



ASX/Media Release

MACQUARIE GROUP 2018 ANNUAL GENERAL MEETING AND FIRST QUARTER FY19 UPDATE

Key points

- **Operating groups performing well, in line with expectations**
- **1Q19 operating group contribution¹ up on 1Q18 and down on a strong 4Q18**
- **Financial position comfortably exceeds regulatory requirements²**
 - **Group capital surplus of \$A3.4 billion**
 - **Bank CET1 ratio 10.3% (Harmonised: 12.8%); Leverage ratio 5.6% (Harmonised: 6.4%); LCR 155%³; NSFR 112%**
- **Continue to expect FY19 result for the Group to be broadly in line with FY18**
- **Patricia Cross retires from the Macquarie Group and Macquarie Bank boards effective today**

SYDNEY, 26 July 2018 – Macquarie Group (ASX: MQG; ADR: MQBKY) Managing Director and Chief Executive Officer, Nicholas Moore, said today that Macquarie's operating groups were performing well, in line with expectations, with the contribution from the first quarter of the 2019 financial year (1Q19) up on the first quarter of the 2018 financial year (1Q18) and down on a strong prior quarter (4Q18).

Speaking ahead of Macquarie's 2018 Annual General Meeting in Sydney, Mr Moore said: "Macquarie's annuity-style businesses⁴ continued to perform well, with continued strong base and performance fees in Macquarie Asset Management (MAM). Corporate and Asset Finance (CAF) Principal Finance was down on the prior corresponding period (1Q18), mainly due to the timing of transactions and a reduction in the size of the portfolio. CAF Asset Finance was broadly in line with the prior corresponding period. Growth continued in Banking and Financial Services (BFS) particularly across mortgages, business banking and platforms, while deposits were broadly in line with the prior corresponding period."

"Macquarie's capital markets facing businesses⁴ experienced strong trading conditions across most markets. Commodities and Global Markets (CGM) experienced stronger activity, particularly in commodity markets and fixed income products. Macquarie Capital's balance sheet positions performed in line with expectations, with solid realisations during the quarter. Debt capital markets activity was down compared to a strong prior corresponding period.

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

¹ Where referenced in this document, 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% RWA including the capital conservation buffer (CCB) per APRA ADI Prudential Standard 110. The APRA Basel III Group capital surplus is \$A4.8 billion calculated at 7.0% RWA, per the internal minimum Tier 1 ratio of the Bank Group. Based on materiality, the Group surplus does not include the countercyclical capital buffer (CCyB) of ~6bps. The individual CCyB varies by jurisdiction and Macquarie's CCyB is calculated as the weighted average of Macquarie's Bank Group exposures in different jurisdictions. In June 2018 the CCyB in the United Kingdom increased from 0.0% to 0.5% increasing Macquarie's CCyB to ~6bps. '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 2018 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.

Macquarie Group's financial position comfortably exceeds the Australian Prudential Regulation Authority's (APRA's) Basel III regulatory requirements², with Group capital surplus of \$A3.4 billion at 30 June 2018. This was down from \$A4.2 billion at 31 March 2018, following payment of the final dividend for the financial year ended 31 March 2018 (FY18) and the Macquarie Capital Notes redemption, offset by the Macquarie Capital Notes 3 issuance. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 10.3 per cent (Harmonised: 12.8 per cent) at 30 June 2018, down from 11.0 per cent at 31 March 2018. The Bank Group's APRA leverage ratio was 5.6 per cent (Harmonised: 6.4 per cent), LCR was 155 per cent³ and NSFR was 112 per cent at 30 June 2018.

The acquisition of Macquarie shares required for the FY18 profit share and promotion awards under the MEREP was completed in June 2018. As previously disclosed, a total of approximately \$A454 million of Macquarie shares were purchased: \$A361 million off market under arrangements announced to the market on 5 May 2017 and \$A93 million on market. The shares were acquired at a weighted average purchase price of \$A113.76 per share.

First quarter business highlights

In commenting on the Group's start to the 2019 financial year (FY19), Mr Moore noted the following highlights:

- **Macquarie Asset Management (MAM)** had \$A534.1 billion in assets under management at 30 June 2018, up eight per cent on 31 March 2018, largely due to reaching financial close on the previously announced GLL Real Estate Partners and ValueInvest transactions, infrastructure asset acquisitions, and favourable market and FX movements. This was partially offset by infrastructure asset realisations. MIRA's equity under management of \$A102.1 billion was up 18 per cent from \$A86.2 billion at 31 March 2018. 1Q19 included performance fees from several funds including Atlas Arteria (formerly Macquarie Atlas Roads). During the quarter, MIRA raised equity of \$A5.6 billion primarily from its Macquarie SuperCore Infrastructure Fund and Macquarie European Infrastructure Fund 5 (MEIF5) co-investment, and invested equity of \$A4.8 billion. Macquarie Investment Management (MIM) was awarded \$A2.9 billion in new institutional mandates and contributions funded across 36 strategies from clients in 11 countries and Macquarie Specialised Investment Solutions (MSIS) was awarded over \$A1 billion of additional infrastructure debt mandates.
- **Corporate and Asset Finance's (CAF)** Asset and Principal Finance portfolio of \$A34.1 billion at 30 June 2018, was broadly in line with 31 March 2018. Asset Finance originations were in line with expectations. During the quarter, notable Principal Finance transactions included funding the first installation in the 30MWp onsite PPA solar PV roll out for the UK's largest licensed water and sewerage undertaker, and providing financing to the UK's largest provider of construction waste management services.
- **Banking and Financial Services' (BFS)** Australian mortgage portfolio of \$A34.3 billion increased five per cent on 31 March 2018, funds on platform⁵ of \$A86.8 billion also increased five per cent on 31 March 2018, and the business banking loan portfolio of \$A7.5 billion increased three per cent on 31 March 2018. Total BFS deposits⁶ of \$A46.9 billion, increased three per cent on 31 March 2018. Macquarie won Best Cash and Term Deposit Provider at the 2018 SMSF Awards and was named as a winner in the 2018 Mozo Experts Choice Awards in the Travel Money/International Money Transfer category.
- **Commodities and Global Markets (CGM)** saw increased client hedging and trading opportunities across the commodities platform, particularly in North American Gas, and continued strong customer activity in foreign exchange and futures. CGM also experienced strong underwriting income from Cash Equities, particularly in Asia.

⁵ Funds on platform includes Macquarie Wrap and Vision.

⁶ BFS deposits excludes any corporate/wholesale deposit balances.

- **Macquarie Capital** completed 115 deals to the value of \$A160 billion during the quarter, up on 1Q18 (by value) and up on the prior period (by value and volume)⁷. Fee revenue from equity capital markets and M&A was broadly in line with the prior corresponding period, while debt capital markets activity was down on a strong prior corresponding period. Balance sheet positions performed in line with expectations with continued realisations during the quarter. Green Investment Group (GIG) continued its ongoing expansion with the completion of the official launch of GIG in North America and Asia during the quarter. Macquarie Capital was ranked No.1 for completed M&A deals⁸ and ECM⁹ deals in ANZ. Macquarie Capital was also ranked No.1 for global renewables financial advisory¹⁰ and global financial advisory in Infrastructure Finance.

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 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 addition to announcing Nicholas Moore's retirement, Macquarie Group Chairman, Peter Warne, provided an overview to shareholders of FY18. He noted that Macquarie's businesses continued to grow with profit up 15 per cent highlighting the diversity of Macquarie's business offering and the Group's ability to adapt to changing conditions.

Mr Warne said: "As we outlined at our full year result announcement, Macquarie reported a record profit of \$A2,557 million for the year to 31 March 2018, an increase of 15 per cent on the prior year."

"Operating income was up five per cent to \$A10,920 million. Earnings per share was \$A7.58, an increase of 15 per cent from \$A6.58 in the prior year."

Mr Warne remarked on Macquarie's sound risk culture, the Group's commitment to the renewable energy, and the Royal Commission.

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 component 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 has invested or arranged over \$A9.5 billion in renewable energy, energy efficiency and clean energy in FY18.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has been underway since December last year. Mr Warne commented that Macquarie has made submissions to the Commission's inquiries and will continue to respond appropriately.

⁷ Source: Dealogic and IJ Global for Macquarie Group completed M&A, balance sheet positions, ECM and DCM transactions, converted at 30 June FX rate. Deal values reflect the full transaction value and not attributed value.

⁸ Dealogic, April – June 2018 (by value and volume).

⁹ Dealogic, April – June 2018 (by value).

¹⁰ Inframotion, 1H CY18 (by deal count).

Mr Warne advised that Patricia Cross will be retiring as a Non-Executive Director of Macquarie Group Limited and Macquarie Bank Limited after five years on the Board, effective after today's Annual General Meetings. Mr Warne said: "Mrs Cross' extensive experience in wholesale and retail banking, international capital markets, financial risk management and treasury as well as considerable experience as a company director of financial and wealth management corporations has been invaluable to the Board. The Board thanks Patricia for her dedicated service and wishes her well for the future."

Mr Warne closed his remarks by commenting on the activities of Macquarie 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 \$A330 million since its establishment in 1985."

"In the year to 31 March 2018, the Foundation and Macquarie staff globally contributed \$A28.3 million in donations to more than 1,500 community organisations around the world. In addition, staff gave over 60,000 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 2018 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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