



ASX/Media Release

MACQUARIE GROUP ANNOUNCES \$A678 MILLION HALF YEAR PROFIT

Key points

- **1H15 net profit of \$A678 million, up 35% on 1H14, down 11% on 2H14**
- **Annuity-style businesses' combined net profit contribution¹ up 38% on 1H14**
- **Capital markets facing businesses' combined net profit contribution up 11% on 1H14**
- **1H15 operating income of \$A4.3 billion, up 17% on 1H14**
- **International income 65% of total income² in 1H15**
- **1H15 operating expenses of \$A3.2 billion, up 11% on 1H14**
- **Assets under management of \$A425 billion, broadly in line with 31 March 14**
- **APRA Basel III Group capital of \$A13.7 billion³, \$A1.8 billion surplus to minimum regulatory capital requirements from 1 January 2016⁴, \$A2.9 billion surplus to existing requirements⁵**
- **1H15 earnings per share (EPS) \$A2.13, up 42% on 1H14**
- **Annualised return on equity (ROE) 12.5%, up from 8.7% in 1H14**
- **Interim dividend of \$A1.30 per share (40% franked), up on 1H14 dividend of \$A1.00 (40% franked) and down on 2H14 dividend of \$A1.60 (40% franked)⁶**
- **Dividend Reinvestment Plan shares to be issued at a discount of 1.5 per cent**

SYDNEY, 31 October 2014 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of \$A678 million for the half year ended 30 September 2014 (1H15), up 35 per cent on the half year ended 30 September 2013 (1H14) and down 11 per cent on the half year ended 31 March 2014 (2H14). The 1H15 net profit increase on 1H14 was stronger than previously expected given the timing of transactions.

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore said: "The six months to 30 September 2014 saw Macquarie's annuity-style businesses (Macquarie Funds (MFG), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS)) continue to perform well, with 1H15 combined net profit contribution up 38 per cent on 1H14 and up 23 per cent on 2H14. Macquarie's capital markets facing businesses' (Macquarie Securities (MSG), Macquarie Capital and Fixed Income, Currencies and Commodities (FICC)) combined net profit contribution was up 11 per cent on 1H14 and

¹ Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

² Total income is net operating income excluding earnings on capital and other corporate items.

³ Pro forma including \$A429 million of Macquarie Bank Capital Notes (BCN) issued on 8 October 2014, which are eligible for inclusion as Additional Tier 1 capital.

⁴ Calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per the 1 January 2016 minimum requirements in the APRA Prudential Standard APS 110.

⁵ Calculated at 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

⁶ In addition, in 2H14 eligible shareholders benefited from the SYD distribution in Jan 14 which comprised a special dividend of \$A1.16 (40 per cent franked) and a return of capital of \$A2.57 per share.

down 43 per cent on 2H14, which benefited from strong results in the Energy Markets business”, Mr Moore said.

Net operating income of \$A4.3 billion in 1H15 was up 17 per cent on 1H14 and down three per cent on 2H14, while operating expenses of \$A3.2 billion were up 11 per cent on 1H14 and in line with 2H14.

The effective tax rate of 38.9 per cent was broadly in line with the full year ended 31 March 2014 (FY14).

Macquarie’s assets under management (AUM) at 30 September 2014 were \$A425 billion, in line with 31 March 2014.

Mr Moore said: “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, surplus capital, a robust liquidity and funding position and a conservative approach to risk management.”

Macquarie also announced today an interim dividend of \$A1.30 per share, 40 per cent franked, up from the 1H14 dividend of \$A1.00 per share and down from the 2H14 dividend of \$A1.60 per share, both 40 per cent franked. This represents a payout ratio of 62 per cent. The record date is 14 November 2014 and the payment date for the interim dividend is 16 December 2014.

Board changes

Macquarie advised today that Gordon Cairns has been appointed to the Macquarie Group Limited and Macquarie Bank Limited Boards as an independent director, effective 1 November 2014.

Mr Cairns has held a wide range of management and executive roles throughout his career including Chief Executive Officer of Lion Nathan Limited. He is currently the chairman of Origin Energy Limited, Quick Service Restaurants and the Origin Foundation. He has also served as a director on the boards of Westpac Banking Corporation, Seven Network Australia Limited and Lion Nathan Limited, as well as the chairman of David Jones Limited and Rebel Group Pty Limited.

Outlook

While the impact of future market conditions makes forecasting difficult, the Group continues to expect that the full year ended 31 March 2015 (FY15) combined net profit contribution from operating groups will be up on FY14, offsetting the FY14 realised gain relating to the SYD distribution.

The FY15 tax rate is currently expected to be broadly in line with FY14.

Accordingly, the FY15 result for the Group is currently expected to be slightly up on FY14.

Our short term outlook remains subject to a range of challenges including: market conditions; the impact of foreign exchange; the cost of our continued conservative approach to funding and capital; and potential regulatory changes and tax uncertainties.

Macquarie remains well positioned to deliver superior performance in the medium term due to its deep expertise in major markets, strength in diversity and ability to adapt its 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: "Net operating income of \$A4.3 billion for 1H15 increased 17 per cent on 1H14, while total operating expenses of \$A3.2 billion for 1H15 increased 11 per cent on 1H14."

Key drivers of the changes were:

- A 13 per cent increase in combined net interest and trading income to \$A1,643 million, with key drivers being improved trading conditions for certain FICC businesses, income earned from early repayments and the sale of loan assets in the CAF Lending portfolio and higher loan and deposit volumes in BFS.
- A 19 per cent increase in fee and commission income to \$A2,181 million, primarily driven by increased MFG performance fees as well as mergers and acquisitions (M&A), advisory and underwriting fees, namely from Macquarie Capital, partially offset by decreased brokerage and commissions income driven by the sale of BFS' Macquarie Private Wealth Canada business in November 2013.
- A 42 per cent increase in other operating income and charges to \$A455 million, due to increased net gains on sale of investments, mainly in Macquarie Capital, a reduction in aggregate impairment charges and a gain on disposal of operating lease assets in CAF.
- An 11 per cent increase in total operating expenses, driven by higher employment expenses primarily due to the improved performance of the Group, higher technology expenses driven by information technology development activity in response to increased regulatory compliance requirements, and an increase in other expenses resulting from an overall increase in business activity, investment in platforms and regulatory compliance requirements.

Staff numbers were 14,138 at 30 September 2014, up from 13,913 at 31 March 2014.

The income tax expense was \$A432 million, resulting in an effective tax rate of 38.9 per cent for 1H15. Macquarie's effective tax rate is higher than the Australian corporate tax rate of 30 per cent due to the geographic mix of income and tax uncertainties.

Strong funding and balance sheet position

Mr Upfold said: "Macquarie continued to benefit from well-diversified funding sources and to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

Retail deposits increased by six per cent from 31 March 2014 to \$A35.3 billion at 30 September 2014, while total deposits increased from \$A36.9 billion to \$A38.8 billion. Since 31 March 2014, \$A11.2 billion⁷ of new term funding was raised covering a range of sources, tenors, currencies and product types.

⁷ Includes BCN (\$A0.4 billion) and Macquarie Bank Limited (MBL) three year USD bond (\$A2.0 billion) issuances completed in October 2014.

Capital Management

During 1H15, Macquarie completed the on-market purchase of shares to satisfy both the FY14 Macquarie Group Employee Retained Equity Plan (MEREP) requirements of \$A265 million at a weighted average price of \$A59.56, as well as the 2H14 Dividend Reinvestment Plan (DRP) of \$A63 million at a weighted average price of \$A59.94.

On 8 October 2014, \$A429 million Macquarie Bank Capital Notes (BCN) were issued. The BCN were issued by MBL and have been confirmed eligible for inclusion as Additional Tier 1 capital by APRA.

Given business growth, the Board has resolved to issue shares to satisfy the DRP for the 1H15 dividend and has reintroduced a discount to the prevailing market price⁸ of 1.5 per cent.

Macquarie Group remains well capitalised with APRA Basel III Group capital of \$A13.7 billion⁹ at 30 September 2014, a \$A1.8 billion surplus to Macquarie's minimum regulatory capital requirements from 1 January 2016¹⁰, and a \$A2.9 billion surplus to Macquarie's existing¹¹ minimum regulatory capital requirements. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 8.7 per cent at 30 September 2014, which was down from 9.6 per cent at 31 March 2014.

Regulatory Update

In August 2014, APRA issued its final rules for Conglomerates with the implementation timing dependent on the outcomes of the Financial System Inquiry. We continue to work through the application of these rules with APRA, however, our current assessment is that Macquarie has sufficient capital to meet the minimum APRA capital requirements for Conglomerates.

Based on finalised Bank for International Settlements (BIS) leverage ratio requirements released in January 2014, the Bank Group is well in excess of the currently proposed Basel III three per cent minimum, with an estimated 5.5 per cent¹² leverage ratio (5.7 per cent including the BCN⁹). APRA published draft standards relating to the leverage ratio in September 2014 and is currently undertaking industry consultation regarding its final form.

Liquidity Coverage Ratio (LCR) requirements will become effective from 1 January 2015. With its Committed Liquidity Facility allocation in place, the Bank Group's LCR would exceed 120 per cent as at 30 September 2014.

Operating Group performance:

- **Macquarie Funds Group (MFG)** delivered a net profit contribution of \$A785 million in 1H15, up 57 per cent on 1H14. MFG generated strong annuity base fee income and a significant increase in performance fees, earned predominantly from Macquarie European Infrastructure Fund 1, Macquarie Infrastructure Company and Macquarie Atlas Roads. AUM of \$A423 billion remained broadly in line with 31 March 2014, with investments and positive valuation movements in Macquarie Infrastructure and Real Assets (MIRA) as well as favourable foreign exchange and market movements in Macquarie Investment Management (MIM) offsetting the impact of the

⁸ Determined in accordance with the DRP rules as the average of the daily volume weighted average price over the nine business days commencing on the third business day after the relevant election date.

⁹ Pro forma including \$A429 million of BCN issued on 8 October 2014.

¹⁰ Calculated at 8.5 per cent RWA including CCB, per the 1 January 2016 minimum requirements in the APRA Prudential Standard APS 110.

¹¹ Calculated at 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

¹² As at 30 September 2014.

formation of the Jackson Square Partners joint venture, the management buyout of the MIM Private Markets business and other asset disposals. MIRA raised \$A4.1 billion in new equity commitments and invested \$A3.4 billion of equity across the world. MIM launched multiple new funds and continued its strong investment performance. Macquarie Specialised Investment Solutions continued to grow its infrastructure debt management business and raised approximately \$A600 million for Australian capital protected investments and specialist funds.

- **Corporate and Asset Finance Group (CAF)** delivered a net profit contribution of \$A468 million in 1H15, up 18 per cent on 1H14. CAF's asset and loan portfolio increased eight per cent to \$A27.5 billion during the half. There were \$A2.0 billion of portfolio additions in corporate and real estate lending, including the provision of \$US150 million in financing to Vertex Pharmaceutical and the £77 million financing of a portfolio of hospitality properties on long term leases. CAF continued to expand its asset finance portfolio to \$A17.5 billion mostly through the continued expansion of the motor vehicle portfolio and acquisitions made in the aircraft leasing portfolio. Securitisation activity continued in 1H15, with \$A2.0 billion of motor vehicle and equipment leases and loans securitised.
- **Banking and Financial Services (BFS)** delivered a net profit contribution of \$A141 million in 1H15, up 27 per cent on 1H14. Macquarie platform assets under administration increased by three per cent during the half to \$A41.7 billion, while the Australian mortgage portfolio increased 16 per cent to \$A19.8 billion, representing approximately one per cent of the Australian mortgage market. BFS grew retail deposits by six per cent during the half to \$A35.3 billion, while average business banking deposit and loan volumes increased 13 per cent and 10 per cent respectively in 1H15. BFS also signed an agreement with Woolworths to become the credit card issuing partner for the Woolworths Money Everyday and Woolworths Money Qantas Credit Cards.
- **Macquarie Securities Group (MSG)** delivered a net profit contribution of \$A17 million in 1H15, down from \$A71 million in 1H14, largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs relating to the exit of the Structured Products business during the period. Secondary equity and derivative market volumes remained subdued across most regions. Macquarie benefited from continued improvement in equity capital market (ECM) activity, particularly in Australia which included the \$A3.6 billion initial public offering (IPO) of Healthscope Limited, the largest IPO on the ASX since 2010. MSG remains well positioned for an improvement in market conditions by continuing to focus on its core businesses, including its top tier research and sales, strong Asia-Pacific ECM franchise and its global institutional securities platform.
- **Macquarie Capital** delivered a net profit contribution of \$A150 million in 1H15, up 49 per cent on 1H14. Macquarie Capital advised on 219 transactions valued at \$A63 billion during the half. Macquarie Capital was ranked No.1 in Australia for announced and completed M&A deals¹³ and No.1 for IPOs¹⁴. Major transactions in each region included QIC's \$A7 billion sale of Queensland Motorways; Sampo Japan's \$US967 million acquisition of Canopus, a Lloyd's of London insurance group; Covanta Energy's financing of the approximately €500 million Dublin Waste-to-Energy project; and Amaya Gaming Group Inc.'s \$US4.9 billion acquisition of Rational Group.

¹³ Dealogic, Thomson, by number (CY2014).

¹⁴ Dealogic, Thomson, by number and value (CY2014).

- **Fixed Income, Currencies and Commodities (FICC)** delivered a net profit contribution of \$A250 million in 1H15, up 23 per cent on 1H14. The result reflected improved income across the commodities and credit, interest rates and foreign exchange platforms and significantly lower impairments compared to 1H14. Subdued mining equity markets and low prices in metals and bulk commodities continued to impact the timing of asset realisations and new project financings. Commodities trading income rose, underpinned by continued growth in the financing and trading of physical commodities, while lower levels of volatility in certain markets impacted client hedging activity. Volatility and volumes improved in foreign exchange markets. The credit environment was mixed, however, debt origination and issuances continued to increase in the UK and Europe.

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