



ASX/Media Release

MACQUARIE GROUP 2018 OPERATIONAL BRIEFING

Key points

- Trading conditions across the Group were satisfactory in the December 2017 quarter
- Annuity-style businesses' combined December 2017 quarter net profit contribution¹ slightly up on the December 2016 quarter (prior corresponding period)
 - FY18 YTD² net profit contribution¹ from annuity-style businesses up on FY17 YTD mainly due to strong performance fees in MAM, timing of transactions in CAF Principal Finance and continued growth in BFS
- Capital markets facing businesses' combined December 2017 quarter net profit contribution¹ down on the prior corresponding period primarily due to timing of income recognition associated with transportation and storage agreements within the CGM business
 - FY18 YTD net profit contribution¹ from capital markets facing businesses down on FY17 YTD primarily due to timing of income recognition associated with transportation and storage agreements within the CGM business
- Financial position comfortably exceeds regulatory requirements³
 - Group capital surplus of \$A4.1 billion
 - Bank CET1 ratio 10.7% (Harmonised: 13.0%); Leverage ratio 5.8% (Harmonised: 6.6%); LCR 153%⁴; NSFR 109%⁵
- Macquarie expects the FY18 result for the Group to be up approximately 10% on FY17

Sydney, 6 February 2018 – 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 2018 (December 2017 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 2017 quarter."

Macquarie's annuity-style businesses' (Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services) combined December 2017 quarter net profit contribution¹ was slightly up on the December 2016 quarter. For the nine months ended December 2017, net profit contribution¹ was up on the prior corresponding period mainly due to strong performance fees in

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 \$A5.4 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 Liquidity Coverage Ratio (LCR) for December 2017 quarter is based on an average of daily observations.

⁵ APRA released final NSFR requirements at the end of 2016. The NSFR and associated changes to APRA ADI Prudential Standard 210 will be effective from 1 Jan 18.

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Macquarie Asset Management, timing of transactions in Corporate and Asset Finance Principal Finance and continued growth in Banking and Financial Services.

Macquarie's capital markets facing businesses' (Commodities and Global Markets and Macquarie Capital) combined December 2017 quarter net profit contribution was down on the prior corresponding period primarily due to timing of income recognition associated with transportation and storage agreements within the Commodities and Global Markets business. For the nine months ended December 2017, net profit contribution was down on the nine months ended December 2016 primarily due to timing of income recognition associated with transportation and storage agreements within the Commodities and Global Markets business.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements, with Group capital surplus of \$A4.1 billion at 31 December 2017, broadly in line with 30 September 2017. The Bank Group's APRA Basel III Common Equity Tier 1 capital ratio was 10.7 per cent (Harmonised: 13.0 per cent) at 31 December 2017, down from 11.0 per cent at 30 September 2017. The Bank Group's APRA leverage ratio was 5.8 per cent (Harmonised: 6.6 per cent), average LCR was 153 per cent and NSFR was 109 per cent at 31 December 2017.

Third quarter business highlights

Mr Moore provided an overview of recent business activity undertaken during the December 2017 quarter:

- **Macquarie Asset Management (MAM)** had assets under management (AUM) of \$A483.5 billion at 31 December 2017, up two per cent on 30 September 2017 predominately driven by positive market and foreign exchange movements. During the quarter, Macquarie Infrastructure and Real Assets (MIRA) raised over \$A7.1 billion in new equity, including \$A3.9 billion in Asia and \$A2.0 billion in Europe; invested equity of \$A4.1 billion including infrastructure in Europe, Asia, Australia and the United States as well as agriculture in Australia; divested \$A3.9 billion of assets in Denmark, France, the United States and Korea; and had \$A15.1 billion of equity to deploy at 31 December 2017. Macquarie Investment Management was awarded \$A4.6 billion in new, funded institutional mandates and contributions across 35 strategies. Macquarie Infrastructure Debt Investment Solutions (MIDIS) total third party investor commitments increased to over \$A8.2 billion and closed a number of investments, bringing total AUM to \$A5.8 billion. MIRA reached agreement to acquire GLL Real Estate Partners⁶, a ~\$A10b⁷ German-based manager of real estate assets in Europe and the Americas.
- **Corporate and Asset Finance's (CAF)** Asset Finance and Principal Finance portfolio of \$A34.6 billion at 31 December 2017 was broadly in line with 30 September 2017. Asset Finance originations were in line with expectations. During the quarter, Principal Finance had portfolio additions of \$A0.1 billion. Notable realisations included the sale of Principal Finance's investments in a United Kingdom rooftop solar platform; a United Kingdom care homes and supported living business; and a United States power plant in North Dakota.
- **Banking and Financial Services (BFS)** had total BFS deposits⁸ of \$A46.3 billion at 31 December 2017, broadly in line with 30 September 2017. The Australian mortgage portfolio of \$A31.2 billion increased four per cent on 30 September 2017, while funds on platform⁹ of \$A85.3 billion increased eight per cent on 30 September 2017. The business banking loan portfolio of \$A7.2 billion increased one per cent on 30 September 2017.

⁶ Signed 4 Feb 18. Subject to certain closing conditions including regulatory approval.

⁷ As at 30 Jun 17, converted using spot FX rate as at 30 Jun 17.

⁸ BFS deposits exclude corporate/wholesale deposits.

⁹ Funds on platform includes Macquarie Wrap and Vision.

- **Commodities and Global Markets** (CGM) experienced stronger results in North American Gas and Power, while lower volatility impacted client hedging activity and trading results in Global Oil and Metals. Despite volatility being subdued in foreign exchange and interest rates, client activity in derivatives remained solid, particularly in Japan and North America. Increased market turnover led to improved brokerage income in Asian equities.
- **Macquarie Capital** experienced strong levels of activity during the quarter, with 107 transactions valued at \$A35 billion completed globally, up on pcp (by number), driven primarily by advisory activity in Infrastructure and Energy, and advisory and debt capital markets activity in the Americas and Europe. Notable transactions included: Joint Lead Manager and Underwriter on Transurban Group's \$A1.9 billion fully underwritten pro rata accelerated renounceable entitlement offer, the largest publically-distributed ANZ new equity issue of 2017¹⁰; raised over \$US1.7 billion in equity commitments for Macquarie Capital sponsored real estate logistics platforms globally to be invested in India, China, United Kingdom and Australia; Green Investment Group announced several low carbon infrastructure transactions during the quarter, including acting as financial advisor, 50 per cent equity investor and development partner in the 650MW Markbygden Wind Farm in Sweden, allowing development of the largest single-site wind farm in Europe (circa €800 million total capital raise)¹¹; and financial advisor to Centerbridge Partners on its acquisition of Davis Vision and joint bookrunner and joint lead arranger on the \$US985 million financing.

Outlook

Macquarie currently expects the combined net profit contribution from operating groups for the year ending 31 March 2018 (FY18) to be slightly up on the year ended 31 March 2017 (FY17).

Given substantial performance fees were recognised in the half-year ended 30 September 2017 (1H18), Macquarie expects the half-year ended 31 March 2018 (2H18) net profit contribution from operating groups to be down on 1H18 and broadly in line with the half-year ended 31 March 2017 (2H17).

The FY18 effective tax rate is currently expected to be broadly in line with 1H18.

Accordingly, the Group's result for FY18 is currently expected to be up approximately 10 per cent on FY17.

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

- market conditions
- the impact of foreign exchange
- potential regulatory changes and tax uncertainties
- the completion rate of transactions and the conduct of period end reviews.

Mr Moore said: "Macquarie remains well positioned to deliver superior performance in the medium-term due to our deep expertise in major markets, strength in diversity and ability to adapt the 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."

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¹⁰ Thomson CY17 (ANZ ECM ex-block trades).

¹¹ Financial Times 2017.

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