



ASX/Media Release

MACQUARIE GROUP 2017 ANNUAL GENERAL MEETING AND FIRST QUARTER FY18 UPDATE

Key points

- **Operating groups performing in line with expectations**
- **1Q18 operating group contribution¹ up on pcg and down on a strong prior quarter**
- **Financial position comfortably exceeds regulatory requirements²**
 - **Group capital surplus of \$A4.0 billion**
 - **Bank CET1 ratio 10.9% (Harmonised: 13.1%); Leverage ratio 5.9% (Harmonised: 6.8%); LCR 163%³**
- **Continue to expect FY18 result for the Group to be broadly in line with FY17**

MELBOURNE, 27 July 2017 – Macquarie Group (ASX: MQG; ADR: MQBKY) Managing Director and Chief Executive Officer, Nicholas Moore, said today that performance from Macquarie's operating groups was in line with expectations, with the contribution from the first quarter of the 2018 financial year (1Q18) up on the first quarter of the 2017 financial year (1Q17) and down on a strong prior quarter (4Q17).

Speaking ahead of Macquarie's 2017 Annual General Meeting in Melbourne, Mr Moore said: "Macquarie's annuity-style businesses⁴, which represent approximately 70 per cent of the Groups' performance⁵, continued to perform well. Base fees in Macquarie Asset Management (MAM) were broadly in line, while performance fees were down on the prior corresponding period. Corporate and Asset Finance (CAF) Lending was up on the prior corresponding period, mainly due to the timing of transactions. Growth continued in Banking and Financial Services (BFS) particularly across mortgages, business banking and deposit books during the quarter."

"Macquarie's capital markets facing businesses⁴ experienced improved trading conditions across most markets. Commodities and Global Markets (CGM) experienced stronger activity, largely due to improved equity market conditions. Macquarie Capital saw increased client activity in debt capital markets and the principal book performed in line with expectations.

There were no significant one-off items in the quarter.

¹ Where referenced in this document, 1Q18 net profit contribution is management accounting profit before unallocated corporate costs, profit share, income tax and period end reviews.

² Where referenced in this document, Group capital surplus is calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per APRA ADI Prudential Standard 110. The APRA Basel III Group capital surplus is \$A5.3 billion calculated at 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group. 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

³ Where referenced in this document, average LCR for the June 2017 quarter is based on an average of daily observations.

⁴ Annuity-style businesses consists of Macquarie Asset Management, Corporate and Asset Finance, and Banking and Financial Services. Capital markets facing businesses consists of Commodities and Global Markets and Macquarie Capital.

⁵ Based on FY17 net profit contribution from operating groups.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements², with Group capital surplus of \$A4.0 billion at 30 June 2017, which was down from \$A5.5 billion at 31 March 2017, following payment of the final dividend for the financial year ended 31 March 2017 (FY17), the FY17 Macquarie Group Employee Retained Equity Plan (MEREP) buying requirement and the buyback of Exchangeable Capital Securities. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 10.9 per cent (Harmonised: 13.1 per cent) at 30 June 2017, down from 11.1 per cent at 31 March 2017. The Bank Group's APRA leverage ratio was 5.9 per cent (Harmonised: 6.8 per cent) and LCR was 163 per cent³.

APRA's proposal to establish 'unquestionably strong' Australian banking sector capital ratios by 2020 would increase Macquarie Bank Limited's minimum capital requirements by approximately \$A1.4 billion. APRA has stated that the increased capital requirements will include any changes from the finalisation of Basel III. Macquarie believes that its current capital surplus is sufficient to accommodate the proposed increase in minimum capital requirements.

The acquisition of Macquarie shares required for the FY17 profit share and promotion awards under the MEREP was completed in June 2017. A total of approximately \$A373 million of Macquarie shares were purchased: \$A260 million off market under arrangements announced to the market on 5 May 2017 and \$A113 million on market. The shares were acquired at a weighted average purchase price of \$A89.25 per share.

First quarter business highlights

In commenting on the Group's start to the 2018 financial year (FY18), Mr Moore noted the following highlights:

- **Macquarie Asset Management (MAM)** had \$A460.8 billion in assets under management at 30 June 2017, down four per cent on 31 March 2017, largely due to net asset realisations in Macquarie Infrastructure and Real Assets (MIRA), partially offset by favourable market and foreign exchange movements. MIRA's equity under management of \$A74.2 billion was down four per cent from \$A77.2 billion at 31 March 2017. 1Q18 included performance fees from several funds including Macquarie Atlas Roads. During the quarter, MIRA invested equity of \$A3.0 billion across four acquisitions and seven follow-on investments in infrastructure and real estate in five countries. Macquarie Investment Management was awarded over \$A3.1 billion in new institutional mandates across nine strategies from clients in five countries and Macquarie Specialised Investment Solutions was awarded over \$A800 million of new and additional infrastructure debt mandates.
- **Corporate and Asset Finance's (CAF)** asset and loan portfolio of \$A36.2 billion at 30 June 2017, was broadly in line with 31 March 2017. During the quarter, there were portfolio additions of \$A0.9 billion in corporate and real estate lending across new primary financings and secondary market acquisitions. In addition, \$A0.8 billion of motor vehicle and equipment leases and loans were securitised.
- **Banking and Financial Services (BFS)** had total BFS deposits⁶ of \$A47.3 billion at 30 June 2017, up six per cent on 31 March 2017. The Australian mortgage portfolio of \$A29.4 billion increased two per cent on 31 March 2017, funds on platform⁷ of \$A79.1 billion increased ten per cent on 31 March 2017 largely due to the final migration of full service broking accounts to the Vision platform, and the business banking loan portfolio of \$A6.7 billion increased three per cent on 31 March 2017. During the quarter, BFS entered into exclusive due diligence with Morgan Stanley to provide administration services and develop a new white labelled Wrap offering. BFS won Best Digital Banking Offering and Most Innovative Card Offering at the 2017 Australian Retail Banking Awards.

⁶ BFS deposits excludes any corporate/wholesale deposit balances.

⁷ Funds on platform includes Macquarie Wrap and Vision.

- **Commodities and Global Markets (CGM)** saw client hedging and trading opportunities remain steady across the commodities platform, and experienced continued strong customer activity in foreign exchange, interest rates and futures markets, which was driven by ongoing market volatility. CGM also experienced increased equity capital markets activity and market turnover in Cash Equities. During the quarter, CGM entered into an agreement to acquire Cargill's North American Power and Gas business to expand the geographic and service coverage in key markets in the region. CGM also announced the merger of the Energy Markets and Metals, Mining and Agriculture divisions to form one commodities division called Commodity Markets and Finance.
- **Macquarie Capital** experienced increased client activity in debt capital markets, while equity capital markets and M&A activity remained subdued compared to the prior corresponding period. In 1Q18, 97 deals were completed at \$A45 billion, up on 1Q17 and broadly in line with 4Q17 (by value)⁸. The principal book performed in line with expectations. Macquarie Capital was ranked No.1 for global Infrastructure Finance financial advisory⁹. Macquarie Capital was also ranked No.1 for announced and completed M&A deals¹⁰ and No.1 for IPO and ECM deals in Australia¹⁰.

Outlook

Macquarie currently expects the year ending 31 March 2018 (FY18) combined net profit contribution¹¹ from operating groups to be broadly in line with the year ended 31 March 2017 (FY17).

The FY18 tax rate is currently expected to be broadly in line with FY17.

Accordingly, the Group's result for FY18 is currently expected to be broadly in line with FY17.

The Group's short-term outlook remains subject to:

- market conditions
- the impact of foreign exchange
- 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 its 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."

Highlights from the address of Chairman, Peter Warne

In providing an overview of FY17, Macquarie Group Chairman, Peter Warne, noted that Macquarie's businesses have continued to grow with profit up 7.5 per cent highlighting the diversity of our business offering and its ability to adapt to changing conditions.

Mr Warne said: "As we outlined at our full year result announcement, Macquarie reported a record profit of \$A2,217 million for the year to 31 March 2017, an increase of 7.5 per cent on the prior year."

"Operating income was up two per cent to \$A10,364 million. Earnings per share was \$A6.58, an increase of 6.3 per cent from \$A6.19 in the prior year."

Mr Warne also took the opportunity to make remarks about Macquarie's sound risk culture, the Group's commitment to the renewable and clean energy sectors, and the Major Bank Levy.

⁸ Prior corresponding period and prior period deal values have been adjusted to reflect final transaction data. These changes are not material.

⁹ IJ Global 1H CY17, by deal count.

¹⁰ Thomson Reuters, Apr to Jun 17 (values in USD).

¹¹ Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

With respect to risk culture, Mr Warne outlined the Group's commitment to achieving the highest standards of professional conduct across all operations, and effective consequence management as a key aspect of Macquarie's risk management framework and risk culture.

In relation to renewable energy and clean technology, Mr Warne noted Macquarie's substantial and longstanding commitment to these sectors as part of a broader commitment to continue to support clients in the transition to a low carbon economy. Macquarie and its managed funds are one of the world's largest investors in renewable energy having invested or arranged more than \$A15 billion of investment into renewable energy projects since 2010.

On the Major Bank Levy, which was recently passed by the Federal Parliament, Mr Warne reiterated the disproportionately high impact the levy will have on Macquarie Bank compared to the major Australian banks given its business mix is more heavily weighted to wholesale and international business. The estimated annualised cost of this new tax has the same effect as increasing Macquarie Bank's Australian effective tax rate for from 34 per cent to 41 per cent.

Mr Warne also noted the activities of Macquarie's staff and the Macquarie Group Foundation across the various communities in which it operates.

"One of the oldest and largest corporate foundations in Australia, the Macquarie Group Foundation and Macquarie staff have contributed more than \$A300 million since its establishment in 1985."

"In the year to 31 March 2017, the Foundation and Macquarie staff globally contributed \$A29.4 million in donations to more than 1,350 community organisations around the world. In addition, staff gave 50,000 hours of their time as volunteers, fundraisers and pro bono advisers."

"We are very proud of the commitment shown by Macquarie staff to the communities in which they live and work around the world."

The Macquarie Group Foundation 2017 Annual Review is now available on Macquarie's website at macquarie.com/foundation. The Review provides an update on the contribution Macquarie staff members are making in their communities around the world.

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