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MACQUARIE

ASX/Media Release

MACQUARIE GROUP NOTES APRA'S FINAL STANDARDS ON REVISIONS TO THE CAPITAL FRAMEWORK FOR AUTHORISED DEPOSIT-TAKING INSTITUTIONS

SYDNEY, 30 November 2021 – Further to the regulatory update provided at its results for the half year ended 30 September 2021 (1H22), Macquarie Group (ASX: MQG; ADR: MQBKY) notes the finalisation of the Australian Prudential Regulation Authority's (APRA) "Revisions to the capital framework for authorised deposit-taking institutions (ADIs)" to implement 'unquestionably strong' capital ratios and Basel III reforms. This includes changes to APS 110 (Capital Adequacy), APS 112 (Standardised approach to credit risk) and APS 113 (Internal ratings-based approach to credit risk). Key features of the reforms include:

- Increase in regulatory capital buffers through a 1.25% increase in the capital conservation buffer (CCB) for ADIs using the internal ratings-based (IRB) approach and through setting the Australian countercyclical capital buffer (CCyB) at a default level of 1.0% for all ADIs
- Changes to risk-weighted assets (RWAs) such as through more risk-sensitive risk weights for residential mortgages, changes to loss given default rates (LGDs), and an increase in the IRB scaling factor (from 1.06x to 1.1x)
- Requirement that IRB ADIs calculate and disclose RWAs under the standardised approach and the introduction of a capital floor at 72.5% of standardised RWAs.

While APRA has now released final standards, APRA will continue to consult with the industry on certain areas (including residential mortgage LGD models) prior to the 1 January 2023 implementation date, and hence the final impact on Macquarie's capital position will depend on the outcomes of APRA's consultation process and Macquarie's business and geographic mix. Based on the current information available, the *pro forma* impact on Macquarie Group's capital surplus above regulatory minimums as at 30 September 2021 is estimated to be ~$A2.2b[1], largely on account of the increases to regulatory capital buffers outlined above. Macquarie Group's capital surplus has included a provision for these regulatory changes for some time and it remains Macquarie's expectation that it will have sufficient capital to accommodate these additional regulatory capital requirements.

Commenting on APRA's "Revisions to the capital framework for authorised deposit-taking institutions (ADIs)", Chief Financial Officer Alex Harvey said, "We welcome the finalisation of these important capital reforms which will provide clarity to the investment community."

As at 30 September 2021, Macquarie Bank Limited's (MBL) APRA Basel III Common Equity Tier 1 capital ratio was 11.7 per cent (Harmonised: 14.8 per cent) and Macquarie Group's capital surplus above regulatory minimums was $A8.4b[2].

[1] Expected impact includes reforms to APS 115 (Standardised Measurement Approach to Operational Risk), which APRA finalised on 11 December 2019 and will be implemented 1 January 2023 alongside reforms noted above. Assumes a default level Australian CCyB of 1.0%, which combined with the increase in the CCB of 1.25%, gives rise to an increase in the regulatory minimum of 1.78% based on Macquarie's business and geographic mix as at 30 September 2021. Also, assumes a weighted average mortgage LGD of 15% (mid-point between the existing 20% floor and post-reform 10% floor). LGDs may be more or less than 15% and will be subject to APRA approval with each 1% change in the weighted average LGD expected to have a ~$A0.12b impact on the capital surplus.

[2] The capital surplus shown is above regulatory minimums including the capital conservation buffer (CCB), per APRA ADI Prudential Standard 110, calculated at 8.5% RWA on a Level 2 basis for MBL.

Cautionary Statement Regarding Forward-Looking Statements

This release may contain, in addition to historical information, statements that constitute "*forward-looking statements*" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended. Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements, including the risks described under "Risk Factors" in our Disclosure Report (U.S. Version) for the half year ended September 30, 2021. Many of these risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as future market conditions, changes in regulatory environment and the behavior of other market participants. We cannot give any assurance that such forward-looking statements will prove to have been correct. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.