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MACQUARIE

ASX/Media Release

MACQUARIE GROUP 2021 ANNUAL GENERAL MEETING AND FIRST QUARTER 2022 FINANCIAL YEAR UPDATE

Key Points

- Improved trading conditions with 1Q22 operating group contribution significantly up on the prior corresponding period (pcp) (1Q21) which had mixed trading conditions
- Financial position comfortably exceeds regulatory minimum requirements[1]
  - Group capital surplus of $A7.4 billion at 30 June 2021
  - Bank CET1 Level 2 ratio 12.1% (Harmonised: 15.5%); Leverage ratio 5.2% (Harmonised: 5.9%); LCR 171%; NSFR 122%
- In order to allow additional flexibility to support business growth, the Board has resolved to update the annual dividend payout policy range to 50-70%

SYDNEY, 29 July 2021 – Macquarie Group (ASX: MQG; ADR: MQBKY) today provided an update on the first quarter of its 2022 financial year (1Q22) ahead of its 2021 Annual General Meeting. Speaking ahead of today's meeting, Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said that improved trading conditions saw Macquarie's Operating Groups deliver net profit contribution that was significantly up on the first quarter of the 2021 financial year (1Q21) which had mixed trading conditions.

Macquarie's annuity-style businesses (Macquarie Asset Management (MAM) and Banking and Financial Services (BFS)) combined 1Q22 net profit contribution was slightly up on 1Q21, primarily due to higher average volumes and lower provisions in BFS. This was partially offset by reduced contribution from MAM, where the absence of the gain on sale of the rail operating lease business in 1Q21 was partially offset by the Macquarie Infrastructure Corporation (MIC) disposition fee in 1Q22.

Macquarie's markets-facing businesses (Commodities and Global Markets (CGM) and Macquarie Capital) combined 1Q22 net profit contribution was significantly up on 1Q21, primarily due to the sale of the UK commercial and industrial smart meter portfolio which, as foreshadowed, was partially offset by the timing of income recognition on storage and transport contracts in CGM. Macquarie Capital recorded significantly higher investment-related income.

Macquarie Group's financial position continues to comfortably exceed the Australian Prudential Regulation Authority's (APRA) Basel III regulatory requirements, with a Group capital surplus of $A7.4 billion at 30 June 2021, down from $A8.8 billion at 31 March 2021 as Macquarie's Operating Groups continued to invest capital. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 12.1 per cent (Harmonised: 15.5 per cent) at 30 June 2021, down from

1 Where referenced in this document, Group capital is calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per APRA ADI Prudential Standard 110. The Group surplus calculation is above regulatory minimums and includes provision for internal capital buffers, forthcoming regulatory changes, as well as differences between Level 2 and Level 1 capital requirements, such as the $A500m operational capital overlay which is applied to Level 1 only from 1 Apr 21. Based on materiality, the 8.5 per cent 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. The APRA Basel III Group capital surplus is calculated at 8.5 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group. '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 1Q22 quarter is based on an average of daily observations. NSFR refers to the Net Stable Funding Ratio.

12.6 per cent at 31 March 2021. The Bank Group's APRA leverage ratio was 5.2 per cent (Harmonised: 5.9 per cent), LCR was 171 per cent and NSFR was 122 per cent at 30 June 2021.

As previously disclosed, a total of 4,014,722 Macquarie ordinary shares were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) on 9 June 2021. The shares were issued and allocated at $A151.73 per share, with a total issuance of $A609 million. On 2 July 2021, a total of 2,892,121 Macquarie ordinary shares were issued and allocated at $A149.45 per share under the Dividend Reinvestment Plan, with a total issuance of $A432 million, reflecting a participation rate of 35.7 per cent.

Macquarie has seen strong capital deployment over an extended period, with $A3.8 billion growth in capital requirements across all four operating groups since 30 September 2020. Operating groups are continuing to seek opportunities to deploy additional capital, provided the projected risk-adjusted returns are attractive for shareholders. In order to allow additional flexibility to support business growth, the Board has resolved to update the annual dividend payout policy range to 50-70 per cent.

First quarter business highlights

Ms Wikramanayake noted the following 1Q22 highlights for each Operating Group:

- MAM had $A693.2 billion in assets under management at 30 June 2021 up 23 per cent on 31 March 2021, predominantly driven by the acquisition of Waddell & Reed. MAM Public Investments[2] assets under management of $A495.2 billion were up 35 per cent on 31 March 2021, predominantly due to Waddell & Reed and to positive impacts from market movements, foreign exchange and net flows. MAM Private Markets[3] had $A147.9 billion in equity under management at 30 June 2021, up four per cent on 31 March 2021, primarily driven by equity raised and FX movements. During the quarter, $A3.3 billion in new equity was raised, $A1.3 billion of equity was invested and $A0.6 billion was divested, resulting in $A29.2 billion of equity to deploy at 30 June 2021. In the quarter, Macquarie Infrastructure Corporation (MIC) agreed, subject to shareholder approval, to sell its Atlantic Aviation and MIC Hawaii businesses, marking the conclusion of MIC's pursuit of strategic alternatives. Following the sales, MIC will be delisted from the NYSE. MAM completed its acquisition of Waddell & Reed Financial, Inc on 30 Apr 2021, and also entered into an agreement to acquire AMP Capital's Global Equity and Fixed Income business on 8 July 2021.
- BFS total deposits[4] of $A82.4 billion at 30 June 2021 were up two per cent on 31 March 2021. The home loan portfolio of $A71.2 billion at 30 June 2021 was up six per cent on 31 March 2021; funds on platform[5] of $A109.2 billion were up eight per cent; the business banking loan portfolio of $A10.8 billion was up six per cent; and the Australian vehicle finance portfolio[6] of $A11.2 billion was down three per cent on 31 March 2021.
- CGM benefitted from favourable market conditions which contributed to strong results across the commodities platform, particularly in North American Gas & Power and Resources driven by trading and client hedging opportunities. Financial Markets also benefitted from continued solid client activity across its businesses including fixed income and foreign exchange, albeit trading opportunities were more subdued. Asset Finance benefitted from the divestment of its UK commercial and industrial smart meter portfolio - a small portion of its overall UK portfolio largely focused on residential metering.
- Macquarie Capital's investment-related income was up significantly on 1Q21, while M&A fee income was up across all regions, offset by lower ECM fee revenue. During the quarter, Advisory & Capital Solutions (ACS) Principal Finance committed over $A2.3 billion through focused investing in credit markets and bespoke financing solutions. Macquarie Capital was involved in significant sell-side activity including advising Veritas Capital on its $US1.35 billion sale of Abaco Systems, Telstra on the announced sale of 49 per cent of Telstra InfraCo Towers, valuing the business at $A5.9 billion[7] and NAB on the $A1.44 billion sale of MLC to IOOF. Additionally, Macquarie Capital acquired a majority stake in Wavenet Group, a UK provider of telecoms and technology solutions.

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2 Public Investments, formerly Macquarie Investment Management.
3 Private Markets, formerly Macquarie Infrastructure and Real Assets, includes Real Assets, Real Estate and Private Credit & Asset Finance.
4 BFS deposits exclude corporate/wholesale deposits.
5 Funds on platform includes Macquarie Wrap and Vision.
6 Includes general plant & equipment.
7 Announced 1Q22, expected to close 2Q22

Outlook

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

- The duration of COVID-19, speed of the global economic recovery and extent of government support for economies
- Market conditions including significant volatility events and the impact of geopolitical events
- Potential tax or regulatory changes and tax uncertainties
- Completion of period-end reviews and the completion rate of transactions
- The geographic composition of income and the impact of foreign exchange

Highlights from the address of Chairman, Peter Warne

Macquarie Group Chairman, Peter Warne, opened the 2021 Annual General Meeting and outlined Macquarie's response to the COVID-19 pandemic, presenting examples of the support given to clients, portfolio businesses, staff and communities around the world. He highlighted the diversity of Macquarie's business mix and geographies, strong capitalisation, well-funded balance sheet and conservative approach to risk management which have positioned Macquarie well to meet the immediate needs of, and ongoing commitments to, its stakeholders.

Mr Warne said Macquarie's response to the pandemic and its ability to stand alongside stakeholders during a challenging period was just one example of Macquarie's purpose: empowering people to innovate and invest for a better future. Macquarie's statement of purpose, which was rearticulated in FY20, continued to be embedded into Macquarie's culture during FY21, alongside the Group's long-held principles of Opportunity, Accountability and Integrity. Mr Warne said: "Our purpose explains why Macquarie does business and our principles define how we do business."

Mr Warne noted that the Group's record FY21 performance was testament to the resilience of Macquarie's diverse businesses and staff, and the ability to adapt to changing market conditions. In order to allow additional flexibility to support business growth, the Board has resolved to update the annual dividend payout policy range to 50 to 70 per cent.

Mr Warne reiterated the considerable investment made by the Board and management in risk culture and conduct, and the Board's key oversight role in ensuring that Macquarie's culture is aligned with risk appetite. He provided some examples of risk conduct and culture initiatives undertaken in FY21, including increased communications from senior leadership to staff to remind them about expectations during a period of large-scale remote working.

Mr Warne noted APRA's April 2021 announcement of enforcement action against Macquarie Bank Limited (MBL). The enforcement action has resulted in increased capital and liquidity requirements for MBL and requires Macquarie to restate selected historical regulatory returns. This action is in relation to historical matters and does not impact the current overall soundness of Macquarie Group's capital or liquidity ratios.

Mr Warne said: "From a Board perspective, this is a matter that we take very seriously, and we are providing rigorous review and interrogation of the work being done to address these matters to APRA's satisfaction."

An overview of Macquarie's approach to environmental, social and governance (ESG) matters was provided by Mr Warne. Macquarie continues to be active across all three aspects of ESG through direct investment, such as in energy transition and social infrastructure; engaging in forums to help inform policies that support better ESG outcomes; supporting reporting standards to promote better measurement of impact; and putting in place policies and practices that foster sound ESG outcomes in the Group's investments, workplaces, capabilities and staff.

In May this year, Macquarie announced the Group's commitment to net zero emissions. Macquarie's commitment is centred on four areas of focus: strengthening support for clients and portfolio companies to manage the transition to net zero and realise their decarbonisation ambitions; increasing the Group's investment in climate mitigation and adaptation solutions; aligning the emissions of Macquarie's financing activities with the objective of enabling and accelerating the world's pathway to net zero by 2050; and continuing to reduce the emissions of the Group's business operations with a commitment to reaching net zero operational emissions by 2025.

Mr Warne observed that the demand for solutions that address the effects of climate change continues to grow around the world. He said: "Macquarie, with its strong heritage in infrastructure, energy and commodities, has a differentiated set of capabilities to help meet that demand."

Macquarie strives to maintain a diverse and inclusive workplace and considerable investment has been made in this area over a number of years. As a business that is underpinned by the expertise of its people, there is a strong connection between the depth, breadth and scale of the Group, the diversity of Macquarie's staff and the range of perspectives they bring to projects and decision-making. Mr Warne noted the types of initiatives undertaken include working with schools and universities to promote financial services as a fulfilling career path for women, ensuring diversity of recruitment in intern and graduate programs, embedding flexible work practices which have been embraced by a range of demographics within our staff population, and employee network groups.

Mr Warne commented on the activities of Macquarie staff and the Macquarie Group Foundation across the various communities in which it operates. In FY21, the Foundation and Macquarie staff contributed a record $A64 million to more than 2,400 non-profits. This included a $A20 million COVID-19 allocation distributed to a range of local and international organisations focused on direct relief, medical research and economic recovery. Mr Warne said: "Macquarie's philanthropic activity is substantially driven by Macquarie staff. Fundraising is just one aspect of the contribution our staff make to community organisations. Each year staff contribute thousands of hours volunteering, sharing their skills and serving on non-profit boards."

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 fiscal year ended March 31, 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.