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ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A2,557 MILLION FULL YEAR PROFIT

Key points

- **FY18 net profit of $A2,557 million, up 15% on FY17**
- **2H18 net profit of $A1,309 million, up 5% on 1H18 and up 12% on 2H17**
- **FY18 net operating income of $A10,920 million, up 5% on FY17**
- **Annuity-style businesses' combined net profit contribution[1] up 6% on FY17**
- **Capital markets facing businesses' combined net profit contribution up 11% on FY17**
- **International income 67% of total income[2] in FY18**
- **FY18 operating expenses of $A7,456 million, up 3% on FY17**
- **Assets under management of $A496.7 billion at Mar 18, up 3% from Mar 17**
- **Financial position comfortably exceeds regulatory requirements[3]**
  - **Group capital surplus of $A4.2 billion**
  - **Bank CET1 ratio 11.0% (Harmonised: 13.5%); Leverage ratio 6.0% (Harmonised: 6.9%); LCR 162%; NSFR 112%**
- **FY18 earnings per share (EPS) $A7.58, up 15% on FY17**
- **Annualised return on equity (ROE) 16.8%, up from 15.2% in FY17**
- **Final dividend per ordinary share of $A3.20 (45% franked); full year dividend per ordinary share of $A5.25 (45% franked), up from $A4.70 per share (45% franked) in FY17**
- **Macquarie's share buyback program remains in place**

SYDNEY, 4 May 2018 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A2,557 million for the full year ended 31 March 2018 (FY18), up 15 per cent on the full year ended 31 March 2017 (FY17). Profit for the half-year ended 31 March 2018 (2H18) was $A1,309 million, up five per cent on the half-year ended 30 September 2017 (1H18) and up 12 per cent on the half-year ended 31 March 2017 (2H17).

Macquarie Group Managing Director and Chief Executive Officer (CEO) Nicholas Moore said: "FY18 highlighted the strength of Macquarie's global platform, the diversity of its business mix and ongoing ability to adapt to changing market conditions and client needs.

"Macquarie's annuity-style businesses (Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS)), which represented approximately 70 per cent of the Group's FY18 performance[4], continued to perform well, with combined net profit contribution of $A3,451 million, up six per cent on FY17.

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[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, total income is net operating income excluding earnings on capital and other corporate items.
[3] 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 $A5.6 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.
CET1 refers to the Common Equity Tier 1 ratio. LCR refers to the Liquidity Coverage Ratio. Where referenced in this document, average LCR for the March 2018 quarter is based on an average of daily observations. NSFR refers to the Net Stable Funding Ratio.
[4] Where referenced in this document, Group's performance is based on FY18 net profit contribution from operating groups.

"Macquarie's capital markets facing businesses (Commodities and Global Markets (CGM) and Macquarie Capital) also performed well with a combined net profit contribution of $A1,610 million, up 11 per cent on FY17."

Net operating income of $A10,920 million in FY18 was up five per cent on FY17, offset by operating expenses of $A7,456 million, which were up three per cent on FY17.

International income accounted for 67 per cent of the Group's total income for FY18. Total international income was $A7,127 million in FY18, an increase of eight per cent on FY17.

Macquarie's global assets under management (AUM) at 31 March 2018 were $A496.7 billion, up three per cent from $A481.7 billion at 31 March 2017, largely due to positive market movements and favourable currency movements, partially offset by net asset realisations in Macquarie Infrastructure and Real Assets (MIRA)[5].

Macquarie continued to build its Australian franchise during FY18 across the operating groups. BFS has a small but growing market share and saw a 14 per cent rise in both its Australian mortgage portfolio and in funds on platform and a 3 per cent increase in BFS deposits during FY18. CAF finances vehicles, smartphones and energy and mining equipment. Macquarie's non-banking activities in Australia are also seeing strong growth, with Australian AUM up 16 per cent during FY18 to $A97.9 billion at 31 March 2018. Macquarie maintained its leading market position in Australia in M&A and ECM[6], Australian equities research and brokerage.

Mr Moore said: "The Group remains well positioned, with a strong and diverse global platform and deep expertise across a range of products, markets and asset classes. This is built on the foundation of a strong balance sheet, surplus capital, a robust liquidity and funding position and a conservative approach to risk management which is embedded across all operating groups."

Macquarie also announced today a 2H18 final ordinary dividend of $A3.20 per share (45 per cent franked), up from the 1H18 interim ordinary dividend of $A2.05 per share (45 per cent franked) and up from the 2H17 final ordinary dividend of $A2.80 per share (45 per cent franked). The total ordinary dividend payment for the year of $A5.25 per share is up from $A4.70 in the prior year. This represents an annual ordinary dividend payout ratio of 70 per cent. The record date for the final ordinary dividend is 15 May 2018 and the payment date is 3 July 2018.

Outlook

The Group's result for FY19 is currently expected to be broadly in line with FY18.

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

- market conditions
- the impact of foreign exchange
- potential regulatory changes and tax uncertainties
- geographic composition of income.

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."

Full year result overview

Chief Financial Officer (CFO) Alex Harvey said: "Net operating income of $A10,920 million for FY18 was up five per cent on FY17, while total operating expenses of $A7,456 million were up three per cent on FY17."

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[5] Includes divestment of Thames Water by MIRA-managed funds and ceasing asset services to consortia investors ($A25 billion).
[6] Dealogic (FY18, by value).

Key drivers of the change from the prior year were:

- Net interest and trading income of $A3,943 million was in line with the prior year. Growth in average Australian loan portfolio and deposit volumes in BFS and lower costs of holding long-term liquidity in Corporate were offset by lower interest income as a result of the reduction in the Principal Finance portfolio size in CAF, sustained low volatility and tighter credit spreads impacting income from interest rate and credit products in CGM, higher funding costs for balance sheet positions in Macquarie Capital, and the impact of the Australian Government Major Bank Levy.
- An eight per cent increase in fee and commission income to $A4,670 million, up from $A4,331 million in the prior year, due to increased performance fee income in MAM and higher debt capital markets fee income reflecting increased market share and client activity in the United States in Macquarie Capital. This was partially offset by lower mergers and acquisitions and equity capital markets fee income in Macquarie Capital. Base fees in MAM were broadly in line driven by higher AUM, offset by foreign exchange movements.
- A two per cent increase in net operating lease income to $A935 million, up from $A921 million in the prior year, due to improved underlying income from the Aviation, Energy and Technology portfolios in CAF.
- Share of net profits of associates and joint ventures accounted for using the equity method of $A241 million in FY18 increased significantly from $A51 million in the prior year, primarily due to MAM's share of net profits from the sale of a number of underlying assets within equity accounted investments.
- Other operating income and charges of $A1,131 million in FY18, up one per cent from $A1,118 million in the prior year, were primarily driven by lower charges for impairments and provisions across most operating groups due to improved credit conditions. MAM experienced higher charges for impairments and provisions, largely reflecting the write-down of MAM's investment in Macquarie Infrastructure Corporation (MIC). Higher other income was driven by the sale of certain CAF Principal Finance assets in the United States and increased investing activity in Macquarie Capital. This was partially offset by lower investment income mainly due to the non-recurrence of gains in the prior year, including the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in BFS and gains on sale on listed funds and unlisted infrastructure assets in MAM, which was partially offset by increased investment-related income in the current year due to asset realisations, particularly in green energy, conventional energy and infrastructure in Macquarie Capital.
- Total operating expenses of $A7,456 million in FY18 increased three per cent from $A7,260 million in the prior year, mainly due to higher performance-related profit share expense, driven by improved overall performance of the operating groups and higher average headcount, and costs associated with acquisitions and increased business activity during the year. This was partially offset by the non-recurrence of expenses in relation to the Core Banking platform in BFS from the prior year.

Staff numbers were 14,469 at 31 March 2018, up from 13,597 at 31 March 2017.

The income tax expense for FY18 was $A883 million, a two per cent increase from $A868 million in FY17. The increase was mainly due to higher profit before tax, offset in part by increased benefit from permanent tax differences. The effective tax rate of 25.7 per cent was down from 28.1 per cent in FY17, mainly driven by change in the geographic composition and nature of earnings.

Strong funding and balance sheet position

"Macquarie remains well funded with a solid and conservative balance sheet and we continue to pursue our strategy of diversifying funding sources by continuing to grow the deposit base and accessing a variety of funding markets," Mr Harvey said.

Total customer deposits[7] increased one per cent to $A48.1 billion at 31 March 2018 from $A47.8 billion at 31 March 2017. During FY18, $A21.8 billion of term funding[8] was raised covering a range of tenors, currencies and product types.

Capital management

Macquarie's financial position comfortably exceeds APRA's Basel III regulatory requirements, with a Group capital surplus of $A4.2 billion at 31 March 2018, which was down from $A5.5 billion at 31 March 2017. The Bank Group APRA Basel III Common Equity Tier 1 (CET1) capital ratio was 11.0 per cent (Harmonised: 13.5 per cent) at 31 March 2018, down from 11.1 per cent (Harmonised: 13.3 per cent) at 31 March 2017. The Bank Group's APRA leverage ratio was 6.0 per cent (Harmonised: 6.9 per cent), LCR was 162 per cent and NSFR was 112 per cent at 31 March 2018.

Macquarie intends to purchase shares[9,10], to satisfy the MEREP requirements of an approximate value of $A460 million. The buying period for the MEREP will commence on 14 May 2018 and is expected to be completed by 29 June 2018[11]. No discount will apply for the 2H18 Dividend Reinvestment Plan (DRP) and the shares are to be acquired on-market[10].

Macquarie shares sold by staff between 14 May 2018 and 7 June 2018[12] are expected to be acquired by the MEREP Trustee to meet the MEREP buying requirements. Shares sold by staff during this window are to be acquired off-market at the daily Volume Weighted Average Price (VWAP)[13], reducing the number of shares acquired on-market to meet the MEREP requirements.

Macquarie intends to redeem the Macquarie Group Capital Notes (MCN) $A600 million hybrid in June 2018. An offer of MCN3 hybrid securities, including a rollover offer for MCN holders and a security holder offer will be launched shortly.

Share buyback

No buying occurred during 2H18. Macquarie's share buyback program remains in place, with any share purchases subject to a number of factors including the Group's capital surplus position, market conditions and opportunities to deploy capital by the businesses.

Regulatory update[14]

In July 2017 Australian Prudential Regulation Authority (APRA) provided guidance on the level of CET1 capital ratios for Australian banks to be considered 'unquestionably strong' (UQS), indicating an average increase of 150bps across the industry would be required[15].

In February 2018, APRA released draft UQS proposals reinforcing their previous guidance. As the final form of the framework remains uncertain there may be a broader range of potential outcomes for individual banks[16]. Based on existing guidance, Macquarie's surplus capital position remains sufficient to accommodate likely additional requirements. In addition, APRA released a discussion paper on their proposed implementation of the leverage ratio with a minimum requirement of four per cent from July 2019.

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[7] Total customer deposits as per the funded balance sheet ($A48.1 billion) differs from total deposits per the statutory balance sheet ($A59.4 billion). The funded balance sheet excludes any deposits which do not represent a funding source for Macquarie.
[8] Issuances are AUD equivalent based on foreign exchange rates at the time of issuance and include undrawn facilities.
[9] Shares may be purchased on-market and off-market.
[10] Shares will be issued if purchasing becomes impractical or inadvisable.
[11] Actual buying may be completed sooner or later. On-market buying for the MEREP will be suspended during the DRP pricing period (22 May 2018 to 30 May 2018).
[12] This date is subject to change.
[13] Trades will be crossed off-market by Macquarie Securities (Australia) Limited and reported to ASX and Chi-X accordingly.
[14] The Basel Capital Framework applies to the Bank Group only.
[15] APRA's information paper published July 2017: 'Strengthening banking system resilience – establishing unquestionably strong capital ratios'.
[16] 'APRA begins consultation with ADIs on revisions to capital framework'; 14 February 2018.

Operating group performance

- **Macquarie Asset Management** delivered a net profit contribution of $A1,685 million for FY18, up ten per cent from $A1,538 million in FY17. Performance fee income of $A595 million increased significantly from $A264 million in the prior year, predominately from Macquarie European Infrastructure Fund III (MEIF3), Macquarie Atlas Roads (MQA) and other managed funds and co-investors. Base fees of $A1,608 million were broadly in line with FY17, as positive market movements in Macquarie Investment Management (MIM) AUM and investments made by MIRA-managed funds were partially offset by asset realisations by MIRA-managed funds, net flow impacts in the MIM business and foreign exchange. Investment-related income of $A562m was broadly in line with a strong prior year, while impairments and provisions increased to $A177m largely due to the write-down of MIRA's investment in MIC. AUM of $A495.1 billion increased three per cent from $A480.0 billion at 31 March 2017.
- **Corporate and Asset Finance** delivered a net profit contribution of $A1,206 million for FY18, up one per cent from $A1,198 million in FY17. The increase was mainly driven by increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio and lower charges for provisions and impairments, partially offset by lower interest income as a result of the reduction in the Principal Finance portfolio size. The Asset Finance contribution increased due to stronger underlying net operating lease income in Aviation and income from Vehicles which included the sale of the US commercial vehicles financing business. The remaining portfolios continued to perform well. CAF's asset and loan portfolio of $A34.5 billion decreased five per cent from $A36.5 billion at 31 March 2017.
- **Banking and Financial Services** delivered a net profit contribution of $A560 million for FY18, up nine per cent from $A513 million in FY17. The improved result reflected increased income from growth in average Australian loan, deposit and platform volumes, as well as the non-recurrence of expenses recognised in the prior year. The prior year also included the net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio. BFS deposits[17] of $A45.7 billion increased three per cent from $A44.5 billion at 31 March 2017 and funds on platform[18] of $A82.5 billion increased 14 per cent from $A72.2 billion at 31 March 2017 due to the successful migration of holdings onto the Vision platform, net inflows and positive market movements. The Australian mortgage portfolio of $A32.7 billion increased 14 per cent from $A28.7 billion at 31 March 2017, representing approximately two per cent of the Australian mortgage market.
- **Commodities and Global Markets** delivered a net profit contribution of $A910 million for FY18, down six per cent from $A971 million in FY17. The result was driven by an improved performance across the equities platform due to rallying prices and increased volatility in Asia, a reduction in impairments in commodity-related sectors, increased client demand for structured foreign exchange solutions in Asia and North America and significant opportunities for the North American Gas and Power business to capitalise on price dislocations across regions. This was offset by the timing of income recognition relating to tolling agreements and capacity contracts, sustained low volatility and tighter credit spreads impacting income from interest rate and credit products, and reduced income from the sale of investments, mainly in energy and related sectors. Macquarie Energy improved its Platts ranking to become the No. 2 US physical gas marketer in North America[19].
- **Macquarie Capital** delivered a net profit contribution of $A700 million for FY18, up 45 per cent from $A483 million in FY17. The result reflects increased investment-related income due to asset realisations particularly in green energy, conventional energy and infrastructure, higher fee income from debt capital markets in the United States due to increased market share and client activity, and lower provisions and impairment charges. This was partially offset by lower mergers and acquisitions and equity capital markets fee income as well as higher funding costs for balance sheet positions. During FY18, Macquarie advised on 402 transactions valued at $A352 billion[20] including defence adviser to DUET in response to the $A13.4 billion acquisition of 100 per cent of DUET's securities by Cheung Kong

[17] BFS deposits exclude corporate/wholesale deposits.
[18] Funds on platform includes Macquarie Wrap and Vision.
[19] Platts Q4 CY17.
[20] Dealogic and IJGlobal for Macquarie Group completed M&A, balance sheet positions, ECM and DCM transactions, converted at 31 March 2018 foreign exchange rate. Deal values reflect the full transaction value and not an attributed value.

Infrastructure; and financial adviser to Weld North Education and KKR on its sale to Silver Lake Partners, and joint bookrunner and joint lead arranger to Silver Lake Partners on the senior secured credit facilities to support the acquisition. During FY18, a Macquarie-led consortium acquired the UK Green Investment Bank plc[21] from HM Government for £2.3 billion. The Green Investment Bank, rebranded as Green Investment Group, is one of Europe's largest teams of green energy investment specialists.

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[21] The UK Green Investment Bank is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulatory Authority.