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ASX / Media Release

MACQUARIE GROUP ANNOUNCES $A1,265 MILLION FULL YEAR PROFIT

Key points

- **FY14 net profit of $A1,265 million, up 49% on FY13**
- **2H14 net profit of $A764 million, up 52% on 1H14**
- **Increased net profit contribution[1] from all operating groups**
- **FY14 operating income of $A8.1 billion, up 22% on FY13**
- **International income 68% of total income[2] in FY14**
- **FY14 operating expenses of $A6.0 billion, up 15% on FY13**
- **Assets under management of $A427 billion, up 23% from Mar 13**
- **APRA Basel III Group regulatory capital of $A12.9 billion, $A2.7 billion[3] in excess of minimum regulatory capital requirement**
- **FY14 earnings per share (EPS) $A3.84, up 53% on FY13**
- **FY14 return on equity (ROE) 11.1%, up from 7.8% for FY13; 2H14 ROE of 13.5%**
- **Final ordinary dividend of $A1.60 per share (40% franked); full year ordinary dividend of $A2.60 per share, up from $A2.00 in FY13**
- **In addition, eligible shareholders benefited from the SYD distribution in Jan 14 which comprised a special dividend of $A1.16 (40% franked) and a return of capital of $A2.57 per share[4]**

SYDNEY, 2 May 2014 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A1,265 million for the full year ended 31 March 2014 (FY14), up 49 per cent on the full year ended 31 March 2013 (FY13). Profit for the second half of the year (2H14) was $A764 million, up 52 per cent on the first half (1H14).

Macquarie Group Managing Director and Chief Executive Officer (CEO) Nicholas Moore said: "Global market conditions continued to improve in FY14, contributing to a significant increase in Macquarie Group's operating income and profit, with all of Macquarie's operating groups delivering increased net profit contributions.

[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
[2] Net operating income excluding earnings on capital and other corporate items.
[3] All references to Group regulatory capital surplus are on an APRA Basel III basis calculated at 7.0 per cent Risk Weighted Assets.
[4] Prior to the Consolidation (as defined in the Explanatory Memorandum for the General Meeting held on 12 December 2013) of 1 MQG share into 0.9438 of a MQG share.

"The Group's profit for 2H14 was up 52 per cent on 1H14. Macquarie's annuity-style businesses (Macquarie Funds (MFG), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS)) continued to perform well with combined net profit contribution up 12 per cent on 1H14 and up 29 per cent on 2H13. Macquarie's capital markets facing businesses (Macquarie Securities (MSG), Macquarie Capital and Fixed Income, Currencies and Commodities (FICC)) delivered a significantly improved result with combined net profit contribution up 97 per cent on 1H14 and up 48 per cent on 2H13."

Macquarie's annuity-style businesses' FY14 combined net profit contribution increased by $A445 million, or 26 per cent, on FY13. Macquarie's capital markets facing businesses' FY14 combined net profit contribution increased by $A450 million, or 68 per cent, on FY13.

"Notwithstanding the growth of Macquarie's Australian businesses, international income accounted for 68 per cent of the Group's total income[5] for FY14. Income from the Americas accounted for 35 per cent of total income compared with 32 per cent from Australia. This reflects the favourable impact of foreign exchange movements, the organic growth of the Group's operations in the Americas, as well as a number of successful acquisitions in the region in recent years, including Delaware Investments and Constellation Energy's downstream gas business. The Americas also became Macquarie Capital's largest income contributor for the first time, exceeding its very successful Australian business," Mr Moore said.

FY14 operating expenses were $A6.0 billion up 15 per cent on FY13, with employment expenses of $A3.7 billion up 14 per cent on FY13.

The effective tax rate for FY14 was 39.5 per cent, broadly in line with FY13.

Macquarie's assets under management (AUM) at March 2014 were $A427 billion, up from $A347 billion at March 2013.

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, significant surplus capital, a robust liquidity and funding position together with a conservative approach to risk management."

Macquarie also announced today a final ordinary dividend of $A1.60 per share (40 per cent franked), up from the 1H14 ordinary dividend of $A1.00 per share (40 per cent franked). The total ordinary dividend payment for the year was $A2.60 per share, up from $A2.00 in the prior year. This represents an annual ordinary dividend payout ratio of 67 per cent. The record date for the final ordinary dividend is 16 May 2014 and the payment date is 2 July 2014.

In addition, eligible shareholders benefited from the Sydney Airport (SYD) distribution in January 2014, which comprised a special dividend of $A1.16 (40 per cent franked) and a return of capital of $A2.57 per share[6].

Board and Management

The Macquarie Group Limited and Macquarie Bank Limited (MBL) Boards have determined that their Chairman Kevin McCann will remain as Chairman of both entities. Mr McCann will stand for re-election at the Group's next Annual General Meeting in July 2014. The decision ensures continuity for the Boards following the retirements of directors Catherine Livingstone and John Niland, and the appointments of new directors Gary Banks, Patricia Cross and Nicola Wakefield Evans during FY14.

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[5] Net operating income excluding earnings on capital and other corporate items.

[6] Prior to the Consolidation (as defined in the Explanatory Memorandum for the General Meeting held on 12 December 2013) of 1 MQG share into 0.9438 of a MQG share.

Macquarie also today advised that Mary Reemst has been appointed Managing Director and CEO of MBL effective 1 July 2014. Ms Reemst is currently Macquarie's Head of Credit within the Risk Management Group, having served in that role for the past 11 years and with Macquarie for approximately 15 years. As Head of Credit, Ms Reemst's key responsibility was oversight of the Group's wholesale and retail exposures including lending and leasing businesses, trading activities, equity investments and exposure to new products. Tim Whitehead, an Executive Director in the Credit Division of the Risk Management Group who joined Macquarie in 2008, will succeed Ms Reemst as Macquarie's Head of Credit.

MBL's current Managing Director and CEO, Greg Ward, will remain the Group's Deputy Managing Director, Head of BFS and a member of Macquarie's Executive Committee. Mr Ward was appointed Managing Director and CEO of MBL in October 2011 and was subsequently appointed Head of BFS in May 2013. Ms Reemst's appointment allows Mr Ward to continue to lead and build on opportunities he sees for Macquarie's retail franchise over the medium term.

Ms Reemst will replace Mr Ward on the MBL Board and will join Macquarie's Executive Committee.

Patrick Upfold, Chief Financial Officer (CFO) of the Group and Head of the Financial Management Group, will join Macquarie's Executive Committee effective 1 July 2014. Mr Upfold joined Macquarie in 1997 and became Group Treasurer in June 2011 before he was appointed CFO of the Group in December 2011.

Ben Brazil, Co-Head of CAF, will also join Macquarie's Executive Committee effective 1 July 2014. Mr Brazil joined Macquarie in 1994 and is currently Head of CAF Lending.

Outlook

While the impact of future market conditions makes forecasting difficult, it is currently expected that the FY15 combined net profit contribution from operating groups will be up on FY14, broadly 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 broadly in line with FY14, with the potential for a better result if market conditions continue to improve.

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."

Full year result overview

CFO Patrick Upfold said: "Net operating income of $A8.1 billion for FY14 was up 22 per cent, while total operating expenses of $A6.0 billion were up 15 per cent on the prior year."

Key drivers of the change from the prior year are:

- A 26 per cent increase in net interest and trading income to $A3.3 billion, resulting from improved trading conditions for both FICC and MSG, increased lending volumes in BFS and growth in CAF's loan and leasing books.
- A 14 per cent increase in fee and commission income to $A3.9 billion, including a 26 per cent increase in base fees primarily due to an increase in AUM, higher performance fees, improved market share and volumes in cash equities and improved M&A and ECM revenue.
- A 46 per cent increase in other operating income and charges to $A0.9 billion, which includes the gain on the SYD distribution, a reduction in impairment charges on equity investments and an increase in net operating lease income which included the full year impact of the European Rail acquisition.
- A 15 per cent increase in total operating expenses driven by the depreciation of the Australian dollar as well as higher employment expenses, primarily due to the improved performance of the Group, and an overall increase in operating activity.

Staff numbers were 13,913 at 31 March 2014, up from 13,663 at 31 March 2013.

Income tax expense for FY14 was $A827 million, up 55 per cent from $A533 million in the prior year, due to a combination of higher operating profit before income tax, the geographic mix of income and tax uncertainties. The effective tax rate of 39.5 per cent remained broadly in line with the prior year.

Strong funding and balance sheet position

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

Retail deposits increased by seven per cent from 31 March 2013 to $A33.3 billion at 31 March 2014, with total deposits increasing from $A36.2 billion to $A36.9 billion at 31 March 2014. During FY14, $A17.4 billion of new term funding was raised covering a range of sources, tenors, currencies and product types.

Macquarie Group remains very well capitalised with APRA Basel III Group capital of $A12.9 billion at 31 March 2014, a $A2.7 billion surplus to Macquarie's minimum regulatory capital requirement. The MBL APRA Basel III Common Equity Tier 1 capital ratio was 9.6 per cent at 31 March 2014, which was down from 9.7 per cent at 31 March 2013.

Capital Management

Macquarie intends to purchase approximately $A270 million of shares on-market[7] to satisfy the requirements of the Macquarie Group Employee Retained Equity Plan (MEREP). The buying period for the MEREP will commence on 14 May 2014 and is expected to be completed in late June 2014[8]. The shares required for the 2H14 Dividend Reinvestment Plan (DRP)[9] are to be acquired on-market[7].

In May 2013, the Australian Prudential Regulation Authority (APRA) issued its draft rules for Conglomerates. Whilst the rules are yet to be finalised, the Group's current assessment

[7] Shares may be issued if purchasing becomes impractical or inadvisable.
[8] Actual buying may be completed sooner or later. Buying for the MEREP will be suspended during the DRP pricing period (22 May 2014 to 3 June 2014).
[9] The rules of the DRP have been amended to allow DRP elections to be made up to and including the business day following the record date for the relevant dividend. This change was necessary due to changes to the ASX Listing Rules for dividend reinvestment plans.

remains that Macquarie has sufficient capital to meet the minimum APRA capital requirements for Conglomerates, which APRA has previously stated will be effective from 1 January 2015.

Macquarie noted that APRA is yet to publish standards relating to the leverage ratio requirements which will apply to MBL only. Disclosure will be required from 1 January 2015. Based on finalised BIS leverage ratio requirements released in January 2014, MBL is well in excess of the currently proposed Basel III 3 per cent minimum, with an estimated 5.7 per cent[10] leverage ratio.

Operating group performance

- **Macquarie Funds (MFG)** delivered a net profit contribution of $A1,051 million, up 39 per cent on the prior year. The result was driven by increased annuity base fee income, with a 24 per cent increase in MFG's AUM to $A424.8 billion, improved performance fee income and higher equity accounted gains. The increase in AUM was due to a combination of the acquisition of ING Investment Management Korea in December 2013, a top 10 asset manager in Korea with approximately $A24 billion[11] in AUM, favourable currency and market movements, and positive net flows. Macquarie Investment Management is at record AUM and Macquarie Infrastructure and Real Assets raised more than $A5.3 billion in new equity commitments to invest in North American and Asian infrastructure, Mexican real estate, UK energy and global agriculture. It invested $A4.0 billion of equity in portfolio assets across the globe and divested assets of over $A6.5 billion.

- **Corporate and Asset Finance (CAF)** delivered a net profit contribution of $A826 million, up 19 per cent on the prior year. CAF increased its asset finance and corporate lending portfolio by 14 per cent to $A25.5 billion. CAF's corporate and real estate lending portfolio increased by 12 per cent to $A9.0 billion, with additions of $A3.8 billion in new primary financings and loans acquired in the secondary market. Asset quality within the lending portfolio remained sound and the portfolio continued to generate strong overall returns. The asset finance portfolio increased by 14 per cent to $A16.5 billion, driven largely by strong growth in the motor vehicle and equipment finance operations, as well as the impact of foreign exchange movements. Other activities during the year included the establishment of Macquarie Rotorcraft Leasing, a helicopter leasing business; the initiation of commercial solar energy financing in Australia; and continued expansion of the UK meters portfolio and the mining equipment finance business. Securitisation activity continued with $A2.8 billion of motor vehicle and equipment leases and loans securitised during the period.

- **Banking and Financial Services (BFS)** delivered a net profit contribution of $A260 million, up seven per cent on the prior year[12]. BFS' Australian mortgage portfolio increased by 47 per cent to $A17.0 billion, which represents one per cent of the Australian mortgage market. Its highly-ranked Australian wrap platform increased its funds under administration by 50 per cent to $A37.7 billion from $A25.1 billion. This was driven by 20 per cent organic growth and market movements, as well as the migration of Perpetual's private wealth administration platform in April 2013. BFS continued to hold a strong position in wealth management and full-service retail stockbroking in Australia and increased its retail deposits by seven per cent to $A33.3 billion. Initiatives during the year included the acquisition of a 25 per cent stake in mortgage aggregator Connective; the establishment of Macquarie Pacific Funding; and

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[10] As at 31 March 2014.
[11] As at 31 December 2013, effective date of acquisition.
[12] BFS' FY14 operating results have been impacted by the loss of income and expenses relating to a number of businesses exited, including Macquarie Private Wealth Canada in November 2013, the COIN institutional business in August 2012 and the transfer of the Macquarie Professional Series to MFG from October 2012.

the sales of Macquarie Private Wealth Canada and BFS' 19.9 per cent interest in OzForex via an initial public offering (IPO).

- **Macquarie Securities (MSG)** delivered a net profit contribution of $A107 million, up from a net loss of $A50 million in the prior year. MSG experienced increased market volumes and ECM activity during the year, up from subdued levels in the prior year, and benefited from a lower level of losses from the wind-down of legacy businesses. Macquarie was ranked No.2 for Australian ECM transactions for calendar year 2013, completing more IPOs than any other financial institution. MSG maintained its leading position for Australian equities among institutional investors globally, maintaining or improving its market share in key regions. Subdued volatility in derivatives markets resulted in low levels of client demand. MSG continued to build on its expertise as one of the largest derivative warrant issuers in the Asia-Pacific region, holding No.1 market share for listed warrants in Singapore, No.3 in Thailand and No.6 in Hong Kong.
- **Macquarie Capital** delivered a net profit contribution of $A280 million, up 87 per cent on the prior year. It advised on 450 transactions worth $A89 billion and for calendar year 2013 was ranked No.1 in Australia for announced and completed M&A transactions and No.1 in South East Asia for announced M&A transactions. During the year, Macquarie Capital advised a consortium on the Queensland Government's 32-year public private partnership (PPP) concession to build 75 new trains and provide maintenance services; Asian Pay Television Trust's $US1.1 billion IPO on the Singapore Exchange; WMS Industries' $US1.5 billion sale to Scientific Games and SHFL Entertainment's $US1.3 billion sale to Bally Technologies, the two largest ever transactions in the US gaming equipment sector; and the £600 million Mersey Gateway PPP project in the United Kingdom.
- **Fixed Income, Currencies and Commodities (FICC)** delivered a net profit contribution of $A726 million, up 29 per cent on the prior year. The improved result reflected a 58 per cent increase in income from commodities related activities, driven by stronger client hedging and trading opportunities from increased volatility in energy markets, coupled with falling precious metals prices and growth in physical metals financing activities. Continued subdued mining equity markets and generally lower metals and bulk commodities prices impacted the timing of asset realisations, new project financings and resulted in further equity impairments in the Metals and Energy Capital business, albeit an improvement on the prior year. The credit environment was mixed with US credit market volatility improving during the fourth quarter. Foreign exchange and futures markets experienced improved volatility and volumes compared to the prior year.

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