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ASX / Media Release

MACQUARIE GROUP ANNOUNCES $A361 MILLION HALF YEAR PROFIT

Key points

- **1H13 net profit of $A361 million, up 18% on 1H12, down 15% on 2H12**
- **1H13 operating income of $A3.1 billion, down 5% on 1H12**
- **1H13 operating expenses of $A2.6 billion, down 9% on 1H12**
- **Assets under management at September 2012 $A341 billion, up from $A327 billion at March 2012**
- **International income 61%[1] of total income in 1H13**
- **Annuity-style businesses (Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services) net profit contribution[2] broadly in line with a strong 1H12**
- **Fixed Income, Currencies and Commodities delivered a 1H13 net profit contribution up on 1H12**
- **Macquarie Capital and Macquarie Securities continued to be impacted by low activity levels across ECM and M&A**
- **Macquarie Securities impacted by low levels of client activity combined with run-off costs in its legacy businesses partially offset by ongoing cost efficiencies**
- **Group regulatory capital of $A12.6 billion, $A3.4 billion[3] in excess of minimum regulatory capital requirement**
- **Tax rate 30.2%, up from 26.0% in 1H12**
- **On market acquisitions of shares for the MEREP ($A242 million at an average price of $A26.97) and DRP ($A31 million at an average price of $A26.04) completed. In addition, bought back $A251 million of shares at an average price of $A25.58. Of the $A500 million buyback previously approved, $A249 million remains**
- **1H13 earnings per share (EPS) $A1.06, up 22% on 1H12**
- **Annualised Return on Equity (ROE) 6.6%, up from 5.7% in 1H12**
- **Interim dividend of $A0.75 per share (unfranked) up from $A0.65 for 1H12 and in line with 2H12**

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[1] Operating income in each region before impairment charges on equity investments and non-financial assets and income from the Corporate segment
[2] All references to net profit contribution are pre profit share and tax
[3] All references to Group regulatory capital surplus are on a fully Harmonised Basel III basis at 8.5% RWA

SYDNEY, 26 October 2012 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A361 million for the half year ended 30 September 2012 (1H13), up 18 per cent on the half year ended 30 September 2011 (1H12) and down 15 per cent on the half year ended 31 March 2012 (2H12).

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore said:
“The six months to 30 September 2012 saw Macquarie’s annuity style businesses continue to perform well with 1H13 combined results broadly in line with a strong 1H12 and up on 2H12.

Mr Moore added: “Macquarie’s capital markets facing businesses, although continuing to face subdued market conditions, delivered a combined result that was up on 1H12 due to improved conditions for FICC.

“Macquarie’s other capital markets facing businesses, Macquarie Securities and Macquarie Capital, continued to be impacted by low activity levels across ECM and M&A. Macquarie Securities was impacted by low levels of client activity combined with run-off costs in its legacy businesses partially offset by ongoing cost efficiencies.

"Operating expenses were down nine per cent on 1H12 as a result of continued operating efficiencies including the centralisation of support functions to generate scale benefits through improved operational efficiencies.

“Macquarie’s assets under management at September 2012 were $A341 billion, up from $A327 billion at March 2012.

“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 unfranked dividend of $A0.75 per share, up from the 1H12 dividend of $A0.65 per share and in line with the 2H12 dividend of $A0.75. This represents a payout ratio of approximately 70 per cent. The record date is 9 November 2012 and the payment date for the interim dividend is 12 December 2012.

Capital Management

Macquarie provided an update on its previously announced capital management strategy. Since 31 March 2012, Macquarie has completed the on market purchase of shares to satisfy the FY12 MEREP (Macquarie Group Employee Retained Equity Plan) requirements of $A242 million at an average price of $A26.97 as well as the 2H12 DRP (Dividend Reinvestment Plan) of $A31 million at an average price of $A26.04. In addition to this, Macquarie has bought back $A251 million of shares at an average price of $A25.58.

Of the $A500 million buyback previously approved, $A249 million remains.

Outlook

The FY13 results will vary with market conditions, particularly for capital markets facing businesses which continue to experience subdued market conditions.

Mr Moore said: "Consistent with our statement at the FY12 result announcement on 27 April 2012 and reconfirmed at our Annual General Meeting on 25 July 2012, we continue to expect an improved result for FY13 on FY12 provided market conditions for FY13 are not worse than those experienced in FY12."

The FY13 result also remains subject to a range of other challenges including:

- the cost of our continued conservative approach to funding and capital
- regulation, including the potential for regulatory changes
- increased competition in some markets
- the overall cost of funding.

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 our portfolio mix to 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 a decline in net interest income and fee and commission income, and an increase in trading income and equity accounted gains. Equity investment impairments also increased during the six month period."

"The Group has continued to reduce operating expenses[4] during the half through ongoing cost management initiatives," he said.

Staff numbers were 13,463 at 30 September 2012, down from 14,202 at 31 March 2012.

The tax expense was higher, with an effective rate of 30.2 per cent in 1H13, up from 26.0 per cent in 1H12 and 29.8 per cent in 2H12.

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 six per cent from March 2012 to $A30.8 billion, while total deposits increased from $A33.9 billion at 31 March 2012 to $A36.2 billion at 30 September 2012. Since 31 March 2012, $A5.9 billion of new term funding has been raised.

Macquarie maintained its strong capital base. Regulatory capital of $A12.6 billion at 30 September 2012 was $A3.4 billion in excess of the Group's minimum regulatory capital requirement on a Harmonised Basel III basis[5].

[4] Excluding brokerage and commission expenses
[5] All references to Group regulatory capital surplus are on a fully Harmonised Basel III basis at 8.5% RWA

"Macquarie Group continues to have sufficient capital today to meet the Basel III capital rules as applied by APRA effective 1 January 2013," Mr Upfold said.

"The MBL Basel III Harmonised core equity Tier 1 ratio was 11.8 per cent at 30 September 2012, which was down from 12.2 per cent at 31 March 2012" Mr Upfold said.

Operating Group performance

- **Macquarie Funds** delivered a net profit contribution of $A356 million, down 11 per cent on the 1H12. The result continues to be driven by strong base fees and performance fee income, while the reduction in profit is attributable to lower demand for financing facilities from external funds and their investors as well as increased impairment charges relating to unlisted investments. The group achieved broadly flat net inflows during the period. Assets under management increased by four per cent to $A337 billion from $A325 billion at 31 March 2012 primarily driven by positive market and valuation movements and investments in the infrastructure and real assets business.
- **Corporate and Asset Finance** delivered a net profit contribution of $A335 million which was broadly in line with 1H12. Whilst the group increased its asset finance and corporate lending portfolio by four per cent to $A21.4 billion over the six month period, net interest income was down as a result of decreased early loan repayments. The asset finance portfolio increased by five per cent since 31 March 2012 driven by ongoing growth in the motor vehicle and equipment finance portfolios.
- **Banking and Financial Services** delivered a net profit contribution of $A185 million, up 28 per cent on 1H12. Net interest and trading income was up four per cent while brokerage and commission fees were down 13 per cent on 1H12 as a result of the weak equity market conditions and reduced investor appetite. The group maintained its No.1 position for full-service retail stockbroking in Australia while increasing its retail deposits by six per cent to $A31 billion, from $A29 billion at 31 March 2012. Operating expenses were down five per cent on 1H12 as a result of continued cost management initiatives.
- **Macquarie Securities** reported a net loss of $A64 million, compared with a loss of $A19 million in 1H12 and a loss of $A175 million in 2H12. Whilst the cash business delivered a break even result for the six month period, the group's 1H13 result continued to be negatively impacted by legacy businesses. Net interest and trading income was down 63 per cent on 1H12 due to legacy businesses as well as lower client activity and trading opportunities in the continuing Derivatives/Arbitrage businesses. Brokerage and commission income was down 24 per cent on 1H12 as a result of lower market volumes stemming from reduced demand across all regions, especially Asia. Operating expenses were down 27 per cent on 1H12 as a result of continued operating efficiencies. The group maintained its leading market positions for warrants and execution in key Asian markets and its strong franchise remains well positioned for an improvement in market conditions.
- **Macquarie Capital** delivered a net profit contribution of $A10 million, as it continued to experience subdued market conditions. It advised on 205 transactions worth $A36 billion during the period, including Charter Hall Office REIT privatisation and The Wharf Holdings Ltd's strategic investment into Greentown (the largest M&A transaction in the People's Republic of China property sector). Impairment charges increased during the six month period. In addition to this, a loss was recognised on an equity investment where Macquarie

Capital's ownership interest changed as a result of an initial public offering. Operating expenses were down 15 per cent on 1H12 mainly due to the reduction in headcount.

- **FICC** delivered a net profit contribution of $A219 million, up from $A6 million in 1H12 which was significantly impacted by challenging global market conditions. Commodities trading income was up 21 per cent on 1H12 as energy and agricultural markets experienced strong customer flows across its global platform. Credit, interest rates and foreign exchange income were significantly up on 1H12 mainly as a result of the dislocation present in 1H12. As a result of lower security prices, a number of resource equity holdings were impaired during the six months resulting in an overall increase in impairment charges. Operating expenses for the group were down nine per cent on 1H12 largely driven by lower cost recoveries from central support functions.

Management changes

Macquarie's Head of the Market Operations and Technology Group (MOT), Nigel Smyth, will retire from his position effective 1 January 2013 and work on a part-time basis until he leaves the Group on 1 June 2013.

Nigel was appointed Chief Information Officer in October 2002 and assumed his current role in December 2011. He has played an instrumental role in developing the technology platforms that sustain and support Macquarie's businesses globally. The Board and management would like to thank Nigel for his hard work and commitment to the Group.

Nicole Sorbara, current Head of the Corporate Services Group (CSG), has been appointed Chief Operating Officer and will lead the newly formed Corporate Operations Group (COG), which will bring together the divisions of CSG and MOT, effective 1 January 2013 when she will also join Macquarie's Executive Committee.

The formation of the Corporate Operations Group is the logical next step in the evolution of Macquarie's service and support operating model, providing further efficiency and integration benefits.

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