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ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A985 MILLION HALF YEAR PROFIT

Key Points

- **1H21 net profit of $A985 million, down 32% on 1H20 and down 23% on 2H20**
- **1H21 credit and other impairment charges of $A447 million, up from $A139 million in 1H20, primarily related to a deterioration in current and expected macroeconomic conditions due to the COVID-19 pandemic**
- **International income 68% of total income[1] in 1H21**
- **Assets under management of $A556.3 billion at 30 Sep 2020, down 7% from 31 March 2020**
- **Financial position comfortably exceeds regulatory minimum requirements[2]**
  - **Group capital surplus of $A9.4 billion[3]**
  - **Bank CET1 ratio 13.5% (Harmonised: 16.8%); Leverage ratio 5.9% (Harmonised: 6.5%); LCR 176%; NSFR 121%**
- **Annualised return on equity (ROE) 9.5%, down from 14.5% in FY20**
- **Interim ordinary dividend of $A1.35 per share (40% franked), representing a payout ratio of 50%**

SYDNEY, 6 November 2020 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A985 million for the half year ended 30 September 2020 (1H21), down 32 per cent on the half year ended 30 September 2019 (1H20) and down 23 per cent on the half year ended 31 March 2020 (2H20).

Macquarie Group Managing Director and Chief Executive Officer Shemara Wikramanayake said: “Recent months have been overshadowed by the profound human impact of the COVID-19 global health crisis and its economic consequences. Those impacts are reflected in our result, notably in credit and other impairment charges in relation to the ongoing impact of COVID-19 on our clients and customers and in delays to realising assets from our balance sheet and our funds.”

Annuity-style activities, which are undertaken by Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and certain businesses in Commodities and Global Markets (CGM), generated a

1 Where referenced in this document, total income is net operating income excluding earnings on capital and other corporate items.
2 Where referenced in this document, Group capital surplus is calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per APRA ADI Prudential Standard 110. ‘Harmonised’ Basel III estimates are calculated in accordance with the BCBS Basel III framework. CET1 refers to the Common Equity Tier 1 ratio. LCR refers to the Liquidity Coverage Ratio. Where referenced in this document, average LCR is based on an average of daily observations. NSFR refers to the Net Stable Funding Ratio.
3 Based on materiality, the 8.5% used to calculate the Group capital surplus does not include the countercyclical capital buffer (CCyB) of ~1bps. The individual CCyB varies by jurisdiction and the Bank Group’s CCyB is calculated as a weighted average based on exposures in different jurisdictions.

combined net profit contribution of $A1,600 million, down seven per cent on 1H20 and down seven per cent on 2H20.

Markets-facing activities, which are undertaken by Macquarie Capital and most businesses in CGM, delivered a combined net profit contribution of $A672 million, down 42 per cent on 1H20 and down 22 per cent on 2H20.

Net operating income (excluding credit and other impairment charges) of $A5,966 million was down eight per cent on 1H20 and down 14 per cent on 2H20, while operating expenses of $A4,266 million were down five per cent on 1H20 and down three per cent on 2H20.

The income tax expense of $A275 million was down 27 per cent on 1H20 and down 22 per cent on 2H20. The effective tax rate for 1H21 was 21.8 per cent, up from 20.5 per cent in 1H20 and 21.6 per cent in 2H20. The increase was mainly driven by the geographic composition and nature of earnings.

At 30 September 2020, the Group employed 16,356 people, which was up three per cent on 31 March 2020. In addition, approximately 130,000 people were employed at assets managed by Macquarie.

Macquarie's assets under management (AUM) at 30 September 2020 were $A556.3 billion, down seven per cent from $A598.9 billion at 31 March 2020, largely due to foreign exchange impacts and a reduction in contractual insurance assets in Macquarie Investment Management.

Operating Group performance

- MAM delivered a net profit contribution of $A1,062 million, down five per cent from $A1,122 million in 1H20. The result reflected lower Macquarie AirFinance income and lower performance fees, partially offset by the gain on sale of Macquarie European Rail.
- BFS delivered a net profit contribution of $A317 million, down 18 per cent from $A385 million in 1H20. The result reflected margin compression on deposits and increased credit impairment charges, partially offset by strong home loan and deposits growth.
- CGM delivered a net profit contribution of $A1,082 million, down five per cent from $A1,140 million in 1H20. The result was reflective of two distinct quarters, with the three months ended 30 June 2020 characterised by dislocated markets and elevated volatility and the three months ended 30 September 2020, in which activity was increasingly subdued.
- Macquarie Capital recognised a net loss of $A189 million, down from a $A221 million net profit contribution in 1H20. The result reflected significantly lower investment-related income, lower fee and commission income and higher credit and other impairment charges partially offset by lower operating expenses.

COVID-19 update

Over the course of 2020, Macquarie has continued to respond to the impacts of COVID-19, with a focus on particular stakeholder groups:

- **Employees:** At the peak, 98 per cent of staff were working remotely and investments in technology, leadership and workplace culture have ensured teams remain engaged and productive. 60 per cent of staff are now approved to return to our offices, but given the current status of the pandemic is different in every location, we continue to take a voluntary, localised approach.
- **Clients:** Many clients who had sought exceptional financial assistance no longer need that support, particularly in BFS. Clients accessing assistance at 31 October 2020 was approximately 2.6 per cent, down from a peak of approximately 13 per cent at 30 June 2020. However, every sector and location is

different and we continue to actively work with clients in providing hardship support where required, and access to finance and capital.

- **Portfolio companies:** Our focus, particularly in Macquarie Capital and MAM, has been to work with portfolio businesses on business continuity, financial resilience and employee wellbeing. In doing so we have maintained and extended essential community services and shared learnings across the portfolio.
- **Communities:** The Macquarie Group Foundation has now allocated $A15.2 million of its $A20 million additional funding to help address COVID-19 impacts. Funds have been allocated for public health and clinical research, to organisations focused on direct relief efforts and to organisations supporting workers and businesses as they resume economic activity.

Capital management and funding position

Macquarie's financial position exceeds the Australian Prudential Regulation Authority's (APRA's) Basel III regulatory requirements, with a Group capital surplus of $A9.4 billion at 30 September 2020, up from $A7.1 billion at 31 March 2020.

The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 13.5 per cent (Harmonised: 16.8 per cent) at 30 September 2020, up from 12.2 per cent (Harmonised: 14.9 per cent) at 31 March 2020. The Bank Group's APRA Leverage Ratio was 5.9 per cent (Harmonised: 6.5 per cent), the Liquidity Coverage Ratio (LCR) was 176 per cent and the Net Stable Funding Ratio (NSFR) was 121 per cent at 30 September 2020.

Macquarie Group Chief Financial Officer Alex Harvey said: "Macquarie maintains a strong capital position and a well-funded balance sheet with term liabilities exceeding term assets. We continue to pursue our strategy of diversifying funding sources by growing the deposit base and accessing a variety of funding markets. We are well-positioned to operate through all market cycles and invest in growth."

Total customer deposits[4] increased to $A77.1 billion at 30 September 2020 from $A67.1 billion at 31 March 2020. A further $A7.2 billion of new term funding[5] was raised, covering a range of tenors, currencies and product types.

1H21 interim ordinary dividend

The Macquarie Group Limited Board has announced today a 1H21 interim ordinary dividend of $A1.35 per share (40 per cent franked), down on the 1H20 interim ordinary dividend of $A2.50 per share (40 per cent franked) and down on the 2H20 final ordinary dividend of $A1.80 per share (40 per cent franked). This represents a payout ratio of 50 per cent. Macquarie's dividend policy remains 60 to 80 per cent annual payout ratio.

The record date for the interim ordinary dividend is 17 November 2020 and the payment date is 22 December 2020. Shares will be issued to satisfy the Dividend Reinvestment Plan (DRP)[6], with no discount applied, for the 1H21 dividend.

Regulatory update[7]

On 30 March 2020, APRA announced the deferral of its scheduled implementation of the Basel III reforms in Australia by one year. On 10 August 2020, APRA announced that it will recommence public consultations on select policy reforms later in 2020, including capital reforms incorporating the unquestionably strong framework.

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[4] Total customer deposits as per the funded balance sheet ($A77.1 billion) differs from total deposits per the statutory balance sheet ($A77.3 billion). The funded balance sheet reclassifies certain balances to other funded balance sheet categories.
[5] Issuances are AUD equivalent based on FX rates at the time of issuance and represent full facility size.
[6] The DRP pricing period is from 24 November 2020 to 30 November 2020.
[7] The APRA Capital Framework applies to the Bank Group only.

On 8 July 2020, APRA extended the temporary capital treatment for bank loan repayment deferrals from six months to ten months, or until 31 March 2021, whichever comes first.

On 29 July 2020, APRA updated its guidance provided in April 2020 on capital management. The updated guidance indicated that for the remainder of 2020, banks should seek to retain at least half of their earnings when making decisions on capital distributions (and utilise initiatives to at least partially offset the impact of capital distributions where possible), conduct regular stress testing to inform decision-making and demonstrate ongoing lending capacity; and make use of capital buffers to absorb the impacts of stress, and continue to lend to support households and businesses.

As previously noted, APRA is in discussions with Macquarie on resolution planning and intragroup funding. These discussions are progressing and as part of the discussions, Macquarie Group Services Australia, the main Group shared services entity for both the Bank and Non-Bank groups, is proposed to be transferred to the Bank Group in December 2020, which is estimated to decrease the Bank's CET1 ratio by 0.5 per cent[8].

Based on the current information available, it is Macquarie's expectation that it will have sufficient capital to accommodate likely additional regulatory Tier 1 capital requirements as a result of the above changes, noting that some of them are at an early stage of review and hence the final impact is uncertain.

Board changes

As previously announced, Michael Hawker retired from the MGL and MBL Boards at the end of September 2020. In consideration of Mr Hawker's retirement, Gordon Cairns has agreed to continue in his role on both Boards until at least March 2021. Mr Cairns had previously announced his intention to retire by the end of the year.

Outlook

Market conditions are likely to remain challenging, especially given the significant and unprecedented uncertainty caused by the worldwide impact of COVID-19 and the uncertain speed of the global economic recovery.

The extent to which these conditions will adversely impact our overall FY21 profitability is uncertain, making short-term forecasting extremely difficult. Accordingly, Macquarie is currently unable to provide meaningful earnings guidance for FY21.

The range of factors that will influence our short-term outlook include:

- The duration and severity of the COVID-19 pandemic
- The uncertain speed of the global economic recovery
- Global levels of government support for economies
- The completion rate of transactions and period-end reviews
- Geographic composition of income
- The impact of foreign exchange
- Potential regulatory changes and tax uncertainties
- Market conditions and the impact of geopolitical events

Ms Wikramanayake said: "While the economic impacts of the COVID-19 pandemic continue to be felt in the short term, Macquarie remains well-positioned to deliver superior performance in the medium term. This is due to our deep expertise in major markets; strength in business and geographic diversity and ability to adapt

[8] Pro forma estimate based on Bank Group APRA Basel III Common Equity Tier 1 ratio (CET1) at 30 September 2020

the portfolio mix to changing market conditions; an ongoing program to identify cost saving initiatives and efficiency; a strong and conservative balance sheet; and a proven risk management framework and culture."

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