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ASX/Media Release

MACQUARIE GROUP 2016 OPERATIONAL BRIEFING

Key points

- **Trading conditions across the Group were satisfactory in the December 2015 quarter**
- **Annuity-style businesses' combined December 2015 quarter net profit contribution[1] up on December 2014 quarter (prior corresponding period) but down on September 2015 quarter (prior period) which benefited from strong performance fees in Macquarie Asset Management**
- **Capital markets facing businesses' combined December 2015 quarter net profit contribution[1] down on the prior corresponding period, which benefited from fee income from the Freeport LNG transaction in Commodities and Financial Markets and Macquarie Capital, and up on the prior period**
- **APRA Basel III Group capital of $A17.3 billion and Group surplus of $A2.8 billion[2] at 31 December 2015**
- **Macquarie continues to expect the FY16 result to be up on FY15**

Sydney, 4 February 2016 – 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 2016 (December 2015 quarter) and updated the outlook for the financial year ending 31 March 2016 (FY16).

Overview

During a presentation at Macquarie's Operational Briefing in Sydney today, Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: "Trading conditions across the Group were satisfactory in the December 2015 quarter."

Macquarie's annuity-style businesses' – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – combined December 2015 quarter net profit contribution[1] was up on the December 2014 quarter but down on the September 2015 quarter which benefited from strong performance fees in Macquarie Asset Management.

Macquarie's capital markets facing businesses' – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets – combined December 2015 quarter net profit contribution[1] was down on the prior corresponding period, which benefited from fee income from the Freeport LNG transaction in Commodities and Financial Markets and Macquarie Capital, and up on the prior period. Mr Moore also noted that for Macquarie's capital markets facing businesses recent trading conditions reflect current market uncertainty.

[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
[2] Calculated at 8.5 per cent risk weighted assets (RWA) including capital conservation buffer (CCB), per APRA Prudential Standard 110. The APRA Basel III Group surplus is $A4.2 billion calculated at 7 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

Mr Moore provided an overview of recent developments undertaken by the businesses during the December 2015 quarter:

- **Macquarie Asset Management** (MAM) had assets under management of $A487.2 billion at 31 December 2015 down three per cent on 30 September 2015 predominately driven by unfavourable spot exchange rate movements partly offset by positive market movements. Since 1H16, Macquarie Infrastructure and Real Assets raised $A1.4 billion in new equity, largely in Asian and Australian infrastructure. Macquarie Investment Management was awarded $A3.2 billion in new, funded institutional mandates across four strategies. Macquarie Specialised Investment Solutions continued to grow the Macquarie Infrastructure Debt Investment Solutions (MIDIS) business with total third party investor commitments on MIDIS over $A3.7 billion.
- **Corporate and Asset Finance's** (CAF) asset and loan portfolio increased to $A39.7 billion at 31 December 2015, up 23 per cent on 30 September 2015. The CAF Asset Finance portfolio experienced continued growth, increasing to $A29.6 billion at 31 December 2015 up 39 per cent on 30 September 2015 due to acquisitions which continue to transition, including AWAS Aviation Capital and the Esanda dealer finance portfolio. As at 31 December 2015, CAF Asset Finance settled on 74 of the 87 aircraft committed from AWAS Aviation Capital in the full year ended 31 March 2015 (FY15) and entered into an agreement to acquire the Esanda dealer finance portfolio from ANZ Banking Group for $A8.2 billion, of which $A6.6 billion has been acquired to date. CAF Lending's funded loan portfolio of $A10.1 billion[3] at 31 December 2015 was down eight per cent on 30 September 2015 driven by higher net repayments and unfavourable spot exchange rate movements. During the quarter, there were $A0.6 billion of portfolio additions, comprised of $A0.3 billion in new primary financings across corporate and real estate, weighted towards bespoke originations, and $A0.3 billion of corporate loans and similar assets acquired in the secondary market.
- **Banking and Financial Services'** (BFS) Australian mortgage portfolio was $A27.8 billion at 31 December 2015, up one per cent on 30 September 2015, representing approximately 1.9 per cent of the Australian market. Macquarie platform assets under administration increased to $A59.8 billion at 31 December 2015 up 28 per cent on 30 September 2015[4], while BFS deposits[5] increased to $A39.5 billion at 31 December 2015, up two per cent on 30 September 2015. During the quarter, BFS launched the first Macquarie savings and transaction accounts, and new Macquarie Black credit card with premium rewards.
- **Macquarie Securities Group** (MSG) maintained equal 1st overall in the 2015 Peter Lee Survey of Australian Investors and finished the 2015 calendar year ranked No. 2 for ECM deals in Australia[6]. Market activity across Asia-Pacific was subdued during the December 2015 quarter as macroeconomic concerns focusing on China growth and the US Federal Reserve's decision to increase interest rates created a challenging environment for clients that resulted in lower client activity and reduced volumes.
- **Macquarie Capital** completed 98 transactions valued at $A43 billion globally in the December 2015 quarter. Notable transactions included: sole bookrunner and underwriter for Origin Energy's $A2.5 billion pro rata accelerated renounceable entitlement offer with retail rights trading, one of the largest fully underwritten secondary raisings with a sole bookrunner and underwriter ever on the Australian Securities Exchange; successfully sold a 19.99 per cent interest in Sino-Australian International Trust Co. Ltd to Chongqing Casin Limited Company; reached financial close on the acquisition of a 25 per cent stake in the Galloper Offshore Wind Farm Project in the United Kingdom; and sole financial advisor to Kelso & Company on its acquisition of a majority stake in

[3] Includes Real Estate Structured Finance legacy run-off portfolio.
[4] Increase in part attributable to $A9.2 billion in CHESS holdings and $A0.9 billion of CMA Cash holdings associated with platform ready full service broking accounts migrating to the Vision platform.
[5] BFS deposits exclude any Corporate/Wholesale deposit balances.
[6] Dealogic, Thomson CY15 (by value and number of deals).

Risk Strategies Company and lead left bookrunner and lead arranger on $US300 million of senior secured credit facilities to support the transaction.

- **Commodities and Financial Markets** (CFM) experienced continued market volatility and falling oil prices which led to increased customer activity across the energy platform. Ongoing market volatility also resulted in increased opportunities in Agriculture and Base Metals and strong client flows in foreign exchange and interest rates markets however, a sharp sell-off in US credit markets resulted in a reduction in debt capital markets fees and secondary market client trading revenues. CFM was awarded Commodity House of the Year for the second consecutive year in the 2015 Commodity Business Awards[7].

Capital, funding and balance sheet positions

Macquarie Group remains well capitalised with APRA Basel III Group capital of $A17.3 billion and Group surplus of $A2.8 billion[2] at 31 December 2015. The Bank Group APRA Basel III Common Equity Tier 1 ratio was 9.9 per cent at 31 December 2015, in line with 30 September 2015.

The funded balance sheet remains strong and well funded with total customer deposits of $A42.5 billion at 31 December 2015, broadly in line with 30 September 2015.

Outlook

While the impact of future market conditions makes forecasting difficult, Macquarie currently expects the FY16 combined net profit contribution from operating groups to be up on FY15.

The FY16 tax rate is currently expected to be broadly in line with 1H16.

Given the earlier than expected recognition of additional performance fees in 1H16, the half-year ended 31 March 2016 (2H16) result is expected to be lower than 1H16 but higher than the prior corresponding period (2H15), subject to the completion rate of transactions and the conduct of period end reviews.

Accordingly, Macquarie continues to expect the FY16 result to be up on FY15.

The Group’s 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.

Mr Moore said: “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 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.”

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[7]Presented by Commodities Now Magazine.