



ASX / Media Release

MACQUARIE GROUP ANNOUNCES \$A730 MILLION FULL-YEAR PROFIT

Key points

- **FY12 net profit of \$A730 million, down 24% on FY11**
- **2H12 net profit of \$A425 million, up 39% on 1H12**
- **FY12 operating income of \$A7.0 billion, down 9% on FY11**
- **FY12 operating expenses \$A5.9 billion, down 8% on FY11**
- **Assets under management at March 2012 \$A327 billion, up from \$A310 billion at March 2011**
- **International income 60% of total income in FY12**
- **Annuity style businesses (Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services) net profit contribution¹ up 22% on FY11**
- **After a difficult 1H12, Fixed Income, Currencies and Commodities delivered a 2H12 net profit contribution strongly up on 1H12 and up 31% on pcp**
- **Macquarie Securities affected by difficult market conditions and cost of exiting certain derivatives businesses**
- **Macquarie Capital impacted by subdued activity levels across ECM and M&A**
- **Group regulatory capital of \$A12.8 billion, \$A3.5 billion² in excess of minimum regulatory capital requirement**
- **Tax rate 28.2%, up from 22.8% in FY11**
- **On-market acquisitions of shares for the MEREP and 2H12 Dividend Reinvestment Plan to be followed by a buyback of up to \$A500 million ordinary shares subject to market conditions and the Macquarie share price**
- **FY12 Earnings per share (EPS) \$A2.10, down 26% on FY11**
- **Return on Equity (ROE) 6.8%, down from 8.8% for FY11; 2H12 ROE of 7.8%**
- **Final dividend of \$A0.75 per share (unfranked); full-year dividend of \$A1.40 per share (unfranked), from \$A1.86 in FY11**

SYDNEY, 27 April 2012 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of \$A730 million for the full year ended 31 March 2012 (FY12), down 24 per cent on the full-year ended 31 March 2011 (FY11). Profit for the second half of the year (2H12) was \$A425 million, up 39 per cent on the first half (1H12).

¹All references to net profit contribution are pre profit share and tax

²All references to Group regulatory capital surplus are on a fully Harmonised Basel III basis at 8.5% RWAs

Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: “The year to 31 March 2012 saw substantially lower levels of client activity in many of our capital markets facing businesses caused by global economic uncertainty, which was partly offset by the ongoing growth of our annuity style businesses.

“However, as foreshadowed, 2H12 profit increased significantly on 1H12 due to a strong performance by Fixed Income, Currencies and Commodities (FICC) and the strength of the annuity style businesses.

“Macquarie’s annuity style businesses, particularly Macquarie Funds Group and Corporate and Asset Finance Group, continued to deliver strong results reflecting the investment that has been made in these businesses over many years, as well as the benefits of recent acquisitions. The result for the Banking and Financial Services Group, though slightly lower, held up well against the volatility in the advice and intermediary businesses.

Mr Moore added: “Difficult market conditions impacted the performance of Macquarie’s capital markets facing businesses. Macquarie Securities Group experienced a fall in cash and derivatives revenues and exited a number of underperforming businesses globally, recording a loss for the year. Macquarie Capital reported significantly lower results due to low levels of client activity across mergers and acquisitions (M&A) and equity capital markets (ECM).

“The result for FICC, though marginally down on the prior year, benefited from improved sentiment in many FICC markets during the six months to 31 March 2012, leading to a significant turnaround in the second half.”

Macquarie’s assets under management at March 2012 were \$A327 billion, up from \$A310 billion at March 2011.

“All of Macquarie’s operating groups maintained strong franchise positions during the year, notwithstanding challenging global market conditions.

“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 and a conservative approach to risk management.”

Macquarie also announced today a final unfranked dividend of \$A0.75 per share, up from the 1H12 dividend of \$A0.65 per share. The total FY12 unfranked dividend of \$A1.40 per share is lower than the FY11 unfranked dividend of \$A1.86, with a payout ratio of approximately 66 per cent. The record date is 11 May 2012 and the payment date for the final dividend is 2 July 2012.

Capital Management

Macquarie noted today the Board has resolved to purchase shares on market to satisfy the MEREP (Macquarie Group Employee Retained Equity Plan) requirements of approximately \$A275 million. In addition, shares for the 2H12 Dividend Reinvestment Plan (DRP) are to be acquired on market.³

Once the acquisition of the MEREP⁴ and DRP shares has been completed, the Group will buy back up to \$A500 million of Macquarie Group Limited shares, subject to market conditions and the Macquarie Group share price. All of these share acquisitions have received the appropriate regulatory approval. Once the above capital management actions have been completed, and subject to market conditions and the Macquarie share price, it remains Macquarie's intention, subject to regulatory approval, to continue the buyback for a total of up to 10 per cent⁵ of MGL ordinary shares.

Outlook

The FY13 results will vary with market conditions, particularly for capital markets facing businesses which continue to experience volatility.

While market volatility makes forecasting difficult, it is currently expected that the result for the Group for FY13 will be an improvement on FY12 provided market conditions for FY13 are not worse than those experienced over the past 12 months.

The FY13 result also remains subject to a range of other challenges including:

- the cost of our continued conservative approach to funding and capital;
- regulation, including the potential for regulatory changes;
- increased competition in some markets; and
- the overall cost of funding.

Full-year result overview

Chief Financial Officer Patrick Upfold said: "The Group recorded growth in net interest income and other income, while a decline in fee and commission income and trading income reflected weaker market conditions.

He said that as foreshadowed, the Group achieved approximately \$A420 million in cost reductions⁶ in FY12 through a range of initiatives including centralising support functions and reducing front office costs, including reducing the scope of some businesses. Reduced headcount and lower staff profit share expense due to lower earnings were partially offset by increased costs associated with targeted growth in certain businesses and the costs of scaling back or exiting certain businesses. Staff numbers were 14,202 at 31 March 2012, down from 15,556 at 31 March 2011.

As foreshadowed, tax expense was higher, with an effective rate of 28.2 per cent in FY12, up from 22.8 per cent in FY11.

³ DRP plan rules have been amended to allow the pricing period for the DRP to commence by the fourth business day following the record date for the MGL dividend rather than on the second business day

⁴ The MEREP Buying Period is expected to run from 7 May 2012 to mid June 2012, except during the pricing period for the Macquarie Dividend Reinvestment Plan (17 May 2012 to 23 May 2012), but may be completed sooner or later.

⁵ Inclusive of the initial buyback

⁶ Excluding brokerage and commission expenses

Strong funding and balance sheet position

Mr Upfold said Macquarie continued to maintain well-diversified funding sources and continued to pursue its strategy of diversifying funding sources by growing its deposit base.

Retail deposits increased by 9 per cent from March 2011 to \$A29 billion, while total deposits increased from \$A31.6 billion at March 2011 to \$A33.9 billion at March 2012. Since March 2011, \$A8.2 billion of new term funding has been raised.

Macquarie maintained its strong capital base through the year. Regulatory capital of \$A12.8 billion at 31 March 2012 was \$A3.5 billion in excess of the Group's minimum regulatory capital requirement on a Harmonised Basel III basis.

On the impact of Basel III and other regulatory changes, Mr Upfold said: "APRA has proposed to adopt all Basel III reforms with some additional 'in-principle' conservatism known as 'super equivalence'.

"As we advised at our February Operational Briefing, Macquarie Group has sufficient capital today to meet the Basel III capital rules as applied by APRA effective 1 January 2013.

"Our Basel III Harmonised core equity Tier 1 ratio of 12.2 per cent compares favourably to the current estimated global average of 7.1 per cent reported by the Bank for International Settlements (BIS) this month in a survey⁷ of 103 of the world's banks with the highest Tier 1 capital⁸."

Operating group performance

- **Macquarie Funds** delivered a net profit contribution of \$A655 million, up 36 per cent on the prior year. The result was driven by strong annuity style income from base fees, significantly increased performance fee income, additional income from the provision of financing facilities to external funds and fund investors and lower operating expenses. The group achieved strong net inflows during the year and assets under management increased by 6 per cent from \$A305 billion to \$A324 billion.
- **Corporate and Asset Finance** delivered a net profit contribution of \$A698 million, up 22 per cent on the prior year. Net interest income was up 5 per cent to \$A591 million. The group increased its asset finance and corporate lending portfolio by 5 per cent to \$A20.6 billion. During the year the group's asset finance business tripled its meters portfolio, almost doubled its rail freight car portfolio while divesting its small portfolio of aircraft engines and establishing a mining equipment finance business. The group's lending business delivered new primary financings and pursued opportunities to invest in corporate debt and the secondary loan market.
- **Banking and Financial Services** delivered a net profit contribution of \$A265 million, down 4 per cent on the prior year. Net interest income was up 2 per cent while base fees were down 41 per cent due to the full year impact of the CMT/CMA conversion in July 2010 and a reduction in AUM. Brokerage and commissions income was down 16 per cent on the

⁷ Basel Committee on Banking Supervision: *Results of the Basel III monitoring exercise as of 30 June 2011* (April 2012)

⁸ Group 1 banks are those with capital in excess of €3 billion and which are internationally active

prior year as a consequence of global equity market conditions and the full-year impact of the partial sale of Ozforex. The group maintained its No.1 position for full-service retail stockbroking in Australia while increasing its retail deposits by 9 per cent to \$A29 billion.

- **Macquarie Securities** reported a net loss of \$A194 million with net trading income down 43 per cent on the prior year due largely to subdued global market conditions. These conditions resulted in reduced institutional and retail client volumes and weak product demand for retail and structured products. Structural market changes prompted MSG to close or scale back a number of derivatives businesses particularly in Europe with some exit costs incurred. MSG maintained its leading market positions for warrants and execution in key Asian markets and its strong franchise remains well positioned for an improvement in market conditions.
- **Macquarie Capital** delivered a net profit contribution of \$A85 million, down 60 per cent on the prior year, experiencing significantly weaker markets for M&A transactions and ECM raisings. It advised on 435 transactions worth \$A97 billion during the year, including Telstra Corporation's \$A11 billion co-operation agreement in relation to Australia's National Broadband Network, Rio Tinto's \$A4 billion acquisition of Riversdale Mining and the \$US1 billion financing of the Mareña Renovables project in Mexico, one of the largest wind farm financings in the world to date.
- **FICC** delivered a net profit contribution of \$A539 million, down 6 per cent on the prior year. Commodities trading income was down 7 per cent and fee and commission income was down 13 per cent on the prior year. Equity investment and other income were up 26 per cent and 94 per cent respectively. FICC was impacted by challenging global market conditions and deteriorating investor confidence in the first half of the year, particularly in credit and interest rate markets. However, the business experienced a significant turnaround in the second half with improved conditions for the six months to 31 March 2012 delivering a result strongly up on 1H12 and up 31 per cent on the previous second half. FICC expanded its global futures operation to include listed derivatives sales in Montreal, established a G10 currencies sales and trading platform in Singapore and added sugar to its physical commodities offering.

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