



ASX/Media Release

MACQUARIE GROUP 2017 OPERATIONAL BRIEFING

Key points

- Trading conditions across the Group were satisfactory in the December 2016 quarter
- Annuity-style businesses' combined December 2016 quarter net profit contribution¹ up on December 2015 quarter (prior corresponding period)
 - FY17 YTD² net profit contribution¹ slightly down on FY16 YTD which benefited from strong performance fees in MAM
- Capital markets facing businesses' combined December 2016 quarter net profit contribution¹ down on the prior corresponding period largely due to subdued Equity Capital Markets (ECM) activity and the timing of transactions in Macquarie Capital
 - FY17 YTD net profit contribution¹ slightly down on FY16 YTD notwithstanding stronger activity across most of the businesses in CGM except Securities, which benefited from strong Chinese equity market conditions in the prior corresponding period
- Financial position comfortably exceeds regulatory requirements³
 - Group capital surplus of \$A3.7 billion
 - Bank CET1 ratio 10.5% (Harmonised: 12.6%); Leverage ratio 5.3% (Harmonised: 6.2%); LCR 174%⁴
- Macquarie continues to expect the FY17 result for the Group to be broadly in line with FY16

Sydney, 7 February 2017 – Macquarie Group Limited (Macquarie) (ASX: MQG; ADR: MQBKY) today provided an update on business activity in the third quarter of the financial year ending 31 March 2017 (December 2016 quarter).

During a presentation at Macquarie's Operational Briefing in Sydney today, Macquarie Group Managing Director and Chief Executive Officer Nicholas Moore said: "Trading conditions across the Group were satisfactory in the December 2016 quarter."

Macquarie's annuity-style businesses' (Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services) combined December 2016 quarter net profit contribution¹ was up on the December 2015 quarter. For the nine months ended December 2016, net profit contribution¹ was slightly down on the prior corresponding period which benefited from strong performance fees in Macquarie Asset Management.

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

² Where referenced in this document, Year To Date refers to the 9 months to 31 December for the relevant year.

³ Where referenced in this document, the Group capital surplus is calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per APRA Prudential Standard 110. The APRA Basel III Group capital surplus is \$A5.2 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.

⁴ Where referenced in this document, average LCR for December 2016 quarter includes October, November and December month-end observations.

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Macquarie's capital markets facing businesses' (Commodities and Global Markets and Macquarie Capital) combined December 2016 quarter net profit contribution¹ was down on the prior corresponding period largely due to subdued Equity Capital Markets (ECM) activity and the timing of transactions in Macquarie Capital. For the nine months ended December 2016, net profit contribution¹ was slightly down on the nine months ended December 2015 notwithstanding stronger activity across most of the businesses in Commodities and Global Markets except Securities, which benefited from strong Chinese equity market conditions in the prior corresponding period.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements, with Group capital surplus of \$A3.7 billion at 31 December 2016, in line with 30 September 2016. The Bank Group's APRA Basel III Common Equity Tier 1 capital ratio was 10.5 per cent (Harmonised: 12.6 per cent) at 31 December 2016, up from 10.4 per cent at 30 September 2016. The Bank Group's APRA leverage ratio was 5.3 per cent (Harmonised: 6.2 per cent) and average LCR was 174 per cent.

Third quarter business highlights

Mr Moore provided an overview of recent business activity undertaken during the December 2016 quarter:

- **Macquarie Asset Management (MAM)** had assets under management (AUM) of \$A501.7 billion at 31 December 2016, up two per cent on 30 September 2016 predominately driven by positive foreign exchange and market movements. During the quarter, Macquarie Infrastructure and Real Assets raised \$A1.4 billion in new equity, largely in Australian, Global and European Infrastructure funds; invested equity of \$A1.9 billion including infrastructure in the US, Australia, UK and Mexico; and divested \$A0.6 billion of assets in Germany and Mexico. Macquarie Investment Management was awarded \$A1.6 billion in new, funded institutional mandates across ten strategies. Macquarie Specialised Investment Solutions continued to grow the Macquarie Infrastructure Debt Investment Solutions (MIDIS) business with total third party investor commitments of over \$A6.1 billion and total AUM of \$A3.5 billion.
- **Corporate and Asset Finance's (CAF)** asset and loan portfolio of \$A37.9 billion at 31 December 2016 was broadly in line with 30 September 2016. Certain portfolios were impacted by unfavourable foreign exchange movements largely due to weakening GBP. AWAS and Esanda continue to perform in line with expectations. During the quarter, \$A2.2 billion of motor vehicle and equipment leases and loans were securitised. The Lending portfolio had additions of \$A0.6 billion across both primary and secondary markets equally. Notable realisations during the quarter included the exit of a toll road investment in Virginia in the United States.
- **Banking and Financial Services (BFS)** had total BFS deposits⁵ of \$A44.2 billion at 31 December 2016, up five per cent on 30 September 2016. The Australian mortgage portfolio of \$A28.6 billion remained in line with 30 September 2016, while funds on platform of \$A70.5 billion increased 14 per cent on 30 September 2016 largely due to the successful migration of the ANZ Oasis wrap super and investment assets onto Macquarie's platform. The business banking loan portfolio of \$A6.5 billion increased two per cent on 30 September 2016.
- **Commodities and Global Markets (CGM)** was formed from the merger of Macquarie Securities Group and Commodities and Financial Markets to create an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities. The integration is progressing well. Strong results continued across the energy platform, particularly from Global Oil and North American Gas; and increased volatility in agriculture and base metals markets resulted in increased client hedging activity. Strong trading results were also experienced across financial markets businesses due to volatility associated with macro-economic events. Market conditions continued to impact client volumes in equity markets.

⁵ BFS deposits exclude any Corporate/Wholesale deposit balances.

- **Macquarie Capital** experienced solid levels of activity, particularly in infrastructure in Australia and the US, with 88 transactions valued at \$A44 billion completed globally. Notable transactions included: exclusive financial advisor on the acquisition of a 50.4 per cent interest in the 99 year lease of Ausgrid for ~\$A16.2 billion, the largest M&A transaction in ANZ in 2016 and largest infrastructure and utilities M&A transaction in ANZ⁶; advised Capital Stage on the €2 billion merger with CHORUS Clean Energy, creating one of Europe's largest independent operators of solar and wind parks; financial advisor, lead left bookrunner and joint lead arranger on the acquisition financing for a portfolio of contracted thermal power plants in North America; and sole financial advisor and underwriter on MMG Limited's \$US512 million rights issue on the HK Stock Exchange.

Outlook

Macquarie currently expects the year ending 31 March 2017 (FY17) combined net profit contribution¹ from operating groups to be broadly in line with the year ended 31 March 2016 (FY16).

The FY17 tax rate is currently expected to be broadly in line with FY16.

Accordingly, the Group's result for FY17 is currently expected to be broadly in line with FY16.

The Group's short-term outlook remains subject to a range of challenges including:

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

Contacts

Karen Khadi	Macquarie Group Investor Relations	+61 2 8232 3548
James Freeman	Macquarie Group Investor Relations	+61 2 8232 0596
Lisa Jamieson	Macquarie Group Media Relations	+61 2 8232 6016
Navleen Prasad	Macquarie Group Media Relations	+61 2 8232 6472

⁶ Dealogic (any ANZ involvement, announced Infra transaction) data from 1995.