Macquarie Group Limited
ABN 94 122 169 279

50 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164
AUSTRALIA

Telephone (61 2) 8232 3333
Facsimile (61 2) 8232 7780
Internet http://www.macquarie.com

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ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A2,731 MILLION FULL-YEAR PROFIT

Key points

- **FY20 net profit of $A2,731 million, down 8% on FY19**
- **FY20 credit and other impairment charges of $A1,040 million, up from $A552 million in FY19 primarily related to the potential economic impacts of the COVID-19 pandemic**
- **2H20 net profit of $A1,274 million, down 13% on 1H20 and down 24% on 2H19**
- **2H20 credit and other impairment charges of $A901 million, up from $A139 million at 1H20 and $A476 million at 2H19**
- **Assets under management of $A606.9 billion at 31 Mar 2020, up 10% from 31 Mar 2019**
- **Financial position comfortably exceeds regulatory minimum requirements**[1]
  - **Group capital surplus of $A7.1 billion**[2]
  - **Bank CET1 ratio 12.2% (Harmonised: 14.9%); Leverage ratio 5.7% (Harmonised: 6.3%); LCR 173%; NSFR 118%**
- **Annualised return on equity (ROE) 14.5%, down from 18.0% in FY19**
- **FY20 earnings per share (EPS) $A7.91, down 10% on FY19**
- **2H20 dividend per ordinary share of $A1.80, FY20 full-year dividend per ordinary share of $A4.30, down 25% from $A5.75 per ordinary share in FY19**

SYDNEY, 8 May 2020 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A2,731 million for the full-year ended 31 March 2020 (FY20), down eight per cent on the full-year ended 31 March 2019 (FY19). FY19 benefited from a high level of asset realisations, while FY20 was impacted by higher impairments relating to the potential economic impacts of the COVID-19 pandemic.

Profit for the half-year ended 31 March 2020 (2H20) was $A1,274 million, down 13 per cent on the half-year ended 30 September 2019 (1H20) and down 24 per cent on the half-year ended 31 March 2019 (2H19).

Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said: "The final months of the financial year were overshadowed by the profound human impact of the COVID-19 global health crisis and its economic consequences.

1 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 for the March 2020 quarter is based on an average of daily observations. NSFR refers to the Net Stable Funding Ratio.

2 Based on materiality, the 8.5% used to calculate the Group capital surplus does not include the countercyclical capital buffer (CCyB) of ~3bps. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions.

"Macquarie's full-year result has also been subject to the effects of this crisis and a strong underlying financial performance in FY20 was impacted by a material increase in credit and other impairment charges, primarily reflecting the deterioration in current and expected macroeconomic conditions as a result of COVID-19."

Annuity-style activities, which are undertaken by Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and certain businesses of Commodities and Global Markets (CGM), represented approximately 63 per cent of the Group's FY20 performance[3] and generated a combined net profit contribution of $A3,439 million, up 13 per cent on FY19.

Markets-facing activities, which are undertaken by Macquarie Capital and most businesses of CGM, represented approximately 37 per cent of the Group's FY20 performance[3] and generated a combined net profit contribution of $A2,009 million, down 35 per cent on FY19.

Net operating income (excluding credit and other impairment charges) of $A13,365 million in FY20 was in line with FY19. International income accounted for 67 per cent of Macquarie's total income[4].

Credit and other impairment charges of $A1,040 million in FY20 were up on $A552 million in FY19. The impact of COVID-19 was also reflected in credit and other impairment charges for 2H20 of $A901 million, up from $A139 million at 1H20 and $A476 million at 2H19.

Operating expenses of $A8,871 million were in line with FY19, with staff numbers increasing to 15,849[5] at 31 March 2020, up from 15,602 at 31 March 2019.

The income tax expense for FY20 was $A728 million, down 17 per cent on FY19. The effective tax rate for FY20 was 21.0 per cent, down from 22.8 per cent in FY19. The decrease was mainly driven by the geographic composition and nature of earnings.

Macquarie's assets under management increased 10 per cent to $A606.9 billion at 31 March 2020 from $A551.3 billion at 31 March 2019, due to investments by managed funds, an acquisition by MAM and foreign exchange movements, partially offset by recent market movements, a reduction in contractual insurance assets and divestments by managed funds.

Operating Group performance

- **MAM** delivered a net profit contribution of $A2,177 million for FY20, up 16 per cent from $A1,872 million in FY19. Increased base fees, performance fees and investment-related and other income were partially offset by lower net operating lease income, higher operating expenses and higher credit and other impairment charges.
- **BFS** delivered a net profit contribution of $A770 million for FY20, up two per cent from $A756 million in FY19. 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, was offset by margin compression on deposits and higher credit provisions.
- **CGM** delivered a net profit contribution of $A1,746 million for FY20, which was in line with FY19, reflecting the benefits of portfolio diversity. Strong global client contributions across all products and sectors in CGM's markets-facing activities together with higher revenue generated from the annuity-style activities of Specialised and Asset Finance and Commodities' lending and financing were offset by a reduction in inventory management and trading revenues and an increase in credit provisions.
- **Macquarie Capital** delivered a net profit contribution of $A755 million for FY20, down 57 per cent from $A1,774 million in FY19. The result was impacted by lower fee revenue from debt capital markets activities, partially offset by higher mergers and acquisitions fee revenue. Investment-related income was also down given strong asset realisations in FY19. Macquarie Capital also incurred higher operating expenses, funding costs and increased credit and other impairment charges.

3 Based on FY20 net profit contribution from Operating Groups.
4 International income is net operating income excluding earnings on capital and other corporate items.
5 Includes staff employed in certain operationally segregated subsidiaries.

Capital management and funding position

Macquarie's financial position continues to exceed APRA's Basel III regulatory minimum requirements, with a record Group capital surplus of $A7.1 billion at 31 March 2020, up from $A6.1 billion at 31 March 2019.

The Bank Group APRA Basel III Common Equity Tier 1 (CET1) capital ratio was a record 12.2 per cent (Harmonised: 14.9 per cent) at 31 March 2020, up from 11.4 per cent (Harmonised: 14.3 per cent) at 31 March 2019. The Bank Group's APRA leverage ratio was 5.7 per cent (Harmonised: 6.3 per cent), Liquidity Coverage Ratio was 173 per cent and Net Stable Funding Ratio was 118 per cent at 31 March 2020.

The Group undertook a number of funded balance sheet initiatives during FY20, including:

- $A1.7 billion of equity capital raised through a $A1.0 billion institutional placement and $A0.7 billion share purchase plan; and
- increasing the proportion of term funding and deposits, $A26.0 billion of new term funding[6] was raised, covering a range of tenors, currencies and product types. Total customer deposits[7] increased 20 per cent to $A67.1 billion at 31 March 2020 from $A56.0 billion at 31 March 2019.

Macquarie Group Chief Financial Officer, Alex Harvey, said: "The Group continues to maintain a strong capital position and a well-funded balance sheet with term liabilities exceeding term assets. These are hallmarks of Macquarie's approach and ensure that the Group is well-positioned to operate through all market cycles and invest in growth."

Macquarie acknowledges APRA's guidance in relation to capital management[8]. In light of APRA's guidance, and the continuing uncertainty as to the impacts of COVID-19, together with Macquarie's strong capital position and earnings generated for FY20, the MGL Board has resolved to:

- Pay a final FY20 dividend per share (DPS) of $A1.80 (40 per cent franked), materially down (50 per cent) on the FY19 final DPS. In conjunction with the interim DPS of $A2.50 (40 per cent franked), this represents a FY20 DPS of $A4.30, and a FY20 dividend payout ratio of 56 per cent. The record date for the final ordinary dividend is 19 May 2020 and the payment date is 3 July 2020. The final dividend will be funded entirely by 2H20 earnings of the Non-Bank Group; and
- issue shares to satisfy the DRP (at a discount of 1.5 per cent) for the 2H20 dividend, and issue shares for MEREP requirements - which together are expected to more than offset the capital impact of the dividend, by approximately $A0.1 billion - $A0.2 billion[9].

Macquarie notes that Macquarie Bank Limited (MBL) has not declared any dividends in FY20, nor are any being declared at this time.

Macquarie notes that it has further strengthened its ordinary equity position by generating or raising approximately $A3.7 billion of additional capital since 31 March 2019[10]. These measures, supported by stress testing analysis, provide a significant buffer for further and extended COVID-19 volatility and allow capacity for business growth where opportunities arise, including continuing to provide credit to the Australian economy.

Regulatory update

In the light of the COVID-19 pandemic, on 19 March 2020 APRA announced a number of temporary changes to its expectations regarding bank capital ratios, to ensure banks are well positioned to provide credit to the economy in the current challenging environment[11].

6 Issuances are AUD equivalent based on FX rates at the time of issuance and represent full facility size.
7 Total customer deposits as per the funded balance sheet ($A67.1 billion) differs from total deposits as per the statutory balance sheet ($A67.3 billion). The funded balance sheet reclassifies certain balances to other funded balance sheet categories.
8 7 Apr 2020; 'APRA issues guidance to authorised deposit-taking institutions and insurers on capital management'.
9 Depending on DRP participation.
10 Retained earnings for FY20 of ~$A1.2 billion, net of dividends (Includes FY20 interim dividend and FY20 final dividend); new equity raised in September 2019 of $A1.7 billion; shares to be issued for MEREP requirements of ~$A0.6 billion; and shares to be issued to satisfy the DRP, estimated at ~$A0.2 billion depending on DRP participation.
$A2.5 billion of this ordinary equity is in MBL (reflecting ~$A1.5 billion of FY20 retained earnings, and a $A1.0 billion MBL recapitalisation).
11 'APRA adjusts bank capital expectations'; 19 March 2020.

On 30 March 2020, APRA deferred the majority of its regulatory reviews related to the finalisation of Basel III by one year, to allow ADIs to focus on maintaining operations and providing credit to the Australian economy[12].

As previously noted, APRA is in discussions with Macquarie on resolution planning and intragroup funding. These discussions are progressing and Macquarie will continue working on these initiatives in consultation with APRA.

COVID-19 update

Curtailing the spread of COVID-19 has necessitated a sudden pause in activity in large parts of many economies around the world. This has led to reduced consumer and business confidence and more volatile financial markets, the impacts of which governments have cushioned with exceptional levels of financial support and other stimulus measures.

These challenging conditions bring into focus the imperative for organisations to support their stakeholders and contribute to the communities in which they operate. Examples of actions taken by Macquarie include:

- **Clients:** personal and small business banking clients are able to defer mortgage, overdraft, credit card or vehicle loan repayments for up to six months without penalty or negative impact to their credit score. Corporate clients have been supported through a range of advisory and fundraising services, specifically to assist them in navigating the impacts of the pandemic.
- **Portfolio companies:** Macquarie Infrastructure and Real Assets and Macquarie Capital are working with portfolio companies to ensure robustness of business continuity plans, financial resilience and employee wellbeing. Many portfolio companies are undertaking local initiatives to contribute to pandemic relief and recovery efforts and, as part of a global platform, Macquarie has taken steps to ensure this knowledge is shared and replicated.
- **Community:** in addition to the usual support that the Macquarie Group Foundation (Foundation) and Macquarie staff provide to non-profit organisations each year, Macquarie allocated an additional $A20 million to the Foundation in April 2020 for donations to a number of organisations that are working to combat COVID-19, provide relief for its impacts and support longer-term recovery.
- **Employees:** Macquarie has moved rapidly to a globally consistent and coordinated remote working approach with over 98 per cent of staff working remotely with no notable interruption to client service.

Outlook

The factors impacting Macquarie's short-term outlook are:

- **MAM**
  - Base fees expected to be broadly in line
  - Net Other Operating Income[13] expected to be significantly down, due to expected delays in timing of asset sales
- **BFS**
  - Higher deposit and loan portfolio volumes
  - Platform volumes subject to market movements
  - Competitive dynamics to drive margin pressure

12 'APRA announces deferral of capital reform implementation'; 30 March 2020.
13 Net Other Operating Income includes all operating income excluding base fees

- **CGM**
  - Subdued customer activity anticipated, particularly in the commodities sector in 1H21, albeit volatility may create opportunities
  - Consistent contribution from Specialised and Asset Finance linked to stable balance sheet and annuity flows
  - Product and client sector diversity expected to provide some support through uncertain economic conditions in 1H21
- **Macquarie Capital**
  - Transaction activity continues, with challenging markets expected to reduce the number of successful transactions and increase the time to completion
  - Investment-related income expected to be down on FY20 driven by lower asset realisations considering market conditions, but positioned to benefit from market recovery

Market conditions are likely to remain challenging, especially given the significant 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 impact the Group's overall FY21 profitability is uncertain, making short-term forecasting extremely difficult. Accordingly, Macquarie is currently unable to provide meaningful guidance for FY21.

Ms Wikramanayake said: "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. The longstanding fundamentals that have resulted in Macquarie being profitable every year since inception are unchanged, including deep expertise in major markets; business and geographic diversity; and a proven risk management framework and culture."

Contacts

Sam Dobson	Macquarie Group Investor Relations	+61 2 8232 9986
Lisa Jamieson	Macquarie Group Media Relations	+61 2 8232 6016

This document has been authorised for release by Alex Harvey, Chief Financial Officer