TRANSCRIPT

MACQUARIE GROUP LIMITED RESULT ANNOUNCEMENT

FOR THE FULL YEAR ENDED 31 MARCH 2017

5 MAY 2017

[START OF TRANSCRIPT]

Karen Khadi: Good morning everyone and welcome to Macquarie Group's 2017 full year result announcement. I'm Karen Khadi, Head of Investor Relations. Before we get started can I kindly please ask that you check that your phones are either switched off or placed on silent.

In the audience today we have with us institutional investors and analysts, teleconference participants including members of the press and webcast viewers.

Today you will hear from Nicholas Moore, Chief Executive Officer and Managing Director of Macquarie Group. Nicholas will present highlights of the results, activity and initiatives across each of our five operating groups and also discuss outlook for the year ahead. You will also hear from Patrick, our Chief Financial Officer, who will take you through these results in further detail.

Following their presentations we will open the floor to questions. Joining us today in the front row we have some of the Macquarie senior management team, including some of the operating group heads. On arrival this morning you should have all received a pack containing the documents that we lodged with the Australian Securities Exchange. Included in that will be the presentation that we'll be taking you through. Our aim is to finish this morning's briefing by 12 and so with now formalities out of the way I'd like to hand you over to Nicholas. Thank you.

Nicholas Moore: Well thank you everybody and I'd like to add my welcome to Karen’s. It's great to see so many people here today following our results and to see so many people have been following our results for many years indeed. The presentation today will cover a similar sort of format that you've become familiar with. As usual we start with a description of the five different businesses at Macquarie, which you can see on the slide at the moment. This year we've actually changed it slightly in terms of actually colour coding the different businesses, so you'll see the blue for the annuity businesses and the grey for the capital market facing businesses. That is reflected through the annual report. You will see we've also upgraded that in terms of presentation skills.

Turning to the result for the second half which you will have seen already, $A1,167 million up on where we were in the first half of the year. The drivers for that you can see in this summary. Operating income down 1% but costs actually down 6% resulting in operating profit before tax up 9% to $A1,619 million. The tax rate down 2% on the first half resulting in the profit for the six month period being up 11% on where it was in the first half. The annualised return on equity was 15.8% just for that six month period. The basic earnings per share of $A3.46, up 11% and ordinary dividends per share of $A2.80, up 47% on the interim dividend we earned in the first half of the year.

In terms of the drivers for that result half on half this is a summary of some of the indicators, some of the factors, that impacted on the five different business groups. Overall you see the annuity-style businesses were down a little bit on the first half, down 2%, but remember there were a number of one-off items in the first half including the realisations that took place in MAM and the sale of the life insurance business - pardon me, in Banking and Financial Services that obviously weren't repeated in the second half. From a CAF viewpoint obviously we continue to see good performance flowing through.

Capital markets facing businesses are up on the first half. Often have a stronger second half than the first half in the capital markets facing businesses so that shouldn't be a surprise.

Now turning to the full year result, $A2,217 million, up 7.5% on where we were this time last year. The drivers for that result, you will see the operating income up 2%, expenses are up 2% as well but of course because of the operating leverage in the business we see the actual profit up 3%. Tax expense down. The effective tax rate of 28.1% when you look at it, and Patrick will go into more detail, it's sort of weighted average on where we carry on business around the world, which resulted in the profit to shareholders as I said of $A2,217 million. That resulted in a return of equity for our shareholders for the full year of 15.2%. Earnings per share for the full year of $A6.58 and ordinary dividends per share of $A4.70, up 18% on where we were at this time last year.

This next chart shows how the different businesses compare year on year and reflects the factors that we've been providing to investors over the year, and we've actually used the same sort of language as we've used during the year so you can easily reconcile them. Big picture from annuity-style business, you can see they're up 4% on where they were in the prior year. In terms of the composition are largely in line with expectations.

With MAM a little bit down on where it was last year but as you know last year we received very substantial performance fees in MAM of $A693 million. Now we did receive performance fees this year of about $A260 million but obviously down more than $A400 million on where they were in the prior year.

CAF, you can see it up and you'd expect it to be up obviously with the acquisitions we made with the aircraft portfolio and Esanda. Banking Financial Services are up obviously with the sale of the Life business, but more importantly the underlying drivers of that business Patrick is going to detail, delivering an extra $A114 million in terms of base earnings for that business.

Capital markets facing businesses are up 12% on where they were this time last year. Impairments obviously play a feature in both the Commodities and Global Markets and the Macquarie Capital businesses, as well as good customer flows are coming through in both of those different businesses.

This is a comparison of the Group over the last five years and you can see the graphs all moving in the right direction in terms of operating income, in terms of profit, in terms of earning per share and dividends per share. In terms of the mix between the annuity-style businesses and the capital markets facing businesses, this shows the most recent evolution over the last five years. You can see obviously good strong growth happening in both of those. Strong growth obviously in the blue bars, the annuity businesses, but increasingly in the grey bars at the bottom in the capital markets facing businesses in the last while.

Assets under management came in at about this $A500 billion number in terms of overall size. You can see there though a change in composition. So the dark blue on the chart for March 2017, that's our fixed income assets under management, you can see they have come down from where they were in March 2016 as a result of some contracts rolling off there. On top of that you can see the step up in terms of the infrastructure assets under management stepping up. That combined with movements in markets and in foreign exchange meant the underlying number largely stayed consistent with where we had been the prior year.

We were carrying on business around the world. You see Australia of course, our most important place of business, 37% of our total income and almost half our staff based here in Australia. The America is down a little bit on where it's been in prior years to 27% of the total. Europe consistent at 24% and Asia largely consistent at 12%. Obviously a lot more staff in Asia than the income because we use a lot of people in the region to support our global operations around the world.

In terms of the change and mix of businesses over the year, you can see the ongoing growth in Australia taking place. That's reflecting the growth that's taken place in Banking and Financial Services, as well as the growth that's taken place in CAF, particularly with the Esanda acquisition.

In Asia you can see growth coming through but you can see that the strong market conditions we had in the year before last wasn't repeated last year. America, a good long term growth happening but obviously we didn't have the weather condition and the sale of the assets that we saw in America a few years ago. In Europe you can see that ongoing growth taking place across a range of different businesses.

Now turning to the five different businesses, starting with the annuity-style businesses, starting with MAM which is our largest group as you can see there, about 33% of the Group's total. As I mentioned before, it's actually down 6% in terms of profit on where we were last year, but as I mentioned the big driver for that is the lower performance fees. So performance fees as I mentioned before last year I think was $A693 million and they've come down to a bit over $A260 million year on year, so a $A400 million step down in performance fees so a very good result.

In terms of the different divisions within MAM, starting with the Macquarie Infrastructure and Real Assets group. You can see there the equity under management is up to $A77 billion, up 16% on where we were which of course is a very big step up year on year basis. You can see the driver for that, more than $A15 billion worth of new equity being raised. Perhaps more importantly, our $A13.7 billion worth of equity being deployed in a range of assets across a range of different industries. You can see listed here not just infrastructure, but of course real estate and agriculture in Australia and Brazil.

We actually free up equity as well in terms of selling assets and returning the cash to investors. $A3.4 billion went back to investors. Obviously we outperform benchmarks and you can see that through the performance fee here of $A254 million being earned. As well as that in MIRA we had principal gains, particularly in the first half you will recall, from MQA and MIC and APTT in the second half. At the end of the year we ended up with about $A10.2 billion of equity of deploy and again we've been named as the infrastructure manager of the year, recognising the very strong global position we have in this business.

In terms of our MIM business, overall you see the assets under management are down 5% as a result of those fixed income mandates I mentioned before rolling off. Notwithstanding that, a very strong asset performance in a whole range of categories including equities here in Australia which contributed to the overall fund manager of the year ranking here in Australia that you've probably seen.

Distribution continues to be a highlight. Obviously the strategy of the business is to get the best asset managers in the world and be able to distribute those asset management mandates around the world and that continues to roll through successfully. Our smallest group in MAM, the Specialised Investment Solutions, we continue to highlight the growth taking place in the infrastructure debt capability based in Europe. You can see the commitments there now, $A6.5 billion with about $A4.5 billion of that actually invested, so a good year for MAM.

Now turning to CAF, 25% of the Group's contribution. You can see the profit contribution up to $A1,198 million, up 6% on where we were last year. Of course a driver for that, you'd expect it to be up with the acquisition that we made with Esanda and AWAS. We've seen the full year contribution of those acquisitions flow through to the bottom line. Asset finance, you see the book at year end is largely consistent with where we were last year, but remember we've had the benefit of the full year of those coming through.

In terms of movement in the book you can see the aircraft portfolio has stepped down slightly during the year, down 4%. Remember we have depreciation in these books so it will always be stepping down unless we're buying aircraft. Indeed we actually sold a few aircraft during the year so the fact that the book remained constant meant that the other books stepped up to actually fill that gap.

From a lending view point you can see a good realisations taking place, driving profitability, particularly with these toll ways and infrastructure loans that CAF has made. Good activity in terms of new money out the door. You can see almost $A2 billion of additions to the portfolio. Notwithstanding that the underlying portfolio came down in size, $A6.8 billion, down 28% in terms of reduction, in terms of what took place - pardon me - over the year as a result of the change of mix of the business that continues to take place within the lending book. Asset quality in the lending book continues to remain strong and the portfolio continues to deliver very good returns to the Group.

Now turning to our last annuity-style business, our Banking and Financial Services Group, about 11% of the Group's contribution and you can see a very, very big step-up here, up 47% on where we were this time last year to $A513 million. A very good result.

As I mentioned before, part of that comes from the sale of the Life business to Zurich Australia that took place in the first half, but as well as that we see the very strong growth taking place across the business which, as I mentioned, and Patrick will detail, I think totalled about $A114 million step-up in underlying earnings during the year.

You can see where it's coming from and we've seen these slides before; that business banking continues to grow the deposits we have and the lending we have, so deposits up 16%, lending up 10% there.

From a Wealth Management viewpoint, the platform up 24% to $A72 billion, and we think it's probably the second-largest Wrap platform in the country.

Mortgages continue to grow, a more modest 1% than we've seen in recent years, but of course the growth that we've seen of that mortgage book in recent years is part of the reason we're seeing the step-up in underlying earnings coming through. So a very good result for Banking and Financial Services.

Now turning to the capital markets facing businesses, both of these businesses as we mentioned would benefit from lower impairments this year and we've seen that actually flow through.

Starting with Commodities and Global Markets, you'll recall during the year we incorporated our Securities Group into Commodities and Global Markets, and we think we're delivering a very good result for customers being able to deliver more products to the same customers, and actually doing it more effectively from a Macquarie viewpoint.

So we've combined Securities into this Group and overall the Group, as you can see, has had a step-up in net profit contribution, up 15% on where we were last year to $A971 million.

In terms of the drivers of that result, Commodities of course continues to be the key driver; 64% of the Group is in commodities and Energy Markets is the largest single Commodities Group.

In terms of what happened in Energy Markets, you can see good performances coming out of oil and gas. The mixed results due to subdued volatility in terms of power in North America.

As well as that in Energy, we have some realisations taking place and we continue to maintain a strong market share. We also call out here the acquisition of Cargill's petroleum business, which we think will contribute to the results for the Group in years to come.

The Metals, Mining and Agricultural Group, you can see a bit of a mixed result coming out the metals side. The base metals are subdued but the precious metals are actually more volatile driving greater hedging volumes.

The Financial Markets Group - 30% from that Group. We saw a better year this year particularly in terms of our FIC business. Our FIC business did well and we actually call out here the success of foreign exchange in places like the United States and Japan. Credit markets had an improved result this year on where they were last year.

The Securities business is down on where it was last year. You'll recall last year we had a very strong year with that intense activity in Asia at the beginning of the year particularly in China. We didn't think that would be repeated and it wasn't repeated this year, so equities is down on where it was last year.

Futures continues to be a good contributor to the Group with 6% of the Group's contribution.

Now turning to Macquarie Capital, a similar story that we've seen in recent years, but as I mentioned before, impairments are down and as a result of that we see our profit stepping-up by 7% to $A483 million.

In terms of the drivers of the business, Australia and New Zealand obviously very strong market position here in Australia and New Zealand. That strong position being maintained over the period so very pleased with that.

Globally obviously, as Tim's highlighted before, we are very specialised in terms of how we grow the business globally. Strong focus obviously globally in terms of our infrastructure strength. Strong in all the different jurisdictions and obviously as part of that infrastructure strength is our strength in renewables, something we've been investing a lot of time in over many years. At least 10 years we've been involved in this space, and it continues to step-up as the appetite around the world for renewable assets continues to increase in Asia and America and in Europe.

As well as the strength in infrastructure and renewables, we also highlight some of the other specialisations including real estate and TMET around the globe.

Now on the renewables topic, obviously after the year end we announced the acquisition of the Green Investment Bank that was led by Macquarie Capital. You can see in terms of where that business is going, it actually will be split between Macquarie Capital in terms of the people who are working on developing our transactions and projects around the United Kingdom. As well as that we've got existing assets under management which are being managed by MIRA.

So you can see there MIRA has about $A4 billion - £4 billion I should say - of assets under management coming on to its platforms. You see the different funds there and you see the different investors who have stepped up there.

On the left hand side you can see what Macquarie Capital in Europe is looking like, with over 100 people with very strong green development credentials working on a range of projects across the UK and indeed across the globe. We're targeting to have £3 billion of investment over the next three years and there's a strong pipeline that suggests we'll be able to achieve that. On the right hand side, a map of the UK with some of the projects listed there.

Now turning to the balance sheet, obviously all these five businesses are underpinned by a very strong balance sheet. It's been a longstanding characteristic of Macquarie, and the underlying themes behind our balance sheet remain consistent this year.

The overall size has shrunk a little bit on where we were this time last year, but that's as a result of fewer trading activities just at the moment in terms of 31 March.

In terms of the shape though you can see the blue at the bottom, the darker blue colours, which is our term funding, more than offsetting our term assets.

In terms of customer deposits, you can see they continue to step up, up to $A47.8 billion, up almost 10% on where we were last year.

Term funding obviously continues to be an important feature of the balance sheet, and we raised $A10.5 billion of term funding during the period, and we're also very pleased to say we repaid the acquisition debt facilities of $A8.4 billion during the period.

Our capital position, also a feature of our balance sheet. A consistent feature of our balance sheet is our strong capital position and again it has strengthened over the period.

You can in September it was $A5.7 billion on a harmonised basis of surplus capital. You can see how that's stepped up over the period. A hybrid issuance of $A1 billion plus the capital we generated through the earnings, less the interim dividend that we paid resulted in a harmonised Basel III capital surplus for the Group of $A7.4 billion as of 31 March.

In Australia of course we're regulated by APRA. There's the deduction for super equivalent to $A1.9 billion we take off which takes us to $A5.5 billion of APRA surplus as at year end.

Other regulatory ratios that are important, and again very strong position the Group is in compared with those - the bank Group is in compared with those regulatory ratios.

So the CET1 ratio, you can see we're at 11.1% on an APRA basis, 13.3% on a harmonised basis. In terms of our overall leverage ratio requirement of 3%, on an APRA basis we're at 6.4% and a harmonised basis we're at 7.3%.

In terms of our LCR the minimum of course is 100%. We've sat at 168% there so very strong ratios.

The Board declared a dividend, as I mentioned earlier, of $A2.80, 45% franked. That takes our full year dividend to $A4.70, 45% franked. The record date you'll see is 17 May with the payment date 3 July.

The payout ratio is 72% which is within our 60% to 80% band that we give in terms of the payout ratio.

Now I'd like to hand over to Patrick for some more analysis of the result. Thank you.

Patrick Upfold: Well, thank you Nicholas and good morning to everybody here. As per usual I'll take you through the detail of the result, going through each of the business units and just pointing out some highlights here and there.

So let's kick it off with the overall income statement for the Group. Perhaps if I start just with the half-on-half result. You'll see that the second half was stronger than the first half and that was largely on account of lower employment expenses, and that reflected, as you'll see, the lower headcount at the end of the year compared with the start of the year.

The tax rate was down on the first half of the year, and that again really just reflects the geographic mix and the nature of income where that falls, but also we had some lower write-down of tax assets in the second half compared to the first half.

So turning to the overall results, you can see net interest and trading income down for the year. That's reflecting lower volumes in the lending book. Of course we had the AWAS acquisition. That brought with it higher interest expense which goes to that line so that's gone through there as well the full year effect of that.

We've had more subdued trading conditions notably in equities. Nicholas touched on that, but also in the Commodities business given more subdued conditions.

Fee and commission income you can see down on the year there and it's largely in respect of performance fees and we'll highlight that when we get to MAM's result.

As we previously flagged, the impairment expenses, pleasing to see, have come down significantly over the course of the year. Other income you can see is up and I've actually got a slide which I'll take you through that other income item.

Overall for the year employment expense you can see down - sorry - employment expense is slightly up and that's actually just reflecting the average headcount over the course of the year - slightly up from where it was last year, and of course the increased profit that we had and the tax rate down, as I say, largely reflecting that geographic mix of income and where that falls. Contributing to that, a lower level of uncertainties and against that some write-off of some tax assets that I've referred to.

Okay, so I haven't produced this slide before but I thought it was reasonably instructive to put in a waterfall form. What's pleasing here is that of the five business Groups, four of the business Groups are up on their contribution. MAM down and I'll come to MAM in a second.

You can see the corporate contribution is down on where it was last year. So I should highlight that there was some accounting volatility associated with some of the hedging activities that we undertake for which we can't get hedge accounting. So we do get some noise in the corporate P&L.

We had some movement in own creditors as well, some increased employment expenses obviously associated with increased profit and a higher share based payments expense. Obviously you can see the effect of the lower tax rate coming through there.

Okay, so first of the businesses and first of our annuity Groups here, you can see that MAM here has lower performance fees. Last year of course MAM's performance fees were close to $A700 million. Still good performance fees over the course here with a number of funds contributing to that, albeit they were lower than they were in the prior year.

Base fees - I've split this out a little bit here. We had expected that I think at the outset of the year to be up. It's ended up being relatively flat over the course of the year. Actually underlying base fees grew but movement in foreign exchange saw us end up flat when we translated that back to Australian dollars.

We had some gains on sale of some assets and I'll come back to that shortly. A better performance from some of the underlying funds in which we have an investment in. We saw our equity income increase so that's pleasing.

I've provided a little bit more detail on AUM movement. You can see that we ended up relatively flat over the course of the year. I've split it out between the three parts of the MAM business.

You can see MIM here, equity flows over the course of the year ended up relatively flat. We saw outflows in the first part of the year as we saw that volatility in the market, and we managed to see flows come back in. As I said, we ended up relatively flat over the course of the year.

Fixed income was down for the year and that really is largely reflective of client repositioning in respect of insurance assets, which I should say are low margin assets for us. Then we had some favourable market movements for that business.

I'll skip over to MSIS there which is the debt infrastructure fund which we've spoken about quite a bit. We're seeing some great flows into that financially, $A2 billion coming into that fund. In MIRA, they're up $A18 billion and I'll actually go into the EUM on that business shortly. So we've ended up, as you can see, relatively flat over the course of the year.

Now we look at EUM for MIRA because that's the basis upon which we get our base fees. This is a really pleasing slide to look at. You can see the capital raised over the course of the year of just over $A15 billion. A number of initiatives across the globe have been very well supported by our investors.

Some positive listed price movements there have contributed to that. Of course as some assets are realised out and sometimes coming towards the end of their life, we're returning capital to our investors and you can see the effect of that there.

You can see FX, which is largely pound and euro related having an adverse effect on the total amount of EUM under management. Still up at a very healthy growth rate, up there at $A77 billion. As Nicholas said, there's just over $A10 billion of unspent fire power which positions us very well for the future.

Okay, so in Corporate and Asset Finance, you can see the full year effect of the AWAS and Esanda acquisitions here. Contributing approximately $A200 million in step up in income for the year. Both those acquisitions have been seamlessly integrated and they're performing as we expected at the time of the acquisitions. That's really pleasing and a credit to the business.

I think we'd also flagged that we expected CAF to experience lower impairments and that is indeed what has happened over the course of the year. So you can see impairments down. Then I've highlighted here just the impact of the lower volumes in the Lending book. So you've got lower interest income. You can see that coming through there.

We do have assets denominated in pounds. This is in relation to our energy assets and also in relation to some of our transportation assets, and part of the lending book was also denominated in pounds. And as the Aussie dollar strengthened against that, that's had an FX effect so I've highlighted that out there for you. So you can see the Group has ended up just shy of $A1.2 billion for the year.

Banking and Financial Services. You can see - this slide is probably familiar to you in terms of the way it looks from the half. It hasn't really changed that much. The main area of change is in business growth which I'll come to in a second.

We did have those disposals of the Life business and also the US mortgage business in the first half of the year. That had an approximately $A200 million effect on the business. But we also had some changes to the way in which we capitalise the software which I went through in quite some detail at the first half of the year. You can see the effect of that coming through there at $A52 million, change in that approach. You can also see the increased other impairments. A large part of that related to some software that we had capitalised and ultimately, we've ended up impairing that software.

You can see the business growth there, $A114 million coming through. That's reflective of the increased volumes really across the - average volumes across the platform. Nicholas has gone through a number of those already so I won't go through them. But also expanding margin on a number of those products contributing to that uplift in the result there. So that's pleasing to see.

Okay, the first of our markets facing businesses, Commodities and Global Markets group. Of course late last year we merged our old Macquarie Securities Group with what was then called CFM, Commodities and Financial Markets, to form this new group. So we're presenting the slide on the basis of that merger.

Now, the thing that stands out when you look at the waterfall here is the sharp decline in impairments, down almost $A200 million. That was something that we foreshadowed at the start of the year and is reflective of the fact that the areas where we've had some difficulty in the old Metals and Energy Capital book.

The level of the loans and equity positions have come down quite significantly. Improved market conditions actually provide an opportunity for the business unit to realise out to some investments. I'll speak about those actually in a couple of slides time. So that's pleasing to see.

On the trading side, let's go through the trading result here. You can see the commodities business here. It's still a strong result for the commodities business, albeit that it was down over the course of last year in that we experienced more subdued market conditions and that flowed into lower levels of client flow and therefore there were fewer trading opportunities.

Pleasingly, what we did see was a pick up on the interest rate, FX and credit side. So the volatility that was experienced in those markets, we did see increased client flow and trading, and you can see the benefit of that there. Also contributing to that was just improved conditions and high yield market. We were able to capitalise on that as well.

Now I've spoken in the past about the very strong first half of FY16 that the equities business had, really as a result of activity in and around China. That all came to an end in August 2016 and hasn't been repeated. So you can see the result there, down significantly in where it was for FY16.

Lower fee and commission income, more subdued conditions in the equities market. Offset by an improvement in our Futures business which has been going very well. We did transfer a 25% interest that CFM had within the debt capital markets business. That's gone into the MacCap results. That's had a bit of a bearing there.

Then you can see lower costs coming through as a number of cost initiatives have been in place and we're realising those efficiencies through the P&L you can see today. So that's pleasing to see.

Okay, turning to the last of our groups which is MacCap. A result which is up on where it was last year. Again, lower impairments a feature of the result today. We'd flagged that earlier on in the year.

You can see that there's lower investment-related income there. The pipeline of transactions for these businesses is very strong, so I think that's more reflective of just the timing, more the timing of transactions than anything else.

M&A fee income picked up over the course of the year. We saw really good results coming through in the European and North American business and they offset subdued conditions which we experienced here in the Australian market. You can see the additional impact of the subdued conditions in the Australian market with the lower ECM fee income coming through there.

ECM income, largely out of the US, very strong business for us there, that's really pleasing to see that that's picked up, but also just taking into account that part of that business is transferred from CGM into MacCap at the start of the year.

Now I've talked in each of the groups, I've touched in each of the groups, about other income. It is a strong feature of our result this year, but it is also a continual feature of our results. Each of the business groups there, bar I think BFS, you can expect to see income in this other income item, and essentially it's relating to equity and similar investments that we make within these groups and we've realised out those positions.

So you can see the step up: in MAM there's $A215 million step up in MAM. What does MAM do? Well MAM invests in assets or invests alongside our clients within funds, and so that's just a natural part of its business, and more often than not - certainly for some funds - that we have taken our performance fees in the form of stock, showing our alignment with our fund investors and at some point in time we do realise out those performance fees that we're holding in stock. And indeed that was the case this year with MQA and MIC, so you can expect to see that on a reasonably regular basis.

CAF, different story. CAF, particularly through the lending business, will acquire positions, maybe directly or through distressed debt for example, and they may end up holding assets and those assets ultimately will be realised out and that is indeed what they've done over the course of the year.

BFS I've explained really relating to that sale of those two businesses.

CGM, we've had a few impairments in CGM over the year, so perhaps you need to go back in your memory a little bit further, but CGM has successfully, over a number of years, invested alongside its clients in their activities to help those clients get their transactions done, and do hold equity positions and various debt positions and realise those out. It's pleasing to see it's a realised amount on a profitable basis this year.

MacCap down there for the year, but that is part and parcel of what MacCap does, and that is investing alongside its clients to make things happen.

You can see Corporate there, result in Corporate. We do sometimes get some accounting results where we end up booking the profit into the Corporate centre. The business unit may take a more conservative position and then, once the business realises out the assets, we then transfer those profits out of the business unit when that occurs. So that's really what's occurred throughout the course of this year.

OK, to impairment expenses. I think I've really covered off those. All groups have experienced a decline in impairments, which is really pleasing to see. And BFS did experience a run against having an increase in its impairments over the course of the year. They're not credit-related. As I said, it related to some equity investments held by that group, but also the Core Banking program and some write-offs that we took in the first half of the year, which I think we've covered.

You've seen this slide before: compliance. I won't go through it in any detail. Needless to say, compliance is a very significant part of our overall spend. The project work has come off somewhat over the course of the year, but what we find with projects is, once you build it, it needs to be maintained. We really don't see that significant decline in cost once projects are completed; they tend to fall into the business as usual category, and indeed that's what you're seeing coming through there.

Nicholas has touched on the balance sheet. I'll just highlight - I'll highlight two things: I'll highlight the repayment of the acquisition facilities. There's $A8.4 billion of acquisition facilities that we've repaid over the course of the year. Of course that relates to Esanda and AWAS. What is demonstrates - I think the Esanda transaction was repaid within six months - I've got Stuart Green over there - within about six months of acquisition. The one: it reflects our very longstanding position of liquidity, holding very expedient of liquidity. The two: also just the very good access that we have to funding markets around the world that have enabled us to get those facilities repaid very, very quickly.

The other thing I'd highlight there is the loan capital. You can see that our total capital has gone up over the course of the last six months. A large reason for that is we went out in March and did an inaugural 144A hybrid capital issuance out of the Bank, which was called the MACS: Macquarie Additional Capital Securities, or MACS. That was very, very successful for us: we were underweight in our hybrid capital. We went out into the market, pricing looked reasonably good for us. We did a $AUS750 million deal. We had $A12 billion worth of appetite for that particular transaction, so it was very pleasing to get that transaction done.

You've seen this before - I do like to look at it and highlight it to you because it really just does reflect what I've said about our very diversified issuance strategy in terms of our tenor and type. Very good access to the market. You can see that we've maintained our 4.5 year weighted average term to maturity through the issuance that we've done over the course of the year and you can see that we've got a very good maturity profile over the coming years so that's really pleasing and positions us really well going forward.

Great story for Greg Ward and the team, this continued growth in the deposits. Deposits are very, very important to us. They're 40% of our funded balance sheet today and this year was no exception in terms of the performance of the products that we offer to our clients. You saw the growth there, it was almost 10% growth in those deposits over the course of the year.

Turning now towards the loan and lease portfolio. This is on our funded balance sheet. This is what we actually fund so we've done some netting down to show how I think about things. I'll make a few observations around it. First, you can see the lending book which is largely funded on balance sheet. You can see the decrease in the lending book there from $A9 billion to $A6.6 billion.

Then you can see the - just jumping down to BFS there - you can see the Australian mortgages up from $A21.6 billion to $A24 billion. We just talked about the deposits going up. We're utilising those deposits rather than utilising the securitisation market. So we're putting more of our security - our mortgages on our balance sheet. At the same time what we're seeing, what we've had, we had Greg - BFS sell the US mortgages business, that was pleasing to see. Then our Canadian legacy business, that is running off very, very rapidly and you can see that's rundown. Potentially that balance there is the residual balance of the Canadian mortgage business that we've had there. You can see the growth in business banking come through there.

Resources and commodities, I refer to some of the reduction in the loan balances in MEC portfolio and you can see that coming through in that line there. That's meant our loans and assets on our balance sheet have decreased somewhat.

Notwithstanding all the investments that we have, each of the Groups have realised over the course of the year, they've been able to find new investments to put on the balance sheet. So you can see that over the course of the year we've remained exactly flat in terms of the equity investments on the balance sheet. Worth highlighting that almost half of the investments that we do have on the balance sheet do relate to fund investments that Macquarie manages.

So now turning to a regulatory update, so-called Basel IV initiative seems to have been or there has been delay. It's very unclear as to when the timing of that and so we wait with anticipation for the Basel committee to provide clearer guidance for us on that. Also there's been a delay in a number of other regulatory initiatives.

APRA has delayed the implementation of the new standardised approach from measuring counterparty credit risk. That can be delayed until at least January 2019. There's a consultation process that we will have to go through sometime over the course of this year and next. They also announced that - APRA also announced that it doesn't expect to finalise its new market standard risk. This is the review of the risk in the trading book until at least 2020 and the implementation date is at least 2021. So some time away yet.

Also, you can read a lot about the Financial System Inquiry recommendation about ADI capital ratios being unquestionably strong and of course we're all waiting for APRA to provide more guidance around their interpretation of what that means and we expect to see that some time over the next couple of months. The Net Stable Funding Ratio, the rules have been finalised with some calibration and interpretation that needs to be completed. Based on our best understanding of how APRA intends to apply those rules we safely - we comfortably exceed that 100% NSFR requirement which is pleasing.

This is the CET1 version of the slide that Nicholas put up. You can see the movement in CET1. We've gone from 12.6% at the half-year result up to 13.3% on a harmonised basis. That's the way I prefer to look at our relative strength to our capital ratios. Even after allowing for APRA's super equivalence market leading really at 11.1%. So we feel really well positioned certainly within the Bank and the Group more broadly in terms of capital.

No surprises when you look at the slide here. Nicholas has highlighted the strong LCR position 168% at March quarter. I'll highlight the unencumbered liquid asset portfolio. We've always maintained high levels of cash and liquids on our balance sheet. This year is no exception and you can see the level that we're holding there very, very healthy indeed.

So I'll just go through a couple of the - just to finalise on a couple of capital management initiatives. The first is that of course we part have of the staff's profit share invested in stock, so-called MEREP. This year the Board has resolved to purchase MEREP on-market. No surprises there. The amount that they'll be purchased - we'll have to purchase about $A378 million and we've got a buying period you can see there between the middle of May and early July.

You'll recall that last year we implemented a share sale agreement facility for staff. We brought forward the vesting period for staff for their shares which vested after the AGM. We bought that forward in May and what you now have is the trust, staff selling into this facility and the trust buying out of that facility. All that transaction occurs completely off market and the price is referenced by whatever the daily VWAP is on the particular day that staff sell their shares and the trust acquires those shares.

Then you've got the DRP, the DRP no surprise again, no discount will be offered on that and to the extent that shareholders do take that up we'll be acquiring those DRP on-market. I've mentioned the MACS, part of the reason for issuing the MACS was that we intended to buyback another hybrid security which was a transitional Basel III hybrid security called the ECS. It's about $AUS250 million so we're announcing today that we'll be implementing a buyback of that. There's a process that we go through, it's through a resale agreement to a third party financial institution and from them we will repurchase the ECS immediately so there will be no issuance of any NBL shares. Those holders who are listening or who are here of ECS, you can expect a resale notice shortly. So with that, I'll hand back to Nicholas for the outlook.

Nicholas Moore: Thank you Patrick and as usual our outlook will be split between two different presentations, one of which is dealing with this short-term outlook and from a short-term outlook we build it up in respect to the five different businesses that we have within Macquarie. We're not actually providing five different forecasts but we're actually showing the factors that will be impacting upon their performance for the year ahead. As you know, consistent with last year, we'll keep this updated as the year progressed.

So in starting with MAM, we see base fees to be broadly in line with where they were last year. This may sound conservative but it's reflective of the fact that some of the infrastructure assets will be rolling off during the year. Performance fees and investment-related income we think will be consistent with where we were last year. From a CAF viewpoint, we note that the leasing volumes we think will be broadly in line. We note the reduced book from a lending viewpoint but from a lending viewpoint the profitability will be very much determined by the timing and the level of the early prepayments and realisation.

For Banking and Financial Services, we've obviously seen good growth over the years. That growth results in profitability in the current year. As well as that, we expect to see growth to continue. Now importantly, we did have a one-off gain in Banking and Financial Services with the sale of a Life business we don't expect to be repeated.

In terms of the capital markets facing businesses, obviously their result will be very impacted by the markets they experience. Obviously, they're benign markets at the moment, they're good markets at the moment and at the moment we're assuming those markets will continue. From a MacCap viewpoint, we see a solid pipeline of realisation is expected. We have good market positions in Macquarie Capital and of course in Commodities and Global Markets we also have very strong market positions and we're seeing good customer flows come through. The Cargill acquisition we note but we also note that it's not expected to have a material acquisition for commodities during the current year.

Adding all that together, we think broadly speaking, the contribution of the operating groups will be broadly in line with where we were last year. Again, we expect the tax rate to be broadly in line with where we were last year. Now the tax rate is of course very dependent upon a number of features including where we derive the income around the world. If that changes, obviously, it will have an impact in terms of the tax rate.

Now any outlook - so when we bring the tax rate broadly in line together with the operating groups broadly in line, overall we think the year will be broadly in line this year with where we were last year. Now that outlook of course is subject to the usual caveats about things we can't control such as market circumstances, foreign exchange and of course regularly or tax changes.

In terms of the medium-term which of course we're all very much focused on at Macquarie, we continue to be very confident in the medium-term outlook for the Group. Based upon the deep expertise we have in all the markets we're operating in around the world. We can see that the annuity-style businesses today in terms of the success of those businesses in recent years and we can also see that in the capital markets facing businesses. The way that they're responding to improved market conditions.

We're seeing the ongoing benefit of course of cost initiatives in the result this year as we have in recent years. Of course, we always are underpinned by a very, very strong and conservative balance sheet. As Patrick's just emphasised, it's never been in a strong position as it is today. Most importantly, all the businesses are underpinned by a very strong and proven risk management framework that continues to drive the profitability going forward.

My final slide details where we have our capital invested across the Group, $A18.7 billion of capital including the ordinary capital and the hybrid capital. You can see we have it in in the annuity-style businesses, $A8.3 billion producing a return for shareholders of about 22%. That's above the average we've seen over the last 11 years. Capital markets facing businesses have about $A4.6 billion worth of capital. Last year produced a return of about 15%. That's towards the lower end of the range in terms of what we've seen over the last 11 years. With that, I'll hand over to Karen who will take questions. Thank you.

Karen Khadi: Thanks Nicholas. We'll now open the floor for questions. We'll take questions from the floor and then take some from the teleconference line. So those here in the audience that do want to ask a question, if you could please wait for a microphone attendant before proceeding. Just before we get started, just want to remind that this is a briefing for the investment community. We will not be taking questions from the media because we've got a separate briefing for them later today. So we'll just start with a question in the front thank you.

Simon Fitzgerald: (Simon Fitzgerald, Evans and Partners) Good morning. Simon Fitzgerald here from Evans and Partners. Two questions here, just firstly in regards to the traditional investment management business. Noting that AUM was down 5%, just wondering how you might be positioning that business given the migration of assets from active to passive and maybe you can also make a comment just quickly on the revenue effect given the majority of those outflows were from fixed income products.

Nicholas Moore: Yes sure. Okay, that's a good question. In fact, I can hand over to Shemara, we've had a lot of chats as you can guess around these issues over the years and so Shemara is probably best-placed to talk about it. So Shemara I think if you pick that up, that's the impact on MIM. If we could have a microphone to Shemara.

Karen Khadi: Could we please have the microphone, thank you.

Nicholas Moore: That's the impact of the movement from active to passive globally and what impact that's going to have on our bottom line.

Shemara Wikramanayake: Yes, I think if I start with - you asked a question about the fixed income outflows and impact of base fees from that this year, that was as Patrick said, mostly in our insurance assets which are very low margin so the impact on fees from that was muted by the fact that it was low fee. In terms of active to passive, yes there has been a rotation from active to passive across the industry. At this stage because we're actually a small manager by, 0.5% of the US market, our flows are being impacted more by things like how our specific strategies are performing as active managers and are we taking share or losing it to other actives. So that's probably driving our flows more and then the risk on/risk off. So we saw people rotate away from fixed income in retail markets and more to equities. So our flows ended up more to equities and fixed income. And as Patrick said as well, outflow in the first half, inflow in the second. I know macro, at the industry level, there’s a lot of flow from active to passive and also from active to active. The flow intra-active is greater than the flow from active to passive.

The only other comment I’d make is the flows away from active have been in more, what they call active-core, but less tracking error funds, less high conviction products. We tend to be at the very active level, and it’s really those lower tracking-error, lower alpha-generating funds that are having money move over to passive. So at this stage, whilst it’s an industry trend, we’re not seeing it specifically impact us, but we note it as an industry trend and we’re aware of it.

Karen Khadi: We'll just take a question from Morgan Stanley's Richard Wiles.

Richard Wiles: (Richard Wiles, Morgan Stanley) Good morning, Richard Wiles, Morgan Stanley. Your ROE slide shows that you're 22% in the annuity-style businesses and they're 70% of the group. And yet, because you're carrying $A5.5 billion of surplus capital, the group ROE is only 15%.

Nicholas Moore: A little bit over, Richard.

Richard Wiles: (Richard Wiles, Morgan Stanley) Okay. In this half, that capital surplus went up from $A3.7 billion. You'd said that you were only going to buy back $AUS250 million of hybrids, so it's a very, very strong capital position. Your leasing, or your lending portfolio is falling. Acquisitions by GIB are funded with partners. I mean, what are you going to do with all this capital in order to drive up the group ROE?

Nicholas Moore: No, it's a good question, and obviously every year we sit down and we have a good, strong surplus capital position. And as you know, what we've said over many years is that we want to have a strong capital position so we can actually assure ourselves of the ability to grow when we see opportunities across the business. And plainly in recent years, we've seen a lot of opportunities to grow, mostly organically, but there has been the odd acquisition that's had an impact.

So I think we are well-positioned, as you quite rightly say, with that strong capital position and indeed a strong funding position to respond to market opportunities. Now at this stage, we're not calling any particular market opportunities. We know all the businesses are looking at how they can be growing their business. Simple point though of course, from a capital markets facing business, you can see in terms of the mix between annuity and capital market, how the capital market businesses have been stepping up in recent times. And stepping up obviously because the market conditions have improved. Now if those businesses continue to step up, as you say things like Green Investment Bank and other opportunities will inevitably arise, so we are able to respond if the market conditions are there.

Similarly, if you look at what Greg is doing in Banking and Financial Services, that's ongoing growth taking place. So if you look at all those metrics that we talk about in these presentations on a regular basis, they of course need capital to continue to support them.

So many, from a MIRA viewpoint, coming back to that – even though we might see the insurance businesses, Shemara saying, step down a little bit, we are continuing to grow the MIRA funds, there's a whole range of initiatives at the moment underway in MIRA where they're raising capital. Now, as you know, what we tend to do is we put capital alongside our investors. When we do invest in the MIRA funds the same as we do in Macquarie Capital, and the same as we do across a range of our different businesses.

So we are aware of the capital position. As I said, it's a consistent Macquarie story that you've become familiar with. The good thing is that we've been able to find ways, historically, to deploy that in a very effective way.

Karen Khadi: We'll take one more question from the floor before going to the line.

John Mott: (John Mott, UBS) Thanks, it's John Mott from UBS. On slide 36, which goes through the other income that Patrick was running through, you can see obviously a very big jump this year. Last year when we were here, you called out that there were going to be a lot more gains from sale realisations coming through, and also, a lot of non-repeat of some of the write-downs, and that's come through.

Can you give us an indication on where you feel this number should come out over the next 12 months, given the outlook for realisations in your pipeline? Obviously, you've called out investment banking gains coming through. And should we be looking somewhere closer to FY16 as a better base, given the great outcome you had in 2017.

Nicholas Moore: Yeah, that's a good question. So you're quite right that from an investment banking viewpoint, from a MacCap viewpoint, we have actually called out principle gains for the year to come. And we're feeling comfortable about those, a lot of those have been written about in the media so you'll be familiar with a number of them. And they are interesting and we feel confident about that happening, subject to the market of course. As well as that, we've called out from a MIRA viewpoint, we've said that we've seen good capital realisations historically and again, we expect to see those in the year to come.

So they're two categories where we're actually highlighting where we expect to see realisations to come in the forthcoming 12 months. As well as that of course, in the lending book we are consistently seeing good results coming through. We say the final result for CAF will be dependent on the timing and the amount of those realisations, but we have seen those on a consistent basis in recent times. So if you think about MacCap, if you think about the MIRA business and if you think about the lending book, all of those should be giving rise to some realisations during the year. Now what else will happen? I don't think we're making a statement at this time.

John Mott: (John Mott, UBS) So we shouldn't be using the FY17 obviously. A big number, $A1.55 billion is the starting point and obviously you've highlighted a few gains coming through. But will those gains that you've highlighted in MacCap, MIRA and lending be enough to offset?

Nicholas Moore: Well we're not giving that precise guidance. We're just pointing people to where they are. What we like to do is share our view in terms of where we think those gains will come. What ultimately happens of course will be dependent very much on market conditions and how the business is responding to them at the time.

Karen Khadi: We might go to the teleconference line for a question.

Operator: Thank you. The first phone question comes from Frank Podrug from Merrill Lynch. Please go ahead.

Frank Podrug: (Frank Podrug, Merrill Lynch) Good morning all, a couple of questions from me. The first is, can you please talk through the moving pieces of the credit rates and FX trading line in CGM. How much is credit versus rates versus FX? Is there much upside here if you get potentially higher volatility in rates markets as global central banks' policies evolve? Or is it primarily an FX trading business?

Nicholas Moore: Patrick's very keen to answer this one.

Patrick Upfold: It's primarily - Frank, it's primarily arisen within interest rates and FX, in the FX markets, not so much on the credit side of things, albeit that credit performs much better than it did in the previous year. There's various items which have ended up going through that credit trading - sorry, through the interest rate and FX, really, across the globe, whether it's up in Asia. We saw some interesting trades that we were able to do given some of the movement in FX basis, for example, and, as I say, just general interest rate volatility - we've just seen clients want to put on more trades and we've been - we've facilitated that. To the extent that you get more volatility in this space, then we can expect, again, to see an improved - a solid result for this area of the Group.

Frank Podrug: (Frank Podrug, Merrill Lynch) Excellent. Second question: energy reform including less regulation appears a cornerstone of the Trump policy agenda. This also involves speeding up infrastructure approvals. You've seen recent approvals and the appellation take away capacity soar in coming quarters, so what are the threats and opportunities to your US energy trading business from this? I mean does it suppress volatility potentially? On the flip side, does it create more financing and other opportunities?

Nicholas Moore: I think the questions we're generally being asked on the Trump administration for our US business go to tax rate. Obviously, there's a tax reform package of some sort that’s being discussed at the moment between the administration and the congress. That obviously will have the most direct impact in terms of our financial result, if there will be a change.

The second element, of course, is the infrastructure. The President has said he wants to see a trillion dollar infrastructure program. We know that infrastructure takes quite some time to actually flow through to the marketplace, so we'd see that being a more medium- term opportunity rather than a short-term opportunity.

In terms of the energy markets, I don’t think we're seeing - we're expecting to see any major or material impact on the US energy markets in the short to medium term.

Frank Podrug: (Frank Podrug, Merrill Lynch) Thank you. Oh, sorry.

Karen Khadi: Sorry. Go Frank. Probably your last question. That’s okay.

Frank Podrug: (Frank Podrug, Merrill Lynch) Thank you.

Karen Khadi: Okay, might take a question from the floor, just - Brian Johnson.

Brian Johnson: (Brian Johnson, CLSA) Brian Johnson, CLSA. Congratulations on a broadly in line up 7.5% result.

Nicholas Moore: Thanks Brian.

Brian Johnson: (Brian Johnson, CLSA) A few questions. The first one is just on the transfer of the insurance fixed interest money which has been replaced by infrastructure money. Did that happen right at the end of the period or during the period? Do we - because that really is replacing something with a low base fee with a higher one. Was that uplift been realised during this period? Or does it happen in the next period, the margin?

Nicholas Moore: It's more towards the end, obviously. As we said, our outlook for the year to come is actually - and it sounds conservative, but the business has thought about this, is that for base fees to remain constant in terms of where we were this year versus last year, broadly in line.

So, as you say, when you look at those simple numbers - and that is an end of year phenomenon - but as well as that, in the year to come the business is anticipating some of those existing infrastructure assets will be rolling off. As a result of that they’ve put that all into the mix and, actually, it's come up with this outcome that they think base fees we brought in line. Perhaps, Shemara, you'd like to comment on that?

Shemara Wikramanayake: Yes. That’s spot on, Brian, that, basically, in the coming year we expect the fees to be broadly in line because when we were talking about passives earlier, a lot of that money is also flowing away from core active to alternatives, and so MIRA and infrastructure debt funds in MSIS are the beneficiary of those flows, but in this coming year we have quite a lot of realisations happening in the infrastructure fund.

The big first US fund - MIP1 - that was $AUS4 billion, and the big second European fund - MEIF2 - that was €4.6 billion - we'll be realising through this year. Even though we're hoping to raise the double-digit billions that we did last year with our fourth US fund and our second Asian fund coming up, we expect quite a lot of run-off in assets, so that's the big thing that'll probably hold base fees constant through this year. On the flip side - I guess to John's question - we should have more investment income as we realise assets through those funds.

Brian Johnson: (Brian Johnson, CLSA) So the performance fees go up this year?

Shemara Wikramanayake: Performance fees really depend on the vintage of funds. Both of those were the '07 vintages. Even if they get close to their 8% it's unlikely they’ll be 15% funds and generating big performance fees.

We've said in the guidance that we expect performance fees to be broadly in line with the $A250 million, roughly, that MIRA did this year. In a presentation we gave last year, I think we said performance fees typically run at about 50 basis points of EUM through the cycle.

We had a spike year, as Patrick and Nicholas have mentioned, in FY16 where they went up to 1%, close to $A700 million. Next year we're forecasting they’ll be similar to this year and will probably come from all over the place. This year we had bits from Australia, Asia, North America and Europe, and we expect the same in the year ahead.

Brian Johnson: (Brian Johnson, CLSA) Potentially, uplifting in the '19 year as the vintages - as we then roll in to better vintages?

Shemara Wikramanayake: From '19, '20 we'll be having the third European fund - MEIF3 - and the second US fund - MIP2, so we should have better performance fees. It really depends what the environment is like at the time and how we go realising. Those ones, hopefully, will generate fees in those further out years.

Brian Johnson: (Brian Johnson, CLSA) Just a second question: if we have a look on the slides Macquarie have got a reasonable sized housing book, and you say most of it is covered by mortgage insurance. Could we just get a feeling as to whether you've thought or entertained, basically, taking some additional credit protection with respect to the housing book and also with the auto book?

Nicholas Moore: Sure. Well, we spend a lot of time, as you can guess like all financial institutions do, looking at our mortgage exposure and having regard to what's been happening in the Australian property market. Needless to say we think we are very prudently positioned. We think the insurance is part of that prudential positioning, but of course much more importantly is the day-to-day business in terms of how we are writing the business, how we are sizing the business, the constraints that we are putting around the business.

So we do pay it a lot of attention, both inside the business, but also more broadly from a risk view point and all the way to the board. So it is a constant focus. So we feel the mortgage portfolio is well positioned but perhaps Greg, this is something he thinks about and works on a lot of his life. So perhaps Greg would like to make some comments in terms of how the book is positioned and how we think it will fair in the years to come.

Greg Ward: Yeah, quite right Nicholas. We spent a lot of time thinking about the book and we have set our risk tolerances very conservatively, especially in the last few years as we have watched prices increase in certain markets and certain asset types. We do have a substantial amount of mortgage insurance as you know Brian and we have just launched a reinsurance program as well for originations going forward. The portfolio is performing very, very well. About 69% of the portfolio are - the borrowers are at least a month in advance on their repayments and about 40% of borrowers are about 12 months in advance on their repayments.

So the borrowers that we have seem to be in a very strong position and interestingly, even on interest only loans, over half the borrowers are at least a month in advance. So the statistics don't look a lot different even for interest only borrowers. So we're very pleased with the portfolio.

Nicholas Moore: In terms of the leasing book, again we feel - we feel good about the leasing book. Obviously it's grown substantially in size in recent times with the Esanda acquisition. The leasing book contains two broad elements. In the motor vehicle it is the people who own the cars and we are leasing the cars to them, but as well as that, we support the dealers in terms of floor plans and things of that nature.

Now both of those categories of loan have different credit characteristics, but the bulk of it of course being the car leases and they are performing well. We have looked over history in terms of performance of those portfolios and as you know they're very solid. But Garry would sure like to talk about what we are doing from a credit viewpoint with respect to that very large portfolio that we have.

Garry Farrell: Well that is right, thanks Nicholas. There is obviously the dealer facility which is secured principally over cars before the dealers sell them throughout Australia through the dealership networks. That is a corporate credit and we have got obviously strong asset security. We obviously have all the retail leases to consumers and small-medium enterprises in Australia. We run the sensitivities. We've looked at down sides in different markets through the Global Financial Crisis and defaults obviously tick up if you do have a crisis, quite quickly.

The essential thing here is a motor car is an essential asset for most consumers and SMEs in any country and prices bounce back very quickly. So we look at it all the time Brian, but we are very comfortable with it and broadly our losses are tracking in our motor car book in Australia in line with expectations. So we are comfortable with it and we would obviously like to acquire more.

Karen Khadi: We might go to the teleconference line for a question.

Operator: Thank you. Then next phone question comes from Craig Williams from Citi. Please go ahead.

Craig Williams: (Craig Williams, Citi) Yes, good morning. I'd like to ask about the outlook for business growth in the CAF business. You made a couple of material acquisitions a year ago. They don't perhaps quite appear to have delivered the kicker to earnings that it had been enunciated at the time of the acquisition. You have had a good earnings boost instead coming through from the sale of the toll road interest at this half.

Is the key driver for earnings in this division from here continued realisation in Brazil's business do you expect? Can we anticipate continued run off of the core interest and leasing income in the business in the absence of further acquisitions?

Nicholas Moore: Yeah, I'm not sure Craig - we must - there seems to be a bit of a mismatch in the story there. But the earnings have delivered. I think Patrick said that the step up that we expected to see in the acquisitions has actually delivered. You can see that in the - that's actually BFS - you can actually see in Patrick's slide - sorry about this - slide 32, you can see the impact $A192 million from the acquisitions during the year, which is obviously the big step up item from the CAF view point. Do you have that slide in front of you?

Craig Williams: (Craig Williams, Citi) I will locate it quite quickly on my desktop.

Nicholas Moore: Okay, well have a look at that. That actually gives a break up in terms of what has happened year on year and you see the driver has been the acquisitions. Those acquisitions are actually consistent with what we said when we raised the capital. So we are very pleased with how they are tracking and so that is a good story.

In terms of the lending business - the lending business, as you say, continues to do well and continues to benefit, as it has over many years with respect to the realisations on the portfolio. Now we do break out a number of the realisations this year, but as you look at in terms of how the books progressed year on year, it is not significantly greater this year versus prior year.

Maybe Ben, would you like to talk about the realisations this year?

Ben Brazil: I don't think there is anything to add to that.

Nicholas: Okay. So Ben's just saying, there is nothing to add to it. So the details are all there Craig. You can have a look in terms in the impact of the acquisitions which is driving the step up and obviously from a lending view point. As you quite rightly say, we have had good realisations in that infrastructure tollway area which we highlight, which is consistent with prior years.

Craig Williams: (Craig Williams, Citi) Thank you.

Karen Khadi: Question from the floor at the front.

Andrew Triggs: (Andrew Triggs, Deutsche Bank) Thanks it is Andrew Triggs from Deutsche Bank. Couple of questions please, just a quick one following up on the strength in rates. Did that momentum post US election, has that continued into the start of this half? A second question more around the funding side of things, I didn't catch any further commentary on the NSFR but the disclosure suggests above 100%. Can you be a bit more specific on where that stands? The 40% funding by deposits - obviously very good deposit growth, do you see that trend continuing? Is that having any positive impact on your funding costs overall?

Nicholas Moore: Yeah, well yes it is. I mean the deposit growth is a good feature in terms of how the balance sheet has changed in recent years and I think at this stage Greg we're expecting that deposit growth to continue to grow. Obviously being driven out of BFS and you can see in business banking we stepped up year-on-year by - was it 15%?

Patrick Upfold: 16%.

Nicholas Moore: 16%. So good growth happening and that's being driven out of the underlying business. Deposit growth continues to happen. In terms of the NSFR, Patrick, in terms of greater than 100%. That's our requirement.

Patrick Upfold: It's comfortably above 100%. There are still some calibration issues that need to be addressed but we're very, very comfortable with it. As I've said for some time we will comfortably satisfy that regulatory requirement.

Nicholas Moore: In terms of market conditions for the year that just started, which is very, very fresh, I mean they're really unchanged from where we were…

Patrick Upfold: Unchanged.

Nicholas Moore: …in terms into the year ended 31 March.

Karen Khadi: Just a question from the floor.

Scott Manning: (Scott Manning, JP Morgan) It's Scott Manning from JP Moran. I've got a couple of questions. Just on the tax that reflects the mix of business but it did actually depart from the guidance, so is it fair to say that you end up earning less in those higher tax jurisdictions and ended up earning more in those lower tax jurisdictions than what you actually expected at the start of the year? What were some of those areas outperformance and disappointment?

Patrick Upfold: Yeah, so we did. So the US income, I think has Nicholas has highlighted in his chart was down. Perhaps if we just go to - why don't we just go to slide - I think it's 7. It's actually slide 14 and just have a look at where the income fell and just walk through that. It's a relatively simplistic approach but I'll walk you through it. You can see in the US 27% of our income. That's been up I think as high as 37% or 38% in the past and it's obviously come down from where it was last year as well. I think it was around 30% last year so that's one movement there. We are taxed at 40% plus depending on which state you're in the US or which city you're in, so that's come down.

You can see Europe there at 24%. It depends on where in Europe it falls but if it's in the UK where it predominantly does fall then you're typically going to be having a rate of 20%, although it's not as straightforward because you've got to pay a bank surcharge if you fall within a particular bank entity of 6% or 7%.

Then you've got Asia over there. Asia is a little bit more complex but roughly around there you'd be looking at something like a 15% tax rate if you fell within Singapore or Hong Kong which is where most of our business is. It is higher in places like Korea. Not as straight forward just because of the overlay and the way in which the CFC rules works so that might not necessarily be the last point of taxation for us.

An example I can give you is if we trade on behalf of ourselves then the last point of taxation is going to be in Australia. If we trade on behalf of the client that's going to be - the last point of taxation is going to be up in Asia. That's just the way the CFC rules works. I often refer to that mix of income. That's a really good example of where the mix of income can affect the rate.

Then of course you've got Australia there. A significant step up over the course of the year. A headline rate at 30% but obviously there's adjustments which get made around that, whether you're getting an R&D concession, whether you've non-deductible hybrid expenses, et cetera, et cetera. So at 30% I think if you kind of ran those sort of rough rates you'd see that, those rough tax rates we just referred to, you'd end up at that 28% and 29% mark. We were at I think 28% something in the last half of last year and so that's kind of carried through into the course of the year.

Of course we had a stronger commodities performance. It was a very mild winter for example in the US as many of you might know and our commodities business was more subdued I suppose on that front over the second half of the year. If that was stronger, then you'd see more income coming into that business. With more income coming into the business you'd see the tax rate come up.

Nicholas Moore: So the simple story is the weighted average of all those different tax rates is about 28%, 29%, but then there are permanent differences both in our favour and against us around the world. That's the really tricky thing in terms of working out where those permanent differences fall. The other point that Patrick has mentioned in the past is of course we lose tax assets. Tax assets, you need to do things to maintain them so sometimes you lose them so it's a judgement call about recognition of tax assets and how they disappear or not over the period. So it's quite complex.

Patrick Upfold: It's probably worth also highlighting Nicholas - you can get movement through the first half and the second half. You do your tax return on an annual basis but you're reporting half yearly and you do get true-ups and things that pull from one side to the other which can have an influence. I think the best thing to do is just look at the overall tax rate for the year. It gives the best reflect of what our tax rate is.

Nicholas Moore: Therefore our best guess for what it will be in the year to come.

Scott Manning: (Scott Manning, JP Morgan) So secondly on the write-backs, so very strong write-backs this period, obviously commodity prices have rebounded and that's all well and good. The outlook for next year, have you actually exited a lot of those investments such that the opportunity for write-backs is no longer actually present?

Nicholas Moore: Yeah, mostly. I mean we don't normally count on any write-backs actually having a material impact going forward so…

Patrick Upfold: They haven't been material at all.

Nicholas Moore: So write-backs really don't feature but we still have some assets on the books where the losses arose from but we think they're well provided.

Scott Manning: (Scott Manning, JP Morgan) Just a final one, the outlook for BFS. The growth rate there 1% for the half, macro prudential and all of that kind of thing working through the books, so just the outlook there. You mentioned that there's an area to deploy capital so are you actually more positive on if there's going to be growth rates there and what the impact will be on the operating group.

Nicholas Moore: Sure. We'll ask Greg to talk about that. Remember there's three different divisions there. We have mortgages that are very important and as you quite rightly say we saw 1% growth, but remember we're seeing the profitability of all the work that had been done in prior years to actually set the book up. As well as that we've got wealth and we've seen a big step up take place in terms of that Wrap platform over the period.

The other element not to be ignored of course is business banking where we talked about the growth of deposits at 16%, plus the growth of lending of 10%, so there's real momentum across all those different businesses. Greg obviously is best placed to talk to the momentum in the business and the growth that we're seeing.

Greg Ward: Yeah, there's some really good momentum. So on the deposit side in Business Banking we expect that deposit growth momentum to continue. We've got some wonderful products there and some new enhancements to those products, including the debt platform and so forth and that's benefiting and expansion into the legal space and accounting space. So the deposits should be strong.

The platform growth is helping the CMA so overall that's seen for the last few periods about a 10% growth in deposits, and at this point that momentum continues, but the platform growth has been very strong and we are in contractual negotiations with Morgan Stanley to outsource all of their platform administration.

So depending on the time of those negotiations being finalised and then the build and migration of their platform, that should see some good institutional growth in the platform this year.

We continue to see good intermediary growth in the platform. It's obviously one of the highest ranked platforms in the market and continues to benefit from flows into superannuation, so looks very solid.

Mortgage growth was slower last year than we've seen. Historically it's come off a very low base so we have expected that growth to moderate and that happened, but March and April flows look pretty positive.

Nicholas Moore: Of course very importantly as we've emphasised before with Banking and Financial Services the technology backbone behind the group continues to grow and develop, and all the products that Greg's been talking about that are very much enabled by the strength of the technology that we're developing there.

Karen Khadi: I'll go to the teleconference line for a question.

Operator: Thank you. The next phone question comes from Brett Le Mesurier from Velocity Trade. Please go ahead.

Brett Le Mesurier: (Brett Le Mesurier, Velocity Trade) Thanks. With your income growth stalling are you turning your attention to expense reduction to boost profit in future years?

Nicholas Moore: I think Brett said, Patrick, with income growth stalling are we turning our attention to costs. I think we've - I think Brett you've been following us obviously for many years. You've seen the attention we've been playing to costs over many years now and obviously that's impacting across all our businesses.

We're not unique of course in the Australian business environment or indeed in the global environment that costs are a focus of our business, and something that I think you see in the results this year as you've seen it in prior years.

So, yes, growth costs will continue to be something we focus on.

Brett Le Mesurier: (Brett Le Mesurier, Velocity Trade) But what I was really referring to is whether or not you're looking at reducing them because while the cost to income ratio has been falling, obviously they've been increasing with previously high growth rates of income, but with income growth only 2% in the year that we've just had and maybe only another 2% again.

If you're going to continue to get cost to income reductions you'll need to reduce costs, but it doesn't sound like cost reductions are necessarily on the agenda. It's more holding costs where they are. Would that be a fair comment?

Nicholas Moore: No, well as I think we've talked about this over many years Brett, the way we run our businesses, the Group heads are here today and together with Nicole and Patrick and Stephen, their support areas are very focused on their cost base and have always been focused on their cost base.

So as technology develops and we can use technology to reduce costs so we employ it, and so we have seen costs fall. One of the areas obviously historically we haven't seen costs fall has been in areas such as compliance, so we have highlighted in prior years our compliance costs went from $A100 million to $A400 million.

Interesting to note we've put in the annual report that you mightn't have seen yet but that actually - those compliance costs didn't grow this year I think for the first time, Steve, in many years so they stayed at about $A405 million year-on-year.

But with the exception of that compliance step-up that took place, I think when you look across the Groups it's a pretty consistent story. I'm sure it's not universal but a pretty consistent story across all our Groups - pardon me - over recent years.

Brett Le Mesurier: (Brett Le Mesurier, Velocity Trade) Okay, great, thank you.

Karen Khadi: Might take a question from the floor.

Brian Johnson: (Brian Johnson, CLSA) Nicholas, I would just like to clarify - you've said that when it comes to the realisations in MacCap they've been well covered in the media. Are you basically saying to us that the reports we've had on Nuix, Quadrant and PEXA are correct?

Nicholas Moore: Well…

Brian Johnson: Shall we take those as being de facto Stock Exchange announcements?

Nicholas Moore: No, I don't think you can. I just think you know - sorry - hopefully you're not misinterpreting what I'm saying. I'm saying you know that we have assets on the books and some of them have been referred to in the media. Those three are amongst them and they're part of our normal business and as part of the normal business we expect to see realisations of those investments and others in the years to come.

Now we're not making a call in terms of when those realisations will take place. We're not making a call in terms of the profitability of those realisations. We're certainly not saying they're the only realisations. Tim has a very large book here in Australia. Obviously the renewable assets that we've highlighted and Tim highlighted in the operational briefing in May are part of what we'd expect to see realised in the year to come.

So they're the assets where Macquarie is developing with clients a whole range of renewable assets in Europe but also in Asia, in North America and here in Australia. So it's a very broad group of assets, infrastructure, renewables, the ones that you've mentioned that have been in the newspaper and a whole lot of others.

Tim, do you want to comment on that?

Tim Bishop: Yes, I mean as Nicholas said and I think we alluded to this in the February Operational Briefing, we feel good about the condition of our principal book within Macquarie Capital so we feel like the assets we've invested in are generally performing well.

So the question is more around timing of realisations and there's obviously judgment that goes into that. We're trying to maximise the profit and that obviously makes forecasting more challenging, but we're very focused on just getting the right outcomes at the right point in time.

But overall, as Nicholas said, it's a diverse portfolio. We've got - with two or three big themes being technology, infrastructure broadly, green energy, and a little bit in real estate and we're pretty comfortable with how they're performing right now.

Nicholas Moore: So a lot of the timing in realisations is determined by the market, determining on the state of the underlying business, but of course, most importantly, it's determined by our co-investors and our clients who are alongside us mostly in all these investments.

Brian Johnson: (Brian Johnson, CLSA) Nicholas, just a second question if I may? Every disclosure you ever see on Macquarie says you've got surplus capital.

Nicholas Moore: Yep, quite right.

Brian Johnson: (Brian Johnson, CLSA) Quite rightly. But the fact is, that when you actually made the last two acquisitions, despite having surplus capital and a great wad of it, you actually went to the market and raised capital.

Is that telling us that that surplus capital is that you can feel confident to go and sign documents to make acquisitions just on the off-chance that you mightn't get the capital? Is it really deployable?

Nicholas Moore: Yes, I mean we have…

Brian Johnson: (Brian Johnson, CLSA) Never goes down with surplus.

Nicholas Moore: We said at the time when we did the acquisitions that we probably could have done them without raising capital. But we are a conservative organisation, as you quite rightly say, Brian. We want to have the capital. We want to be very confident that the capital is there.

So we raise capital and we have capital available usually ahead of the transaction rather than the other way around. So it's part of the conservative risk settings that, as you say, we've had for many years.

Karen Khadi: We might just take a question from the room and then come back to you, Brian, if that's okay?

David Ellis: (David Ellis, Morningstar) David Ellis, Morningstar. I've got a question about the dividend. Following on from Brian's question, obviously the group has a large surplus capital. But EPS increased 6% but yet the dividend increased an impressive 18% in the year. So could you just take us through the reasoning or the logic behind that increase in the dividend and obviously, the payout ratio going to 72%.

The second part of the question is looking forward, is it more likely or less likely that the payout ratio over 70% will be maintained?

Nicholas Moore: Yeah, well in terms of the dividend, it's probably easier to break it up into the final dividend and the interim. With respect to the final dividend, it just tracks the step up in our profitability half on half compared with where we were last year. So I think that was up 17% Patrick, and therefore the dividend was up 17%.

So the final dividend is just tracking the underlying earnings. The change in terms of what we did in the dividend was in the first half of the year before last. As you know, that's when the acquisitions were. We were raising capital and so that dividend was probably slightly lower than it could have been otherwise.

So I think what we're seeing is that the gap between the interim and the final dividend is closing in terms of size, and we're looking much more at that regular payout ratio that you highlighted of the 72% this year. In terms of going forward, it will be obviously subject to the board's discretion going forward in terms of where the dividend will be.

We're in the middle of the range, the 60% to 80% range and we're not signalling any change in terms of that payout ratio going forward. Does that make sense?

Karen Khadi: Just the question at the end.

Brian Johnson: (Brian Johnson, CLSA) Apologies. Nicholas, Macquarie is a very ROE driven organisation. When we have a look at the second half versus first half ROE, it's up quite a bit. There's been a lot of talk today about expenses and income growth. I'd just be interested, I note from the annual report that you've avoided the - well, the board has made the discretion to withhold some of the staff bonus pool.

But could we just get a feeling of how much that increase in the ROE translated into the bonus pool, how much that probably accounted for the half on half expense growth?

Nicholas Moore: Well, as we have talked in prior years in terms of our profit share methodology, it is very much driven by the individual businesses around Macquarie and the requirements they have in terms of their payout to staff having regard to their individual industry. So it's a whole mix in terms of different businesses, different payout rates of course, and different market conditions.

So the bonus pool is only a guide, and it's a guide that the board actually looks at and management looks at in terms of what's appropriate for the individual businesses. So the approach is always, as you know, a very much bottom up approach.

I know there's been discussions before about some magic formula, but it's very much bottom up in terms of looking at the contribution individual teams made, individual businesses made, the amount of capital they're using, the amount of risk they're taking. Issues of these natures that have been developed over many, many years within the group.

So the underlying profit sharing methodology and the way we approach it hasn't changed over many years, as you know. There's some refinements during the year, as you know, in terms of issues like the amount of retention and receiving profit share in terms of shares rather than cash. Things of that nature.

But the underlying principles have been largely unchanged over many years and this year is no different than what we've seen in the past.

Brian Johnson: [Inaudible question]

Nicholas Moore: The half on half impact…

Brian Johnson: [Inaudible question]

Nicholas Moore: This is employee expenses coming down half on half that Patrick mentioned. It comes to lower staff numbers. I think if you look at one of the largest drivers of that. A little bit impact in terms of exchange rates. Obviously, we have people in the UK and that has had a small impact. Other elements, Patrick?

Patrick Upfold: It's mainly just around headcount. Termination costs more in the first half than the second half. Your procurement costs have come down because you're hiring less staff. It's a number of items but fundamentally, it's just around the lower head count.

Operator: I think we have no more questions from the pool and none on the line. So given there are no further questions, I'd like to thank you all for coming or dialling in today. For those of you who are able to stay, there is some coffee and morning tea outside. A webcast of this briefing will be on Macquarie.com later this afternoon.

The next investor event is the Annual General Meeting which will be in Melbourne this year on 27 July. Thank you.

[END OF TRANSCRIPT]