MACQUARIE

ASX/Media Release

MACQUARIE GROUP OPERATIONAL BRIEFING

Key points

- **Economic conditions continue to trend back to normal**
- **As foreshadowed in October, strong market conditions experienced in 1H10 have moderated in certain areas including Australian ECM and credit businesses**
- **Organic growth initiatives continuing across the Group**
- **Completion of acquisitions which strengthen product offering and global presence**
- **Assets under management $A342b**[1]
- **Total retail deposits increased to $A14.5b at Dec 09 from $A13.9b at Sep 09**
- **Removal of Australian Government guarantee was anticipated and is not expected to impact funding position**
- **Capital of A$11.9b, A$4.5b**[2] **in excess of the Group's minimum regulatory capital requirement**
- **Uncertain markets make short term forecasting difficult however we currently estimate 2H10 profit to be broadly in line with 1H10 profit including expected one-off items such as listed fund initiatives, accounting for deferred remuneration, acquisition and integration costs and impairments with potential for 2H10 profit to be approximately 10% higher than 1H10 profit but 2H10 profit outlook remains subject to market conditions, significant swing factors and unexpected one-off items**
- **Despite improving trends in a number of major markets, we continue to maintain a conservative approach to funding and capital**
- **Strong balance sheet, strong team and encouraging market conditions provide opportunities for medium term growth**

SYDNEY, 9 February 2010 – Macquarie Group (Macquarie) (ASX: MQG; ADR: MQBKY) today provided an update on market conditions, business activities and the outlook for the second half of the financial year ending 31 March 2010.

[1] December 2009 pro-forma AUM includes Delaware acquisition (approx $A149b 31 December 2009 balance converted using 31 December 2009 exchange rates) and MIG restructure impact (decrease of approx $A6b).
[2] Excludes impact of acquisition of Delaware Investments, which would result in a capital surplus of $A4.0b.

Overview

Speaking at Macquarie's Operational Briefing in Sydney today, Macquarie Managing Director and Chief Executive Officer, Nicholas Moore, said that economic conditions continue to trend back to normal but, as foreshadowed in October, strong market conditions experienced in the first half (to 30 September 2009) have moderated in certain areas including Australian equity capital markets and credit businesses.

Commenting on broad market conditions, Mr Moore noted that in the December quarter total ASX market turnover was down 12% on the September quarter, while December quarter total Asian equities (ex-Japan) market turnover was down 11% on the September quarter. December quarter Australian equity capital markets activity was down 26% on the September quarter, while December quarter Australian merger and acquisition activity was up 33% on the September quarter[3] and there was continuing credit spread contraction across the debt spectrum. In addition, there were improved inflows across wholesale fund products, improved inflows across retail WRAP platform and deposits and growth in lending, leasing and loan volumes.

Mr Moore said the December quarter operating results for Macquarie Securities Group, Macquarie Capital, Fixed Income, Currencies and Commodities (FICC) and Corporate and Asset Finance were down on the strong September quarter but up on the June quarter. The December quarter operating results for Banking and Financial Services and Macquarie Funds Group were broadly consistent with prior quarters, with growth in funds under management and client numbers.

Assets under management decreased by $A18b in December 2009, mainly due to the internalisation of MAp and the strengthening of the Australian dollar during the December quarter. Pro-forma assets under management increased significantly in December to $A342b[4] due to the completion of the acquisition of Delaware Investments by Macquarie Funds Group.

Mr Moore detailed organic growth initiatives across Macquarie, including director level hires in Macquarie Securities Group, Macquarie Capital and FICC.

- Macquarie Securities Group made 16 non-acquisition related director level hires during the December quarter, predominately in cash equities;
- Macquarie Capital made 13 non-acquisition related director level hires during the December quarter most of which were made offshore. The Group expanded its product offering with its North American Debt Capital Markets team successfully underwriting and distributing 10 deals in the December quarter; and

[3] Thomson Reuters, deals completed basis.
[4] December 2009 pro-forma AUM includes Delaware acquisition (approx $A149b 31 December 2009 balance converted using 31 December 2009 exchange rates) and MIG restructure impact (decrease of approx $A6b).

- FICC made 18 non-acquisition related director level hires during the December quarter, predominantly for Emerging Markets and Credit Trading expansion into Europe and FICC's focus in Asia;

He said recent acquisitions, including US funds management business Delaware Investments[5] with AUM at 31 December 2009 of $US134b, Canadian retail broker Blackmont Capital[6] with AUM at 31 December 2009 of $C7.9b, and Sal. Oppenheim's[7] cash equities, equity derivatives and structured product businesses, strengthened Macquarie's product offering and global presence.

Mr Moore noted acquisition and integration costs associated with the recent acquisitions were estimated at approximately $A80m (pre-profit share and tax) for FY10.

Strong funding and balance sheet position

Mr Moore said Macquarie's balance sheet position remained strong with short-term wholesale issued paper continuing to be a small portion of overall funding sources, 7% at December 2009. Total retail deposits increased to $A14.5b at December 2009 from $A13.9b at September 2009.

He said the removal of the Australian Government guarantee was anticipated and is not expected to impact Macquarie's funding position. Macquarie has not issued debt under the Government guarantee since August 2009.

In January 2010, Macquarie issued a $US1b 10-year bond, bringing total Macquarie non-government guaranteed debt issued to $US2.5b over the last six months. This resulted in an increase to the Group's weighted average term to maturity of term funding from 3.8 years at September 2009 to 3.9 years at December 2009[8].

Macquarie had capital of $A11.9b at December 2009, $A4.5b[9] in excess of the Group's minimum regulatory capital requirement. MBL Banking Group's tier 1 capital ratio was 10.4% in December from 11.7% in September 2009.

Mr Moore said surplus cash and liquid assets were being deployed across the business, as foreshadowed.

[5] Delaware acquisition completed 4 January 2010 effective 5 January 2010.
[6] Blackmont acquisition completed 31 December 2009 effective 1 January 2010.
[7] Acquisition of Sal. Oppenheim's equity derivatives and structured products business announced 23 December 2009, acquisition of cash equities business announced 5 February 2010.
[8] Proforma at 31 December 2009 including $US1b bond issued on 10 January 2010.
[9] Excludes impact of acquisition of Delaware Investments, which would result in a capital surplus of $A4.0b.

Outlook

Mr Moore said that uncertain markets make short term forecasting difficult however we currently estimate the second half profit to be broadly in line with the first half profit ($479m) including expected one-off items such as listed fund initiatives, accounting for deferred remuneration, acquisition and integration costs and impairments with potential for the second half profit to be approximately 10% higher than the first half profit but 2H10 profit outlook remains subject to market conditions, significant swing factors and unexpected one-off items. Swing factors include the completion rate of transactions, asset realisations and asset prices. One-off items include factors such as the periodic review of potential impairment charges.

As previously stated, FY10 trading is likely to be characterised by, for the income statement, fewer one-off items (e.g. writedowns and provisions), a higher compensation ratio to be consistent with historic levels, an increased effective tax rate consistent with historic levels, lower earnings on capital reflecting lower global interest rates, and higher cost of funding. For the balance sheet, FY10 is likely to show a decrease in cash balances as funds are deployed across the businesses, maintaining equity investments at or below existing levels, and lower investment levels in listed funds.

Mr Moore said: “Despite improving trends in a number of major markets, we continue to maintain a conservative approach to funding and capital. Our strong balance sheet, strong team and encouraging market conditions provide opportunities for medium term growth.”

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