

CHAIRMAN'S ADDRESS

MACQUARIE GROUP LIMITED ANNUAL GENERAL MEETING

27 JULY 2017

SOFITEL HOTEL, MELBOURNE

CHECK AGAINST DELIVERY

Good morning ladies and gentlemen and welcome to Macquarie Group's 2017 Annual General Meeting.

I am Peter Warne, Chairman of the Macquarie Group Board. I will be chairing the meeting today and am pleased to formally declare the meeting open.

I hope you enjoyed our opening video, featuring some of the work our staff are doing around the world.

I'll now introduce your Directors and some of Macquarie's senior executives.

On my right is our Chief Executive Officer Nicholas Moore.

Seated next to him is the Group's Chief Financial Officer, Patrick Upfold. Next to Patrick are Non-Executive Directors Diane Grady, Nicola Wakefield Evans, Gary Banks and Gordon Cairns.

To my left is our Company Secretary, Dennis Leong, and next to him are Non-Executive Directors Michael Hawker, Patricia Cross and Michael Coleman.

In addition, we have seated in the front row some of Macquarie's Executive Committee including:

- Mary Reemst, Macquarie Bank Limited Managing Director and Chief Executive Officer;
- Shemara Wikramanayake, Head of Macquarie Asset Management;
- Garry Farrell and Ben Brazil, Co-Heads of Corporate and Asset Finance;
- Tim Bishop, Head of Macquarie Capital;
- Stephen Allen, Chief Risk Officer; and
- Nicole Sorbara, Chief Operating Officer.

Last year, we revised the format of this meeting to improve the experience for attendees.

We have had positive feedback on those changes and will continue with the revised format this year.

There are four parts to today's meeting.

First, I will provide an overview of Macquarie's performance for the past financial year.

Nicholas will then take you through the result in greater detail, provide an update on the Group's first quarter performance and discuss the outlook for the rest of the year.

Following this, we will hear from the four Directors seeking re-election today, Gary Banks, Patricia Cross, Diane Grady and Nicola Wakefield Evans.

I will then formally open the polls.

We will then break for about half an hour. During this time you will be able to meet with members of the Board and senior management.

There is a showcase of Macquarie's businesses in the room to my left, which we invite you to explore.

We will also be serving light refreshments during this time.

After the break, we will discuss the formal items of business and then take questions on all of these items at the same time.

We want to give all shareholders the opportunity to speak and we will give preference to those who have not yet asked a question.

If you have limited time and cannot stay for the formal business, please take the opportunity to meet with the Board and senior management in the break.

I would like to remind you that recording devices, photographic equipment and mobile phones can not be used during the meeting.

However, the meeting is being webcast on the Macquarie Group website and you will be able to view a recording of the meeting there this evening.

I am going to start my presentation with an overview of Macquarie's performance during the last financial year.

We were pleased to report that Macquarie's businesses continued to grow with profit up 7.5 per cent, highlighting the diversity of our businesses and the ability to adapt to changing conditions.

Our annuity-style businesses, Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services, had another strong year, with a combined net profit contribution up four per cent on the prior year.

The combined net profit contribution for our capital markets facing businesses, Commodities and Global Markets and Macquarie Capital, increased 12 per cent on the prior year.

As we outlined at the full year result announcement, Macquarie reported a record net profit after tax of \$A2.2 billion for the year to 31 March 2017. As mentioned before, this is an increase of 7.5 per cent on the prior year.

Operating income rose two per cent to a record \$A10.4 billion.

Earnings per share was \$A6.58, compared with \$A6.19 per share in the prior year.

Nicholas will take you through this performance in greater detail during his presentation.

Shareholders received a full year ordinary dividend of \$A4.70 per share, up from \$A4.00 per share in the prior year.

Both the interim and final dividends were franked at 45 per cent.

Seventy-two per cent of our profit – or about \$A1.6 billion – was returned to shareholders in dividends.

Our policy, which remains unchanged, is to pay between 60 and 80 per cent of profits to shareholders each year as dividends.

The chart on this slide highlights Macquarie's strong history of profitability.

As you saw in our video, since Macquarie's establishment in 1969, we have achieved a profit in every year of our 48-year history.

There are a number of factors behind this record of unbroken profitability, most notably our ability to adapt our portfolio mix to changing market conditions.

Ten years ago, our annuity-style businesses contributed 25 per cent of our profit. Now, they make up about 70 per cent of our profit, providing reoccurring revenue streams in the challenging market conditions of recent years.

Another factor is our strong and proven risk management framework, which has protected Macquarie through a number of major market downturns.

And we have consistently maintained a strong balance sheet and capital position, with surplus capital at \$A5.5 billion at 31 March 2017.

Our unbroken profitability is reflected in Macquarie's very good share price performance and shareholder returns over the longer term.

This chart shows our total shareholder return compared to the ASX 200 Index of Australian companies and the MSCI World Capital Markets Index of 48 large global companies, including asset managers and global investment banks.

As you can see, Macquarie's total shareholder return has significantly outperformed these indices over the past ten years.

Macquarie's unbroken profitability is built on the foundations of our long-standing risk culture.

While we are in business to be profitable, it is the way we do business that defines us.

The Board has a strong and ongoing commitment to ensure that Macquarie's risk culture and the conduct of its staff truly live up to our core values and principles of Opportunity, Accountability and Integrity.

We believe that a strong risk culture drives good conduct.

We place significant emphasis on embedding an appropriate risk culture and managing conduct risk within our overall risk management framework. It is well entrenched across all parts of the organisation.

Staff are expected to adhere to our guiding principles in all of their day-to-day behaviours, actions and business decisions.

Managing risk is the responsibility of every individual and business at Macquarie. In addition, the Risk Management Group provides strong, independent oversight of all our business operations.

We have comprehensive policies, procedures and controls in place to assist staff in decision making and to ensure they adhere to the standards we expect of them. There are also measures to address and deter non-compliance. These protocols have been a key to Macquarie's success and stability over many years.

Our approach is reflected in the three principles of *What We Stand For*; Opportunity, Accountability and Integrity, and is outlined in our publicly available *Code of Conduct* document.

While our risk management approach has been largely consistent since inception, we continue to monitor and enhance our risk culture and management of conduct risk.

Risk culture and conduct specific achievements during the year included:

- the refresh of the *Code of Conduct* document;
- the enhancement of global policies; and
- the appointment of a Customer Advocate for retail and small business customers in Australia.

Resources continued to be deployed into staff training across areas including:

- compliance;
- anti-money laundering crime; and
- counter terrorism financing.

Additional risk culture and conduct risk objectives were also formally incorporated into the performance management process for all staff.

As I mentioned, our long-standing risk culture is reflected in our principles of Opportunity, Accountability and Integrity.

During the year, we launched a global staff campaign highlighting the importance of good conduct and integrity. This campaign had strong engagement across Macquarie through multiple internal communication channels.

Our integrity principles continue to be integrated into group-wide training programs and actively promoted by Group and regional heads, which help our staff in making business decisions we can all be proud of.

Macquarie has a substantial and longstanding commitment to the renewable energy and clean technology sectors and is part of a broader commitment to continue to support our clients in the transition to a low carbon economy.

We actively invest in sectors alongside our clients, across various renewable energy technologies including solar, wind, waste to energy, bioenergy and energy efficiency.

Conventional energy sources will continue to deliver capacity to the global system for some time to come and contribute to energy security, as referenced in the *Finkel Report* which provided an independent review of Australia's electricity market. Our businesses will adapt, adjust and continue to seek new opportunities in response to the move towards the decarbonisation of this sector.

Some highlights from our commitment to the renewable energy sector this year included:

- agreed to acquire the Green Investment Bank in the UK, creating one of Europe's largest teams of green energy investment specialists;
- offshore wind projects in Taiwan;
- 27 solar projects in Japan; and
- battery storage projects in California.

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.

I would now like to provide some comments on the Major Bank Levy recently passed by the Federal Parliament.

The levy taxes five Australian banks on many of their non-retail deposit liabilities.

Macquarie's banking activities are carried on by Macquarie Bank, which largely comprises the Australian retail business in Banking and Financial Services, Lending and Leasing in Corporate and Asset Finance and much of its Commodities and Global Markets business.

Macquarie Bank's Australian operations represent approximately one third of Macquarie Bank's earnings based on the result for the full year ended 31 March 2017.

Macquarie Bank's return on equity was approximately ten per cent for the full year ended 31 March 2017 and its market share across most Australian retail products is approximately two per cent.

The annualised cost of the new tax is estimated to be \$A66 million pre-tax based on earnings for the full year ended 31 March 2017, which has the same effect as increasing the Australian effective tax rate for Macquarie Bank from 34 per cent to 41 per cent.

The impact of the levy would be greater in the event of a decline in Macquarie Bank's profitability.

The new tax will have a disproportionately higher impact on Macquarie Bank compared to the major Australian banks given our business mix is more heavily weighted to wholesale and international business.

Given the relatively small size of our Australian banking business we were surprised by our inclusion in the group to pay this levy. We have also expressed our concern to the Government given the benefit we bring to domestic competition and innovation, the role we play in bringing offshore income into the Australian economy, and the potential for unintended consequences resulting from the levy.

We would like to reassure you that we will continue to review our business mix and location to ensure all our businesses remain profitable and internationally competitive, noting that our international competitors are not subject to this tax.

I would like to now touch on some management changes.

As announced in November last year, Macquarie merged two of its three capital markets facing businesses, Macquarie Securities Group and Commodities and Financial Markets, to create Commodities and Global Markets.

Following this announcement, Andrew Downe, who led Commodities and Financial Markets, was appointed Group Head of the newly merged Commodities and Global Markets Group. Stevan Vrcelj stepped down from his role as Group Head of Macquarie Securities Group and from the Executive Committee, of which he had been a member since 2010. Stevan led this business through some challenging global market conditions and we thank him for his valuable service and commitment to Macquarie.

Michael McLaughlin, US Country Head and Head of Credit Markets Division, also stepped down from the Executive Committee in June 2017. Michael was an Executive Committee member since 2012. He has now joined Ben Way and David Fass, the Regional Heads for Asia and the UK and Europe, on the Management Committee.

Nick O'Kane, Head of Commodity Markets and Finance, joined the Executive Committee in June this year. Nick established the Energy Markets Division in the US, building the business both organically and through acquisition. Nick has worked for Macquarie for 22 years in Australia, Malaysia, Korea, London and Los Angeles. Since 2009, Nick has led our global energy markets business from Houston. During the year, Nick assumed global responsibility for all commodity trading activities.

Finally, I'd like to conclude my remarks by outlining the work of the Macquarie Group Foundation in support of not-for-profit organisations around the world.

One of the oldest and largest corporate foundations in Australia, the Macquarie Group Foundation has 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.

Our CEO and senior management dedicate their time as Chairmen, Directors and advisers to a variety of not-for-profit organisations.

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

The Foundation's latest annual review highlights some of the charities supported by Macquarie and its staff. It is now available on Macquarie's website. We invite you to visit the Foundation stand in the showcase room during the break or after the meeting.

That concludes my opening remarks. I will now hand over to Nicholas to discuss Macquarie's results in more detail and update you on our recent performance.