TRANSCRIPTION

MACQUARIE GROUP LIMITED RESULT ANNOUNCEMENT

FOR THE YEAR ENDED 31 MARCH 2022

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[START OF TRANSCRIPT]

Sam Dobson: Good morning everyone and welcome to Macquarie Group's FY22 results presentation. Great to see so many of you here today. Before we begin, I would like to acknowledge the traditional custodians of this land and pay my respects to their Elders past, present, and emerging.

I would ask that everyone turn their mobile phones to silent which is a new thing for the last two years. As is customary, we'll hear today from our CEO, Shemara Wikramanayake, and our CFO, Alex Harvey, to go through the detail of the results. And with that, I will hand over to Shemara. Thank you.

Shemara Wikramanayake: Thank you Sam and welcome everyone from me as well. And there's a lot to celebrate this morning beyond just the great Sydney weather because it's been more than two years since we've been able to have you all in the room with us. So, it's great to have you here in person.

And also, fantastic to have the whole of our executive committee here in person, sitting in the front row. Particularly Ben Way is here from Asia, Michael Silverton from the Americas, and to actually be together in person has been fantastic after a very long time.

We also have a few of our executive committee and senior leadership colleagues, my direct reports for whom, and colleagues for whom it will be their last results. So, Michael Herring, thank you so much for everything as our General Counsel and welcome Evie who is taking over.

And Peter Warne is with us and as I'll mention later, this will be Peter's last set of results. And it's also our CFO’s birthday today so hopefully - thank you, Alex, for spending your birthday with us - hopefully we'll have a few presents for you and everyone this morning.

So, kicking off as we usually do, just reflecting on the four operating businesses that make up our overall business. And across them, these deep franchises that we've built in these four areas that are structurally well positioned for the medium term, they give us very good diversification through cycles as well.

So, we've got the Australian Banking and Financial Services business, BFS, which Greg Ward has been leading for quite some time and he's sitting here in the front row.

We've got the Global Asset Manager and Ben has taken over as Group Head in the last year and a bit. And that obviously operates in private markets as well as public investments, grade global franchise there.

The Global Commodities and Global Markets business which Nick O'Kane heads here. An asset leasing business but also operates in financial markets and commodity markets around the world.

And lastly, Macquarie Capital, where Michael Silverton has just stepped up this year as the sole Group Head. And that is a services business across advisory, equity capital markets, debt capital markets. But we bring our balance sheet alongside the expertise of our people for credit and equity investing.

And supporting those four groups, there are four very important support areas. So, the Risk Management Group where Andrew Cassidy has just stepped up to take over from Patrick Upfold as Group Head.

The Legal and Governance Group where I mentioned that Evie, welcome, is taking over from Michael Herring. Financial Management Group (birthday boy's Group) and the Corporate Operations Group, just in case someone forgets Alex, and Nicole Sorbara here, the Head of Corporate Operations and has been leading that for some time.

So, turning to the results for the most recent financial year. You will probably all have seen we delivered a result of $A4.706 billion. That was up 56 per cent on last year's just over $A3 billion figure which also was a record result. And the return on equity is 18.7 per cent for the full year.

In terms of the half on half, I won't dwell on this, but this was also a very strong half, the second half of this year. Up 38 per cent on the first half of this year and up 43 per cent on the prior comparable period, second half of last year.

And at the Operating Group level in terms of the operating contribution, the Group's $A9.462 billion, up 55 per cent on the year before which is reflected in the next bottom-line figure.

Now, before I go through each of the Groups, a few overall things to touch on. You can see there, record results at operating income, the figure I just mentioned, up 36 per cent - sorry, the revenue on operating income up 36 per cent. Net profit up 56 per cent. Earnings per share up 51 per cent. And I'll come to the dividend at the end but the dividend is up 32 per cent on last year as well.

Also, our assets under management are at record results at nearly $A775 billion. The big drivers there obviously is during this year we had three acquisitions in the Public Investments area and in a distribution area with Waddell & Reed, AMP’s Capital public investments business, and the Central Park Group. But in addition to that, we also had positive net flows into the Public Investments business and we had investments made by the Private Markets lifting the assets under management.

And then looking at the regional spread of our income and the diversification geographically. Australia contributed 25 per cent. I'd been saying for some time that the share contributed by Australia is likely to reduce. This year impacted quite a bit by the very strong figure out of the Americas, 48 per cent. And that was due to a large amount of realisations in Macquarie Capital, in the Americas, and also in Commodities and Global Markets, this was our largest contributing area. Particularly the North American Power and Gas.

Despite that, on this next page you can see if you look at Australia, even though it's a mature market, it continues to grow year on year on year. 2019, which is the black bar, spiked up a little bit because we had a lot of realisations - PEXA, Quadrant et cetera, some of you may recall. But underlying just continuing this steady organic growth. But because we're so big here and then this is such a small market relative to particularly North America and EMEA, as we grow there, the percentage composition of our income is becoming much heavier weighted to those regions.

So, turning then to our Operating Groups and starting with Macquarie Asset Management. Macquarie Asset Management was up 4 per cent to $A2.15 billion and that comprised 23 per cent of our operating income. And some of the features of this year. Strong results from both the Private Markets and the Public Investments. In Private Markets, record equity under management of just over $A158 billion. We also raised $A27 billion which is quite a step up from what we've been raising over recent years. And we invested over $A30 billion. The dry powder is down to $A19.9 billion so, we are getting some of that invested. As well as great results in our infrastructure funds and very good raisings, we're continuing the adjacent growth in Private Markets into the key areas of real estate, private credit, agriculture, nature-based solutions and into transportation. And in addition to that this year, as of 1 April, the Green Investment Group has now transferred into the asset management business, expanding the offering of real assets in Private Markets. In the Public Investments, we're again at record assets under management at $A535 billion plus. That was driven mostly by the three acquisitions but also positive net flows as I mentioned. And we've got 71 per cent of our assets under management in that division, outperforming benchmark on a three-year basis.

Turning to Banking and Financial Services. As has been the trend for some time now, up in all of our lending portfolios and our funds on platform. So, the home loan portfolio is up 31 per cent to nearly $A90 billion. Business Banking up 21 per cent at $A11.5 billion. And the funds on platform also a big step up, 17 per cent at $A118 billion. So, starting to get close to $A120 billion there. All supported by the strong deposit growth, $A98 billion, up 21 per cent. And we continue to streamline down our car loan portfolio. So that's down just over 20 per cent. Now I would note as well on this slide, over on the left-hand side, that the dynamic LVR we have weighted across our portfolio is at 47 per cent. That's well below peers in the market because while we're growing our book, we're really focused on credit quality and that's going to be an important feature I think as we potentially come into the cycle that we're heading to. That, as we grow, may step up a bit but it's still well within peers.

The Commodities and Global Markets business then is up 50 per cent to $A3.911 billion after a big result last year. And that's making up 41 per cent of our income. And as I mentioned, Nick and his team have three business lines under there. The Asset Finance makes up about 9 per cent. That business grew nicely. The portfolio is up about 2 per cent from $A5.8 billion to $A6 billion. The Commodity Markets made up two thirds nearly of the income for that group this year. The biggest contributor, as Alex will take you through, was the risk management we were doing for our clients in more volatile and active markets. And that was particularly strong in the Gas and Power business across all three regions: North America, Europe, and Asia. Also in Resources, Agriculture, and Global Oil. And then we had some step up as well in inventory management and trading, particularly in North American Gas and Power. Offset to some extent by the timing of recognition of incoming transportation and storage contract. And in the Financial Markets businesses inside CGM, making up 26 per cent of their income. And really good results there in the foreign exchange and interest rates and credit area where we had increased client activity. Also, in Futures where we had improved commission and interest revenues. And in the Equity Derivatives and Trading area where we had improved results from equity finance.

And then Macquarie Capital, $A2.4 billion, up 269 per cent on the roughly $A650 million we earnt last year and contributing 25 per cent of our result. Now that business, as I said, focuses on an advisory services business in all of our four main regions: North America, Europe, Asia, and Australia. We had record revenue across that business which reflects a strong performance here in Australia but also the growth of our specialist sectors in North America and then in EMEA, we've been growing from the UK and Germany into France, Benelux, Spain, Italy. All going nicely, so record revenues there. In Australia, we remain the number one M&A financial advisor. Now, alongside that and also our equities franchise doing very well in Australasia and North America Europe where we still have presence. Alongside that, we bring the balance sheet to there as I said, and we've got $A15 billion of investments there. $A13 billion in credit at the balance in equity. And we've continued to deploy, as you'll see in Alex's numbers, we said that we wanted to grow the credit part of that and we're growing in a very disciplined way. And the team have done a great job investing and realising. You'll see a number of realisations there across our specialist sectors. Government services, technology, the Green Investment Group renewable area. So - and I should say over 90 per cent of the investments that we've realised this year or 90 per cent of the profits we've generated from realising – are from investments the team have been making 2019 onwards in what are challenging markets to get well invested in. So, it speaks well to the expertise of our team. They're able to source, add value, and realise.

So then looking at some broader numbers beyond the Group earnings. The funded balance sheet remains strong with our term liabilities comfortably exceeding our term assets. Indeed, over this period, Alex and the team were able to raise another $A48.3 billion as term funding - another record. And we also did the equity raising late last year as you will recall of $A2.8 billion.

And Greg and team in terms of deposits as well, at a record overall for Macquarie Group at $A101.5 billion up 21 per cent.

With capital as well, very strong position. So, at the half year, we had an $A8.4 billion surplus over the APRA Basel III minimum. At the end of the full year, that has grown to $A10.7 billion. The main contributors there is obviously the earnings that we had in the second half offset by the first half dividend. The capital issuance that we talked about and then offsetting that, the absorption of capital into the business.

$A2.2 billion you can see there in the half but over the full year, there was a $A5.4 billion absorption of capital. So, the businesses are still finding good opportunity to invest. In Macquarie Asset Management, Ben, we're mostly putting the balance sheet - the acquisitions were the year before in terms of use of balance sheet. This year it was in co-investments and also underwriting to seed assets as we grow new strategies and funds in areas where our teams see opportunity and need to move quickly and seed the positions for our investors to come in subsequently. In BFS, as I mentioned, the ongoing growth in our home loans, our Business Banking book partially offset by the sale of the dealer finance portfolio. In CGM, the market movements in Commodities there and the increase client hedging and trading activity in Commodities and the hedging activity in FIC meant we were holding more capital for market and credit risk. And then in Macquarie Capital, we continue to deploy actively. Particularly in private credit and in equity, offset by those realisations that we just had.

We also have strong regulatory ratios, sitting well above the APRA Basel III minimum there as you can see in relation to those four factors that we typically share with you. So, funding and capital in a good position as we come into the new year, in addition to the good earnings we've delivered.

With that, the Board has declared a second half dividend of $A3.50, 40 per cent franked. Resulting of a full year dividend of $A6.22, again 40 per cent franked. And the result represents - or the payout represents a 50 per cent payout ratio.

And before I hand over to Alex, I just wanted to touch on some Board changes we have coming. First of all, as we previously noted, we've been working with APRA to strengthen the voice of MBL within the Group, following the remediation plan that we undertook together with APRA after the action was taken by APRA on 1 April last year. We're making good progress on that. There's a strong focus on regulatory reporting, our credential risk management, and together with it, also things like governance, remuneration, and risk culture. And as part of that, we are bringing on three bank-only non-executive directors at the MBL level. And we're very pleased that we have managed to find the first of those who is Ian Saines. I don't know if he's known to any of you, but he started his career at the Reserve Bank. He worked at Bankers Trust with some of our Board members as well and many of our colleagues for many years. And then went to Zurich when Bankers Trust came to us. Had a long period at Commonwealth Bank of Australia and then at Challenger. So, he has a strong background in both financial markets, but also highly regulated environments and we think he will add a lot of value and basically be joining us shortly subject to completion of necessary approvals. We're hoping by early June that will be done.

Then at the Macquarie Group level, we're very pleased to have Michelle Hinchliffe, who is in the back row, joining us. Welcome Michelle. And Michael Coleman who has done wonderful work on our Board for us for 10 years, including as the Chair of the Audit Committee and oversaw this last set of results of many others and is technically so well across everything needed in our accounts. So, he's been a huge value to us. But he will be retiring at the conclusion of the Annual General Meeting. And I mentioned he's chaired the Board Audit Committee so well and one of the great things he's done for us as well is helped us in finding Michelle who has been at KPMG in audit for many, many years. Including auditing several banks here in Australia and also in the UK. And audited the Bank of England indeed. So, she'll be great value add to our Board.

And then also as I mentioned, Peter Warne is stepping down. Glenn Stevens will step in. Former Governor of the Reserve Bank. We're very fortunate to have Glenn step up for that role as of Peter stepping down. Peter's last day, very sadly for all of us, is next Monday. And it's been 15 years - Peter, has it? - with us and Peter did extend for a year last year which we very much appreciate. We first courted him when we bought the Bankers Trust team across. Peter didn’t elect to come across but then in 2007, came over onto our Board. And David Clarke was chair still at that time and MBL was the head company. So, Peter has seen through many things; the Global Financial Crisis, the European debt crisis, the recent COVID pandemic, and has been really incredibly sharp. Understanding our business. Available to all of us. Dedicated. Working around the clock. And he's also seen through three CEOs, from Allan Moss to Nicholas Moore and now myself. And sadly, I end up outlasting Peter. But I want to say a big thank you to Peter. With that, I will hand over to Alex to go through the numbers in more detail.

Alex Harvey: Thanks Shemara and thanks very much for the best wishes for my birthday. Good morning, ladies and gentlemen. It's obviously great to see everyone back here in person. As is usually the case, I will now go through more of the detail for the financial results for the year ended March 2022.

Starting with the income statement. We talked at the Operational Briefing in early February about the strength that we were seeing coming through, particularly in the third quarter and obviously that extended out for the balance of the half, and we had a really very strong half obviously. If you look at the operating income for the second half it was up 22 per cent from the first half of 2022. Expenses up at just under $A650 million for the half. The tax rate was up a little bit for the second half just reflecting the geographic composition of income. The bottom-line net profit result of $A2.66 billion, up 30 per cent from the first half of 2022 and about 30 per cent up on the second half of 2021's financial result as well. If you put that second half together with the first half and we will talk in a little bit more detail the income statement overall. You can see operating income just at $A17.3 billion, up 36 per cent on the operating income for FY21. Key drivers there were 21 per cent increase in net interest and trading income. That largely reflects the growth in the loan books that we saw coming through over the year, together with the trading environment that CGM in particular experienced. We see fee and commission income up about $A1.7 billion for the year. There's a couple of drivers there. One is the base fees in Macquarie Asset Management, both in the Private Market side and the Public Investment side. We also saw a disposition fee for MIC in the United States. That portfolio is largely wound up now. We also saw an increase in M&A advisory and DCM activity through Macquarie Capital coming through in that fee and commission line. Then if you look at the investment income line up $A1.3 billion and one of the things we said obviously over the course of the year, the environment for realisations has been strong and we saw that environment reflected in disposable proceeds coming through that investment and income line and particularly reflected in Macquarie Capital's result. We also see in that investment income line the disposable proceeds, profit from the disposal of the industrial and commercial meters in CGM which completed in April of 2021. So, net operating income up 36 per cent for the year. In terms of operating expenses, up 22 per cent at $A10.8 billion for the year. You can see a step up in employment expenses. That largely reflects an increase in average head count over the year and increase in salary expense during the year and also the acquisition of Waddell & Reed coming through that line. The other thing that's an employment expense is of course the increase in profit share consistent with the underlying performance of the Group over the past 12 months. In relation to the other expenses, you see a step up in expenses largely associated with the acquisition of Waddell & Reed, both ongoing expenses together with one-off acquisition expenses that we incurred during the year. The income tax, the effective income tax rate for the year was 25.2 per cent, up from 23.0 per cent last year, again largely reflecting the geographic composition of income coming through the Group over the past 12 months. The bottom line at $A4.7 billion, up 56 per cent from where we were this time last year and delivering a return on equity of 18.7 per cent.

I will now turn to the Operating Groups and just give a little more detail around the drivers of the performance for the year and starting with the Macquarie Asset Management business, up 4 per cent for the year at $A2.15

billion. Starting on the left-hand side of the chart, you can see the base fees up $A185 million, about 9 per cent, just over 9 per cent for the year. That reflects an increase in contribution in the Private Markets business. We saw particularly good investing conditions in Europe and the US and across Asia, so it was great to see that base fee coming through on the Private Market side. We also saw benefits coming through from market movements in the Public Investments part of that business. Performance fees for the year were down $A258 million just reflecting a lower period of realisation of assets in the other Public Markets part of MAM. In the middle of the slide there you can see the contribution from the wind down of MIC, which is largely complete. There's one asset left in MIC that will be completed this year. MIC this year contributed an additional $A523 million and you can see that coming through the income statement in terms of that disposition fee, and fees and commission. We also saw a share of joint venture profits from the profits from the disposal of those underlying assets and a re-accretion of the impairment that we had taken on the Group's interest in MIC in prior periods. That gain was partly offset by the non-recurrence of the European Rail disposal last year and on the right-hand side you can see the contributions from the acquisitions coming through the Public Investment side. The ongoing acquisitions generating ongoing contribution of about $A287 million step up, largely from Waddell & Reed and then an increase in acquisition one-off costs of $A316 million, largely reflecting Waddell & Reed but also including a component of the expenses associated with AMP Capital acquisition and with the acquisition of Central Park Group.

The integration of Waddell & Reed continues to proceed well. It's an ongoing process. There will be more integration work to do over the course of the next month so you will see some additional costs continuing into next year. The other thing the team is doing is actually integrating the underlying fund portfolio, so you will see normalisation of fee rates coming through into future periods.

In terms of the underlying drivers, and Shemara touched on this. Obviously, assets under management, which is I guess a key driver of the business going forward, up to just over $A773 billion, a record amount of assets under management. Notably on the Private Markets side you see an increase of just over $A51 billion in Private Markets acquisitions this year. That really reflects the significant period in investing, $A31 billion of equity invested in new assets around the world through the Private Markets part of that business this year. On the Public Investment side, you can see the benefit of the acquisitions, nearly $A150 billion of assets under management coming through together with the net flows of just under $A11 billion over the course of the year.

Turning now to the Banking and Financial Services business, up $A230 million on where we were last year, and you can see the drivers of that. The Personal Banking business up $A206 million and that reflects largely a 27 per cent growth in average home loan portfolio balances across the year. You can see the Business Banking up 26 per cent and that reflects a 20 per cent growth in outstanding business loans, a 21 per cent growth in business deposits, partly offset by that reduction in car loans that Shemara talked about earlier. Really pleasingly we saw a step up in the Wealth Management contribution to the business this year. That reflects the growth in assets under administration on the platform. It also reflects the continuing growth of deposits in our CMA account coming through that line this year. Credit and other impairment charges were released of $A140 million, or a step up in the release of $A140 million. Largely that reflects the partial overlay release that we talked about last year in relation to the Asset Finance business, partly offset by, I guess, improved macroeconomic environment in general, but a higher weighting to the combined downside case that we are now running through our expected credit loss models. Expenses up $A190 million and again we talked about that this time last year when through the year we see investment the teams make in terms of adding people to support the growth of the business, also the digitisation of platforms that BFS are using, together with an increased investment in regulation and compliance coming through that Group.

Underlying drivers of the business are all moving in the right direction. Car loans are a continuing trend from prior years and that's really a deliberate strategy that Greg and the team have had, to actually improve the profitability, improve the return on capital we are seeing coming out of that car loans portfolio. The other thing we saw this year of course is the disposal of the wholesale portfolio in November of last year.

Turning now to the first of our market-facing businesses, the Commodities and Global Markets business, up 50 per cent as Shemara talked about before. One of the things that I think stands out to me in terms of this result is just the diversity and we have talked about this over recent results. It is a very diverse business, a growing customer franchise. Obviously, the trading environment for CGM was generally strong throughout the year, so you saw that coming through in terms of increased customer numbers and increased profitability. In terms of the breakdown, just on Commodities. Commodities were up 25 per cent from this time last year and you can see that step up in Risk Management income and trading income associated with that. $A572 million coming through or a step up of $A572 million coming through that Risk Management line. That really reflects particularly strong contributions across Oil, across Gas and Power, Agriculture and Resources, and I think as everyone would be aware obviously it's been a very challenging and volatile market and the team has been able to service customers really effectively throughout the year. We saw a 10 per cent step up in inventory management and trading, and this largely reflects the dynamics we have seen over the last few years, the mismatches between supply and demand largely in North America. You will notice there is some variation between the first half and second half and they're largely reflective of differences in the income timing recognition for storage and transport contracts over the year. Financial Markets are up by 18 per cent, $A195 million, again servicing clients, being able to extend credit over the course of the last 12 months. You can see that investment income up $A479 million. Largely that reflects the proceeds or the profit from the disposal of the industrial and commercial meters in April 2021 and again we saw a release of credit provisions for similar reasons that I talked about earlier. So, a really strong result from CGM.

Some familiar slides. We have had these up for the last few result presentations. We thought it would be useful, I guess, including and updating them for this result. You can see on the left-hand side operating income. The key thing to draw out of this chart really is that 70 per cent to 80 per cent of CGM's income is really driven from underlying client businesses. On the right-hand side, you can see the continuing growth in customer numbers over the last few years which is obviously driving the franchise value in CGM.

On this slide, on the left-hand side, you can see the step up in regulatory capital. That is largely credit capital supporting the activities of CGM, supporting the increased customer base. Obviously, we have seen significant mark-to-market activity over the course of the year. A little bit of a step up in market risk over the period again reflecting volatility of underlying markets. Then on the right-hand side the daily P&L, the daily profit and loss. It's an important chart obviously repeated from 2018 all the way forward. What you can see here obviously is a skewing slightly to the right-hand side of the Y axis and a reasonably narrow distribution, sort of zero to $A10 million on most days. That's really reflected the fact that it's a customer orientated basis and risk is managed very tightly within market risk limits.

Turning finally to Macquarie Capital, up to $A2.4 billion, up from $A651 million last year. A very strong year across the board. Investment related income up nearly $A900 million reflecting the investment - the period or the conditions for disposal of assets over the course of the year, particularly in green energy, particularly in business and government services and technology. Those core areas where Macquarie Capital has been building expertise now for many years obviously paying off in terms of disposals over the course of the year. Fee and commission up $A506 million. Really a record result from M&A, a doubling of our contribution from DCM in the United States really reflecting, I think, the quality of the franchise that Michael and the team are building in Macquarie Capital. Then we see a step up in the contribution from net income on the principal debt portfolio. Shemara mentioned this before. We have obviously been growing the principal debt business in Macquarie Capital now for a number of years. Ending balance on balance sheet of just under $A12 billion, contributing an additional $A302 million over the course of the last 12 months. So, $A2.4 billion out of which about $A850 million was contributed by the Green Investment Group which from 1 April this year has moved into Macquarie Asset Management.

Turning to the underlying drivers. Obviously, capital against - alongside Macquarie Capital's clients is a really important aspect of the business. You can see a growth of 25 per cent over the year. You can see really where that's stepped up. The growth in the private debt business, that dark green and a continuing investment in the green energy space also coming through over the course of the last 12 months.

Now, turning to some of the other aspects of the financial management of the Group. Costs of compliance, this is a chart we have had for some time. You can see the compound growth rate in costs of compliance over the last few years about 14 per cent. This year we are up 22 per cent. Obviously, an important aspect is how we run the organisation, making sure that we're meeting all of our compliance and regulatory obligations all around the world. A lot of projects underway and of course those projects also making their way into business as usual compliance spend and we would expect to see this continuing into future periods.

In terms of the balance sheet highlights, a really busy period for the team in Group Treasury. In addition, obviously to the equity we raised in November last year, we have raised just over $A48 billion of long-term funding, so we have been very active over that period of time and well supported by investors all throughout the world.

The other thing the team has been able to do is extend the maturity of the long-term funding out to 5.1 years as at the balance date and continue to diversify the sources of funding. This year we raised money in 10 different markets and about 700 investors are actually participating in debt issues for Macquarie, so it's great to see all that support and continuing to diversify the source of funding for the Group. That's obviously really important, the strong capital position, the funding position, has enabled us to step up and support clients all around the world, particularly during periods of high volatility that we have seen in the six or so months.

In terms of customer growth, Greg and the team at BFS are doing a fabulous job, I think, of creating products that are attractive to the customers of BFS. We saw a step up of $A16.5 billion over the course of the last 12 months and a continuation of that trend we have seen in recent times.

The loan lease portfolio up 29 per cent. You can see the key drivers there. BFS was up about $A22 billion in terms of their overall loan portfolio. You can see CGM in the middle of the page there up from $A11.9 billion to $A15.4 billion. That largely reflects the increase in credit that we have provided to the fund finance clients through Nick's FIC business. Then Macquarie Capital down the bottom there, the Principal Finance business growing from $A6 billion to just under $A12 billion generating that net interest income that I talked about earlier.

The equity investment is up $A600 million, largely reflecting the increase support alongside Macquarie Asset Management fund growth aspirations. One of the things we talked about obviously at the time of the capital raising is we were seeing opportunities to put capital alongside new fund strategies and helping to expand the fund footprint for Macquarie Asset Management. The second thing we have seen is an increase in the green investment, green energy investing, again continuing to really develop those platforms that we have talked about previously.

From a regulatory perspective there is a lot going on. There remains a lot going on in the Australian markets so we have set out some of the key aspects here. I thought I would just highlight two things on this page. Firstly, during the year we saw APRA completed its review of the new capital standards. Those capital standards will come in from the first of January 2023, so we are in the process of implementing those standards. As we said at the time, from a Macquarie viewpoint, that will reduce our capital surplus by about $A2.2 billion. The other thing we have said for some time is obviously we have been holding capital back to support those new capital standards when they're introduced. The other thing I would note is just the point around the remuneration framework. Obviously during the course of the year Macquarie's Board has had the opportunity to review our remuneration framework having taken into consideration I guess the competitive dynamics for talent all around the world, together with our stakeholders and expectations changing of stakeholders and of course the upcoming introduction of CPS 511. I thought I'd draw that out, the details of those changes, which will come into effect progressively from FY22 are set out in the Remuneration Report in the Annual Report.

In terms of the regulatory ratios, it's a very strong CET1 ratio for the Bank of 11.5 per cent at 31 March. A strong liquidity position in terms of nearly $A65 billion of unencumbered liquid assets and a very strong LCR position as you have seen from us in prior reporting periods.

Finally, from me, from a capital management viewpoint, it's obviously been a busy year. I would point two things out. Firstly, the Board has resolved this year to acquire shares to satisfy the current year MEREP grant. The Board has also, in addition to declaring the final dividend, has also retained the Dividend Reinvestment Plan and has decided to issue shares for that DRP at a 1.5 per cent discount to the prevailing market price.

With that, I will hand back to Shemara. Thank you.

Shemara Wikramanayake: Great. Thanks Alex and I will just take you through the others. Before I do, I should just note as well that we have as well as our operating and support Group Head, Stuart Green, in the front row here for questions afterwards as well. Stuart took over from Mary Reemst as CEO of Macquarie Bank Limited in the middle of last calendar year and is working actively on the remediation program I referred to with APRA in terms of strengthening the voice of the Bank and certainly strengthening the office of the CEO and the resource you have to discharge your role, Stuart.

Now, turning to the outlook. As usual we will cover this by each of our Operating Groups and first of all Macquarie Asset Management. In Macquarie Asset Management, our base fees are expected to be up driven by principally the acquisitions that we have made in the Public Investments business but also the deployment that we referred to in the Private Markets. Having said that, the net other operating income is expected to be down on last year because we won't have a repeat of the large gain on the Macquarie Infrastructure Company. In addition to that we mentioned the Green Investment Group. As of the 1 April this year we will be moving it to sit alongside Macquarie Asset Management. In Alex's numbers you will have seen the Green Investment Group delivered about $A850 million in this FY22 financial year and we are expecting that to be significantly down given the strong realisation period we had in the Green Investment Group.

Banking and Financial Services. You have seen the ongoing momentum in our loan portfolio across home loans and Business Banking. The funds on the platform volume are growing, with deposits growing. We expect that to continue, as Greg and the team continue this customer-focused digital banking offering that they are delivering now and have been for a long time. Having said that, we expect that market dynamics will continue to drive margin pressure and I think others of our peers have noted that as well. And in addition to that, we expect ongoing increase in expenses to support volume growth and part of that is in response to regulatory requirements but also technology investment where we continue to have to upgrade our offering in terms of the services we're delivering to our customers. Now we'll have an ongoing monitoring of provisions. You saw this year we released $A137 million of provisions, so the $A771 million we reported in FY21, if you add the $A137 million to it, we're at $A908 million in BFS, stepping up to the $1 billion number that we had this year. We will have to keep monitoring those provisions obviously as time progresses.

Macquarie Capital, subject to market conditions, we're expecting transaction activity to be down on the record FY22 I mentioned in terms of fee revenue. But we have a solid pipeline of investment realisations going into FY23 and we also expect to continue to deploy our balance sheet, both in debt and equity investments. The Green Investment Group, as I mentioned, has now move to Macquarie Asset Management.

Then in Commodities and Global Markets, our Commodities income is expected to be significantly down following the very strong result in FY22, albeit volatility may create opportunities. We have a very uncertain year ahead of us. And we expect a consistent contribution from client and trading activity across the whole Financial Markets platform and a continued contribution from Asset Finance across all expected excluding that one-off gain of about $A450 million that Alex referred to from the realisation of the UK Commercial Industrial Meters.

At the overall central Corporate level, we expect compensation expense to be within our historical levels and we also expect our tax rate to be within the range of recent historical outcomes.

Now as ever, there are many factors which could impact our short-term outlook and these include market conditions, including significant volatility events, global inflation and interest rates and also the impact of geopolitical events. And then also as usual, potential tax or regulatory changes and tax uncertainties, completion of period-end reviews and completion rate of transactions and the geographic composition of our income and impact of foreign exchange with that. But we continue to maintain a cautious stance, with a conservative approach to capital funding and liquidity that we think will position us to respond well to the environment we may have.

Over the medium term, as we always say, we think we are well positioned with a diverse group of businesses in which we have very deep expertise and complementarity. And those are supported obviously by our ongoing program to identify cost savings, however acknowledging the ongoing technology spend across the whole Group and our strong and conservative balance sheet and our proven risk management framework and culture.

And that has served us well clearly over the medium term as well as this year and you can see our return on equity there for the annuity-style businesses at 21 per cent this financial year following an average of 22 per cent over the previous 16 years. And the market-facing businesses a very strong 30 per cent this financial year, but an average over the last 16 years of 16 per cent, giving us for this financial year, as I mentioned, a net return on equity, after taking into account our $A10.7 billion of surplus capital, 18.7 per cent return on equity.

So, with that, I'll hand back to Sam to take your questions. Thanks.

Sam Dobson: Great, thanks Shemara. So, we'll start with questions in the room. We have got people on the line, so we'll go to lines after that and then we'll come back to the room. Andrei, start with, just in the front here. Just wait for the microphone.

Andrei Stadnik: (Andrei Stadnik, Morgan Stanley) Good morning, thank you for taking my question. Just wanted to ask around capital deployment, because it looks like with this result a very deliberate strategy to use the bumper result to increase your capital levels, you also maintain in DRP. So, that seems to indicate confidence in terms of your ability to deploy the capital. Can you talk a little bit about what gives you that confidence and what are some of the areas you will be looking at?

Shemara Wikramanayake: Yes, the things that gives us the confidence is the same thing that helped us deploy $A5.4 billion over this last year. Which is really the specialist expertise, the deep expertise of our teams on the ground in their sub-areas, where they are working across very deep pools and wide markets. And they are able to go and identify through their relationships and their sector knowledge, good investment opportunities. So, in Macquarie Capital, we did obviously have in the Green Investment Group area, we've been early in solar, into wind, now we are investing into areas like charging, batteries, hydrogen, but it's driven by several hundred people on the ground in each subregional market. The same - Michael's sitting in the front row - but across areas like technology, government services, edu-tech, it's a wide range of sectors in which we have people with expertise.

And equally, other businesses are able to use capital, like Macquarie Asset Management, we bought the National Grid asset then where we can move quickly and help seed funds or acquire Public Investment funds where we're getting scale, where the team are looking in a very disciplined way at opportunities to grow the scale of that Public Investments. We've just absorbed a few acquisitions, so we may pace ourselves there, but certainly in the asset management business, we're continually deploying capital to support growth.

In Commodities and Global Markets, as you've seen, the team are responding there. It's mostly market and credit risk capital where we're using up capital, but it's to respond quickly to customer needs where they feel very deep expertise, North American Gas and Power being probably the best example. Then in BFS, as you've seen, Greg and the team have just consistently been growing the book there, a very high-quality book in a very disciplined way, but it's been growing and growing for many years now and so the capital invested keeps stepping up.

Anything to add, Alex?

Alex Harvey: No, I think it's a good summary. Probably on the Macquarie Capital side, just mentioning the Principal Finance book as well, Andrei, obviously that's grown from $A6 billion to $A11.9 billion over the year and the team, I think, is confident they've got good opportunity to deploy it at good margins.

Sam Dobson: Jon Mott.

Jon Mott: (Jon Mott, Barrenjoey) Jon Mott from Barrenjoey, a question on the Oil and Gas business, historically it's been very weighted to North America, but you look like you're having extremely good result in Europe this year. Given the ongoing issues with energy supply that you have in Europe, do you think you can replicate the transport and storage business that you have in North America, to generate the inventory management gains that you're getting in North America, can they be replicated in Europe or is it just too challenging given the geopolitical environment?

Shemara Wikramanayake: Yes, look the first thing I'd say is it's taken us two decades to build to where we are in North America and it's taken us many years to build to where we are today in Europe, and Asia was also a great contributor in gas and power and is starting to come through as well now. So, it's patient adjacent growth. It's slightly different market in terms of the nuances on transportation, et cetera.

Nick, would you like to grab the mic and comment on that at all?

Nicholas O'Kane: Sure, thanks for the question. Yes, it's a good point that you make, Shemara, in terms of the differences to the way the market is structured in Europe versus the way the market is structured in North America and also the maturity of the business is at different stages of development. Our customer franchise across the EMEA Gas and Power platform is a real strength of business, where we're helping out customers manage the underlying volatility in the markets that they're facing and that's really the service that we're providing there.

In terms of the opportunities in the movement of the underlying molecules, that's perhaps a little bit less prevalent across Europe as it is in North America and that really has nothing to do with the current situation; that's actually been the case for quite some time. And so that's why we deliberately built our business in terms of looking at our customers' financial risk management challenges, as opposed to the physical challenges in that market.

Jon Mott: A follow-up question, does that actually mean over time, the opportunities in Europe just can't be the same as they are in the United States and North America, just because of the structure of the market? So, you've had a great period in Europe, volatility has been good, but North America is going to be the key market for you for the indefinite future, given the other or given the structure of the market?

Nicholas O'Kane: I think I'd probably answer that question slightly differently in that the opportunities are different rather than being just a North American focused opportunity for Macquarie. And as I said, we are in different stages of development of the business and we still think there's tremendous amounts of growth over the medium term for us in Europe and we've developed, particularly – we've shown over the course of the last couple of years, we've been able to consistently grow the underlying client base and I'd expect we'll be able to continue to do that.

Sam Dobson: Andrew Triggs, just over on the left-hand side. Thanks.

Andrew Triggs: (Andrew Triggs, J.P. Morgan) Thank you, Andrew Triggs from J.P. Morgan. Just a question on GIG, so nice to see that earnings disclosure for the first time. I'm just interested in a couple of things there, so of the $A4.9 billion of MacCap Basel III capital in that division, how much of that relates to GIG? And just interested also what you're thinking about long term return prospects of that business, how those would compare to the broader MAM business and just any progress on your efforts to bring in third-party capital to that business too.

Shemara Wikramanayake: Yes, so look first of all in terms of GIG, the footprint it has is big, there's quite a lot of balance sheet in that. Alex is trying to find the page, but we'll put it up on screen, Andrew, if you give us a minute, that shows where the capital is invested across the Group and how that's moved. It's page 34. You can see there, there's a pale-green coloured set of bars that shows we made slightly more investments than we realised in terms of balance sheet commitment in the GIG business, so we have still a meaningful multi-billion position of investments and we continue to invest. The returns on it vary a lot depending on there may be some small early-stage things on which we can get very high IRR but low absolute numbers and now we're investing in more mature offshore wind projects where the cheques are a lot larger, but the returns may not be as big. But the returns have generally been very good because we're catalysing a new space here. The 50 gigawatts that we have been responsible for bringing into development and operation are about today 5 per cent of world renewable energy generation capacity. We don't expect that to persist. We expect to grow our book, but we expect the market to get bigger. But the big thing we do is go in early, manage these things, de-risk them, then bring in other capital. I think, and I'll let Ben comment as well in terms of in the asset management world, but the reason we've moved it across now is that two things have happened. One, a lot of these investments have become de-risked more and it's possibly as a result of the appetite of our fiduciary investors to invest in this space has stepped up a lot more as well.

So that's why we thought it made sense that the demand has gone beyond our balance sheet, we may be happy to co-invest balance sheet along these investments, but it was a sensible time to have multiples of that money from us, we would grow the business in Macquarie, but also grow our investors, bringing them something that they're very keen to access.

Ben's just here in the front row and not often with us in the room, so I might let him add to that, if that's all right.

Ben Way: Thanks for your question. I think in answer to the question about are we making progress and bringing in fiduciary capital, the answer is yes, remembering that it's only been part of the fiduciary business since 1 April, but we do have an energy transition fund in the market, we have seed assets for that fund and we're very confident in terms of that fund raise, which is a good example, in terms of, I think, the appetite of investors.

So, putting those teams together, we've got complementary strengths we think will allow us to find more opportunity through our existing businesses that have pools of capital, particular if it relates to renewable energy, but it's also allowing us to move into a new space and launch new funds and that initiative already has good momentum. So, I think the answer is our clients see the opportunity, they see the skill sets of both the MAM, the GIG teams and they're excited about matching their capital with that opportunity.

Shemara Wikramanayake: And I don't want to over create expectation, Ben, but the teams have been working together for six months now and we have the MGREF series in Macquarie Asset Management, the global renewable energy fund for the more traditional energy. Since the teams came together, the ability to get the dry power, if we can call it that, in those funds invested, we've already seen accelerate materially just in that six months with the two teams working together. So, we'll have to see over the coming period, but certainly we're seeing peers raise large, mature and also transition climate change response funds.

Andrew Triggs: Thanks Shemara and the embedded gains, I guess, on the existing development pipeline, how do we think about the timing of realisation of those? Are they likely to be quite front-end loaded in 2023 and 2024?

Shemara Wikramanayake: They'll run off over a few years, they're at various stages, the projects, so certainly it will run off over a few years. And Ben and the team in the Green

Investment Group will make decisions as to whether some of the earlier stage assets are transferred to the funds or stay on the balance sheet. That will be made taking into account the interests of the fiduciary investors in the funds as well as what's best for realising the assets.

Sam Dobson: We don't have any other questions in the room. We might go to the line.

Operator: Thank you. Your first question comes from Ed Henning with CLSA, Please go ahead.

Ed Henning: (Ed Henning, CLSA) Hi, thanks for taking my questions. Firstly, just on the CGM business and looking at Commodities, obviously very strong and I know we're early in the year at the moment, but is volatility holding up at the moment or have you already seen it come off significantly? I'm just trying to get a feel of where you are and what you're seeing at the moment or in the year to date to start with.

Shemara Wikramanayake: Yes, and I can let Nick comment further, but yes, we're only one month into a 12-month period and it varies by each commodity sector. Clearly in energy we've had a lot of volatility through, first of all we had the recovery out of COVID where the demands for goods surged and we also had some challenges on the supply side and those things together really exacerbated the volatility and the commodity price. We then had the Russia-Ukraine issues happen and the very tragic incident we're dealing with there. And that also, particularly in things like European gas, exacerbated the volatility.

That's come off a little bit, the European gas volatility that we had right at the beginning of this financial year, but Commodities generally, we're facing a challenging period, there are also supply chain bottlenecks playing into all of that. So, it's hard to call at this stage, I think.

I'll let Nick comment, but broadly I'll say the way we set up our business is we're really building our franchises for whatever environment we face and for us it's trying to really build out those customer relationships, the deep analytics, the knowledge of the submarkets, patiently, adjacently into new areas and then we respond to whatever we see. But Nick, any comments on volatility?

Nicholas O'Kane: Yes, I'll just perhaps reiterate your comment on the diversity of the business and the diversity of the business lines. We've structured it not to be reliant on any one business line and we really focus on building that out over time, particularly focused on where our customers need help, whether that be in deployment of capital, risk management or physical logistics solutions.

In terms of what we've seen over the course of the last month or so, actually volatility has subdued a little bit, albeit still at relative elevated levels from what we would expect, say a couple of years ago, with the possible exception of Henry Hub in North America where we're seeing some strong prices as of the last couple of days. But overall, I think it has subdued a little bit from very elevated levels of last year.

Ed Henning: Just further on that, while you talk about supply chain issues there and that'll help logistics or the physical side, does that do anything on the financial side? Can that potentially slow it or not really because you're dealing with producers and utilities as your main clients?

Nicholas O'Kane: I don't think that's going to be a particular impact on that part of our business. There's still movements of commodities that are happening regularly and that part we haven't actually seen it be impacted by other parts of the supply chain which I think Shemara might have been referring to earlier. So, from the financing side of the business, it shouldn't be impacted materially.

Ed Henning: Okay, that's helpful, thank you. Then just a second question on CGM, you touched on the gas storage and transport contracts and the mismatch or the difference of the income recognition and timing. If prices were to hold today, and I know that's a big if, is that a headwind or a tailwind into 2023, just for the contracts you've got on the book at the moment?

Alex Harvey: Do you want me to take that Nick? Yes, thanks Ed. I mean obviously as we've talked about before, you get variation from one period to the next, so we saw quite a big drawdown from that timing of income recognition in the first half. You saw, you'll recall, we had about $A376 million effectively hold back of income from that. Some of that was released into the second half just because the spreads narrowed, I guess, as the year proceeded from September all the way through to March.

Generally speaking, that ACVEC or that variation between accounting and economic will unwind over two to three years, something like that, but obviously the question, implicit in the question and I know you framed it this way, is stable prices and we don't often see stable prices for two to three years. So, absent anything else, you'll probably see the unwind over a couple of years, but plainly it's a function of a daily price change that actually determines the profile of that timing of income recognition on those contracts.

Ed Henning: Okay, thank you. I'll leave it there.

Operator: Thank you. Your next question comes from Brian Johnson with Jefferies. Please, go ahead.

Brian Johnson: (Brian Johnson, Jefferies) Thanks for the opportunity to ask a question but I'd also just like to express my gratitude to Peter, who I think has done a phenomenal job.

Just when we actually have a look at the funding chart, we can see that the proportion of short-term funding has gone up a little. Not dramatically so but certainly is up but I can also see the balance sheet liquidity is up a lot. I also see that you're actually issuing shares in respect of the DRP. Are we seeing you positioning for another acquisition?

Alex Harvey: Well in terms of - maybe I'll take that one, Shem. In terms of the balance sheet, yes, we did obviously see a step up in short-term funding and in liquid assets this year. There's a few reasons for that, Brian. I mean, obviously some of the activity - the trading activity, requires short-term funding so we're supporting that with issuance into the market. So that's the first thing.

The second thing is that one of the things we've seen, obviously in the last recent while is getting prepared for the withdrawal of the Committed Liquidity Facility. So ahead of the withdrawal of the CLF, we're obviously issuing funding to support that and make sure the liquidity ratios stay high going forward.

They're the primary reasons. I guess the other thing is that we have created the externalised liquidity for the Non-Bank as part of the work we're doing to continue the distinction between the Bank and the Non-Bank from a funding viewpoint. So that's driving some of it and the other thing we did, obviously is set up MBE. So, a few of those things are driving the need for additional short-term liquidity.

From a capital viewpoint, I think it's the second part of your question, I think as we've said before, the approach to capital hasn't changed. We obviously always maintain a cautious approach to capital and to funding and to liquidity. The reason for that is that what we want to be able to do is support the businesses in terms of their capital needs to continue their client franchise and their activities.

Over the course of the last 12 months, we obviously saw big - $A5.4 billion investment in capital over the last 12 months. So, we want to make sure the business is in a position to be able to support clients around the world. Equally, obviously we always maintain a cautious approach but we're certainly not loading capital up for a major acquisition. It's part of the day-to-day management of the capital and funding and liquidity that we've always done. So, nothing new there.

Shemara Wikramanayake: All I was going to say is just to reinforce what Alex said is, we tend not to drive acquisitions from the centre of a big top-down, take the business somewhere. It's really driven by the leaders of our businesses all over the world seeing opportunity and patiently, adjacently, using the balance sheet behind their expertise.

So - but you know, Nick spent a couple of decades in the US buying things like Cook Inlet, Constellation, Cargill. That's all driven by the team coming and saying we see opportunity to grow our franchise, not a top-down, Nick, go and buy this. So sorry, Brian, back to you.

Brian Johnson: No worries at all. Just a second one if I may, to Alex again? Alex, when we have a look at the kind of mystery of how the NOHC works, if we have a look at the slide in the Non-Bank?

Alex Harvey: Yes.

Brian Johnson: You disclose the capital requirement. You disclose the pretend risk weighting and the capital requirement just happens to always be 8 per cent. So, it kind of looks like that's based on the equivalent of an 8 per cent capital - 8 per cent core equity - sorry, 8 per cent shareholder funds or tier one ratio, not even the core, in the Non-Bank. Does that potentially change under the amended Basel III? Or does it not get impacted?

Alex Harvey: No, I mean obviously the Non-Bank capital framework is the economic capital adequacy model which we've had in place for some time and obviously agreed many years ago with APRA. The changes to the new capital regime are Bank-related changes. So, nothing in that particular regime changes the capital footprint of the Non-Bank.

Shemara Wikramanayake: Yes.

Brian Johnson: Okay and then the final one, if I may? Just a question for Nick. Nick, if we go back and we kind of think about the history of the weather impacting Macquarie. So 2014, gigantic polar vortex. Big profit surprise. March 2021, another polar vortex, big profit surprise. June 2021, the heat dome basically over the north-west of the US, profit surprise.

As we're sitting here today, it's bloody wet in Sydney. There's a drought in basically the US. It's stinking hot in India. I mean, all of this kind of weather-related commodity volatility is probably not helping things. I'm just intrigued, are you sensing that that fundamental increase in volatility drives increased customer hedging? Or does it just mean that we get basically trading opportunities on the vol? It's one or the other, isn't it?

Nicholas O'Kane: Thanks for the question. Look, in terms of how I look at the business and what drives the results for the business, it's looking at underlying customer activity. That's what primarily drives the business. That's how we've structured it and that's how we've built it but we've also built the business so that there are embedded options within some of the contracts that we've entered into, that gives us the opportunity to take advantage of volatility when it presents itself.

We don't know when and where that will be, but what we do know is that if we're able to service customers and be able to provide solutions to their problems and that may be driven by a weather event or it may be driven by volatility that's being driven by something else. Then we'll see a lot of activity.

So, we don't spend a lot of time thinking about the weather, to be honest, Brian. At all in terms of forecasting. Certainly, on a day-to-day basis we do but in terms of thinking about the future, it's just not really a consideration for us.

Brian Johnson: Nick, are clients asking for more hedging, do you think, because of this? Or it's just not impacting their forward thinking?

Nicholas O'Kane: I don't think it's impacting their forward thinking.

Brian Johnson: Thank you very much.

Operator: Thank you. Once again, if you wish to ask a question on the phones, please press star one. Your next question comes from Brendan Sproules with Citi. Please, go ahead.

Brendan Sproules: (Brendan Sproules, Citi) Good morning. I just have a couple of questions on Macquarie Capital. Just looking at your asset realisation income in the last six months, it's actually been more than what you've seen over the past 18 months so I just wanted to get a feel about how much the Green Investment Group contributed to the growth or the extraordinary half that you've had?

You talk about in your short-term guidance about a solid pipeline of realisations for the coming financial year. How does that relate to what you've seen in the last six months or should I be looking at the last 18 months as a sort of a guide for that?

Shemara Wikramanayake: Yes, I'll make some brief comments and then hand over to Michael Silverton but you saw Macquarie Capital delivered $A2.5 billion, basically and the Green Investment Group was $A800 million of that. In terms of step up from the previous year, the whole Group stepped up from about $A650 million to where it is and the Green Investment Group was a portion of that step up but a large part of it came from the rest of Macquarie Capital.

That legacy business is business that Michael has sat across, so I'll let him comment but the advisory revenue stepped up a lot and then we had principal gains on a whole range of assets across a number of sectors. The other comment I'd make is the timing of the realisation of those assets is really driven by the best time to get the best return for the asset. Some may be held for two years, some for eight years and the same applies to the book we have.

The last point I'd make is, we're also moving much more to holding now a private credit book which gives more annuity-style return to Macquarie Capital principal investing but Michael, would you like to?

Michael Silverton: Sure. Thanks for the question. Firstly, we're still seeing opportunity in the market. We have different strategies on the equity side. We have private equity control, we have minority equity, we have real estate and we have venture and growth equity around technology. What you saw in the last half was activity around business services and technology, and as Shemara said earlier, they were investments that we made over the past few years.

In terms of the realisations going forward, we have identified several investments that we're working with our co-investors on, and we will decide the appropriate time to exit those together. We continued to find opportunities during the past six months that excite us and we're seeing add-on opportunities to those businesses as well.

It's really driven by strategy but also the sectors that we're investing in. So, within technology we've got software and services, we've got a lot of reg tech - regulatory technology and education has been a big area for us as well.

Shemara Wikramanayake: The only last comment I'd make on that is just like in Nick's business where we're patiently building up expertise in the sector, we're also looking for diversification across those. So as Michael said, we start at venture tech. We've got growth equity, we've got more mature equity, so we have infrastructure and energy investments. Then we have private credit as well. So, it's a whole diversification across...

Alex Harvey: Maybe one thing to add from me, Brendan. Just a couple of points. Obviously just for the last six months, as we said at the Operational Briefing, we did see a strong period for asset realisations. In fact, we sort of used exceptional. So plainly we saw some good realisations over the last six months.

The important thing for me, I think, when you think about the medium-term prospect for the business is that capital that we have invested alongside the Macquarie Capital clients. And obviously you get some periodicity, you know, from one period to the next and market conditions and what our partners want to achieve in an asset and where the business is up to or that affects the decision as to whether you divest or not.

But the key, I think, is that consistency of capital over a long period of time because obviously if you see capital being divested, for the sake of the example and you're not growing it, assuming you're growing well you'll start to see that in a couple of years' time because the average age of the books is - the duration of the books, probably two to three years. So, you see it come out over time if you're not investing.

The important thing for me in terms of the medium term for the business is the team is leveraging its expertise, getting positioned in sectors where we have a long track record of successful investing, but continuing to see opportunities over the course of time because that'll play into the medium term. One six-month period to the next will obviously vary, but the important thing is that underlying franchise that's being supported with the capital.

Brendan Sproules: If I could just have a follow up question on that? I mean, obviously, naturally, you have to have all this guidance subject to market conditions but central banks around the world are all rushing to push up rates very quickly. To what extent has that fed into the current year guidance of potentially lower asset prices or lower transaction volumes? Or is that something that is more of a concern into the medium term?

Shemara Wikramanayake: Shall I go and then you go?

Alex Harvey: Yes.

Shemara Wikramanayake: I was basically going to say, economic conditions - macroeconomic conditions are often hard to call and I think at the moment they're particularly hard to call because we're seeing a resurgence in global growth. We're seeing inflation pick up. There was a view it was transitory. Some of it is now proving to be persistent. Central banks are responding. We don't know whether we could have a situation where they really tighten very strongly and we have a slow-down in global economies or whether they pull back and we have stagflation.

What we try to do is set up our businesses for a whole range of outcomes and hence we sit with $A10.7 billion of surplus capital, we sit with our term funding exceeding our term assets and we sit with a very diverse spectrum of businesses.

If inflation surges, some businesses will actually benefit and I think we did detailed work on the real assets - asset management business showing how it typically does well in that sort of environment assuming it's not real rates rising. Other businesses could suffer and other businesses are not as impacted. For example, Nick's business is driven by activity levels, so is Michael Silverton's in terms of the fee revenue.

So, we don't really run the whole business on an inflation scenario, is all I'd say as preliminary comments. We basically position ourselves to be able to respond to a range of scenarios and then I'll hand over to Alex.

Alex Harvey: Yes, I mean, I agree with all that. I guess I'd make just a couple of points. I mean, obviously the market conditions are changing quite rapidly, so we're making observations today around how we see things over the course of the next 12 months and as Shemara just said, they're obviously changing rapidly.

I think what is interesting from a Macquarie Capital viewpoint is just the increasing diversity of the business. I think if you look over the last 12 months, we saw record M&A volumes here in Australia, also in the US and in Europe. So, I think that reflects the business that Michael and team have been building.

Really, the focus on those key areas which are - not trying to be general market participants, probably with the exception of here but actually focussing on when we've got deep expertise and bankers with real expertise in sectors and finding opportunities. I think that diversity point from an advisory perspective is really important.

The other piece, probably, is that there are, as Shemara said, there's a couple of limbs. Not only advisory piece but you've obviously got the principal investing piece and again, that tends to be focussed on business services, government services, technology. Where there's underlying drivers for success in those areas and obviously bankers that we feel like have the capacity to go and find those opportunities.

Again, that's quite diverse. If you look at the realisations over the last 12 months, they were actually throughout the world, which I think is also an encouraging feature. Then the other point that I'd say, just in terms of the outlook, is Shemara's point that we've been building the Principal Finance book which gives you that more annuity style income coming through Macquarie Capital.

So, I think that diversity story is a good one. Having said that, obviously market conditions are changing quite rapidly and so I think appropriately, we're calling out that as a feature of the conditions going forward.

Brendan Sproules: Thank you, that's very helpful.

Operator: Thank you. Your next question comes from Andrew Lyons with Goldman Sachs. Please, go ahead.

Andrew Lyons: (Andrew Lyons, Goldman Sachs) Thanks and good morning. Alex, just a question on slide 35, which is on your cost of compliance which were up 22 per cent in FY22. Your domestic bank peers are talking to these costs likely close to reaching a peak and while I clearly recognise the different levels of complexity in your business, I'd be keen to hear how you see these costs playing out over the next few years?

Alex Harvey: Yes, thanks, Andrew, for the question. We're putting a long-term trend there. You can see over the course of the last seven or eight years, we've had compound annual growth of 14 per cent and as I said in my remarks, my guess is you'll still see a step up in that over the course of the next few years and there's a few reasons for that. One is things like the work that Shemara referred to in terms of making sure that the foundations around reg reporting and compliance and so forth are in good shape.

The other thing that obviously we have, that is perhaps less relevant to some others, is just the global footprint as well that I think is meaning that there's a need to continue to invest. So, my guess, Andrew, is the history is not always a good guide to the future but over the course of the last seven or so years, you've seen a step up in compliance and my guess is into the near term, that'll continue.

Andrew Lyons: Thanks, appreciate it.

Operator: Thank you. Your next question is a follow up from Brian Johnson with Jefferies. Please, go ahead.

Brian Johnson: (Brian Johnson, Jefferies) Alex, you might want to pull up slide 32 and by the way, fantastic disclosure, but when we have a look at that, I get the fact that the daily trading profits, seem to be clustered around this $A10 million. But as I read that chart, that looks to me as though you had something like 10 days where you made $A65 million. Which kind of equates to a figure of around $A650 million over those 10 days. If I then have a look at slide 55, I mean that looks to me to be - those 10 days look to be absolutely phenomenal relative to the income overall if we strip out the risk management revenues we see in the business.

I suppose, if my logic is correct, that those 10 days were that big? How do you manage the risk that we don't see 10 days where it's just as negative? Because when think about it, I'd just be interested to see what is the downside on those numbers? Is it just that it goes to zero or could we see just as many days negative if everything reverses?

Alex Harvey: Yes, well maybe just - I mean, I'll...

Brian Johnson: When it's kind of like the central issue. I apologise for the question, but it's got to be asked.

Alex Harvey: No, don't need to apologise, that's what you are there to do, Brian. Just in terms of the charts, I mean obviously it is a distribution of P&L over days and there were obviously some larger days over the course of the year. I mean, I guess just to the point you're making about the downside, if you look at the other end, it's obviously pretty flat.

So, I mean I think that the whole point here is that the business is very much skewed to client revenue, Brian. As we've said before, if you look at the operating income of the Group on the slide before this one, you can see that on any given year, somewhere between 70 per cent and 80 per cent of the operating revenue of CGM is driven from underlying client business.

Now, within that underlying client business, obviously, when we're providing products to clients so we're managing risk on our own balance sheet to support the capabilities that we're offering to clients but that risk is managed in a very granular way and in very tight market risk limits. So that's sort of the first part of the answer.

The second part is a point that Nick mentioned more broadly across the Group. I mean, the way we've tried - or Nick and the team have tried to position that business is really, I guess client orientation firstly and then managing that risk within tight market risk limits but then a series of relatively low-cost options that have the potential to pay off in periods of time where there's significant volatility.

I think those two things are worthwhile mentioning and then the other thing that we've said before that I think is a good answer - or at least part of the answer to your question, is that a lot of the principal risk, if you like, is basis type risk. It's changing prices between different locations or it's changing prices between different times for the sake of the example. It's not directionally having a view as to whether gas or oil or something else is going to go up or down.

So, I think the culmination of those three things are what gives you that skewing to the right of the Y axis and obviously, subject to us doing all of that well, you don't have those significant down days. But nonetheless, it is a - it's a market-facing business and so we're very focused - and Nick may want to comment, I'm not sure - but very focused obviously on how you make sure you're managing risk really effectively...

Shemara Wikramanayake: Well, I was just going to - I mean, highlight a couple of other things that reinforce what you're saying. Brian, if you have a look at Page 31 on the left side, Alex has got a graph there that shows you how much the inventory management and trading revenue is as a proportion of the revenue in that business because we also have OpEx there of course. But generally, it's a small proportion and even in a big year like this, it's a very small proportion to your point of is it a huge proportion of the revenue?

The $A3.911 billion is after expenses. Pre-expenses is obviously much higher than that. The second thing I'd say to your chart on Page 32, you can see the positive skew there year on year on year. We typically go back five years and so if you have a look at the year before, it included FY17 or the year before FY16 but the positive skew is always there. Basically driven by the deep knowledge people have of the markets in which they're operating and as Alex said, this is not just making a call on a propriety trading position. It's base is risk, et cetera, where people have insight.

There are negative days as well that you see can but the main thing is it's skewed to the positives - the curve - and it's basically concentrated also in a small area typically.

Brian Johnson: Is there a particular condition - if we kind of think about those $A65 million days, what should we be looking for that generates those? I mean, this will save Sam Dobson a hell of a lot of time. What are the conditions that generate the $A65 million days? If you can name the Commodities or what should we be looking for those super days?

Alex Harvey: I don't think I'll make Sam's life any easier by my answer. I mean, the whole point here - and this is a really important point Brian. It is a very diverse business. So, we obviously get a lot of questions on the energy business but there's a huge range of activity that sits within CGM. I mean, obviously within the Commodities complex alone, there's Resources more generally, there's metal, there's Agriculture, there's obviously Oil and Gas.

So it's a very broad business and there's different geographies around the world. It's diverse from a product viewpoint and it's diverse from a geographic perspective. Then on top of that, obviously you get the FIC business which is operating in credit markets, operating in interest rate markets, in FX markets. So I can't point to one single sort of condition or even two conditions that will drive the P&L one day versus the next.

I think that the real point of the slide really is just to say that the business - I mean, I think if you look over time, it's a diverse business. We keep emphasising the customer base and the whole point about the customer base is more customers, more products in more geography, more solutions. That drives the underpinning value of the business.

Obviously, on top of that, you get market conditions that are more favourable or less favourable and that will generate sort of our performance opportunities but the underlying story is diverse business and a very diverse business even within Commodities that's driving a more consistent result over the medium term.

Shemara Wikramanayake: I think, Brian, the underlying essential also in this slide if you look at a five-year picture. So, if you look at $A10 million days in FY22, we had about 60 less of those than FY18. That's $A600 million off on the other side. So, the curve basically is skewed to the positive and concentrated in an area and it can vary intra year but that is really what's driving the CGM business.

Brian Johnson: Look Shemara, if my question sounded as though I was being disrespectful, I think it's just because you do a very good job. Just a final one from me and I'm staggered no one's asked it. If we have a look at your deposit business in BFS, as I look at it, it seems to me you've got more kind of like quite expensive deposits which I suspect means that you haven't got this great kind of pool of leverage to rising rates. If that is not the case, could you give us a feeling on what happens as rates rise? What happens to basically the margin in BFS?

Shemara Wikramanayake: Yes. I'll let Greg comment on that in a minute but basically, in BFS, there's going to be a number of factors, there's compression from competitive dynamics that peers have talked about. There's the cost investment et cetera. And also, spreads will vary in your home loan book and your business banking book. So why don't I let Greg comment given he's with us.

Greg Ward: Yes. Thanks Brian. We've got a tremendous suite of deposit products now. So, we have a very large business deposit book and some of that are nil interest deposits or regulated deposits and so there is - all things being equal, there is a benefit there in a rising rate environment. We also have an expanding transaction account portfolio which has a very low interest rate at this point. That may change but that's sort of skewed to the positive.

Of course, the biggest deposit base is the cash management account, which is primarily a transaction facility. For larger amounts of money, there's an accelerator account there that people can get a higher yield but that's a transaction account. So overall in the portfolio, there should be some benefit, all things being equal, on the deposit side as rates increase. Now, of course, that doesn't mean that translates to the bottom line because there's a whole range of other factors on the loan side that will come into play.

Brian Johnson: Thanks Greg.

Shemara Wikramanayake: Just briefly Nick, did you want to comment at all on the trading?

Nicholas O'Kane: Yes. Thank you. I was just going to add I think what that chart reflects - the one that's skewed to the right - is that the amount of customer business that we're doing every single day and that customer business is generating income for the business. Then there may be market risk that the business is taking as a result of trades that customers give us or we may be entering into ourselves which is then impacting the result after that.

But the point of this graph is to say that look, every single day, the business is generating income from that customer activity and that's what's skewing the outcome for the business. Then just to answer your question on what might be driving the income on a $A65 million day. I think I'd go back to the diversity of the portfolio and it is highly likely that there isn't one thing that's driving it. There'll be a lot of customer activity that will be happening and then there may be one or two or three or four or five or six other things that happen on that given day. That just comes down to the amount of different business lines that we've built over time.

Brian Johnson: Okay. Thanks Nick.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Dobson.

Sam Dobson: Thank you. Are there any further questions in the room before we wrap up? No? All right. Well, thank you all for your interest, for your support and we look forward to catching up over the next couple of weeks. Thank you very much.

[END OF TRANSCRIPT]