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MACQUARIE

ASX/Media Release

MACQUARIE GROUP 2015 OPERATIONAL BRIEFING

Key points

- **Trading conditions across the Group have continued to improve during the Dec 14 quarter and there has been a continued weakening of the Australian dollar**
- **Annuity-style businesses' combined Dec 14 quarter net profit contribution[1] down on both a strong Dec 13 quarter (prior corresponding period) and Sep 14 quarter (prior period) which benefited from significant performance fees in Macquarie Asset Management (formerly Macquarie Funds Group) and the sale of OzForex[2]**
- **Capital markets facing businesses experienced improved trading conditions with combined Dec 14 quarter net profit contribution[1] up significantly on both the prior corresponding period and the prior period**
- **APRA Basel III Group capital of $A14.3 billion, $A1.4 billion surplus to minimum regulatory capital requirements from 1 January 2016[3], $A2.6 billion surplus to existing requirements[4]**
- **Macquarie Funds Group has changed its name to Macquarie Asset Management, and Fixed Income, Currencies and Commodities has changed its name to Commodities and Financial Markets to better align the group names to their business activities**

Sydney, 17 February 2015 – Macquarie Group Limited (Macquarie) (ASX: MQG; ADR: MQBKY) today provided an update on business activity in the third quarter of the financial year ending 31 March 2015 (December 2014 quarter) and updated the outlook for the financial year ending 31 March 2015 (FY15).

Overview

During a presentation at Macquarie's Operational Briefing in Sydney today, Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: "Since our result announcement for the first half of the 2015 financial year (1H15), trading conditions across the Group have continued to improve and there has been a continued weakening of the Australian dollar.

"Macquarie's annuity-style businesses' – Macquarie Asset Management (formerly Macquarie Funds Group), Corporate and Asset Finance and Banking and Financial Services – combined December 2014 quarter net profit contribution[1] was down on both a strong December 2013 quarter and September 2014 quarter which benefited from significant performance fees in Macquarie Asset Management and the sale of OzForex[2].

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[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
[2] OzForex sold in December 2013 quarter.
[3] 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.
[4] Calculated at 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

"Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets (formerly Fixed Income, Currencies and Commodities) – experienced improved trading conditions with combined December 2014 quarter net profit contribution[1] up significantly on both the December 2013 quarter and September 2014 quarter."

Also announced today, Macquarie Funds Group has changed its name to Macquarie Asset Management. Similarly, Fixed Income, Currencies and Commodities has changed its name to Commodities and Financial Markets. This is to better align the names of these groups to their business activities.

Mr Moore provided an overview of recent developments undertaken by the businesses during the December 2014 quarter:

- **Macquarie Asset Management** (MAM), Australia's largest global asset manager, saw assets under management increase to $A453.3 billion at 31 December 2014 from $A423.3 billion at 30 September 2014. Since 1H15, Macquarie Infrastructure and Real Assets raised $A2.2 billion in new equity, largely in Pan-Asia infrastructure. Macquarie Investment Management was awarded $A2.1 billion in new, funded institutional mandates across 14 strategies from clients in six countries. Macquarie Specialised Investment Solutions reached first close on the UK Inflation-linked Infrastructure Debt Fund.
- **Corporate and Asset Finance** (CAF) experienced continued growth in the lending and asset portfolios, increasing to $A29.0 billion at 31 December 2014 from $A27.5 billion at 30 September 2014. CAF continued to grow its corporate and real estate lending portfolios across all geographies, and the Energy Leasing business continued its key funding role in the rollout of smart meters throughout the UK.
- **Banking and Financial Services** (BFS) increased its Australian mortgage portfolio to $A22.3 billion at 31 December 2014 from $A19.8 billion at 30 September 2014, which represents 1.6 per cent of the Australian mortgage market. Macquarie platform assets under administration increased by four per cent during the December 2014 quarter to $A43.2 billion, while retail deposits increased by one per cent during the same period to $A35.7 billion.
- **Macquarie Securities Group** (MSG) held the No.1 market share position for Australia/New Zealand Initial Public Offerings (IPOs) by number and value of deals[5]. In October 2014, MSG launched its Malaysia Structured Warrants product gaining No.1 market share[6], establishing Macquarie as a leading issuer in Asia by coverage.
- **Macquarie Capital** completed a number of transactions in the December 2014 quarter including: Joint Lead Manager on the $A5.7 billion IPO of Medibank Private, the largest Australian IPO in 2014 and the second largest Australian IPO ever; Adviser to Freeport LNG on its landmark $US11 billion equity and debt raising to project finance its LNG export facility in Texas; and Adviser to State Grid Corporation of China on the €2.1 billion acquisition of a 35 per cent interest in CDP RETI in Italy.
- **Commodities and Financial Markets** (CFM) experienced increased volatility in oil and gas prices which generated increased customer activity across the energy platform. The business also experienced stronger client flows in foreign exchange due to increased market volatility. CFM is ranked the No.3 US physical gas marketer in North America[7].

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[5] Dealogic, calendar year 2014.
[6] Local exchange by turnover.
[7] Platts, September 2014 quarter.

Capital, funding and balance sheet positions

Macquarie Group remains well capitalised with APRA Basel III Group capital of $A14.3 billion at 31 December 2014, a $A1.4 billion surplus to Macquarie's minimum regulatory capital requirements from 1 January 2016[3], and a $A2.6 billion surplus to Macquarie's existing[4] minimum regulatory capital requirements. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 9.0 per cent at 31 December 2014, which was up from 8.7 per cent at 30 September 2014.

The funded balance sheet remains strong and well funded with wholesale and retail deposits of $A38.8 billion at 31 December 2014 in line with 30 September 2014.

Outlook

While the impact of future market conditions makes forecasting difficult, we expect the FY15 combined net profit contribution[1] from operating groups to be up significantly on FY14, more than offsetting the FY14 realised gain relating to the Sydney Airport distribution.

The FY15 tax rate is currently expected to be slightly down on FY14.

Accordingly, as we advised the market in January 2015, the Group's result for FY15 is expected to be up between 10 and 20 per cent on FY14, with current conditions likely to result in this being at the upper end of the range, subject to the completion rate of transactions and the conduct of period end reviews.

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.

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