TRANSCRIPT

MACQUARIE GROUP LIMITED 1H17 RESULT ANNOUNCEMENT

28 OCTOBER 2016

[START OF TRANSCRIPT]

Operator:	Thank you for standing by and welcome to the Macquarie Group results announcement for the half year ended 30 September 2016. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Karen Khadi, Head of Investor Relations.
Karen Khadi:	Good morning everyone and welcome to Macquarie Group's result announcement for the half year ended 30 September 2016. 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 mute? In the audience today, we have with us institutional investors and analysts, teleconference participants including members of the media and webcast viewers. Today you will hear from Nicholas Moore, our Chief Executive Officer and Managing Director. Nicholas will present highlights of the results, activities and initiatives across each of the six operating groups and also discuss outlook for the remainder of the year. You will also hear from Patrick Upfold, our Chief Financial Officer, who will take you through these results in further detail. Following these presentations, we'll open the floor for some questions. Joining us today in the front row, we have the heads of our operating groups, as well as other members of Macquarie's senior management team. On arrival today, you would have all received a pack containing the material that we lodged with the Australian Securities Exchange, including the presentation which we'll obviously be going through shortly. Our aim is to finish today's briefing at 11:30am. So with formalities now out of the way, I'd like to hand you over to Nicholas, thank you.
Nicholas Moore:	Well thank you, Karen and thank you all very much for attending our presentation this morning for our results for the six months ended 30 September 2016. Now as usual, my presentation will start with a summary of

the Group because as I've said before, you really can't understand Macquarie unless you understand the six different groups that we have within Macquarie.

Now the first three are our annuity-style businesses obviously, Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services. They make up about 70% of the Group’s contribution. Then we have our capital markets facing businesses, Macquarie Securities, Macquarie Capital and Commodities and Financial Markets. In total, they make up about 30% of the Group’s contribution.

Now turning to the result itself, a pleasing result, $A1.05 billion, up 6% on where we were six months ago, close to our record result 12 months ago. Our record result 12 months ago was, as you'll recall about $A1.07 billion and was characterised by a very substantial performance fee being derived within our asset management business.

When we look at the contributions from those six different groups I talked about before, you can see the annuity-style businesses were down about 15% on where they were a year ago as a result of that lower performance fee in our MAM business. The capital markets facing businesses were broadly in line with where they were 12 months ago. There's been a change of composition though. The securities business contribution has reduced as a result of subdued market conditions in Asia and the contribution from Macquarie Capital and Commodities and Financial Markets has stepped up over that period to equalise that movement.

The tax rate for the half is down on where we were 12 months ago, so at 29.4%, closer to where we were for the six months ended March of 28.6%, so down from 33.1%. The earnings per share at $A3.12 are down 4% on where we were this time last year, largely as a result of having more shares on issue now than we had back then as a result of the capital raising you're familiar with. We declared a dividend of $A1.90 after the six months, up from $A1.60 at this time last year, 45% franked, that's up from our normal franking level in recent years of 40%, reflecting of course the growth of our Australian income in recent time.

The next chart shows the comparison in terms of this half compared with the half 12 months ago and the immediate prior half. You can see compared with where we were six months ago, the arrows on the right hand side are all pointing up in terms of operating income, expenses and profit and down slightly compared with where we were a year ago because of that substantial performance fee that we've talked about before.

The next slide shows how the income contribution has moved over the period, operating income up, profit up, earnings per share up and dividends per share up, compared to of course that very strong period we had this time last year, so good trends taking place in all the main drivers of our business performance.

The next chart deals with our assets under management. They're up on where we were in March. You can see up by $A14.5 billion, largely as a result of favourable market movements. We have seen positive flows in MIRA, but some outflows in MIM. So our main driver in this has been market movements over the six month period.

The next chart deals with where we're making money around the world. You can see Australia has stepped up to 41% of our total. That's higher than it has been in recent years, reflecting the growth of our Australian businesses, but as well as that, we have the one-off impact in the six months of the sale of our life insurance business coming through there.

In terms of the change over the period, you can see on this chart how that distribution of income has change, with the steady growth in Australia. You can see America, that very strong second half we had in 2015 and you can see good ongoing growth taking place in Europe.

Now turning to the six different divisions and starting with our annuity-style businesses and starting with our largest group within the annuity-style business, our MAM business, which you see represents almost 40% of the total of Macquarie's earnings. The net profit contribution for the six months of $A857 million was up on where we were in the second half last year by 70% but down on that very strong performance I mentioned this time last year. When we look at the three different businesses starting with the largest division within the group, the infrastructure and real assets division, you can see the equity under management at $A72 billion, probably a record amount of equity under management, up 8% on where we were six months ago.

We note there very successful raisings of $A7.4 billion over the period, very successful raisings in Europe, showing the quality of the product and the support its getting from investors. So raising the capital is important. Investing it, of course, is even more important and we were able to invest $A3.4 billion of capital over the period. We divested $A2 billion of capital over the period, obviously the business is about investing capital and then divesting it successfully.

Obviously good divestments in terms of the performance fees you see coming through there of $A165 million, less than the $A600 million we received 12 months ago, but still very substantial. Also good investment income coming through with the principal gains and you'll be familiar with the MQA that took place towards the end of the year. In terms of equity available to deploy at the end of the year, almost $A12 billion, again a record amount. It's also good to see that we've been recognised as the Infrastructure Manager of the Year globally once again.

In terms of the MIM business, assets under management up 4% on where we were to $A351 billion, albeit there has been, as I mentioned before, some outflows in some of our funds. Strong performance across many of our funds that we're providing and also very pleasing to see the growth of our global distribution. We break down there some of the global distribution that's taken place over the six months. You can see in Australia $A1.1 billion of wholesale, Asia $A2.6 billion, North America $US700 million and Europe $US700 million. So part of the rationale of the Delaware acquisition was actually getting the global distribution working for the business and that does seem to be developing very well indeed.

Our smallest division within MAM is a specialised investment solutions business. You can see ongoing growth in terms of their new infrastructure debt product that is going very well indeed.

Now turning to Corporate and Asset Finance, you can see it was broadly in line with the second half of last year, but down 15% on where we were this time last year, $A521 million and as you can see on the piece of pie on the right hand side, about 22% of the Group.

In terms of the Asset Finance business, obviously we've made two very substantial acquisitions in that business in recent years with the AWAS portfolio and the Esanda portfolio. They continue to go very well and meeting all expectations in that regard. You can see that the motor vehicle portfolio stepped up by 2% over the period, which is very pleasing to see. The aircraft portfolio stepped down by 4%, now that's representing largely depreciation that takes place with the fleet, as well as that we highlight that we sold eight old aircraft from the portfolio during the period. This is normal in terms of renewing the portfolio and when the assets reach the end of their life.

In terms of the lending business, the realisations over this six month period are behind where they were 12 months ago, but for the full year we expect those realisations to reflect what we've seen in recent years. The actual portfolio is down in terms of size by 13% to $A8.3 billion, notwithstanding the substantial activities in terms of new business that's being written in the business.

Now Banking and Financial Services, we see net profit contribution of $261 million, up 54% on this time last year and 45% on the second half. We've seen strong growth taking place across this business in recent years. We've seen strong growth in the books which has been reflected into the profit and loss during this period.

Patrick will detail it in his presentation but we have almost $A50 million of new earnings coming through this business from the growth that's taken place in recent years. The growth is continuing. If you look at business banking you can see deposits up 11% over the period, loan portfolio up 8% during the period. From a wealth viewpoint, you see the platform up 6% during the period. From a mortgage viewpoint, you see the book actually isn't growing much, it's similar to where it was six months ago at $28.6 billion. But we're seeing increased profitability coming into that business, given the growth we've seen in recent years.

We also highlight on this slide of course, the sale of the Life insurance business that took place during the period, and also we highlight the project expenses that have been recognised during the period. As well as that, we highlight the digital expenditure taking place in this business. Obviously the digital developments are very important in retail banking, we've launched our new digital bank account which has been very well received. As well as that, our robo-adviser, in terms of owner's advisory, has been very well received from the market. So big investments actually flowing through in terms of good product for our customers out there.

Now turning to the capital markets facing businesses, starting with Macquarie Securities. As we highlighted this time last year, we had very favourable market conditions in Asia, which has not been repeated during the current period. So our trading income is down in Asia, our commission income is down in Asia as a result of the subdued market conditions. Asia, of course, represents, from a cash viewpoint, about 50% of this business. That said, our Australian business continues to do very well, commissions up and of course very strong market positions in our equity capital markets activities.

Turning to Macquarie Capital, you'll see the result of $A205 million, up 21% on where we were this time last year, albeit down 27% on where we were in the second half. Now this business, as you know, traditionally has had a strong second half bias, so it's very pleasing to see the strong performance in the first half. The pattern is similar to that we’ve seen in recent years here, very strong market position here in Australia continuing to deliver profitability for us, in terms of number one market positions in things like M&A and ECM. Globally, very strong industry specialisation, particularly in infrastructure where we see a number of advisory deals highlighted, as well as a number of development projects highlighted where the team are out actually developing projects. You can see the one in Europe that we highlight here, the Tees Renewable Energy Plant, and then in America the battery project in California. So good developments taking place there. I should mention as well, lower impairments coming through for Macquarie Capital for the period.

Lower impairments coming through as well for Commodities and Financial Markets, lower impairments coming through, and very strong customer business flowing through across all the different businesses you see highlighted here. So in terms of Energy Markets, strong results from the energy platform. In terms of the Metals, Mining and Agriculture, again strong customer flows. Our FI&C business is seeing strong customer flows and our Futures business is seeing strong customer flows as well. That has all resulted in a result of $A472 million, up 67% on where we were this time last year, or up 61% on the second half of last year.

So they're the six different operating groups. Now turning to the balance sheet, obviously a business has to be underpinned by a strong balance sheet. Macquarie has always had a strong balance sheet and we've always been conservative and well capitalised, and it continues and we've continued to improve the balance sheet over the period. You see deposits have stepped up 5.7% over the period, and our term funding has stepped up by $A4 billion over the period.

We've also repaid $A8.4 billion of the acquisition facilities we entered into when we bought Esanda and AWAS. The repayment of those facilities means that the actual balance sheet has actually reduced in size. As you can see on this slide here, it's actually come off, you can see the repayment taking place and you can see obviously less cash as a consequence. But the underlying shape of the balance sheet hasn't changed, with us taking very much a liability-driven approach where we fund all our term assets with term liabilities. As well as that, we've seen the ongoing step up of customer deposits over the years, and that has continued again during this period.

Our capital position is highlighted on this slide, with the changes. From a Harmonised viewpoint, we had surplus capital of about $A5.6 billion six months ago. You can see the changes in terms of the dividend and the MEREP. Against that, we've made money of course over the period. Meaning our Harmonised position has increased slightly to $A5.7 billion as of September.

From an APRA viewpoint, of course that's the important measure for us, you can see we have an adjustment of super equivalence, where that $A5.7 billion harmonised number is reduced by $A2 billion, to an APRA surplus number of $A3.7 billion. Now that $A2 billion super equivalence has increased over the period by about $A200 million, reflecting the extra capital charge for mortgages that APRA has brought in over the period.

Other important ratios are reflected on the next slide. We can see our CET1 ratio on a Harmonised basis, which would compare with other international financial institutions, 12.6%. On an APRA basis, 10.4%. Our leverage ratio, the requirement is 3% on a Harmonised basis, we had 6.5%, and on an APRA basis 5.6%. Our LCR ratio, 169%, well in excess of the 100% minimum.

As I mentioned before, we've declared a dividend of $A1.90, up 45% franked. The dividend, the record date is 9 November and the payment date is 14 December. The Dividend Reinvestment Plan will be sourced on-market and our dividend policy remains unchanged, of paying between 60% and 80% of our annual profit.

Now I'll hand over to Patrick for more detail, thank you.

Patrick Upfold: Thanks Nicholas and welcome everybody. As usual, I'll provide you with some more detail of the financial detail behind the result today. This year I've provided some additional information and it's to help you better understand the result for each group.

You'll see this shortly with the group slides. Now this will be the focus of my comments today. That is, I’ll be identifying the drivers of the first half result and compared to the first half of 2016 result. But those of you who prefer the income statement approach that we've had the last number of years, I've also included these, you can find them in the back of the presentation that you received today.

Okay, so turning to the result, net operating income down $A100 million on first half of 2016, but up $A400 million on the prior period. Now the lower net operating income on a prior corresponding period basis, reflects the impact, as Nicholas highlighted, of more subdued trading market conditions, and you'll see that in MSG and CFM; lower performance fees; lower net interest income mainly in the CAF area; higher operating lease income and, as we'd expect, coming from the AWAS acquisition; lower impairment levels, particularly in CFM; and higher gains from a range of asset realisations, and these occurred across four of the six business groups and I'll highlight those as I go through.

Operating expenses are up slightly and our tax rate fell, and that really reflects the more income derived in Australia in the first half and less in the United States. Now all this, when we combine it all together, produces that result of $A1.05 billion which we announced earlier this morning.

Now this is a bit of a new look slide, hopefully just to assist you in better understanding our result. Looking at MAM, we can see here the result of $A857 million, down on the pcp but up strongly on the second half of last year. The key drivers in movement in the net profit contribution compared to first half of 2016 included, you can see there performance fees. You'll recall that we earned just over $A600 million of performance fees, very, very strong in the first half of 2016, compared to $A170 million in the first half of 2017.

Investment related income, you can see there an increase in gains on sale of equity positions, which you can see there I've noted on the right-hand side of that slide. It accounted for $A74 million of the movement. Then equity accounted income, in the first half of 2016 we had equity accounted losses, compared to the first half of 2017 we had equity accounted gains and the difference between those two provided an almost $A80 million uplift. Base fees and expenses were broadly in line with the prior period.

Corporate and Asset Finance, a result of $A521 million, down on the first half of 2016 result but broadly in line with second half of 2016. Looking first at the AWAS and Esanda acquisitions which we've broken out, both purchases have now been completed and you can see the impact of this coming through the result and that's very pleasing. Now in terms of their performance to date, AWAS is performing in line with expectations, allowing for the fact that we did have a reduced number of planes that were ultimately transferred. Esanda is also performing in line with expectations.

Now, offsetting this, there's been a decline in income from the Lending book, which we've highlighted there. Now the existing book continues to perform as we expect. However, new transaction opportunities have been somewhat more limited, with the result that the natural roll-off of the existing book is exceeding new loans that are coming onto the books. Now, in addition, there was some more refinancing events in the first half of 2016, compared to the first half of 2017, and lower levels of income that we booked from loans acquired at a discount. I think this is probably more of a current year, half-on-half timing issue. Impairments are up largely as a result of the increased Esanda book size, and also there was some impairments in respect of aircraft. So hopefully that makes that result clear.

Turning now to the last of the annuity-style businesses, which is Banking and Financial Services, and there was a few things to highlight here. The sale of Macquarie Life's risk insurance business and the US mortgages business was completed in the first half of the year. Now this has resulted in a net gain of $A192 million. Now as we foreshadowed at our profit announcement, we have had higher project related costs this year, due to elevated activity across the board within BFS. But also, as a result of change in the approach to the application of our accounting policy for the capitalisation of software.

Now essentially we'll only be committing the capitalisation of costs incurred directly on the development of the core software of the SAP banking services program. Any other costs - to simplify this - such as those incurred on changes to, say, ancillary software which connects into that SAP platform, will be expensed as incurred. Now this reflects what we see is a rapidly changing technology landscape. So you can see that there in that $A48 million.

Now as part of the review that we undertook, we also identified some program changes. Whilst the overall program is looking very good, there have been some delays and changes which has resulted in an impairment charge of $A19 million. So following all of this, there's $A100 million of capitalised software that is on the balance sheet at the end of the half.

Other items we've identified here, some increase in credit provisions, nothing in particular there, and some impairment of some equity positions. Allowing for all of these, we get a really good understanding of the underlying growth in this business. You can see there that that underlying growth is about $A50 million. This is reflecting the growth in the underlying books, but also the benefits of the expense that we've gone to, to move to a digital platform.

So that's the annuity-style businesses. Turning now to the capital markets facing businesses. As we've all bore witness to over the last 12 months, equity markets have been somewhat challenged and this has impacted the performance of this business. Now in the first half last year, as you'll recall, the business experienced strong equity markets, coupled with periods of volatility. That was particularly in Asia. The business was able to monetise this across a range of products, leading to that really strong first half result in 2016.

Now market uncertainty, we saw that towards the end of the first half last year, certainly in the second half last year, and it continued into this year. As a result, we've seen brokerage and commission trading income, ECM income down on that very strong first half of last year.

Macquarie Capital - like Macquarie Securities, more subdued equity market conditions and where we see that coming through is lower fee income, it's in first half of 2017 compared to first half of 2016, albeit up on the second half here so that's pleasing.

Offsetting this we've seen an increase in investment related income and you can see that there, about $A112 million, and that's the result of a number of principal realisations completed over the course of the half, and that is just part and parcel of what this business does investing alongside its clients.

Other items here you can see lower impairments which is pleasing. Slightly higher operating costs and they essentially offset one another and you can see that result of $A205 million there.

Okay, the last of the capital markets facing businesses. For CFM we saw a significant reduction in impairments as we'd previously foreshadowed. That reflects the moderation in the commodity price falls, but also the reduced size of the lending and equity book.

Investment related income was up strongly with a number of principal positions in the energy and related sectors being realised in the first half of 2017.

The non-investment commodities related income - and you can see that comprises risk management products, lending and financing and inventory management, transport and storage - all down on first half of 2016 essentially due to reduced client demand for these products. Again largely as a result of reduced volatility in the commodities market generally.

Now pleasingly, credit, interest rate and foreign exchange in that part of the CFM all had better performances compared to the first half of 2016. That's particularly off the back of interest rate and foreign exchange volatility that we experienced in the first half of this year, but also we saw improved conditions in the high yield credit area as well. So a very pleasing result for this business.

Impairment expense - I've put this slide up for the last - given the level of impairments over the last few presentations. You can see here just how it has come down. I think I've covered all the business units there.

Corporate area is down significantly as well. That's reflecting less legacy investments, but also last year we took a management overlay charge in respect of the collective provision, and that hasn't reoccurred in the first half this year. So you can see impairment expense down $A282 million.

Slightly changed format but hopefully you're familiar with this cost of compliance. A number of projects that continue and as those projects complete you have business as usual spend and that's up on first half of 2016. Compliance costs now represent about 7% of our overall cost base.

Nicholas has touched on the balance sheet. I always like to remind people just how we fund ourselves. Term assets funded by term funding or term liabilities, they were deposits and equity with minimal reliance on wholesale funding markets. I'll talk about customer deposits in a moment and you'll see the growth there.

We did have significant acquisition facilities last year in respect of those two transactions. Really pleasingly they were repaid very quickly. We paid them in the first half of this year, and you can see there that over the course of the half we had $A4 billion of term funding that we raised.

Hopefully familiar with this, our issuance strategy is very focused on diversity having access to as many pools of liquidity as we can. You can see that we've diversified here by currency, tenor and type. Not really much movement in the weighted average term of our debt sitting out there at about four and a half years.

It's a great story and it continues and we've seen quite a significant step up in deposits over the last number of years and that continues in the first half of this year when we saw that really strong growth in deposits across both the CMA and business banking platforms. So a great job by the team in the BFS there.

Turning now to the balance sheet. Not a lot of movement in the loan and lease portfolios. This is what we fund on balance sheet. I'll just highlight a few things there. Operating lease assets down a little bit. As a result of some planes that we dispose of during the course of the year and of course the natural depreciation charge that goes through for those assets.

You can see there that the Australian mortgages stepped up on the balance sheet and that's reflective of the increased level of deposits, the strong deposit growth that that business had, and that led us to have less securitisation activity in the half. So more of those have been put on the balance sheet.

It was mentioned the Canadian, US mortgages - Canadian mortgages continue to run off. We expect that to be largely rundown by next year, and of course Greg and the team sold the US mortgages portfolio in the half so they're no longer for us.

Perhaps the other one there just to highlight is the Lending book, I skipped over that, as Nicholas has mentioned, down on where it was last half, just reflecting the more limited opportunities out there.

Equity investments - no surprises here that they've come down as the businesses have sold a number of positions. The biggest mover there is actually transport, industrial and infrastructure. This is where many of the MacCap assets are classified and some of those over the course of the half, and you've seen the resultant fall in equity investments on the balance sheet.

From a regulatory update, it continues - the changes are out there. The Basel Committee has proposed a number of changes to risk weights and so called Basel IV. This is all under consultation. We're waiting release of that from the Basel Committee. Now any impact of that on our capital position will be dependent on the final form of those proposals and the local implementation of those, so those rules by APRA.

APRA has also released a consultation package in relation to a standardised approach for measuring counterparty credit risk, so-called SA-CCR, the capital requirements for bank exposures to central counterparties. The standards take effect from 1 January 2018, we're working through the potential capital implications of those, and engaging with APRA. Whilst we expect that there will be more capital that will be required in respect of these positions, we don't expect that to be material.

Net stable funding ratio; APRA has indicated it expects the NSFR requirements to be finalised by the end of this year, and they will have effect from 1 January 2018. Whilst there is some uncertainty around the impact, given the way we fund ourselves with term assets being funded with term liabilities, we expect to meet the overall requirements, of course, of the NSFR.

Nicholas has showed you a similar slide to this, which is the Group's overall measure in – overall capital surplus position. This is for the bank, this is our CET1 ratio, which you would compare to other banks.

You can see on an APRA CET1 basis, Basel III basis, we are sitting at a very strong position there at 10.4%, and Harmonised; that's how we would compare ourselves to other institutions around the world. A CET1 ratio of 12.6%, as Nicholas mentioned we did see an uptick in the amount of APRA super equivalence, and that reflects a couple of announcements by APRA in respect to changes to mortgages, increasing risk weights, changing the correlation factors, but also the growth in that book leading to that overall increase.

Our liquidity position remains strong. You'll see on the left-hand slide of this chart here you can see the step down in the liquid asset portfolio, no surprises there, that we have repaid those acquisition facilities that I mentioned, and that's led to that decline there. It's still a very strong position at 170-odd percent for our LCR.

And then finally, I'll just touch on the capital management updates. We – since the - our prop announcement, you will recall that we have changed to MEREP, as the way in which that was going to be conducted, where we brought together the staff salary which was traditionally in the July and August, and the purchasing of the MEREP which has occurred in May, we brought those together.

$A308 million of the $A433 million requirement was acquired under that off-market staff sale arrangement, and the residual balance of $A125 million was acquired on-market. And you can see there the weighted average price at which those shares were acquired. In addition to the Board announcing the dividend, the result of the dividend this morning, I can also inform you that there will be no discount applied to the DRP, it will be open, but given our very strong capital position no discount will apply, and any shares under that program will be acquired on-market.

With that I will hand back to Nicholas.

Nicholas Moore: Thanks Patrick, and now I'll deal with the short-term and the medium-term outlook for the Group.

The short-term outlook hasn't changed. Now, we provided a short-term outlook with our full year results, we repeated this at the Annual General Meeting, and we're repeating it again today. Now this slide is dealing with the full year outlook. So, when you look at this slide and the features that relate to each of the individual groups, they are dealing with the full year, not just the six months to come. In terms of the comparison, we've obviously put the full year 2016 in the middle there, and so the composition of the Group reflects what happened last year. And then we're comparing what we think will be happening for the full year.

So, broadly speaking, in terms of what our outlook was, it was going to be that we were going to broadly in line this year with where we were last year on a full year basis. Going through the groups one-by-one in terms of some of the impacts, some of the things that impact in the groups; we noted that with MAM, that we have received very substantial performance fees last year and we did not expect to receive the same level of performance years this year, and we've obviously seen that happen in the first half.

In terms of investment-related income, we expect to see a step-up of investment-related income in MAM, and again we've seen that happen in the first half. In terms of base fees, we did think that they would be up a little bit this year compared to last year. We now think they will be broadly in line with where they were last year.

When we look at CAF, we have noted that the Esanda and the AWAS acquisition are performing in line with expectations, and we expect to see the full year contribution come through this year. We noted in the presentation, that the profits being realised on early repayments and realisation in Lending were down on the first year, but over the full year we expect them to be broadly in line with where they were last year.

Banking Financial Services, we continue to see the growth of those books actually be realised through increased earnings during the year. So, we saw that in the first half, that almost $A50 million that Patrick highlighted, we expect that to be repeated, obviously, in the second half.

We mentioned as well of course the one-off realisation in terms of the sale of the insurance business, and of course the project expenses that Patrick referred to.

In terms of the capital markets facing businesses, we noted at the beginning of the year that we saw subdued market conditions for securities, and we expect them to continue into the second half.

Macquarie Capital and Commodities and Financial Markets, we noted that we expected lower levels of impairments for these groups this year, we've seen it in the first half and we think that will continue into the second half. We've also noted the strong principal pipeline of realisation within MacCap, we've seen that in the first half and again we expect that to be continuing into the second half.

In terms of Commodities and Financial Markets, we have noted the good customer flows taking place through the business, and again we expect to see those continue through the full year.

So, taken all together, we expect that the operating groups will be coming in at a similar sort of level to where they were last year. And again, we expect the tax rate to be consistent with where it was last year. So, taken together, the operating group's performance, together with the tax rate, we expect the result for the full year to be broadly in line with where we were for the full year last year. Now that outlook, of course, is subject to market conditions that can have an impact on our final results. If market conditions do change materially, obviously we will inform the market.

But form a medium term viewpoint, our outlook remains unchanged. We are confident in terms of the ability of Macquarie to deliver superior performance in the medium term. That confidence is driven by deep expertise that you can see in today's results across all our business groups. You can see it in the annuity-style businesses in terms of the way their businesses continue to develop and continue to deliver profitability. You see it in the capital markets facing businesses in terms of the customer flows we're seeing come through our businesses.

We're seeing, obviously, the benefits of having a strong conservative balance sheet. That helps us every day of the week, but of course puts us in a very strong position to deal with growth going forward. Of course, most important, our proven risk management framework and culture continues to feature to be a very important element in Macquarie's medium term success.

The final slide we have here is where we have the capital across the Group and the sort of returns that our capital has been generating over the last six months. You'll see the annuity cap was about $A8.4 billion, generating a return of about 22%, a little bit higher than we've done on average over the last 10 years.

Capital markets facing businesses, $A4.4 billion of capital, delivering a return of about 16%, that's higher than where we were 12 months ago. It's higher because the amount of capital we have in these businesses has come off somewhat over that period. Now 16% is within the range we've seen over the last 10 years, but towards the lower end of that range. As well as that, of course, we've got the surplus capital of $A3.7 billion we've mentioned before and as well as that, we've got about $A400 million of capital supporting the corporate centre.

Now with that, I'll hand over to Karen to take your questions. Thank you, Karen.

Karen Khadi: Thanks Nicholas. We'll now open the floor for questions. We'll start with questions from the floor, then take questions from the teleconference lines. For those of you in the audience that would like to ask a question, please wait for a microphone attendant before proceeding. This is a briefing for the investment community and we won't be taking questions from the media. We have a separate briefing for that. So on that note, I'll take the first question from here please, thank you.

Question: (James Ellis, Credit Suisse) Thank you, it's James Ellis from Credit Suisse. Just a question in relation to the short term guidance. So with the reiteration of the short term guidance off the results as reported, that implies a second

	half result which will be in line with maybe a little bit lower than the first half that you've come through with. If we look at Macquarie results in recent years, there's tended to be a skew more to the second half, partly relating to the northern hemisphere winter benefiting the oil and gas business is an example of that skew. Just wondering how do we reconcile an expected view that's more in favour of the first half compared to the history which is more in favour of the second half? Can we just put it down to the magnitude of gains that's been booked first half reported?
Nicholas Moore:	I guess so, that's part of it. Also, we've seen very good customer flows in the first half in CFM. Now we expect to see them repeated and as we've mentioned, we expect to see lower levels of impairments than this time last year. So in terms of the first half/second half bias, we had a good first half and we shouldn't extrapolate that we're going to see a step up in the second half We did mentioned that with MacCap we do expect to probably have a stronger second half in MacCap, but as you say, there are some on-off items in the first half that mightn't occur in the second half. So we've taken all those together and that's why we've come up with the broadly in line statement.
Karen Khadi:	Okay, maybe just Jonathan just behind in the middle there, thanks Lucy.
Question:	(Jon Mott, UBS) Jon Mott from UBS, just following on a bit more on the medium term outlook, if you look at some of the balance sheet moves that you've seen, your realisations came through this period, but also slide 37, the loan balance has fallen, slide 37 the equity investments has fallen as well. Then if you go into results MD&A, the headcount actually fell in every division. So you actually look like you're taking a more conservative view for where the markets are going to go, reducing risk on your own balance sheet and preparing for a pretty tough environment and noting the big backup we're seeing in yields around the world, is it fair to assume that you're preparing for a pretty tough environment over the next couple of years?
Nicholas Moore:	Well Jonathan, the business, as you know, the reason we talk about the mixture of businesses, it's really important to focus on the different businesses. So when we look at our biggest business, which of course is MAM, almost 40% of the total, as we highlighted the actual assets under management have grown there and importantly, our most important division is the MIRA division and that, as you saw, saw very good inflows in terms of investment mandates. So we sit today, I think, at $A12 billion in terms of investable capital. Now that's a very good indicator in terms of growth going forward.

The other good indicator of growth going forward, of course, is Greg's business. Greg's business, we've seen consistent growth half-on-half for many years now and we've seen the benefits of that flow through to the profitability. Patrick highlighted for the six months, we have almost $A50 million being recognised now from all the growth of the book that took place. As we mentioned, the books continue to growth from a BFS viewpoint.

When we look at the Asset Finance business, overall that book was flat for the six month period, it was flat but we did see growth taking place in cars. From a Lending viewpoint, we do note that the book did reduce, so you're right and that is a book, as you know, where we do look at what the opportunities that are available and then it has come down. We do though think for this year that the realisations will be consistent with where they've been in recent years, so we think that realisation level will be consistent. We don't know, from a medium term viewpoint, in terms of how that book will go, but history will show that it's been pretty resilient for some time now.

In terms of the pipeline from a MacCap viewpoint and we look at those levels of activity, Tim, I think, our pipeline is as good as we've seen. We probably feel more confident in terms of our pipeline today than we've felt in recent years. From a CFM viewpoint, as we highlight, there are increasing customer flows across all those different businesses. So when you look at what's happening in our Energy business, in our Metals business, even in our Futures business, we thought that business, probably if you'd asked us five years ago how much growth would be in Futures, we probably wouldn't be all that optimistic. But they have been able to deliver consistent growth as more and more activity goes on to the exchanges and even indeed our little FI&C business within there, foreign exchange and what have you, continues to see good growth in terms of customer numbers.

So CFM, I think we're seen good growth, Mac Cap, I think we feel like we've got a good pipeline there. Securities, you know what the securities business is like, it's a tough business out there; it is market driven. We have seen last year in terms of what can happen in securities when the risk appetite changes, particularly in Asia. So from a Securities viewpoint, it is a tough business, but we have seen in very recent memory of how that can respond. BFS, as I mentioned, continues to grow well and plainly, our MAM continues to grow well. So overall, from a medium term viewpoint, there's a lot of positives, but yes, you're right, there is that one hook in our Lending area which we've seen step down in the last 12 months, last six months, so that has stepped down, albeit, as I said, the realisations we expect to be at a similar sort of level.

Patrick Upfold: I also think you have to look back not just at the numbers today, but look back over the last 12 to 18 months and that balance sheet has grown quite significantly. Obviously with those two acquisitions that we put on in the last 12 months, those together are well over $A10 billion of assets that have gone onto our balance sheet.

Karen Khadi: I might just turn to this side of the room, if that's alright. Thank you.

Question: (Andrew Triggs, Deutsche Bank) It's Andrew Triggs from Deutsche Bank. Just a couple of questions on operating expenses and specifically compensation; the comp ratio was up on the pcp breaking a run of reductions over the last few halves. Just a couple of comments, that question's there, firstly given that the headcount reductions during the period were redundancy costs, a material driver of that deterioration in the comp ratio and also the disclosure shows that the share base payments line was one of the drivers of that comp ratio going up, so perhaps an outlook there please.

Patrick Upfold: Yes, so there was some increase in costs for the reduction in headcount that has gone through. The share base payments expense obviously has a lagged effect, so at the compensation level in absolute terms has gone up, but with the profit over the last two or three years, you're seeing that now coming through the result.

Karen Khadi: I might just take a question from the teleconference line and then return to the floor.

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

Question: (Frank Podrug, Merrill Lynch) Thank you, good morning all. I've got a couple of questions. The first is on MIRA, so despite deploying $A3.4 billion this half, the wait of money going into infrastructure has resulted in your un-deployed EUM going to near $A12 billion. Looking forward, do you think that fiscal or monetary policy is going to be a bigger driver of sector flows and valuations? Because it's possible we see an environment of fiscal squeezing and monetary tightening, what are your thoughts there?

Nicholas Moore: Yeah, well I'll probably hand over to Shemara. It's a big macro point obviously, there's a lot of discussion in terms of monetary policy turning around and interest rates perhaps moving up. I think we've all got personal views on that, but Shemara, in terms of the demand we see out there for infrastructure product and what its medium term future will be.

Shemara Wikramanayake: Yes, as you saw, we raised $A7.4 billion in this half, so that's a little bit why our dry powder, as we call it, is stepped up to close to $A12 billion. That spikes up and down as we have because the fundraisings are happening every three or four years and we had our fifth European fund raised and closed, we had a first and final close in June/July this year. So that's why we have a lot of dry powder at the moment. It is a bit reflective of the point you're making which is we're in an environment where we're in a low return world and investors are really trying to chase superior returns for good risk and alternatives is the places where they're allocating a lot of money, particularly real assets.

So we're seeing, because of what's going on in the macroeconomic backdrop, a lot of money flowing to our asset class and because we are the largest in the world performing manager in that class, we're seeing a lot of demand for our products. For that particular European fund, we had demand well over the hard cap on that fund and managed to get investors to agree to a small increase on the hard cap on that fund. We're very conscious of not just grabbing all the money because we don’t want to risk style drift and we don’t want to be capricious in terms of taking more capital than we think we can invest at good returns in that particular period.

We are still managing to get invested in the big developed markets at good returns for our investors, despite there being a lot of liquidity and a lot of money chasing these assets, for a whole bunch of reasons, but I think principally because we've been operating in these sectors for a long time and have big, very experienced teams that are sourcing principally proprietary investment opportunities for us at very good returns. We also are, as we are with all our divisions, trying to grow into new product areas where we can deliver superior returns to investors.

So in infrastructure we've been growing in, to up through managing into agriculture, which we think is going to be a big area of demand for institutional investors and also into real estate in nichee areas. Then across all our other divisions as well, we're really looking at this point where we've got a very, very good earnings base to be reinvesting it and trying to grow into other products and geographies.

I should mentioned Asia is a big area of focus in our infrastructure products as well, given the macroeconomic backdrop you were talking about. Asia is a place where we've seen better risk for return because there's less competition in investing.

Karen Khadi: Just in the middle there thanks.

Question:	(Richard Wiles, Morgan Stanley) Good morning. Richard Wiles, Morgan Stanley. Nicholas I'd just like to ask you about your thoughts on the dividend. It was up 19% on the first half last year, whereas the profit was broadly flat. So clearly the payout ratio has gone up. In previous years, last three or four, you've tended to pay a 40%/60% split first half/second half on the dividend. Could you comment on whether you think that split changes a little bit this year or whether you're deliberately pushing up the payout ratio? It would seem that, without an upgrade to the guidance for the full year that was a quite surprising lift in the first half dividend.
Patrick Upfold:	Do you want me to do this?
Nicholas Moore	If you'd like to.
Patrick Upfold:	Yes, so Richard, the dividend I think, if you're comparing it to last year because you've obviously mathematically got that uplift in the dividend, but as you'll recall, with the Esanda transaction at around that time last year and the dividend was held flat half-on-half and did not increase as we funded that transaction. If you look back a few years, you'll see that the dividend payout ratio in the first half has stood at around that mid-60s, low 60s, so it's basically the way it works out is broadly in line with the way we've paid in the past. So we don't really focus too much in that first half. At the second half the way you're looking at it, it's more that kind of consistency we think with what happened in previous years.
Nicholas Moore:	Yes and also note that the first half was a big step up in earnings coming through. 58% on the prior period, so there was this big step up, and a lot of it was those big performance fees we were receiving from MIRA as you'll recall at that time, a $A600 million plus performance fee in that first half. And so, in terms of calculating our dividends, obviously we have regard to that big step up that we've seen in the dividend and, as Patrick said, we were looking and actually investing capital in the Esanda business that was coming on at the time. So those features all played in terms of the Board's consideration as to what a sensible dividend should be.
Karen Khadi:	Just along, thank you.
Question:	(Brian Johnson, CLSA) Brian Johnson, CLSA. Two questions, and there are two subsets within the first one. Just on the tax, you're guiding that the tax rate will be the same for the full year as it was last year, yet it was well down in the half, which I'm guessing is probably because of the Life insurance gain. If you're guiding to the same rate, is that saying that we should expect a dramatically higher tax rate in the second half and, if so, why?

The next one is that I've found that the $A sensitivity has gone down from being a 10% decline in the currency - it used to be 7% to 8%, then it became 7%; it's now 6%. Is that 6% just because the Australian Life insurance or is it fundamentally get down to 6%?

And then the third question really does pain me: stockbrokers do it pretty tough, but your business seems to be doing it tough, and Macquarie doesn't really strike me as being a charity. I'd just be interested, what are you going to do about that one dramatically underperforming business? If we could just get some strategic thoughts on that, Nicholas.

Nicholas Moore: OK, sure. The tax rate, as you know Brian, is driven by where we are making income around the world, and so if you look at those places we make income, as you know our US tax rate's higher than the domestic one, the European one's lower and the Asian one's lower and Australia of course is 30%. Now, as Australis grows, as a portion of our income - obviously that's a 30% element - the US has been higher, it has moved around. So in terms of coming up with our estimate, we're basically thinking about a weighted average in terms of our earnings for the full year, and thinking it'll be around this sort of level.

But, it obviously will vary, and it will vary with currency, it will vary in terms of how the different instances around the world are determined. So, as a guide, we think this is the best guide we can provide at the moment, but you're right, it does move around a little bit at the margin, but it is a small, I mean it's relatively small movement in terms of what happens. So last year, I think our tax rate for the full year was average.

Patrick Upfold: Just over 30%.

Nicholas Moore: Just over 30% and we're at 29% now and so there's a bit of a movement in it but not much. In terms of $A sensitivity, you're right: 41% of our income is in Australia, so that's the sensitivity you're referring to. The step up in Australia is because of the good work that Greg's doing in terms of growing the Australian business, the good work that Garry's team are doing in terms of growing the car leasing business, so that's part of it. But as well as that, as you mentioned, we had the one-off sale of the Life business, which meant that the 41% is probably higher than we would expect on an average basis.

So for the full year, as I mentioned, we think it'd be coming back within the 30% range, somewhere in the 30% and that then determines offcourse your sensitivity to the Aussie dollar. So when you think the Aussie dollar obviously it's where we're making income around the world.

In terms of Securities, you know a lot about the Securities business, of course. Our business in Australia obviously is a good strong business, it has been a good strong business for many years. Outside of Australia, particularly in Asia which represents 50% of the business, obviously has been challenged by market conditions over the last 12 months, I think we've been pretty clear about that. We've been clear about that for a while now. Now, what we were able to see last year when the markets actually did move in Asia is the amount of profitability we can derive out of that market in a relatively short period of time and remember the capital that is supporting the securities business, particularly the cash equity side of the business isn't all that great.

So I think we've been able to demonstrate in recent history - we don't have to go back too far - about the extent of the profitability of Securities business. We know our Australian securities business is profitable and we continue to make progress in terms of the derivatives business in Asia. You know, that continues to get better year after year and our trading platform is effective I think, Steve being profitable every year that we've been running that part of the business.

So trading has been profitable; derivatives we think will be profitable this year on an ongoing basis; cash equity's certainly profitable here in Australia - the position outside Australia is largely driven by Asia, which is very much impacted by market conditions. So, Steve and the team have been very active in terms of looking at the securities business, the footprint of the securities business, how best to serve clients in that business and to make sure that we do have a product that people are valuing and will pay for.

Karen Khadi: Okay, just the attendant at the back, thank you.

Question: (Craig Williams, Citi) Thank you, Craig Williams from Citi. The result I think today demonstrates that the Group continues to buy assets well and sell assets well and gains having a marked impact upon most of your major divisions. Can you please provide more colour on the revenue trends in some of your businesses, CAF firstly, with income sort of down 3%, loans and lease balances up strongly in the past year - as you noted. So why was there not more benefit perhaps from the acquisitions, as perhaps the investors had been expecting? On BFS incomes are well down - less the Life insurance gains despite the sort of growth in funds of 33% loans and deposits. So why was perhaps more particularly the Wealth Management income down 6% year on year despite the AUM growth? On the CFM business, with net interest in trading income down half on half and year on year - despite the impact or the timing of Brexit during this period - perhaps what's sort of kept revenue down in that please?

Nicholas Moore: Well, let's talk about the trends - and I think we've covered this in Jonathan's question a little bit earlier, but this is going through it again. Starting with MAM, we've broken out obviously the step up in terms of the assets under management there and in particular Shemara detailed the demand for the infrastructure product and the $A12 billion of unspent capital. So from a MAM viewpoint, hopefully it's pretty clear in terms of what the revenue trends will be there from a medium term viewpoint.

From a CAF viewpoint - as we mentioned - we've seen the step up, and as you can see in Patrick's chart, the step up contribution from the Esanda and the AWAS are transactions. That's entirely consistent with what we expected when we bought the business. Where we - as you can see in Patrick's chart - where we're actually down in CAF on where we were this time last year, using the Lending business where the realisations have been lower for the half, than they were for this half last year. But as we've said, for the full year we expect those realisations to be consistent this year with where they were last year if that makes sense?

From a BFS viewpoint, the underlying trends should be very clear from Patrick's chart that we had that $A48 million extra income coming through for the half out of the underlying businesses within BFS. So that's our business banking - you will recall that that's growing consistently year after year in terms of our deposits and our lending. So that's increased its profitability.

In terms of our wealth business, our wrap platform is up - as we say in there - 6%, but it has grown in recent years and we're seeing increased profitability in there. Our mortgage business and book actually is flat. Even though the book's flat we've seen increased profitability, because obviously it's grown in prior years. So I think across BFS - and that's why Patrick provided those waterfalls actually illustrating that growth is taking place and we can then separate - as it were - the one-off impact in terms of the project expenses and the sale of the Life business, to actually provide you with a good indication as to the drivers of that business, which are positive.

From a Securities business viewpoint, we've talked about that. From a MacCap viewpoint, as we've mentioned in our short-term outlook we think we have a good pipeline in terms of the investments that the team are making, the developments the teams are engaged in here in Australia and around the world.

From the CFM viewpoint it's been a very positive story for the half, I think you can see, and it's strongly up on where we were six months ago, strongly up on where we were 12 months ago. Impairments are down, but also we've got good flows coming through from a customer viewpoint in terms of each of the different divisions. So that's why we've provided - part of the reason we've provided those waterfalls to you - to actually, so you can break out what's happening from an underlying viewpoint in terms of the trends in the business. You can perhaps extrapolate those going forward.

Karen Khadi: We've just got a question on the teleconference, I might take that and then take a question from the floor. Thank you.

Operator: Thank you. The next question is a follow-up from Frank Podrug from Merrill Lynch. Please go ahead.

Question: (Frank Podrug, Merrill Lynch) All right, thanks guys. Sorry, just a second question. The one on CAF. The Lending portfolio fell again - it's now sitting at just over $A8 billion and that reflects the current environment? How did you think about the return versus growth trade-off here, and what do you think are the catalysts that could make the market really attractive again? I mean is it simply the higher rates potentially squeezing the liquidity and setting spreads higher?

Nicholas Moore: Well, that's a good question. I mean one of the interesting things and Ben gave a presentation in February of this year at the operational briefing actually, showing credit spreads and demonstrating I think that credit spreads really came in from the time of the crisis to about 2010. They hadn't really contracted a lot since then. Now they probably have contracted I would guess over the last six months somewhat, but not particularly dramatically. So overall yes, credit spreads are coming in, but it's not probably the determinant. The determinant is how good we are in terms of actually sourcing interesting activities in the marketplace.

Now as you can see in terms of the new business that we're writing - we are writing new business - we're continuing to be active out there. But it is at a lower level than we saw this time 12 months ago. That's an unarguable fact. So I wouldn't necessarily draw too many conclusions with what we've seen over the last 12 months, but it is right that credit spreads have come in somewhat. That's not the prime driver, it's more the actual underlying activity level.

As we've said before about this business, it's not a relationship driven business - most of our businesses are relationship driven. This isn't a relationship driven business, this is very much looking at the returns we can get from deploying capital in sensible positions.

Question: (Frank Podrug, Merrill Lynch) Right, thank you.

Karen Khadi: Just a question from the front there thank you.

Question: (Brett Le Mesurier, Velocity Trade) Thanks, Brett Le Mesurier Velocity Trade. A question on the Commodities and Financial Markets business. The capital applied to that has fallen from $A2.9 billion in September last year to $A2.2 billion this year.

Nicholas Moore: Absolutely.

Question: (Brett Le Mesurier, Velocity Trade) Can you comment on the reasons for that, and can we expect that capital to continue to reduce?

Nicholas Moore: Well, it’s largely as a result of - well, it’s a result of a number of different reductions in book sizes, particularly our credit trading book in the United States. So partly as a result of the discussion we were having earlier in terms of opportunities out there from a credit trading viewpoint, there have been fewer opportunities, and we reduced substantially the footprint in terms of what we have on the balance sheet and the capital we have deployed in that business. In terms of the other businesses, Patrick, there has been some adjustment but not materially. Probably the biggest adjustment is in that credit business. Is there anything?

Patrick Upfold: Yes, the other one is, there were some equity investments which were sold down during the half and they're a dollar-for-dollar deduction in the Bank.

Karen Khadi: Just another question from the front, thank you.

Question: (Brian Johnson, CLSA) Brian Johnson, CLSA. Nicholas, it's been widely reported that Macquarie are down to the final two bidding for Green Investment Bank. Any comments that you could make on that would be appreciated, but just over and above that, could we get some guidance on what are the acquisition criteria that Macquarie look at, in terms of EPS, ROE, value accretion?

Nicholas Moore: Well, as you know Brian, we don't comment on confidential transactions. There's always speculation in the marketplace in terms of various transactions we may or may not be engaged with. We think in terms of our criteria for buying assets, plainly we do it having regard very much to the potential profitability of the business that we'll be bringing on board, and very focused on the risks.

So when we look at any of the businesses, and any of the businesses we've taken on recently, almost a starting point in how bad can this be if it all goes wrong? And then we say, well okay, what can the benefits be to the shareholders if this actually goes right?

Then we provide that detail of course to shareholders at the time, if there's any capital raisings or what have you necessary. So plainly, it's a balance. It's a balance having regard to the relevant business that we're dealing with and having regard to the opportunities that we seek.

There is no hard and fast ROE or EPS metric, obviously it depends upon that we'd be taking on in the various acquisitions, or the various assets we'd be looking at. So equivalently, a risky business, a risky asset, will need a lot higher return than a lower risk one.

Karen Khadi: Okay, looks like there are no more questions from the floor and on the teleconference. Thank you all for attending and dialling in today. For those of you who are able to stay, there'll be some morning tea outside. It would be great if you could join us.

A webcast of today's briefing will be on Macquarie.com later today. The next investor event will be the operational briefing, which will be in February next year. Thank you very much.

[END OF TRANSCRIPT]