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Letter from the **Managing Director and CEO**

As Peter has outlined in the Chairman’s letter to shareholders, the final months of financial year 2020 were impacted by the severe health, social and economic consequences of the COVID-19 pandemic. Macquarie is responding to this unprecedented set of circumstances by ensuring the health and welfare of our people, supporting our clients and the community, and taking the necessary steps for continuity of our operations.

We are proud of the way in which Macquarie staff have adapted to the changed operating environment, including the vast majority of staff moving to work remotely, without interruption to their activities or to client service.

Macquarie’s fundamentals remain sound and are grounded in a long history of prudent risk management, which is evident in the underlying strength of our 2020 result. Macquarie is highly disciplined in ensuring it always maintains sufficient surplus capital to act as a buffer and to pursue growth opportunities should they present themselves, and that it is well funded. Being headquartered in Australia is a strength, operating in a strong financial system that has shown long-term resilience through market cycles.

Performance

For the year ended 31 March 2020, Macquarie delivered a profit of \$A2,731 million, down 8% on the prior year. A strong underlying performance was offset by increased credit and other impairment charges, reflecting primarily the deterioration in current and expected macroeconomic conditions as a result of COVID-19.

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Our annuity-style activities, Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and parts of Commodities and Global Markets (CGM), had a strong year, with a combined net profit contribution of \$A3,439 million, up 13% on the prior year. Annuity-style activities represented 63% of net profit contribution from operating groups.

MAM benefited from increased base fees, performance fees and investment-related and other income, with its result partially offset by lower net operating lease income, higher operating expenses and higher credit and other impairment charges. In BFS, growth in average volumes for BFS deposits, the loan portfolio and funds on platform, along with the impact of realigning the wealth advice business to focus on the high net-worth segment, were offset by margin compression on deposits and higher credit provisions. CGM's annuity-style activities reflected higher revenue from the Specialised and Asset Finance division and Commodities' lending and financing activities.

Our markets-facing activities, Macquarie Capital and CGM, made a net profit contribution of \$A2,009 million, down 35% on the prior year. Markets-facing activities represented 37% of net profit contribution from operating groups.

Macquarie Capital was impacted by lower fees from debt capital markets, partially offset by higher mergers and acquisitions fee revenue. Investment-related income was also down relative to the strong asset realisations in the prior year. Macquarie Capital also incurred higher operating expenses and funding costs and increased credit and other impairment charges. The markets-facing activities within CGM were impacted by a reduction in inventory management and trading revenues and an increase in credit provisions. This was mostly offset by strong global client contributions across all products and sectors demonstrating the benefits of the diversity of the portfolio.

While our Australian franchise maintained its strong position, the offshore businesses continued to perform well, with international income accounting for 67% of Macquarie's total income for the year ended 31 March 2020. Total international income was \$A8,061 million for the year ended 31 March 2020, a decrease of 3% from \$A8,317 million in the prior year.

Macquarie has a longstanding policy of holding a level of capital that supports its business and has consistently grown its capital base ahead of business requirements. In September 2019, Macquarie issued \$A1.7 billion of equity capital, raised through a \$A1.0 billion institutional placement and \$A0.7 billion share purchase plan. This additional capital provides strategic flexibility to invest in new opportunities while maintaining appropriate capital levels in light of ongoing regulatory change. Macquarie's APRA Basel III capital was \$A24.8 billion and Macquarie's surplus above regulatory minimum requirements was \$A7.1 billion at 31 March 2020.

Organisational changes

Macquarie simplified its organisational structure during the year to align businesses in terms of clients and complementary offerings. Businesses formerly in Corporate and Asset Finance (CAF) were integrated into MAM, CGM and Macquarie Capital.

To reflect the international nature of Macquarie's business activities and following the retirement of several longstanding group heads, Macquarie's Executive Committee underwent a process of renewal during FY2020 with several new members based in the northern hemisphere.

Nicholas O'Kane formally commenced as head of CGM on 1 April 2019, following the retirement of Andrew Downe. Michael Silverton and Daniel Wong were appointed Co-Heads of Macquarie Capital, effective 1 June 2019, following the retirement of Tim Bishop. Garry Farrell, Head of CAF, also retired during the year.

We would like to take this opportunity to thank Andrew, Tim and Garry for their leadership and decades of service with Macquarie. We also commend Nicholas, Michael and Daniel, each of whom have been with Macquarie for more than 20 years and have been instrumental in the evolution of CGM and Macquarie Capital into the substantial, globally significant businesses they are today.

In the community

FY2020 was a significant year for the Macquarie Group Foundation (the Foundation). To mark Macquarie's 50th anniversary, the Foundation awarded \$A50 million in grants to five non-profits, selected from a field of more than 1,000 applicants. Each of these five organisations received \$A10 million to initiate or build on specific health, environmental and social inclusion projects that will address areas of unmet community need.

In FY2020 and inclusive of the first payments made to 50th Anniversary Award recipients, the Foundation and our staff contributed \$A51 million in donations and fundraising to more than 1,600 community organisations around the world, and recorded more than 46,000 hours of voluntary community service. Shortly after the end of FY2020, Macquarie announced an additional \$A20 million allocation to the Foundation for donations to organisations that are working to combat COVID-19 and provide relief for its impacts.

Outlook

Market conditions are likely to remain challenging, making short-term forecasting extremely difficult. While we haven't provided guidance for the 2021 financial year, we have provided the market with an outline of the factors impacting the short-term outlook for each of the operating groups. We continue to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that positions us well to respond to the current environment.

On behalf of Senior Management, we would like to thank Macquarie's staff for their efforts, and our clients and shareholders for their ongoing support.



Shemara Wikramanayake

Managing Director and Chief Executive Officer

Sydney
8 May 2020

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