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ASX/Media Release

MACQUARIE GROUP 2019 ANNUAL GENERAL MEETING AND FIRST QUARTER 2020 FINANCIAL YEAR UPDATE

Key Points

- Operating groups performing in line with expectations
- 1Q20 operating group net profit contribution¹ broadly in line with 1Q19 and slightly down on 4Q19
- Financial position comfortably exceeds regulatory minimum requirements²
 - Group capital surplus of \$A5.0 billion³
 - Bank CET1 ratio 12.0% (Harmonised: 14.9%); Leverage Ratio 5.4% (Harmonised: 6.0%); LCR 166%^{4,5}; NSFR 111%⁵
- Continue to expect FY20 result to be slightly down on FY19

SYDNEY, 25 July 2019 – Macquarie Group (ASX: MQG; ADR: MQBKY) Managing Director and Chief Executive Officer, Shemara Wikramanayake, said today that Macquarie's operating groups were performing in line with expectations, with their contribution in the first quarter of the 2020 financial year (1Q20) broadly in line with the first quarter of the 2019 financial year (1Q19) and slightly down on the prior quarter (4Q19).

Speaking ahead of Macquarie's 2019 Annual General Meeting in Sydney, Ms Wikramanayake said: "Macquarie's annuity-style businesses were down on the prior corresponding period. Specifically, and compared with the prior corresponding period, Macquarie Asset Management (MAM) was down mainly due to the timing of performance fees and higher operating expenses following recent platform acquisitions; Corporate and Asset Finance (CAF) was down due to reduced loan volumes and realisations in CAF Principal Finance; and Banking and Financial Services (BFS) was broadly in line."

¹ Net profit contribution is management accounting profit before unallocated corporate costs, profit share, income tax and period end reviews.

² Where referenced in this document, Group capital surplus is calculated at 8.5% Risk Weighted Assets (RWA) including the capital conservation buffer (CCB), per APRA ADI Prudential Standard 110. 'Harmonised' Basel III framework estimates are calculated in accordance with the BCBS Basel III framework. CET1 refers to Common Equity Tier 1 ratio. LCR refers to the Liquidity Coverage Ratio. 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 ~12bps. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions.

⁴ Where referenced in this document, average LCR for the June 2019 quarter is based on an average of daily observations.

⁵ Where referenced in this document, LCR and NSFR are calculated on a *pro forma* basis reflecting current contractual arrangements, following the removal of the Material Adverse Change clause in the master loan agreement between Macquarie Group Limited and Macquarie Bank Limited.

“Macquarie’s markets-facing businesses were up on the prior corresponding period primarily due to the strong performance of the commodities platform in Commodities and Global Markets (CGM), partially offset by lower investment-related income in Macquarie Capital (MacCap).”

Macquarie Group’s financial position comfortably exceeds the Australian Prudential Regulation Authority’s (APRA) Basel III regulatory requirements, with Group capital surplus of \$A5.0 billion at 30 June 2019. This was down from \$6.1 billion at 31 March 2019, following payment of the final dividend for the financial year ended 31 March 2019 (FY19). The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 12.0 per cent (Harmonised: 14.9 per cent) at 30 June 2019, up from 11.4 per cent at 31 March 2019. The Bank Group’s APRA leverage ratio was 5.4 per cent (Harmonised: 6.0 per cent), LCR was 166 per cent and NSFR was 111 per cent at 30 June 2019.

The acquisition of Macquarie shares required for FY19 profit share and promotion awards under Macquarie Group Employee Retained Equity Plan (MEREP) was completed in June 2019. As previously disclosed, a total of approximately \$A607 million of Macquarie shares were purchased: \$A326 million off-market under arrangements announced to the market on 3 May 2019 and \$A281 million on-market.

First quarter business highlights

In commenting on the Group’s start to the 2020 financial year (FY20), Ms Wikramanayake noted the following highlights:

- **Macquarie Asset Management (MAM)** had \$A552.7 billion in assets under management at 30 June 2019, up two per cent on 31 March 2019, predominately driven by market movements. Macquarie Infrastructure and Real Asset’s (MIRA) equity under management⁶ of \$A120.2 billion at 30 June 2019 was up three per cent from \$A116.9 billion at 31 March 2019. During the quarter, Macquarie European Infrastructure Fund 6 closed at a hard cap of €6 billion, exceeding its initial target of €5 billion. Macquarie Investment Management’s (MIM) assets under management of \$A368.1 billion at 30 June 2019 were up two per cent from \$A361.0 billion at 31 March 2019. During the quarter MIM was awarded \$A4.8 billion in new, funded institutional mandates and contributions.
- **Corporate and Asset Finance’s (CAF)** asset and loan portfolio of \$A21.5 billion at 30 June 2019 was broadly in line with 31 March 2019. Asset Finance originations were in line with expectations. During the quarter notable transactions for Asset Finance included the launch of **numobile** in Australia to provide a low-cost option to customers utilising pre-owned mobile phones. Notable transactions for Principal Finance included an offer to acquire Premier Technical Services Group PLC, a provider of tech-enabled specialist testing and compliance services. Principal Finance also entered into an agreement for the sale of 25 per cent of Macquarie AirFinance to Dutch pension fund adviser and manager PGGM.
- **Banking and Financial Services’ (BFS)** total deposits⁷ of \$A53.1 billion at 30 June 2019 were down one per cent on 31 March 2019. The Australian mortgages portfolio of \$39.7 billion at 30 June 2019 was up three per cent on 31 March 2019; funds on platform of \$A88.8 billion at 30 June 2019 were up three per cent on 31 March 2019; the business banking loan portfolio of \$A8.3 billion at 30 June 2019 was up one per cent on 31 March 2019; and the Australian vehicle finance portfolio of \$A15.0 billion was down one per cent on 31 March 2019.
- **Commodities and Global Markets (CGM)** benefited from a strong contribution from client hedging and trading opportunities across the commodities platform, particularly from the Global Oil, North American Gas & Power and EMEA Gas & Power businesses. There was continued customer activity in foreign exchange across all regions and ongoing strength in ANZ and US Futures driven by customer activity. Cash Equities continued to be impacted by challenging market conditions.

⁶ MIRA’s total EUM includes market capitalisation at measurement date for listed funds, the sum of original committed capital less capital subsequently returned for unlisted funds and mandates as well as invested capital for managed businesses.

⁷ BFS deposits exclude corporate/wholesale deposits.

- **Macquarie Capital's** fee revenue was up on 1Q19 due to higher fee revenue from M&A and DCM. Investment-related income was down predominantly due to lower revenue from asset realisations. The Green Investment Group (GIG) acquired a 43 MW Swedish onshore wind farm from Nordic wind developer OX2 after structuring and securing a long-term Power Purchase Agreement for the project with Axpo Nordic. GIG also continued to recycle capital into renewables projects globally, across technologies including solar, waste-to-energy and battery storage. Other notable principal transactions included an investment in Dovel Technologies, a leading technology solutions provider to federal agencies that blends deep domain expertise and advanced technologies in the health IT, life sciences, and grants management markets.

Operating group update

Macquarie today announced the following operating group updates:

- Effective 1 July 2019, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Banking Group to MAM in the Non-Banking Group following receipt of required approvals; and
- Effective 1 September 2019, each of CAF's divisions will be aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings:
 - CAF Principal Finance, excluding Transportation Finance, will join Macquarie Capital to bring together all principal investing activity and enhance its ability to invest directly and alongside clients and partners;
 - CAF Transportation Finance will join Macquarie Asset Management, reflecting its evolution towards a fiduciary business following the recent sale of a stake in the portfolio to PGGM; and
 - CAF Asset Finance will move to Commodities and Global Markets, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients.

Garry Farrell has announced his intention to retire as Co-Head of CAF and from the Executive Committee, effective 1 September 2019. Florian Herold, currently Co-Head of CAF, will join MacCap and will continue to lead Principal Finance. He will remain on the Executive Committee.

Results for the half-year ended 30 September 2019 will be reported under the new Group structure with rebased prior periods.

Outlook

The Group's result for FY20 is currently expected to be slightly down on FY19.

The Group's short-term outlook remains subject to:

- the completion of transactions
- market conditions
- the impact of foreign exchange
- potential regulatory changes and tax uncertainties
- geographic composition of income

Ms Wikramanayake said: "Macquarie remains well positioned to deliver superior performance in the medium term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, ongoing program to identify cost saving initiatives and efficiency, strong and conservative balance sheet and proven risk management framework and culture."

Highlights from the address of Chairman, Peter Warne

In providing an overview of FY19, Macquarie Group Chairman, Peter Warne, noted that Macquarie's businesses continued to grow and had delivered a 50th consecutive year of profitability.

Mr Warne spoke about the importance of risk culture and conduct at Macquarie and the continued evolution of its approach following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia:

"We continue to review and monitor the outcomes and initiatives emanating from the Commission as well as key learnings as we continually improve our Group-wide approach to risk culture and conduct management. This includes an intense focus on customer outcomes, reporting on which has now been included in the Board Governance and Compliance Committee's responsibilities."

Mr Warne said APRA's request to review governance, culture and accountability was a valuable exercise. The review confirmed that these factors remain critical to Macquarie's continued success and are well embedded.

The Board and Management also recognises the importance of sound environmental, social and corporate governance practices as part of Macquarie's responsibility to clients, shareholders, communities and the environment in which it operates. Mr Warne noted, "Macquarie's Group-wide Environmental and Social Risk Policy provides a robust framework for embedding environmental and social risk management into investment decision-making."

In relation to the transition to a low carbon and climate-resilient economy, Mr Warne noted Macquarie has been involved in the energy sector for over 20 years supporting clients' needs across the spectrum of energy production and distribution. Over the last 10 years Macquarie has played a leading role in facilitating the shift towards renewables, with a particular focus on trying to address the various challenges which remain to full transition.

Mr Warne commented on the activities of Macquarie staff and the Macquarie Group Foundation across the various communities in which it operates:

"One of the oldest and largest corporate foundations in Australia, the Macquarie Group Foundation and Macquarie staff have together contributed more than \$A360 million to projects in our local communities since the Foundation was established in 1985.

"In the year to 31 March 2019, the Foundation and Macquarie staff globally contributed \$A31.7 million to more than 1,600 organisations, all of which are selected by our staff, who also gave over 53,000 hours of their time as volunteers, fundraisers and pro bono advisers. We are very proud of the commitment shown by all Macquarie staff to the communities in which they live and work around the world."

Mr Warne said Macquarie's 50th Anniversary Award, announced last year, is a reflection of the Group's philanthropic culture and the commitment of staff over the past five decades. A total of \$A50 million will be awarded later this year to five finalists to help deliver projects that initiate or build on bold ideas that address an area of social need.

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