TRANSCRIPTION

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[START OF TRANSCRIPT]

Sam Dobson: Alright well, we'll get started. Thank you very much for joining us for Macquarie's first half 19 results. Obviously, a special day. Not only are we reporting results but Nicholas's last results as CEO. This is Nicholas's 44th results presentation and my second so [laughter] [different occasion].

Joining us here today are Nicholas Moore our CEO, Alex Harvey our CFO and Shemara Wikramanayake our new CEO - incoming CEO.

With that - I'll just get to the correct slide - I will hand over to Nicholas. Thank you very much.

Nicholas Moore: Well, thanks Sam. As you've heard, it's my 44th analyst presentation and a very significant one for me. Thank you all very much for coming today and thank you - so many of you who have come here over the last 44 analyst presentations. It's very much appreciated. Thank you for your support and for following the story over so many years.

Now, as usual, when I do my presentations about Macquarie, I always start off with the five different groups at Macquarie. I've done this for the last 10 years because we've always made the point that to understand Macquarie you really have to focus on the five different businesses and see how they respond to market conditions differently. This was obviously very important when we started doing these presentations 10 years ago, when the financial circumstances were very variable, and we focused peoples' attention on those five different businesses.

I'd just like to pause at the beginning of our presentation just to acknowledge the group here, to many of whom are here today, and in terms of what they have been able to achieve over their time in terms of running these different businesses and a way of describing the five different businesses. I think that's important because I talk about the five different businesses at Macquarie but the second thing we always say at Macquarie is it's always about the people. It's about the depth of the management team. It's about the depth of the expertise across the broader group.

Our asset management business as you know, Shemara has been heading this up for 10 years - a remarkable journey over that 10-year period. Back 10 years ago it was making about $300 million dollars a year and as you can see in the first half it's made $700 million. So, it's more than doubled just in one half compared with what it was doing 10 years ago. That growth is a result of a whole range of different initiatives that the group has engaged in.

A lot of organic growth from them. New review point in terms of new funds and new geographies around the world, as well as that selected acquisition including the Delaware acquisition that was made and more recently, the GLL acquisition in Germany and ValueInvest. Lots of growth taking place, driving the underlying profitability. As a result of the success of that, obviously Shemara is a very worthy successor in terms of stepping up and taking the role and I think everybody acknowledges her success in terms of not just the last 10 years, but more than 30 years at Macquarie in terms of growing the business.

Corporate and Asset Finance, when we go back 10 years ago, that was making about $100 million. Now, for the 12 months previous, you'll know it made about $1.2 billion, up more than 10 times. Now, that growth, obviously, is a result of the team there. The team being led by Ben and by Garry. They've grown both their businesses, Ben organically - all the people he's hired in - not just in Sydney but in New York and London and around the world. Growing those businesses, growing that book of business, growing that knowledge and being able to deliver year in year out a very good result in terms of the equity deployed and most importantly, building a very strong team that is taking us forward.

Certainly, with Garry's businesses as you know, motor cars here in Australia but a whole range of global assets including aircraft, including our meters, our technology business around the world. Some of those were acquired over the period but a lot of those, actually, were grown as well. An incredible story from a CAF view point, growing from a bit over $100 million to last year $1.2 billion.

Banking and Financial Services. Big step, obviously, since Greg has stepped up the 1913 - 2013 to [laughter] - we're not that old. It was 2013 when he stepped up to take over the business. As you know, before that Greg was the CFO of the group. Back in 2013 we had an enforceable undertaking in our wealth businesses. A lot of change obviously taking place in retail financial services in Australia over the while. We've seen a complete restructuring of the business, obviously complying with the enforceable undertaking.

The profitability back then again from a full year view point is less than what we've been able to achieve over the last six months. Not only have we seen a complete change of the business - the culture of the business, the structure of the business - but the profitability has stepped up. Of course, that places us very well going forward in terms of retail financial services in this country.

Commodities and Global Markets - Andrew is not with us today. As you know, he's based in Singapore. The commodities business, Andrew has run for some time. Ten years ago it was making about $700 million. It made $700 million for the first half. In terms of growth, we can see the growth in profitability, but that underestimates what's actually taken place inside it.

The business has changed and developed, particularly the growth of the energy business in the United States. Ten years ago, it was a very small part of the business. Now that's grown very substantially to very - it's benefited, obviously, from the revolution that's taken place in the energy businesses in the United States and we've been able to see that business grow and that talent grow. Again, very well positioned for the future.

Macquarie Capital under Tim Bishop's leadership since 2012. It made $85 million in 2012. As you see in the first half it's made more than $400 million. In terms of where that growth and earnings have come from, and again, growth in the underlying business that's driving us forward. Growth, particularly in terms of the United States, Tim obviously in his career spent a number of years running that business in the US, building that business in the US. Very pleasing to see in the first six months the strong M&A and DCM income coming out of the US out of that business.

As well as that the principal side of the business, which we've obviously been - always been strong in infrastructure, seeing that growth take place in renewables, seeing that growth take place in technology and seeing that play through in the results today. As well as, of course, maintaining our very strong position in Macquarie Capital in the domestic market here in Australia and the global infrastructure market.

A great performance, a great business building performance by all the group heads, and of course they are supported by a massive management team, a great amount of talent, great amount of expertise across all the different business. A remarkable story and so when we talk about Macquarie you need to understand the five different businesses of Macquarie. The other thing you need to understand at Macquarie of course is the depth of the management expertise, the depth of the knowledge we have within the different businesses.

Turning to the results for the six-month period. As you would have seen, $1,310 million for the six months, up 5% on where we were this time last year. In terms of the drivers for the result, when you look at this chart you can see the net operating income was up 8%, expenses were up 12%. Both, as Alex will explain, were a little bit overstated as a result of an accounting change that took place over the period.

The reason - when you we look at our profit before tax, 1,705 compared with 1,704, just a small step up. The reason the bottom line has stepped up, you'll see, is a lower effective tax rate. You can see that's come down from 26% to 22%. That's obviously being foreshadowed in terms of the falling tax rate in the United States following through to our results here - largely as a result of that. As a result of that you see the profit for our shareholders up 5%. The earnings per share also up 5% - no new shares issued, obviously, over the period - to $3.88. We've declared a dividend of $2.15 again, up 5% on where we were.

The annualised return on equity is down slightly on where we were. That's obviously as a result of more capital, more equity out there, being driven of course by retained earnings as well as an increase in reserves, particularly our foreign exchange reserves as the Australian Dollar falls. Given we'd hedged our capital in foreign markets, the value of that goes up which flows through to the reserves. A pleasing first half result.

In terms of the five different business and what's driving that first half result, looking at the right-hand side of the page, looking at the capital markets facing businesses, you'll see a big step up. Up 95% on where we were in the first half. Up 6% in the immediate prior period. Now, these businesses usually have a bias to the second half. We obviously tend to make more money in these businesses in the second half, so very pleasing to see the strong first half performance.

The drivers for that, from a commodities viewpoint, is very much the energy market in the United States. We've seen good client activity driving that business in the United States, good market activity driving the energy business. Macquarie Capital, very strong performance coming through as I mentioned, particularly in terms of what's happening in the US from an advisory view point. As we highlighted, we had a good pipeline of principal realisations we expected and we're seeing them flowing through. They're flowing through in the areas that we've highlighted to you before in terms of renewable energy and technology in particular.

From the annuity-style businesses, we're up on where we were in the second half of last year but down on where we were this time last year. The reason is - the reason we're down on the first half last year is explicable, largely driven by the lower performance fees in MIRA. As you know, the performance fees in MIRA swing around. On a long-term basis they're very regular in terms of their contribution, but in terms of where they fall half on half and year on year, they're somewhat irregular. It's that performance. We got a good performance fee in the first half but less than the very strong performance fee that we got this time last year.

With Macquarie Capital it's very much about the principal book. The Principal Finance book and again the recognition of income in that book tends to vary half on - half on half.

Banking and Financial Services up and up for all the underlying drivers of the business that we've talked about before and we'll talk about again in a second.

Now the next chart talks about our history over the last five periods. You see all of them, a very straightforward growth story coming through with operating income you can see stepping up 8%. Profits up 5%. Earnings per share as I mentioned up 5% and dividends per share of course up 5% as well.

Assets Under Management - there's a good step up in Assets Under Management. You can see up 11% on where we were six months ago, so a good story coming through there being driven partly as a result of currency. Obviously a lot of our funds are in international currency so as the Aussie dollar falls the values of Assets Under Management goes up. But as well as that we've got the two acquisitions we highlighted there, the GLL Real EstateGLL Real Estate Partners are in Germany and ValueInvest, another asset manager that we bought in Luxembourg over the period. So a good story in terms of Assets Under Management stepping up to a record amount, about $551 billion.

The next slide shows where we actually make income - where we made our income around the world. Australia of course still the most significant operation for us at 33% of the total revenue. You can see almost half the staff - 6600 people based here in Australia - reflecting of course that this is our head office and also reflecting the retail businesses we have here in Australia.

America, the next largest in terms of contribution - 31%; Europe 27% and Asia 9% - 9% in terms of revenue but you see the number of staff there - 3600. They're providing services for the broader Macquarie Group here in Australia and of course around the world. So a big contribution in terms of the services being delivered.

On this slide we also break out the assets in Shemara's area that we have under management around the world. Significant amount of assets as you can see. Also we break out the number of people that these assets are employing, making very material contributions to all the different communities that they're operating in and also showing the size of the task from an asset management viewpoint.

The next slide we have is the change in the mix of that income over time. As you can see it's been pretty stable in terms of the relative contribution. You can see Australia on the left hand side, pretty level; Asia pretty level. You can see the growth that's taken place in the United States in recent times and again the growth that's taken place in Europe. So a healthy story coming through there.

Now turning to the five different groups we have starting with our largest group, our asset management group, 29% of the Group's contribution as you can see here and as I mentioned a record amount of Assets Under Management at $550 billion. In terms of the profit contribution on the first half as I mentioned it's down on where it was in the first half. You'll see the reason for that when you look at the performance fees. Good performance fees in the half we have just finished, $282 million but less than the very large amount we had this time last year of $537 million. So performance fees provide always that natural volatility period on period. But when we look at the underlying drivers of the business there, very healthy story continuing to flow through.

So in terms of a mirror viewpoint, in terms of Assets Under Management you can see that it's up to a record amount of $105 billion primarily due to the acquisition of the GLL Real EstateGLL Real Estate Partnership that we mentioned before. But as well as that, very active in the market, so $7.8 billion worth of new capital being raised from the market. Importantly it's important to raise the capital but also invest it - $6.6 invested and invested well. You can see $7 billion coming back to investors over the period. Good return for investors of course fundamental to our business. As a result of that we actually saw more income - more assets flowing in of $7 billion flowing in over the period. As of 30 September, 2018 we had $16 billion to deploy in that business. As we say there we continue to be the number one infrastructure asset manager globally.

From a MIM viewpoint record Assets Under Management at $363 billion. We note the ValueInvest acquisition. We also note the strong performance again delivering for our clients in terms of delivering good investment outcomes for our clients across all the different strategies. Those good outcomes result in the flow that you can see in terms of the cross border distribution taking place.

Our smallest division within MAM is the MSIS division. We highlight there the ongoing success of our infrastructure debt platform. This is the largest infrastructure debt manager in the world. You can see the commitments there up to about $10 billion. So that's just grown in recent years. Very, very positive story in terms of what's taking place in that division.

Now turning to the CAF business. When we look on the left hand side in terms of net profit contribution it's down both on the first half and the second half of last year. As I mentioned that's very much driven by the timing of the recognition of income in the CAF principal business. When we look at the CAF principal we see the actual book is down in terms of size, in terms of the face value. But we've noted before even though the book has been coming in in terms of the face value, the actual equity at risk in that book is remaining pretty constant. So the amount of economic capital out there is continuing to be consistent. We note a number of new acquisitions there, note a number of realisations. At the bottom we also note the subsequent sale of the Energetics business in the United Kingdom. That took place after year end. So it will feature in the next half results.

From an asset management viewpoint - Asset Finance viewpoint I should say - you'll see the book is broadly flat in terms of where we were six months ago. There's sort of a couple of things happening there. We see that the big books of the motor vehicles is coming off slightly - aircraft coming off slightly. With aircraft that's very much driven by the natural depreciation that takes place in that book. Aircraft have a 25 year life. They have 4% depreciation annually so that book has come off 2% over the period.

Against that we see the growth taking place in these other asset categories that Gary and the team are growing. The telecommunications, the energy and the resources books grow. That growth is largely offsetting the small decline we're seeing in the other categories. So the underlying books of business are good - good performance coming through in terms of the bottom line contribution as I mentioned. A bit of volatility coming through in terms of the timing of the recognition of income there.

Banking and Financial Services all the arrows are pointing up as you can see. Very good and consistent performance coming through here again. When we look at the profitability, up 3% on where we were in the first half, 8% on where we were in the second half. We look at the drivers for that growth in profitability. We see from a Business Banking viewpoint the deposits are up 7% and the lending volumes are up 7% as well. Very important. Similarly when we look at the WRAP platform, again up 7% and mortgages up 10%. They're the underlying books of income that provide that profitability for us going forward.

In terms of the deposits we're always a liability-led organisation particularly from a retail viewpoint. We're driven by the growth in deposits. You can see the deposits up 8% over the six month period. Very pleasing driver of our future profitability in that business.

Turning to the capital markets facing businesses now and the Commodities and Gglobal Markets. Obviously a very strong profit contribution, as you can see there $700 million for the first half. As I mentioned if you roll back the clock 10 years that's what they were doing for the full year - 85% up on where we were 12 months ago. Strong performance. You can see there 70% of the profits coming out of the commodities markets. The commodity market particularly strong performance in those energy markets in the United States.

The other financial markets businesses though have had a good performance as well. Strong performance coming out of FIC. Credit markets are fairly level with where we were the preceding periods as we have been with the securities business, continue to be profitable. Futures continues to be a very good, reliable return for the Group.

Now turning to Macquarie Capital - a big step up in terms of profitability on where we were 12 months ago. You can see up 114% - $406 million. Both sides of the business as represented on this slide doing well. So in terms of the M&A, advisory and capital markets as I said particularly strong performance. Coming out of the United States and the business that the team has been able to grow over the last 10 years, delivering there. But also a good performance here in Australia. Of course you can see at the bottom, maintaining our very strong position here in Australia at number one for M&A and number two for ECM and globally of course that number one position in infrastructure being maintained.

From a balance sheet viewpoint we've talked before about our expertise, our expertise we have and our growing expertise in things such as the renewable space and technology. We see that flowing through in terms of the principal realisations that actually happened during the half. As we've said before we have a good pipeline we think going forward in this business.

Now turning to the balance sheet that underpins everything we do. Strong balance sheet. We've always had a strong balance sheet of course. You can see the step up that's taken place half on half. Importantly we always focus on that. All our term assets are funded by term liability. So we have more term liability than we do have term assets making sure we are match funding. You can see that stepped up over the period - an additional $6 billion worth of term funding. You can also see the step up in deposits taking place. I mentioned the retail deposits are up 8%. The overall deposits as you can see there up 9%. So strong balance sheet. Always strong. Continues to be strong.

In terms of our capital position we start on this chart on the left hand side looking at our surplus position from a Group viewpoint. $6.3 billion calculated on a harmonised basis adjusting for the APRA super equivalent of $2.1 billion. Drops our surplus position down to $4.2 billion as of March 2018. Rolling that forward to where we are at September 2018 you can see the movements taking place. Obviously you can see the payment of the dividend taking place of $1.5 billion. The MCN - the capital instrument that we issued during the year and we used to repay the other one, you see that's given us an additional $400 million worth of capital.

Of course the contribution that's taken place through the extra P&L that we've generated over the period as well as the movement in reserves I've referred to earlier. Good to see the actual business growth in terms of use of the capital in the underlying business. Very strong indicator of future performance from a Group viewpoint. That reduces our APRA surplus position from $4.2 billion to $3.4 billion adding on those super equivalents. On a harmonised basis, $5.7 billion. So we've come down from $6.3 billion surplus to $5.7 billion.

Now this time last year as you know we announced we had surplus capital. We said we were going to look at a buy-back. We were going to look at a buy-back to the extent we couldn't find other uses of the capital. This is what's happened to that capital over that period. You can see the businesses have effectively used about $2.5 billion worth of capital. Given the business has used this capital, given the strong feedback we had from investors, they'd prefer us to use the capital in the business rather than doing a buy-back. The buy-back has effectively come to an end today. So the buy-back - there is no buy-back going forward given we've actually used that capital in the business.

You can see where we've used the capital in the business. A little bit of the capital has been used in MAM over the last six months. CAF you can see broadly flat; BFS reflecting the growth we talked about before in Greg's business up $100 million. CGM up $500 million partly as a result of currency obviously moving that. Macquarie Capital you can see the step up in terms of capital reflecting the activities that they're involved in particularly in this renewables space and technology space.

In corporate - you see a step up in capital usage in corporate. That's largely reflecting the transaction we signed up with the state government for the redevelopment of - or the development I should say - of the Martin Place metro station. That's under where we're standing today. There's a new station going to be built here.

Behind us there will be a new building built there which will be the new Macquarie head office in years to come. The building we see in front of us being pulled down will also be part of the development as well. So our team in Macquarie Capital worked very hard and put that whole development together.

That has resulted in the use of capital from a business viewpoint you can see on this slide.

In terms of our regulatory ratios - continue to be strong. Of course this is the CET1 ratio for the bank. You can see we're at 10.4% in terms of where we stand today, 13% on a harmonised basis. That's adjusting for that APRA super equivalent. In terms of the overall leverage ratio for the bank the requirement as we know is at 3%. On a harmonised basis we're at 6.4%. Adjusting for the APRA super equivalent we're at 5.6%. The LTR ratio you can see 159% compared with 100% and the NSFR ratio 110% compared with the requirement of 100%. So strong ratios. As I mentioned before we declared a dividend of $2.15. It's franked to the extent of 45%, up 5% on the $2.05 that we had this time last year. The record date is 13 November 2018 and the payment date is 18 December 2018.

That's a payout ratio of 56%. The interim payout ratio, as you know, tends to be lower than the full year. The full year policy remains the same as paying out dividends between 60% and 80% of the profit.

We've also announced a new Board member today. We're delighted that Jillian Broadbent has agreed to join the Board effective 5 November. I think many of you in the room will know Jillian. She's got a very distinguished history in Australian finance, including stints at Bankers Trust, the Reserve Bank of Australia and a whole range of other institutions in this country. So we're delighted she's agreed to step up and join the Board.

We did announce 28 August that Phil Coffey joined the Board. Phil again has a very distinguished history in finance in this country, including Citibank and Westpac, and of course you know about the succession where Shemara is stepping up and taking on my role at Macquarie. I'm delighted with her appointment. I'm sure she's going to take Macquarie to great places in the future.

Other staff changes announced today include Martin Stanley. Martin Stanley has been running the MIRA business for a number of years. He's been with Macquarie for 14 years. He's made a great contribution to the growth of the MIRA business. He's now stepping up to take Shemara's role as the head of MAM.

In terms of - MIM will be reporting through to Martin. Martin will continue to be based in London running the overall global assets management business.

We've also announced that Ben Brazil - after building the business for the last 10 years in terms of CAF Principal Finance will be stepping down. He'll be succeeded by Florian Herold who's based in London. Florian has been the joint head of that London business for the whole period that's Ben been running the business. A great contribution in terms of the profitability of that Group and Macquarie more broadly.

We're delighted that he's agreed to step up and take on Ben's role. He'll be joining the Executive Committee. He'll be actually moving here to Sydney to take on that role. Ben will continue in that role as the - so will continue to be the Chairman of the Group going forward.

We've also announced a slight realignment taking place between the Groups, reflecting greater customer alignment in terms of the market segments the Groups are servicing.

So from a vehicle leasing business, our vehicle leasing business was at one stage very wholesale-focused. It's now become very retail-focused particularly with the acquisition of Esanda. As a result of that, that business will be moving over to Banking and Financial Services so we'll have all our retail businesses together.

MSIS which is a part of the MAM business will actually be largely moving into the Corporate and Asset Finance business. MSIS, as you know, funds other asset managers and also funds Asset Finance and those areas will be moving into the CAF business and the Infrastructure Debt Fund I mentioned before will be moving into the overall MIRA business.

Macquarie Capital has been able to grow a real estate asset management business in recent years. So MIRA has also grown and Real Estate Asset Management business and particularly with the acquisition of GLL, which is a German real estate asset management business, we've decided to bring all those real estate asset management businesses together within MIRA. So those changes have been announced today.

Now with that I'll hand over to Alex to provide us with further details of the result. Thank you.

Alex Harvey: Well thanks Nicholas and good morning to everyone in the room. As Nicholas said, I'll provide some more detail in relation to the financial results for the half.

Starting with the Income Statement, the key drivers for the half, net interest income and trading income up 18% on where we were in the prior corresponding period. A couple of key drivers there. Increased contribution from the CGM commodities business particularly being driven by client activity and improved trading conditions.

We saw the growth in our deposits and Australian loan books particularly in BFS and that's coming through the result. In addition, they were offset by the reduction in the contribution from the CAF Principal Finance business in the first half.

From a fee and commission perspective up 4% on where we were in the prior corresponding period. We saw an increase in the commission contribution in futures. We saw improved volumes and commissions in relation to our cash equities business particularly in Asia Pacific. We also saw some ECM income coming through the Commodities and Global Markets business.

M&A activity up, ECM activity up for Macquarie Capital and very pleasingly the DCM, the debt capital markets activity in the US also up for the period against the prior corresponding period.

You'll see also - and I'll come to this in a little bit of detail in a moment - there's an increase in income in this category following the adoption of the AASB 15 which is a new accounting standard for recognition of income from customers. That increase is offset in an increase in brokerage commissions and trading related expenses, so we thought we'd break that out for you in a moment.

You'll see the share of net profits of associates and joint ventures down on the prior corresponding period. Last year that's where the development expenditure that Macquarie Capital's undertaking particularly in its green development activities and infrastructure development activities. Largely that's coming through, those expenses are coming through, that line that's primarily responsible for the reduction.

Credit and other impairment charges down on the prior corresponding period. We didn't see the repeat of some impairments that we took in the first half of '18 from central legacy positions, but also we're seeing improved conditions across the board. So a reduction in credit and other impairment charges there; much more a feature of the result. From an operating income viewpoint therefore up 8% for the period.

Employment expenses up 9% and a few contributions there. Obviously unfavourable exchange rate movements over the period of time. We also saw a step up in our share-based payments expense which is really just a reflection of the movement in the Macquarie share price between the grant date for MEREP and the issue date. In addition, we saw a higher average headcount across the Groups.

Other operating expenses also up during the period which is a reflection of an increased investment or continued investment in technology, as well as the business activity that we're seeing occurring across the Groups. So overall operating expenses up 12% for the period.

Operating income before tax and non-controlling interest broadly in line with where we were for the first half of '18.

Income tax expense down 17% for the period. That's a reflection of the reduced tax rates in the US, the geographic composition of our income and also the nature of the income coming through the Group. So down 17% to an effective tax rate of 22.2% for the period. So overall net profit up 5% on the prior corresponding period.

As I said, we thought it might be useful just to break out the movement in operating income into a little more detail. You can see the figure of $141 million coming through operating income there. That really is following the adoption of AASB 15 which is a new accounting standard we've adopted from 1 April this year.

That $141 million represents fee expenses relating to stock borrowing and certain other recoverable expenses that were previously presented net of associated revenue. Those expenses have been reclassified into operating expenses. The other income growth is really the business activity coming through the Groups.

So if you look at that from an operating expenses perspective again we've broken out the contribution of AASB 15. It's obviously just in and out from a revenue and expenses viewpoint. If you exclude that impact for the period, operating expenses on an underlying basis up 8%.

If you look at the income statement by operating groups, you see a significant step up in the contribution from the Commodities and Global Markets business, and also an increase in the contribution from Macquarie Capital, offsetting the decreases from - they're not expected decreases from MAM in relation particularly to performance fees and investment related income, as well as Corporate and Asset Finance in terms of the timing of realisations.

I think the real story on this page of course is the diversity that you see coming through the five operating groups across Macquarie.

Turning now to a little more detail on each of the Groups. Macquarie Asset Management you can see performance fees and investment related income down. Lower performance fees - we had a significant performance fee result in the first half of 2018.

That wasn't repeated in the first half of '19 - performance fees $282 million versus $537 million - so those declines are coming through the operating income, offset by an increase in base management fees. Both in terms of increased deployment of equity in the MIRA business, as well as acquisitions on the GLL Real Estate platform and the ValueInvest platform coming through in this period.

Income expenses up - $79 million of underlying expenses that really relate to the growth in headcount associated with GLL and ValueInvest, as well as headcount increase to support the growing activities of the Group around the world.

Key drivers for MAM of course is the AUM; up to $550 billion. MIM benefitting from foreign exchange movements during the period, as well as the acquisition of ValueInvest and market movements, and of course MIRA benefitting from the acquisition of GLL and some deployment of capital during the period. So $550 billion.

The equity under management which is the key driver of the performance of the MIRA business, very pleasingly up 23% for the period. You can see that's $7.8 billion of new raisings. That's across our activities in Europe, the Super Core Fund. It's across our activities in the US and also capital raising associated with some acquisitions that were undertaken in Europe, particularly the CDC asset that we talked about previously.

You can see the contribution from the GLL Real Estate platform - $9.3 billion. So overall just under $106 billion of equity under management in the MIRA business.

Turning to CAF. The CAF Principal Finance business was down on the prior corresponding period and that really reflects the timing of realisations in that business, as well the running income. The book size has obviously been declining in that business and decline again this period, so that running income is slightly less than it was in the prior period.

From an Asset Finance viewpoint broadly in line with where we were, the aviation business produced a slightly lower contribution and that was offset by an increased contribution in energy and in the resources components of the Asset Finance business. So overall down from $619 million down $437 million during the period.

The Asset Finance portfolio broadly in line. You can see - I think the real story here is again the diversity I think that's coming out in the composition of the Asset Finance book. So we saw some decline in aviation which is largely depreciation coming through, that business decline in motor vehicles which is a runoff of the Esanda acquisition and then they were balanced out, or partly balanced out, by growth in energy and growth in resources. Of course you see the international nature of that business with the foreign exchange movements coming through as well.

From the Principal Ffinance viewpoint, the book came down 13% from $4.7 billion to $4.1 billion at the end of the period. The composition of that book is obviously changing. The Group continues to invest across the capital structure, so the capital utilisation - that business hasn't changed much over the period.

I think interestingly you can see that the portfolio is invested in sectors where Macquarie has a longstanding expertise: corporate real estate, mortgages, infrastructure, health, education, transport and so on. So those sectors that are very familiar to us all.

Turning now to Banking and Financial Services. A strong result for the period. We saw personal banking volumes up 18% from the prior corresponding period. You can see that coming through the number. Also business banking up 12% in volume and average deposit growth from business bank up 6%.

You can also see that higher funds under administration on platform by 11%. So really a strong result in terms of the underlying books of business in BFS.

Partly offset by the increase in expenses - a couple of components there. An increase in average headcount over the period of time. Also an increase for a continued investment in technology investment in terms of providing those really high quality services to our clients. So overall up 3% for the period.

Underlying drivers of the business all heading in the right direction, all moving from bottom left to top right, so that's a great sign in terms of the annuity-style of the business and our future in terms of the performance.

From a Commodities and Global Markets business, the first of our capital markets business, obviously a very strong period up to $700 million for the half. Key drivers really on the commodity side, you can see a strong result from our risk management activity, that's really us providing price management, hedging type solutions, particularly across global oil and gas and agriculture.

We saw some increased client activity and trading opportunities as a result of that. We saw an increased contribution from the lending and financing activities. Particularly we're seeing some opportunity to deploy capital in the upstream oil and gas sector which is pleasing to see coming through.

The final thing of course is the significant contribution from the inventory, storage and transport component of the CGM or the commodities business. That part of the business we're providing support for clients, moving commodities from producer regions to consumer regions, particularly North America in gas where we're seeing a big step up in production, and the infrastructure story in particular hasn't really kept up with the increase in production. So we're seeing opportunities to actually help clients relieve those infrastructure constraints and you're seeing that come through the inventory and storage part of the commodities business during this half.

We saw continued strong contribution from our [fixed] business, particularly in foreign exchange, in providing foreign exchange solutions to clients in Japan and the US and the UK and so we've seen that opportunity during this half which is a continuation of some of the activity we saw in the last half. We've been particularly pleased to do some more work for our private equity clients in various parts of the world.

Our fee and commissioning come up from futures, cash, and also we see an improved result from ECM coming through the result. So overall a very strong result for CGM for the period.

We talked about this before, obviously the client base is a key aspect for the CGM business and we see a stable client base over all the categories, both obviously commodities, financial markets and cash equities. That client activity, that volume of activity is really driving the performance we're seeing coming through that CGM business. The opportunity to provide solutions particularly across pricing, funding and obviously that supply chain management, that's the logistics solution that you're seeing coming through very much in our US North American gas and power business.

From a Macquarie Capital viewpoint, a really pleasing result from an M&A perspective, we're seeing increased contribution particularly out of Europe and also the US. Also seeing a step-up in ECM activity, particularly in the Asia Pacific region, and really pleasingly we're seeing an increased contribution from our debt-capital markers business in the US. The business has obviously been built over recent years and it's great to see the team actually producing a really strong result, so we're very pleased with that.

You see investment income up, that really reflects the continued disposal of some of those assets in the green energy sector and the infrastructure sector and of course some reclassifications and disposals in our technology investing activity that I think everyone is well familiar with. So a very strong result from Macquarie Capital, a $406 million up 114% on where they were this time last year.

One of the key aspects obviously of the business is the capital that we're investing alongside our clients in Macquarie Capital, you can see it's stepped up by $700 million over the period. If you look at the chart there, the box above investments, you can see where that's being invested. It's really in the green energy sector, largely in Asia and also in Europe.

Then you see the infrastructure story which is a long-standing story for Macquarie Capital developing infrastructure assets around the world, the real estate platform business and of course the step up in DCM capital - capital attached to our DCM activity, and you can see the benefit of that increased activity in DCM coming through the results.

Turning now to some of the broader corporate issues. Costs of compliance up again on both the prior period and the prior corresponding period. Obviously compliance, the industry continues to see an increase in regulatory initiatives and that's flowing through both to projects where we spent $64 million for the half and also business as usual. That really is a feature of our results and we've put that in there previously.

From the balance sheet perspective, a couple of things I thought I'd highlight here. Firstly the term funding raised during the period, $5.9 billion. It's useful to highlight the $3.7 billion of the MGL loan facilities, excitingly this was a £2 billion or AUD$3.7 billion green loan that we did earlier in the period.

Very excitingly it's the first green loan under the green loan principles and I guess there's a continuation of that story of renewables not just featuring in Macquarie Capital and MAM but also in [CAF] and across the group more generally. So it's an exciting initiative. Nicholas mentioned the Macquarie capital issue of $1 billion over the period.

Diversified issues strategy, same story you've heard previously, diverse from a currency viewpoint, a [tenure] viewpoint and of course the type of issuance very important. Average weighted maturity 4.6 years for maturing debt - maturing funding beyond one year, so well diversified funding strategy.

Customer deposits continue to grow, it's been a long story of course, in this period we saw customer deposit growth of 9% which is an important feature in terms of funding the ongoing growth in our BFS business, so it's very pleasing to see.

The loan lease portfolio is up about $5 billion from a funded viewpoint over the period of time, and you can see in the middle of that slide, most of that growth is the increase in retail mortgages in BFS as well as the increase in business banking that I referred to earlier.

From the equity investments viewpoint, $6.8 billion at March down to $6.3 billion of equity investments on the balance sheet as of 30 September. That move is largely the move of the Cadent Gas asset within the mirror business, from the balance sheet to the Macquarie Super Core Infrastructure Fund in the UK. So that's most of the step-down in equity investments over the time.

In terms of regulatory update, a couple of things to highlight here. Obviously APRA is yet to release the final standards for unquestionably strong, there's nothing in particular to report here other than of course we've maintained Macquarie's surplus capital position remains sufficient to accommodate likely requirements.

We thought it would be useful to put an update in relation to Brexit. We are progressing applications with authorities in both Ireland and in Luxenberg, those discussion are well-advanced and progressing well. We anticipate those successfully reaching conclusion in due course.

I thought it would be also worthwhile point out of course that we do have a long-standing commitment to the UK. We have been doing business in the UK for 29 years and we have 1400 staff in the UK and of course that will continue to be the headquarters for Macquarie's activities in Europe.

I note at the bottom Macquarie continues to cooperate with German authorities in relation to the historical German lending transaction in 2001. We made an announcement about this both at the AGM and then subsequently on 28 September. There's nothing particularly to note but we just thought we'd repeat what we'd said in those earlier announcements.

A couple of accounting standards to note. Firstly, from the 1 April 2018 we've adopted AASB 9 which is the new accounting standard for financial instruments. The accounting standard that really moves us from an incurred credit loss model for provisioning purposes to an expected credit loss model. So we've adopted that formally from 1 April, so the first financial statements that are recorded on that basis. I note that the transition from those, from the old standard 139 to AASB 9 really comes through the adjustment to retained earnings and total equity you can see set out there on the chart.

I talked previously about AASB 15, there's an in and out movement of $141 million of revenue and $141 million in expenses, so they're grossed up on both sides whereas previously it would have been netted off.

From a capital perspective, CT1 ratio remains very strong on an APRA basis of 11% at the 31 March, 10.4% at 30 September. The movement down really reflects the increased capital utilisation in our CGM business and also a step-up in the capital in BFS.

Our strong liquidity position maintained in terms of cash and high-quality liquid assets and also LTR that Nicholas dealt with previously. From a capital management viewpoint, no buying occurred during the half and as Nicholas mentioned the share buy-back program has ended. I note that we are proposing to move CAF Principal Finance business and the transportation business to bank to the non-group.

That transaction is expected to be done on 10 December. It will be done post a shareholder meeting of MBL shareholders and that will include Macquarie income security holders who will also have an opportunity to attend and vote at that meeting.

The impact of that transfer on a pro forma basis is that MBL's CT1 ratio steps from 10.4% to 11.1% and we don't expect there to be - the expected impact on group capital requirements on a harmonised basis is negligible.

The Dividend Reinvestment Plan remains in place, the Board has declared that, and any shares issued under that will be purchased on market. So with that, I will hand over to Shemara. Thank you.

Shemara Wikramanayake: Thanks very much, Alex, and good morning everyone in the room and on the phone. I'll be covering the short-term and the medium-term outlook and kicking off with the short-term outlook, as usual we'll look at this based on the fact of it impact each of our side operating groups and then across the corporate level.

So starting with our largest annuity business and largest business Macquarie Asset Management, as Nicholas mentioned we have $550 billion of Assets Under Management at the moment but he also said that following a very high year of performance fees and investment related income net of impairments last year, we expect that figure to be down. But we expect the base fees to be up as you have seen in the first half, particularly following the very pleasing investments in GLL and ValueInvest in that business.

In the Corporate and Asset Finance business again as Nicholas mentioned, the leasing book which drives earnings there is broadly in line and that's what we expect to be reflected in the earning for that business. In the Principal Finance business, the loan book is reduced, but again as Nicholas said, it's the economic capital that's consistently been at a similar level. The earnings there are mostly driven by the timing of pre-payments and realisation, and we've just notified you that the energetic sale has been completed and will be included in the second half in that business.

In Banking and Financial Services, again, you've seen continuing the ongoing growth in the deposit, the loan portfolio and also in terms of the platform volumes, and that should drive business earnings in Banking and Financial Services, but that will be offset by expected NIM pressure as the year goes on.

Turning then to the capital markets facing businesses which are more contingent on market conditions over the year. We are expecting in Commodities and Global Markets that our strong base of customers will continue to drive consistent flows and earnings in our commodities, our futures and our fixed-income and currency businesses.

The cash equities business which moved into CGM two years ago and had a step-up in earnings last year, we expect to step up in earnings again this year. Finally, the business did benefit from the market conditions Alex described in the first half and that should also contribute to the full year. Finally, with Macquarie Capital, that's also benefitted from market conditions, as you saw in the first half, both in the advisory DCM and ECM businesses. We expect that to continue, together with a solid pipeline of realisations that we still see in the second half.

At the corporate level not a lot changing. We expect everything, including compensation, to remain consistent with historical levels, but the tax rate is the only place where we expect to see a reduction because of the composition of our business and the reduced tax rate in the US.

Putting all of that together we expect, overall, FY19 to be up 10% on FY18. That does not include a contribution from the Quadrant Energy sale, which is yet to complete and is subject to regulatory approval. Now, of course, that result, as always, remains subject to the completion rate of transactions and period end reviews and external factors that we can't control, like market conditions, foreign exchange, regulatory changes, tax uncertainty et cetera.

Looking at the medium term - and Nicholas has been saying this for all of his last 44 years of results, or 44 results - that we remain confident that we're well positioned to deliver superior performance because of the diversity of our portfolio mix and the deep expertise of our teams across many sectors, geographies, product lines et cetera. You can see that coming through in this half with the Macquarie Asset Management, Corporate and Asset Finances, Banking and Financial Services, annuity businesses continuing to deliver solidly, but the capital markets facing two businesses particularly having a strong half given the market conditions at the moment.

In addition to what happens in the operating businesses at the centre we focus a lot on cost management, and that means we invest to support growth, but we try to do that in a very efficient way. We also try to support the businesses by making sure we have a conservative balance sheet that's always well-funded in terms of both matching, but also providing surplus funding and capital to fund growth.

Then, importantly, what's underpinned our results for the last - nearly half a century is our strong risk management culture and framework. You can see all that in this last period and over the medium term, having driven very good returns on the capital we deploy. You can see on this slide that we have $9 billion of our capital deployed in our annuity-style businesses, and they have delivered over the last 12 years through many cycles an average of 20% return on equity and are currently delivering about 19%.

The capital market facing businesses, which at the moment have $7 billion of capital deployed in them, have over this past 12 years, which covered many cycles and environments, delivered on average 15% to 20% return on equity and are currently at the high end of that at 19%. Now, in addition to that I'd note on this slide that we have the $3.4 billion of surplus capital which both Nicholas and Alex referred to which drives the bottom line returns for shareholders all up.

Then, looking in terms of each of our businesses, I know we don't typically spend much time on this last slide, but I thought, given the transition as CEO, it was worth spending a moment to reflect on each of our five businesses and what it is really that they have in terms of the diverse capabilities and expertise that keeps us confident, but they should continue to drive earnings over the medium term, as they have done to date.

Starting with Macquarie Asset Management, as you saw, we're at record Assets Under Management of $550 billion, but the main thing that gives us confidence in terms of that business' ability to keep delivering through cycles is the very diverse mix we have across both strategies and geographies compared to any peers in that industry.

In our Real Asset business we're a leader in infrastructure and we, hopefully, have now positioned ourselves to have meaningful impact in real estate, which is an even bigger part of the real asset world than infrastructure. Coupled with that we have our public markets business in MIM, which operates across many geographies and strategies and, as you see, 70% of them outperforming their benchmark. We think that business is very well positioned to keep growing and delivering.

Then, in the Corporate and Asset Finance groups, we have two business lines there. In the Asset Finance business we focus on a few niche subsectors, being transportation, energy, telecommunications and resources and, obviously, motor vehicles was also in that business and is moving across into Banking and Financial Services to bring all our retail customer facing businesses in Australia together.

That business - just to give you some information on the depth of capability in some of those underlying areas we focus on - the aircraft leasing business, which I think we started, Nicholas, in the late '80s with leasing four aircraft to Australian airlines - we now have 196 planes that we own in that business and lease to 88 operators across 50 countries. We're one of the largest bank lessors in that business and positioned to really keep growing well based on the relationships and experience we have in that area.

In energy we're the largest owner of gas and electricity meters in the UK, where we've been pioneering the development of that sector. We now have nine million smart meters that we lease, with a lot of change happening in that sector and are positioned very well.

In telecommunications we lease over a million smart phones. Again, based on the relationships we're having with customers, the geographies we're in, the portfolio we have, we're very well positioned to continue driving adjacent growth in that area.

Then, in the Principal Finance area, I should mention resources as well. Being the smallest of those we're very well positioned in, but in Principal Finance - which is a business that Ben and his leadership team set up 10 years ago for us - they have not only built a new business for us, but they've made 570 investments throughout market cycles where, at one stage, they were investing in senior debt and preferred equity, and now taking much more equity like exposures in terms of where we are invested in the capital stack and focussing on sectors that are typically asset rich and infrastructure based.

The thing that's been admirable throughout that period is that they have delivered very consistent return on economic capital, very high and consistent economic capital returns throughout many cycles, which gives us confidence that were cycles to continue to change, that team is positioned to keep responding. I think particularly part of what then leads us there is the leadership team who's been investing with in North America, Europe and this Australasian region for the last 10 years and can keep driving returns there.

Banking and Financial Services. We are a small player. We have 2% of the mortgage market here. It's an Australian business. What we've always been there as an innovator and someone who drives competition. Going back to the early 1980s, when we set up the Cash Management Trust, and through that brought a wholesale rate to retail investors or, in the early '90s, when we introduced securitisation of residential mortgages here and brought low cost, more competition to the home lending market.

We continue to respond in that way and compete in that way. Today the big feature of what we do - that we are a digital bank. In 2017 we brought the first open banking platform to Australia, and we hope we ought to be serving the million customers we have in the growing numbers with solutions that really are tailored to them and, as a result, keep driving the strong rate of growth that we have and [inaudible] was just telling us the latest run rate there in our deposits, our loan portfolios and also the volumes on the Wrap.

The motor vehicle leasing business is also moving into that business to align with customers that are in - retail customers in Australia. They have 600,000 customers. There's very little overlap between the customer bases. Bringing these businesses together should let us service those customers and meet their needs much better going forward.

Then turning to our capital markets facing businesses, as I mentioned two years ago, the cash equity business moved into that group, which is headed by Andrew Downe. That allows us now to be able to service customers all the way from equities through to fixed income through to currencies, futures, commodities in an integrated open-end end-to-end offering.

Now, in cash equities, obviously, we're a number one broker and IPO player here. As I mentioned, since moving into CGM we've seen growing earnings, but we also, in futures and fixed income and currencies, have an excellent growing capability and presence there.

Then, in commodities, we've been in agricultural commodities for 20 years. We operate across all the soft and hard commodities, but particularly in energy, in oil and gas. Macquarie is the second largest physical gas marketer in the United States. All our peers are typically energy players who are strategic. We're typically in industries where we are bringing something that others are not.

Last, in Macquarie Capital, where I started my life, as you can see it also had a very strong half just like the Commodities and Global Markets business. There we focussed, as Nicholas said, in the advisory and principal side. We focussed again by sectors where we can bring deep expertise. They are infrastructure, energy, particularly renewable, real estate and telecommunications. We're more recently growing a great debt capital markets business in the US there.

Hopefully, that gives you a sense of the range of capabilities that we have across our businesses and the depth of expertise and the many decades of experience in building them to position us to understand the markets and keep responding. Speaking of that theme, I should finish up by acknowledging the contribution of one person to all of these businesses over the last three and a half decades. That is our retiring CEO, Nicholas.

Nicholas, we didn't rehearse this, so if you can bear with me for a minute. I know you'll be hating all of this acknowledgement of your contribution, but Nicholas - he really exemplified the Macquarie culture of empowering smart people to identify opportunity and get on with delivering on each for all our stakeholders, customers, staff, shareholders and communities.

I recall in the late '80s, when we all started, Nicholas really hit the ground running, in that we were all doing advisory work. When the foreign banks exited Australia he was the one who stepped up and led by Boston Australia, Chemical Australia back then. As we went into the '90s it was really Nicholas who pioneered infrastructure which is now a huge asset class and reflected in our asset management business, our Corporate and Asset Finance business, Macquarie Capital. Across everything we're doing, by that M2 Hills Motorway transaction and setting up the Hills Motorway Trust and spawned the big business there.

As we rolled forward, reflecting the huge contribution he kept making, in 2000 he was made head of the investment banking group that was put together. He continued to drive a lot of innovation and frontier breaking on his own, like the [BT] acquisition was led by him, the ING Asian equities business.

By the end of that period, by 2008, the businesses that sat under the investment bank - which Nicholas had taken a big role in building - were generating over 60% of Macquarie's income and now fitting businesses all around Macquarie, around the world and, more recently, continues to do this with his involvement in areas like renewables or supporting the retail banking offering and other retail motor vehicle offerings to acquisitions and organic growth.

Then, reflecting all of that, in 2008, of course, he was made CEO. The earnings growth in that period has been phenomenal, as you can see, from when he took over. A few things I'd reflect on that really was special in terms of that period as CEO that Nicholas has contributed is (1) in terms of - I talked about the risk culture and framework being very important. That was something when the financial crisis happened, but Nicholas really had control of and has driven ever since in his time as CEO, reflected particularly in that conservative balance sheet and having us positioned with the funding and capital to be able to respond as we did with the Delaware acquisitions and many other things that we - drove our business in the period since.

Another thing he did was articulate our complex business to our investors and the community very clearly through this reflection you see on this slide of grouping it into the annuity-style and the capital markets facing businesses.

The last thing I think that he did for us is also articulate for us, the staff and the whole world the culture of Macquarie in this opportunity, accountability, integrity, [praising] that he developed. I think that really encapsulates what the business is about, which is letting a lot of very capable people be empowered to go and identify opportunities for all our stakeholders, be accountable for executing on it in a disciplined way and make sure they always act with integrity in terms of what they deliver.

Nicholas, on behalf of a whole group of stakeholders, being, obviously, our staff, our customers, our shareholders of which I'm one and our communities - thanks very much for the lasting impact that you're going to have on this group and the enviable legacy you're leaving me to try to live up to.

Nicholas Moore: Thank you Shemara, that's very kind of you.

Shemara Wikramanayake: I think we'll hand over to questions now, thanks.

Nicholas Moore: Thanks Shem.

Sam Dobson: Thanks Shemara. We'll start with questions in the room and then we'll go to the phones. Let me start over on the side here with James.

Question: (James Ellis, Bank America Merrill Lynch) Thank you, it's James Ellis from Bank America Merrill Lynch. Just two questions. Firstly, in the commodities business it's a very strong result from inventory management, transport and storage there. Just wondering to what extent the contracts - they key contracts that underline - underpin the strength of that have now concluded or will they continue into the second half? Then secondly, in terms of the upgrade to the full year guidance statement - to what extent is that reflecting the strength of the result you've just reported and to what extent is it a more positive assessment for the second half, given…

Nicholas Moore: Just say that again James, I just missed the beginning of that.

Question: (James Ellis, Bank America Merrill Lynch) Sorry, the upgrade to the guidance for the full year, to what extent is that the strength of the result you reported for the first half and to what extent is it a more positive assessment for the second half that lies ahead, given the energetic start which will come through?

Nicholas Moore: Yep, well in terms of the contracts in place, obviously there's - it's a very broad business, the energy business in the United States, as you know. It's a combination both of the oil and gas business, and our team delivering - buying and delivering that gas and providing prices and finance for that gas and oil as it moves around the United States. Also, from a short-term view point doing that in the power sector as well. One is longer term or medium term and one is short term.

In terms of the contract for the energy and gas, there's a whole range of them, obviously. Whole range of different rolling positions that are going through there. I don't think, Alex, we could probably - I mean, it's continuing. There's nothing I don't think that's finished but it's not one or two contracts it's a whole range of different elements of the business. Other than that, Alex if you'd like to add to that.

Alex Harvey: Yeah, I think that's the right characterisation. There's obviously a range of different contracts that underpin that inventory and storage business in the US. What is a feature, obviously, in the first half, we have seen increased volatility across a number of those underlying commodities. Increase in volatility from an oil view point, a gas view point and also a power view point.

That is partly a function of those gaps between - the production levels across a lot of North America are going up in places like Marcellus and Barker and you see the production levels going up but the infrastructure hasn't caught up with those production levels going up. That has created, if you like, price dislocations across the market and opportunities then for us to move product around the market with that infrastructure that we've actually secured - the pipelines and storage assets and so forth.

That's been a feature and obviously in the outlook we talk about those strong conditions in the first half.

Nicholas Moore: In terms of the outlook for the year, obviously it's a combination of both what's happened in the first half and in the second half. As we highlighted, normally the capital markets facing businesses are the strong performers in the second half. We'd seen strong performances for them in the first half but we're not saying that that actually is at the cost of the second half. Obviously, a good second half's there - who knows - but that's been taken into account as well as the annuity businesses, obviously, which are more reliable.

We've talked about some of the key features there. The performance fees in MAM and also, we talked about the realisation of income in the principal book and we've given an indication in terms of what that looks like in the - in this second half. It's a combination of what the first half looks like and where the composition of income in the first half, compared with what we're seeing now coming through the second half.

Question: (James Ellis, Bank America Merrill Lynch) Thank you.

Sam Dobson: Andrew. Either Andrew, that's fine.

[Laughter]

Question: (John Mott, Shareholder) John Mott, UBS. Just while we're talking about commodities, I might as well just ask a follow-up question. Usually when you see trading businesses like this have big spikes in profit, it's the result of one or two big events a few years ago - it was a [polar vortex] or something like that - that led to the dislocation and volatility.

Are you now seeing more regular movements as a result of the production exceeding the infrastructure, or was there any big events that came through where you have a $50 million or a few days where you're actually seeing a spike in profitability coming through, that drove a spectacular result in the last six months? Just wanted to get a feel, are we now seeing more regular small increments coming through that we should start to think, yes, profitability will continue to accelerate?

Or is it just we saw some dislocations, it's a couple of events, volatility in the underlying prices which is just leading to a couple of really good events driving the revenue higher in the period?

Nicholas Moore: It's a bit of a combination, I think, of both of those. It has been pretty consistent, but as Alex said, it's coming out of the - this revolution that's been taking place in energy production and transportation and storage in the United States, wherein capital gets invested to develop a resource, then the capital follows in the pipeline. Sometimes the pipeline gets invested first, sometimes the production.

So, because of this there is an ongoing - a greater need in terms of the underlying need to be locking in prices at the - both for the producer and for the consumer, and it's changing on a very regular basis. Is it more consistent than it has been in the past? The answer is, on a daily basis, yes, but it's coming out of a market that's constantly seeing investment and therefore, changes taking place.

Alex Harvey: I agree. The only thing I'd add is that one of the things we've been able to do, really the last decade or so, is actually - not only grow organically but also buy some business. If you look back at Cook Inlet, you got Constellation and in the last 12 months the other cargo acquisition, what that's actually enabled us to do is spread the regions in the US in which we're working. We're actually able to buy a business that was in the northern part of the US. In addition to the points the Nicholas has made around that movement in production levels versus infrastructure levels and that changing constantly, what we're actually able to do is grow the customer base that we're working with. That's a feature of, I think, the business in this period and should be a feature of the business going forward as well.

Operator: Go to Andrew Triggs.

Question: (Andrew Triggs, JP Morgan) Thank you, it's Andrew Triggs from JP Morgan. A couple of questions please. Firstly, on the guidance again, just in terms of what's assumed regarding timing of realisations. Obviously, Energetics will boost the second half. Is there anything assumed around Brussels airports within MIRA? The second question just on operating expenses. CapEx growth was around, I think, 8% ex the AASB 15 impacts.

Just as sense in that, obviously non-salary technology expenses growth was quite strong in the period, to be BFS project related. Just a sense of I guess what maybe the organic growth in OpEx was for the period and also just the more medium-term outlook there on costs?

Alex Harvey: Want to do that?

Shemara Wikramanayake: Sure. In terms of the second half, we talked about energetics being included. You asked about performance fees as well in Brussels. The sell process for Brussels is just getting going and we may have it completed in the second half but if we don't, we'll probably have a reasonable indication of what the valuations are and under the accounting standards we will have to recognise if there is any change in our expectation - if it's highly improbable with the reversal of what the valuation is. So, we could have some step-up in Brussels in our second half.

Alex Harvey: In terms of the expenses, maybe dealing with the first point, Andrew, first. The non-salary technology, there was a step-up obviously during the period. A lot of that is, not just in BFS where we're seeing investment in the digital platform, continued investment in the core banking platform, but also investment in our wealth platform. We saw the growth of the assets under administration there and we're continuing to develop the technology solution that underpins that business.

We also saw investment in CGM. Obviously, a business that's very global. It's a business faces markets and so we're seeing investment in data analytics, we're seeing investment in platform there to underpin that. The technology story is something we talked about at the operational briefing obviously earlier this year as a feature of the business and it's an important part of actually providing a customer service that's consistent with expectation. That's a feature now and I suspect we'll continue to see technology investment going forward.

Maybe in terms of the expenses more generally and it's worthwhile perhaps bringing up slide 28 if we can. Maybe just to talk to it. It's the - it's obviously the slide that was in my pack. You can see the drivers there. [AASB 15 at $141 million is an in and out and I talked about. From an employment view point, a couple of things are coming through there. Share base payments expense was up during the period and that's really a reflection of the movement in the Macquarie share price between the grant date of shares under MEREP and the issue date. That's one feature of the result.

The rest of that really is a step-up in average head count. Partly that's the acquisitions, the GLL acquisition, the ValueInvest acquisition and the Cargill acquisitions of last year coming through. Partly that's a step up in head count to support the activities of the business across the globe. Then obviously we just talked about non-salary technology and the other expenses are, to some extent, business related type expenses. With an expansion of activity you're also seeing professional fees and so on going up to support that.

FX is another feature. We obviously don't call out separately FX. We don't hedge income or operating expenses, but obviously from the expenses view point we've seen - if you look on an average basis - you've probably seen 4% 4.5% depreciation in the Aussie dollar exchange rate against most currencies. That's featuring as a component as well.

Operator: Andrew Lyons.

Question: (Andrew Lyons, Goldman Sachs) Thanks Sam, Andrew Lyons from Goldman's. Just a question on slide 20 and the $2.5 billion of capital deployed into the businesses over the last 12 months. I think in the past, that's certainly for Mac Cap, you've talked to a 20% target return on marginal capital invested, but can you make any comments on how you think about the expected or target returns across the other divisions and how quickly you think this can come through the P&L? Then also, slide 57 and the $3.4 billion of surplus that still exists, just wondering - just with some of the regulatory uncertainty that still exists, how much of that realistically could potentially be deployed?

Nicholas Moore: Well, I think we've said the share buyback program is over so obviously we think that there's no surplus capital available to be buying back shares at this stage, but as we've said before in terms of the capital generation of the business, we are generating capital all the time and we think that should normally be sufficient in normal circumstances. So, I think we're okay.

In terms of return on capital, it's probably good to look at the medium-term outlook. We provide a slide showing the capital returns we have at the various businesses - slide 57 - and we give a range in terms of what we - what we're doing at the moment which is about 19% as you can see. Then we show historically where it's been at - about 20% or 15% to 20%. Now, it obviously depends upon market circumstances, particularly as you rightly say with a capital market facing business, in better times obviously they'll be towards the end - the high end and then they'll be low.

That's return for shareholders coming through there so in terms of when you think about a return on asset, obviously you've got the costs against it, you've got profit share and all those sorts - and income tax and all those sort of factors are taken into account there. So, they're just - we don't give out precise numbers for individual transactions. Part of the reason is that we are very focused always to make sure that we look at every transaction on its own merits so it would be a terrible thing if we said it's 20%, whatever it is, if it's over 20% we'll do it if it's below 20% we won't do it.

Obviously, it's all about the risk that the underlying transaction represents. In our mind, almost every transaction will have its own required return to allow us to take the risk. So, I - that's - history is always a good guide but in terms of where we're at, at the moment, in terms of what the future will be, as I said we're not looking at it with a simple benchmark, we're saying every transaction has to meet the risks that we perceive in that asset today.

Operator: Thanks. Two more questions in the room. Andrei first.

Question: (Andrei Stadnik, Morgan Stanley) Good morning, [Andrei Stadnik] from Morgan Stanley. I just wanted to ask two questions. Firstly, in terms of your [inaudible], particularly in asset management. Asset management fees globally have degraded significantly. Are you now more likely to be exploring those opportunities? My second question is around the benefits you are seeing from the Green Investment Group acquisition. What are some of the benefits that you've had? For example, are you in a position to launch renewables funds in MIRA or can you point to some realisations in Macquarie Capital.

Shemara Wikramanayake: Sure. I'd like to answer this. First of all, in relation to acquisitions in asset management. Asset management is a very people dependent business and so we are very cautious in terms of building acquisitions there. Obviously Delaware was the one larger acquisition we've ever done and we both had a very multi-group culture and it fitted very well in bringing the teams together, but even then it took us five years really to nail both cultures. Even in terms of bringing on smaller teams like ValueInvest, they will tell you that we spoke for 18 months to two years before we decided to come together.

So we're very guarded in terms of inorganic growth in asset management. Having said that, we always keep an eye on what opportunities there may be and certainly since the Delaware investment have looked at many and not proceeded. So I would say plan A is organic growth and plan B is inorganic growth but in a very measured disciplined way.

Then as far as renewables. As I mentioned, when I was speaking earlier, we see it as a very important area of growth across all of our businesses. So Macquarie Capital is very involved in investing on the principal side there and Macquarie Asset Management on the asset management. Cash is playing in the [inaudible] and on the leasing side [inaudible] principally we're investing there and it's an area in which we think, as we discussed at the Operational Briefing, we see a lot of opportunities for growth.

So we're trying to work across Macquarie with all our colleagues to think about where capital is needed and solutions are needed and bring all of our offerings and that does include growing renewables funds. We have obviously, from the Green investment, we have inherited some renewable focus funds and we expect to do more of that across all the energy sources in renewable and across a number of geographies.

Question: (Andrei Stadnik, Morgan Stanley) Thank you.

Nicholas Moore: I'll take one more in the room and then we'll go the phone lines. Brian.

Question: (Brian Johnson, CLSA) Brian Johnston from CLSA. Nicholas, on behalf of long suffering shareholders I would also like to congratulate you. [Can I just] say I think it's a pretty rare thing that in this environment we are actually congratulating a financial service's executive.

Nicholas Moore: Thanks Brian.

Question: (Brian Johnson, CLSA) With that being said a question just on the accounting for Adam. Just on Slide 26.

Nicholas Moore: Alex.

Question: (Brian Johnson, CLSA) Alex, sorry.

Nicholas Moore: It could be Adam.

Question: (Brian Johnson, CLSA) You talk about how basically the equity counter investment gains are down, but then the narrative is that you're investing. So are you actually expensing what would otherwise be capitalised?

Alex Harvey: Yes, so…

Question: (Brian Johnson, CLSA) What does that mean for the carrying value of those investments?

Alex Harvey: Yes, I think there's probably two points. Maybe just back on the share of net profits and associates, Brian, to start with. So that's down and the reason for that is a lot of the Green investing and infrastructure development investing done, particularly in Macquarie Capital, has been done in entities in which we have an associate interest and so there's expenditure going through those entities which we are expensing. So it's just developing projects, some of them are early stage projects, so that's going through the P&L as an expense.

In relation to the investment income. The investment income is obviously up and that's reflective of the disposal that we've seen, particularly in Macquarie Capital across the Green and the technology, disposals and reclassifications across Green investment. So when we disposed of wind farms, for the sake of an example, in Europe, our technology investments particularly in the US, so we have seen that come through in this half. So I think it's a combination of what we're doing in development. Largely we're expending, we're actually expensing that development and obviously the investment income is when we actually realise those assets.

Nicholas Moore: I think we've got two questions on the line so can we go to the phone lines please.

Operator: Thank you. The first phone question comes from Brendan Sproules from Citi. Please go ahead.

Question: (Brendan Sproules, Citi) Good morning. Look, I've got a couple of questions on the BFS division. Firstly, what do you expect the implications from the Royal Commission, I guess the increased regulatory focus generally on your ability to continue to grow this business at the same rate. Then secondly, what extent do you see scale and market size in key markets and I'm particularly referring to more the banking side here. Do you think that's more important now as we look forward than what it's been previously?

Greg Ward: Okay, maybe I'll get into the second one. Scale is very important obviously in banking and we think we've got the requisite scale obviously on the platform side, at $88 billion we're the second largest platform and growing really, really fast. Scale is really important there and we are seeing the margins there come under some pressure and that sort of says that scale will be even more important going forward. So we feel good about our position there and also the investments that we're making to prepare to be even more efficient in that place.

Then also in the mortgage space obviously scale is very, very important. I was just noting to myself and the team yesterday that our net book growth for the last year in mortgages of just under $8 billion is the same net book growth that we saw from ANZ and NAB in the last couple of days for their last 12 months, so we have quite a degree of scale in the mortgage space. Of course several years ago we invested in a new core banking platform to give us a real efficiency in the, obviously, the origination and the bookkeeping of mortgages.

I think scale will be very, very important and of course what we have done in the last five years in Banking and Financial Services is to cease a number of businesses here and also around the world. You've seen a number of exits as we have concentrated into a smaller number of businesses and tried to do those very, very well and to build sufficient scale.

In terms of the Royal Commission, well we have the interim report which poses a whole range of questions and we need to see where that ends up in terms of our particular businesses and we have a very small footprint of course. In the mortgage space, we're very focused on the role of intermediaries or mortgage brokers. We think they play a very important role and we want to make sure that that role is recognised. But importantly, that the renumeration of mortgage brokers doesn't lead to any perceived conflicts in terms of the important services they provide to customers.

We've already positioned our business in terms of all the call outs around referral payments or volume based incentives and things like that. So we think we are well placed in terms of the way we operate. We don't have an ownership interest in a big mortgage broking network so we don't think we have any conflicts in our business and we feel well positioned in that space.

In the business banking space, it's a relatively small business. We're not in the agri space, we're just banking white collar professionals. So we think largely that business operates well in compliance with all the relevant codes and so forth. So we think we're well placed there.

Interestingly for our business, in the wealth space, we've been consolidating down the business just now to be a private bank. So we won't do, going forward, large scale retail advice. The retail advice that we do will be ancillary to the advice that we give to high net worth customers.

So if there are significant recommendations in that space that we don't think will impact our business that much. And of course, in the platform space, the Wrap platform that we run has always been open architecture. So it's an open architecture platform. Less than 3% of the funds under administration on the platform are Macquarie managed funds.

So it's an open architecture platform. So to the extent there are recommendations around vertical integration and so forth. Again, we feel very well placed. So I think there'll be all sorts of things that could come out of the Royal Commission but we've been taking steps over some time to position us in a good space.

Operator: Thanks Greg. One more question on the line, we'll take that now. Thank you. The next phone question comes from Simon Fitzgerald from Evans and Partners. Please go ahead.

Question: (Simon Fitzgerald, Evans and Partners) Good morning. Thank you for taking my question. My first question relates to investment income and equity realisations. Granted a bit of this is covered in your guidance statements, however, if we look at Macquarie Capital for instance, $1 billion worth of net gains in the last two halves alone.

There's been a big drive in the first half from Macquarie capital. Innergex has been mentioned today. I'm just interested to know if you have any comments with regards to the current state of volatility in investment markets.

Is this something that could produce you know, some challenges in realising that pipeline in the second half? Or is what you're looking at certainly well in train at this point in time?

Nicholas Moore: Yeah, I mean I think it's well in train. Obviously, there is volatility out there and we always give our outlook subject to markets movements and things that we can't control. But obviously we've highlighted a couple of assets as you've mentioned. Energetics is completed.

In terms of Quadrant, the transaction is completed. We don't know, obviously, whether the ACCC is going to approve it. Then there's a range of other transactions, Alex, within the business that are at various stages of development.

Alex Harvey: Yeah, I think that's a - that's obviously the right summary. It's a portfolio of a lot of different divisions in a range of different sectors around the world. I guess the other point I'd make, just in terms of the volatility impact on outcomes, if you look at where a lot of the investment has been made, particularly in Macquarie capital, indeed in the cash principle finance book, it is in those sectors like green energy, like infrastructure, real estate platforms.

Sectors that obviously have - we have a long standing history in and obviously have some defence in characteristics. So it's much more around those traditional sectors than it is the more capital market space.

Nicholas Moore: But the underlying point you're making of course is right. I mean major market dislocation obviously would have an impact. That's what we always call out in terms of this short term outline.

Operator: Okay. No more questions on the line. Any more questions?

Question: (Brett Le Mesurier, Shaw and Partners) Thanks, it's Brett Le Mesurier from Shaw and Partners. This is really a question for Greg. We've heard about the growth in the platform business, it's 12% up over the year and how important scale is.

But when we look at the net profit contribution that's shown in the waterfall chart on the BFS slide, it's only a $6 million increase in contribution from the wealth management business. Presumably that's that platform part. So it doesn't look like there's a lot of scale and a lot of growth and profit coming through.

Could you comment on what that $6 million actually is as a percentage?

Greg Ward: Yeah, quite right, Brett. The $6 million there is two things. There's good growth in the platform business and the deposit side, but it is offset by falling income on the wealth advice side. As we see, we've taken out a lot of retail wealth advisors.

So if you look at the BFS head count numbers, you'll see that they're down from March of this year to September. So the advice income has falling but the Wrap income has increased.

Question: (Brett Le Mesurier, Shaw and Partners) So what would be the percentage increase in the Wrap income?

Greg Ward: The Wrap income will track pretty well the average volume on the Wrap. So that tracks pretty well. There's been a little bit of margin compression but not that much. So that has gone up pretty well in line with the growth of that under administration.

Question: (Brett Le Mesurier, Shaw and Partners) And what is the margin on the Wrap?

Greg Ward: I'm not going to comment on our net margin on the Wrap.

Operator: We've got a question at the back. Anthony?

Question: (Anthony, Deutsche Bank) It's Anthony, Deutsche Bank, just a question on the CAF business in the Principal Finance portfolio. There were comments earlier that the level of economic capital has been quite consistent.

But just trying to reconcile, looking at slide 33, the level of profitability has been reducing. So just wondering that's just returns are reducing as well, or is there something else we should be looking at? Any commentary on outlook for the business as well. Thanks.

Nicholas Moore: Yeah, well I think as we made the point, there's a half on half in terms of where income gets booked is the main driver there. As we mentioned, the Energetics business that they completed in - if it was completed now it would be booked in the second half.

But Ben would you like to make any particular comment?

Ben Brazil: [Inaudible].

Nicholas Moore: Okay. I don't know if you heard that but Ben said it's about the half-on-half timing rather than the underlying returns on the economic capital within the business.

Sam Dobson: Probably got time for just two more questions in the room. I'll start with Brian.

Question: (Brian Johnson, CLSA) Just a question for Greg if I may. Just in BFS, you've got a rare business where you've got more deposits than loans. Could you just talk to us about the - and I would imagine the deposits are invested - the excess cash is sitting in cash as opposed to a loan - can you talk about what it means to the profit profile when we actually start to see the loan portfolio growing faster than deposits.

Not that we necessarily want to see it straightaway because that's baked into the future, but can you just talk to us about what that $4.9 billion of excess loans over deposits basically does for to that business.

Greg Ward: Yes. We do have an excess deposits over loans but not all of the deposits are useable under our liquidity management framework. We take a very conservative view of that. I think if you compare the way we look at our sticky factors on deposits relative to all other banks we're property the most conservative, so we take quite a conservative view.

So you should take the view that not all the deposits are useable as - to be lent out as a mortgage. So we don't really expect that much of a margin pickup as we deploy that apparent excess deposit capacity. You should just think of the growth of [their best 1:43] going forward as driven by the growth of the loan book.

Sam Dobson: Richard last question there?

Richard Wiles: (Morgan Stanley, Analyst) Good morning, Richard Wiles, Morgan Stanley. Shemara I just want to follow up Anthony's question on Principal Finance. You made some comments about how successful that's been over the past 10 years, and not withstanding the volatility in the income from half to half, it seems that for the last few results we've talked about the reduction in the size of that portfolio.

I'd just like to get some understanding of the outlook to this business. It seems that it was a great business to be in from 2008 through 2017 but is it such a good business to be in going forward? Is it going to continue to shrink?

Shemara Wikramanayake: No. As I said, we see it as a good business for the long term, in that it's been able to drive very good returns throughout the cycle. We have plenty of funding and capital and we deployed where we see the best quality returns, and the team in CAF Principal have been able to keep generating opportunities for us to invest.

So at the moment the returns are strong. The cycle is not going to stay exactly where it is, so that team are going to be able, as the cycle evolves, to keep finding investment opportunities. Today they have right-sized their - not just the size of their book but also where they're investing to suit the environment today.

As it changes the thing we have is an excellent team that we're confident will just keep responding and adapting and investing to suit the environment at the time. Anything to add Ben?

Ben Brazil: [No].

Shemara Wikramanayake: Okay.

Greg Ward: I think the other point we've made before is it's not a franchise business so we're not required to lend money regardless of the risk return equation, so it does actually move as Shemara was saying, having regard very much to what we see as risk return for each individual asset. As Shemara was saying they've been very good in terms of changing that as the world's change.

Shemara Wikramanayake: I think it speaks to the diversity of our portfolio. So while at this point in the cycle the capital markets facing businesses are placed where we're seeing a lot of return income. We've being disciplined in the CAF Principal book and over time that will change, but that's the benefit of having a very diverse sized portfolio.

Sam Dobson: Okay, if there's no other questions I'd like to thank you all for your attendance.

Nicholas Moore: Maybe before everybody goes just as quick one I'd like to thank Sam and the Investor Relations team and indeed the whole finance area. These, what we call, presentations that we put on are - obviously we try very, very hard to get it all right. I was going to say at the outset of this one we've got it right every time but I was going to wait until we finished with this one to ensure that we did.

But we have once again got it right. So for all the work that's gone in from the Investor Relations team, from Sam and Karen, who's in the room here that you'll know, and Stuart Green, and of course the finance area under Alex and before that Patrick and Greg, have done an enormous amount of work over the years to make sure that we get these presentations right, and that we actually really do explain the Group in the fullest possible way.

So I think they've done a great job again today and again over all those 44 presentations. So thanks for those and thanks everybody for your continued support.

Sam Dobson: Thanks everyone.

[END OF TRANSCRIPT]