At an operating level, the strength of the Group’s annuity-style businesses offset the significantly lower results from the capital markets-facing businesses. These businesses have been adversely affected by macroeconomic conditions.”

Operating income in 1H12 was $A3.2 billion, down 11 per cent on 1H11, however 1H11 operating income benefited from the MAp AVS reclassification of $A95 million. International income in 1H12 was 61 per cent of total operating income, up from 56 per cent in 1H11.

Assets under management at 30 September 2011 were $A327 billion, up from $A310 billion at 31 March 2011 largely as a consequence of the depreciation in the Australian dollar at 30 September 2011. More than $A2.2 billion of net fund inflows during the period were offset by $A1.8 billion of asset disposals.

Basel III update

Although the details have not been finalised, the Group's current assessment is that Macquarie has sufficient capital to meet the minimum APRA Basel III capital requirements (including the capital conservation buffer, which is not required by APRA to be satisfied until 2016).

Basel III applies only to Macquarie Bank Limited. Macquarie Group Limited is potentially subject to APRA's proposed Conglomerates regime, however the implementation date and final form are uncertain.

Dividend and capital management

Macquarie announced a 1H12 unfranked dividend of $A0.65 per share, down 24 per cent on the 1H11 unfranked dividend of $A0.86 per share. The record date is 11 November 2011 and the payment date for the interim dividend is 14 December 2011.

The Group currently plans to apply some of the capital generated from capital efficiency initiatives and a potential future hybrid issuance to fund an on-market buyback of up to 10 per cent of Macquarie Group Limited ordinary shares, subject to regulatory approval.

Key drivers of the result

Fee and commission income was down 11 per cent on 1H11 to $A1.8 billion, reflecting the impact of weak market conditions on brokerage and commissions, ECM and M&A fees. Net interest income was up 15 per cent on 1H11 to $A698 million, driven by growth in lending and leasing volumes and improved margins.

Trading income was down 38 per cent on 1H11 to $A374 million largely due to lower interest rate products trading income. Challenging credit and financial market conditions resulted in reduced volumes and activity in many businesses. In addition, there was an adverse impact of widening credit spreads on the liquid asset portfolio. Other income was up 14 per cent on 1H11 to $A461 million driven mainly by increased operating lease income in Corporate and Asset Finance.

Operating expenses were down 11 per cent on 1H11 to $A2.8 billion due to a range of initiatives including exiting unprofitable businesses, creating scalable platforms, reducing complexity, and redesigning business and operating models. Other factors for the decrease included a reduced profit share expense and staff numbers which, at 30 September 2011, were down three per cent on 31 March 2011 to 15,088.

Macquarie Funds Group has continued to grow assets under management, which increased by six per cent to $A324 billion from 31 March 2011, and its global client base to deliver a net profit contribution that was 80 per cent up on 1H11. Net inflows in Macquarie Investment Management equity and fixed income funds totalled $A3.4 billion for the half and Macquarie Infrastructure and Real Assets raised over $A1.5 billion in new equity commitments. Base fees remained strong at $A440 million while outperformance across a range of funds and assets resulted in a significant increase in performance fees for the half to $A89 million.

Corporate and Asset Finance has expanded its lending and leasing businesses to deliver a record half-yearly result, up 46 per cent on 1H11. Its asset and loan portfolio increased to $A20.5 billion, a 29 per cent increase on 1H11 reflecting the full-period impact of recent acquisitions, increased corporate lending activities, the consolidation of the aircraft operating lease business and organic growth. This resulted in net interest income being up seven per cent on 1H11 and net operating lease income increasing significantly.

Banking and Financial Services delivered a result that was two per cent up on 1H11, despite difficult market conditions. Net interest income was up six per cent on 1H11 and total retail deposits increased by eight per cent to $A28.6 billion during the half year. The group maintained its number one position for full-service retail stockbroking in Australia and grew global client numbers by 10 per cent on 1H11 to 1.1 million.

Macquarie Securities was impacted by weak investor confidence and low levels of client activity. Brokerage and commissions were down 24 per cent on 1H11 and the business was also adversely impacted by weak levels of ECM activity particularly in Australia and Asia. Net trading income for Macquarie Securities was up 11 per cent on 1H11, notwithstanding reduced institutional and retail activity.

Macquarie Capital was adversely impacted by market conditions, with advisory fee income for the period down 11 per cent on 1H11 and ECM fee income down 43 per cent on 1H11, while debt capital markets fee income was up 24 per cent on 1H11. Macquarie Capital advised on 214 transactions valued at $A41 billion.

Within Fixed Income, Currencies and Commodities, income from interest rate products was significantly down on 1H11 driven by heightened volatility, concerns over global growth, and widening of credit spreads which impacted inventory and US treasury bond hedges. Writedowns and impairment charges were significantly up on 1H11 given deteriorating market conditions and sentiment in resource equity markets in the September quarter. This was partially offset by income from commodities trading and fees and commissions which were up on 1H11 by 42 and 14 per cent respectively.

Strong funding and balance sheet position

Chief Financial Officer, Greg Ward, said Macquarie continued to maintain a diverse and stable funding base, with minimal reliance on short-term wholesale funding markets.

The Group continued to pursue its strategy of diversifying its funding sources by growing its deposit base. In addition to the eight per cent increase in retail deposits during the half, the Group has also raised $A6.3 billion of new term funding since 31 March 2011.

Macquarie maintained its strong capital base throughout the year. Group capital of $A12.4 billion at 30 September 2011 was $A3.5 billion in excess of the Group's minimum regulatory capital requirement.

FY12 outlook

Mr Moore said: "Since our previous update on 7 September 2011, the capital markets-facing businesses have continued to experience difficult trading conditions. As previously foreshadowed, uncertain market conditions make short-term forecasting very difficult."

The Group continues to expect the net profit contributions for Macquarie Funds Group and Corporate and Asset Finance for the year ending 31 March 2012 (FY12) to be up on the 2011 financial year (FY11). The FY12 net profit contribution for Banking and Financial Services is currently expected to be broadly in line with FY11.

The net profit contribution for Macquarie Capital for FY12 is currently expected to be broadly in line with FY11, assuming better market conditions and a higher completion of the ECM pipeline than in 1H12. The FY12 net profit contribution for Macquarie Securities and Fixed Income, Currencies and Commodities is expected to be lower than FY11.

The Group's compensation ratio is expected to be consistent with historical levels. Higher costs of funding, reflecting market conditions, and high liquidity levels are also expected to continue.

If market conditions remain unchanged for the remainder of the second half of the financial year, the Group expects that the result for FY12 will be lower than FY11. However should markets recover to those experienced in 2H11, the Group expects a FY12 result broadly in line with FY11. This expectation includes the assumption that the Group receives the MAp cash amount to be made available to investors as previously noted.

The FY12 outlook is also subject to the completion rate of transactions and the conduct of period-end reviews. In addition to market conditions, the FY12 result remains subject to a range of other challenges including: movements in foreign exchange rates; the cost of the Group's continued conservative approach to funding and capital; and regulation, including the potential for regulatory changes.

Mr Moore said: "The Group is well positioned to deliver superior performance in the medium term. We continue to adapt our portfolio mix to changing market conditions. We are maintaining a strong and conservative balance sheet and have a proven risk management framework and culture."

Management changes

The Group today advised that the Group's Deputy Managing Director and CEO of Macquarie Bank Limited, Richard Sheppard will retire on 20 December 2011. During his 36-year career with the Group and its predecessor, Hill Samuel Australia, Mr Sheppard (aged 62) held a number of important roles, including leading the Group's non-operating holding company restructure in 2007.

In paying tribute to Mr Sheppard, Mr Moore said: “Richard has dedicated almost his entire professional life to Macquarie. When Richard joined Macquarie in 1975, there were 50 staff operating out of offices in Sydney and Melbourne. Today we have 15,000 people operating in more than 70 offices in 28 countries. Richard’s leadership of businesses such as corporate banking and financial services and his stewardship as a member of the Group’s Executive Committee since 1986 have made a significant contribution to the strength of the Group’s activities today.”

Mr Ward will succeed Mr Sheppard as Deputy Managing Director of the Group and Chief Executive of Macquarie Bank Limited. Macquarie’s Treasurer and Head of Group Financial Management, Patrick Upfold will succeed Mr Ward as Chief Financial Officer. Mr Upfold joined Macquarie in 1997 and was appointed the Group’s Treasurer in June 2011.

The Group also advised today that Macquarie Capital Group Head, Roy Laidlaw will retire on 31 March 2012. Over the past eight years, Mr Laidlaw (aged 54) has played a central role in the international growth of both Macquarie Securities and, more recently, Macquarie Capital.

Mr Moore said the build out of Macquarie’s global securities platform was in large part attributable to Roy’s foresight, drive and commitment.

US Country Head and Executive Committee member, Tim Bishop, will succeed Mr Laidlaw as Head of Macquarie Capital. Michael McLaughlin, currently Head of Fixed Income, Currencies and Commodities Credit Trading Division, will succeed Mr Bishop as US Country Head and Head of US Management Committee and will join the Group’s Executive Committee from 1 January 2012.

Mr Moore said: “Both Richard and Roy have been, during the course of their respective careers at Macquarie, instrumental in the continued expansion of the Group’s diverse businesses around the world. On behalf of the Board and staff, we thank them for their lasting contribution and wish them all the best for the future.”

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