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ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A604M HALF YEAR PROFIT

Highlights

- **Half year net profit after tax $A604m**
- **Sound result achieved amid unprecedented market conditions and after substantial write-downs**
- **Strong funding position: cash and liquid assets of $A26.3b exceed short-term wholesale issued paper of $A18.9b; balance sheet well matched**
- **Strong capital position, more than 40% above minimum regulatory requirement**
- **Conservative gearing**
- **Continuing to adapt business to changing market conditions**
- **A range of new initiatives**
- **Interim dividend $A1.45 per share (80% franked)**
- **Annualised return on equity 13.9%**
- **Employment expenses down 48% on previous corresponding period (pcp) driven by significantly lower profit share, reflecting shareholder alignment**

SYDNEY, 18 November 2008 – Macquarie Group Limited (ASX:MQG) today announced a net profit after tax attributable to ordinary shareholders for the half year to 30 September 2008 of $A604 million amid unprecedented global financial market turmoil.

The half year net profit was 19% below the net profit achieved for the second half of the 2008 financial year to 31 March 2008 and 43% below the exceptional previous corresponding first half profit achieved when markets were very strong.

Macquarie Group Managing Director and Chief Executive Officer, Nicholas Moore, said: “The past six months have seen unprecedented turmoil in global markets, sharply intensifying from mid-September.

“Financial markets have been highly disrupted during the period, with a crisis of confidence in credit markets and systemic falls in global liquidity leading to the stress and failure of major financial institutions. In addition, there has been significant volatility and declines in financial markets.

“In the context of these market conditions, Macquarie’s half year net profit is a sound result and underscores Macquarie’s strong funding and capital position prior to this credit market disruption, which began more than a year ago,“ Mr Moore said.

Operating income decreased 37% on pcp to $A3.0 billion and was down 16% on the 2008 second half. Earnings per share decreased 46% on pcp to $A2.17 and was down 20% on the 2008 second half. The Group achieved an annualised return on equity of 13.9% over the half year.

The Group declared a first half dividend of $A1.45 per ordinary share, franked to 80%, which is in line with the dividend paid in the first half of the 2008 financial year. The dividend will be paid on 19 December and the record date is 28 November.

“The result also highlights our solid funding position, the diversity of our business and the appropriateness of our strategy of deriving income from providing services to our clients rather than from our balance sheet. The results also demonstrate that we have managed and built our business for the long term and that we are continually evolving and adapting to market conditions and the needs of our clients.

“While the extreme market conditions have led to a number of writedowns and one-off costs in the latest half year, the underlying performance of the Macquarie business has been solid.

“As the holding company of an Australian licensed bank, Macquarie has also benefited from being part of the Australian regulated banking system which, while affected, remains sound and has benefited from a strong regulatory framework,” Mr Moore said.

Macquarie is well capitalised and well funded. As at 30 September 2008, Macquarie had:

- capital of $A10.3 billion, which is $A3.3 billion in excess of the Group’s minimum regulatory capital requirement;
- a solid funding position, long and short term, with the balance sheet well matched and cash and liquid assets of A$26.3 billion exceeding short-term wholesale issued paper of $A18.9 billion;
- term funding raised since 31 March of $A7.8 billion; and

- increased deposits from $A13.2 billion at 31 March 2008 to $A16.7 billion at 30 September 2008. Macquarie Bank Limited deposits and wholesale funding are eligible for the recently announced Australian Government guarantee.

The half year profit result was achieved despite substantial one-off costs and write-downs which totalled $A1.14 billion and had a net profit impact of $A395 million. These comprise:

- previously advised one-off costs relating to the sale of the Italian Mortgages portfolio;
- writedown of funds management assets and other co-investments;
- loan impairment provisions; and
- impairments recognised on trading asset positions.

Mr Moore said these writedowns stem from sharply deteriorating markets and in part, Macquarie's long-term approach of investor alignment. "Importantly, the underlying assets owned by the funds are performing in line with expectations and generating increasing cashflow. Recent transactions demonstrate that infrastructure asset values are holding up," Mr Moore said.

Key drivers of the result

Macquarie Group Chief Financial Officer, Greg Ward, said the unprecedented global market disruption over the course of the half year was the overriding influence on Macquarie's financial performance. Operating group results were lower than the record results achieved in what was an exceptional first half 2008.

"During the half year, Macquarie recorded reasonable corporate finance and advisory deal flows, with the group advising on 164 transactions valued at approximately $A83 billion. There were record volumes in foreign exchange during the half year and good volumes in commodity related businesses. European equities related business made a good first quarter contribution, as did base fees. Performance fees were above the previous corresponding period.

"Other key influences over the half year were significantly increased funding costs and a significant decline in the profit share provision reflecting the lower net profit and return on equity. Employment expenses were down 48% on the previous corresponding period driven by significantly lower staff profit share reflecting shareholder alignment and the way in which the Group's performance based remuneration policies work.

"Importantly, Macquarie has a strong funding and balance sheet position. We are maintaining a conservative approach to levels of capital and liquidity," Mr Ward said.

During the half year, Macquarie began undertaking balance sheet initiatives to reduce funded assets which have been affected by higher cost of funding, such as the previously announced sale of the Italian mortgage portfolio. These initiatives are expected to have a minimal impact on ongoing profitability.

Total assets under management increased by 3% to $A239 billion at 30 September 2008, with the recent move in the $A exchange rate partially offsetting the impact of declining equity values.

The expense to income ratio fell to 75.5% during the latest half from 76.5% during the half to March 31 2008 and 70.8% during the first half to September 2007. The compensation ratio fell to 40.1% in the September 2008 half from 45.8% in the March 2008 half and 47.9% in the September 2007 half.

Strategy

Macquarie is a diversified, client driven business with minimal proprietary trading. The Macquarie model is based on taking a conservative approach to risk management; aligning interests with shareholders, investors and staff; having performance driven remuneration and incremental growth and evolution.

“Our strategy has always been based on an ability to swiftly adapt to changes in market conditions. A significant portion of our profit comes from businesses that did not exist within Macquarie five years ago,” Mr Moore said.

In response to the tightening of global credit markets and an anticipated reduction in wholesale funding, Macquarie is reducing its funded asset position:

- Good progress on key initiatives to reduce funded assets by $A15 billion by 31 March 2009
- Exiting or winding-back the least profitable and competitive businesses impacted by higher cost of funding
- A range of initiatives underway – expected completion for most by 31 March 2009
- Initiatives already announced:
  - March 2008: wind-back of Australian mortgages
  - September 2008: announced intention to sell Investment Lending business
  - October 2008: announced sale of Italian mortgages business and some Asian real estate assets.

Outlook

Significant government action, including interest rate cuts and stimulatory fiscal measures, may assist in restoring some confidence to global financial markets but market conditions have continued to deteriorate, particularly since mid-September.

Macquarie continues to be cautious with a conservative approach to funding and capital.

Unprecedented market conditions make short-term forecasting extremely difficult. However, Macquarie currently expects the result for the second half to 31 March 2009 to be broadly in line with this first half result. The final result will, however, be subject to a number of significant swing factors, particularly market conditions, the completion rate of transactions, asset realisations and asset prices.

The guidance assumes write-downs on listed funds to current market prices of approximately $A400 million gross ($A130 million net profit impact) and no write-backs.

“We expect continuing challenging market conditions, albeit not as bad as those in the immediate aftermath of Lehman Brothers’ insolvency,” Mr Moore said.

“The measures we have taken before this financial turmoil began and over the past six months puts us in a sound position to take advantage of opportunities that may emerge from the current market disruption.

“Macquarie remains profitable, well funded, well capitalised and conservatively geared. We continue to have a range of strong businesses which are well placed over the medium term and we have capable staff to continue to service our clients well.” Mr Moore said.

Half year result overview

Notwithstanding the extreme market conditions, Macquarie continued to benefit in the six months to 30 September 2008 from its diversification of business and geography and from previous business investment. There continues to be strong demand for Macquarie products and services.

Total income from ordinary activities for the year decreased 37% on the pcp to $A3.0 billion; net fee and commission income decreased 13% to $A2.2 billion; net trading income decreased 14% to $A722 million; net interest income decreased 1% to $A520 million; and income from asset and equity investments decreased 43% to $A479 million.

Performance of Macquarie’s operating groups during the half year:

- **Macquarie Capital** made a significant contribution to the result despite extremely challenging market conditions. The net profit contribution was well down on the record pcp and included writedowns on investments. Base fees were down 5% on pcp, while performance fees were higher. Equity under management was down 5% to $A53b reflecting recent listed market declines. $A2.8b in new capital was raised by Macquarie and its managed funds and consortia. The group advised on 164 transactions valued at approximately $A83b.

- **Macquarie Securities Group** made a solid contribution to profit despite weaker equity markets. Brokerage, commission and other fee income was slightly down on the strong pcp, with good contribution to brokerage revenue in Canada (acquired Dec 2007), good growth in South Africa and the Australian business maintained the No. 1 market share position. Income from equity products was down 25% on pcp, with lower demand for equity linked products and volatile market conditions impacting hedging efficiency.
- The **Treasury and Commodities Group** profit contribution was up slightly on pcp with commodity markets volatility a key driver of the result. The foreign exchange trading result increased on pcp, driven by volatile currency markets and increased customer demand. Interest rate trading made a positive contribution in difficult market conditions while provisions during the half year included write-downs on resource equity co-investments and loan provisions.
- The **Banking and Financial Services Group** reported a net loss during the half year as difficult credit and equity markets affected both volumes and margins and as a result of the impact of the loss on the sale of the Italian mortgages portfolio. Retail deposits up 71% from March 2008. Brokerage volumes were down due to weak market conditions, wrap funds under administration were down 7% from March, as negative market movements offset good inflows. Provisions were also made on some loan assets and equity investments.
- **Macquarie Funds Group** recorded a lower contribution to profit due to the impact of increased funding costs on the interest margin on the retail loan books. Last year's first half result included profit on the sale of Macquarie-IMM. Declining equity values and redemptions from Asian retail investors led to a reduction in assets under management, which impacted base management fees. The contribution from seed investments and performance fee products was adversely affected by market volatility.
- The **Real Estate Group** reported a loss for the half year due to write downs and provisions and the impact of increased funding costs. Other fee income decreased due to significantly reduced transaction activity across all real estate markets. Asset and equity investment income was also lower due to the lower level of asset realisations.

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