**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 3019
Internet http://www.macquarie.com

MACQUARIE

**ASX/Media Release**

# MACQUARIE GROUP ANNOUNCES $A1,457 MILLION HALF YEAR PROFIT

## Key points

- **1H20 net profit of $A1,457 million, up 11% on 1H19 and down 13% on 2H19**
- **Annuity-style activities' combined net profit contribution[1] up 15% on 1H19 and up 11% on 2H19**
- **Markets-facing activities' combined net profit contribution up 4% on 1H19, down 42% on 2H19**
- **1H20 net operating income of $A6,320 million, up 8% on 1H19 and down 9% on 2H19**
- **1H20 operating expenses of $A4,480 million, up 9% on 1H19 and down 6% on 2H19**
- **International income 69% of total income[2] in 1H20**
- **Assets under management of $A563.4 billion at 30 September 19, up 2% from 31 March 19**
- **Group capital position exceeds regulatory requirements[3]**
- **Group capital surplus of $A6.7 billion, Bank CET1 ratio 11.4% (Harmonised: 14.0%), Leverage ratio 5.5% (Harmonised: 6.1%), LCR 172%; NSFR 111%**
- **1H20 earnings per share $A4.30, up 11% on 1H19 and down 13% on 2H19**
- **Annualised return on equity 16.4%, in line with 1H19 and down from 19.5% in 2H19**
- **Interim ordinary dividend of $A2.50 per share (40% franked), up on 1H19 interim ordinary dividend of $A2.15 (45% franked) and down on 2H19 final ordinary dividend of $A3.60 (45% franked)**

**SYDNEY, 1 November 2019 –** Macquarie Group Limited (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A1,457 million for the half year ended 30 September 2019 (1H20), up 11 per cent on the half year ended 30 September 2018 (1H19) and down 13 per cent on the half year ended 31 March 2019 (2H19).

Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said: "Our first-half result highlights the benefits of the business and geographic diversity of the Group, with increased client activity across many of our business lines and favourable market conditions across the Commodities and Global Markets platform in particular."

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[1] Where referenced in this document, net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
[2] Where referenced in this document, total income is net operating income excluding earnings on capital and other corporate items.
[3] 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 APRA Basel III Group capital surplus is $A6.7 billion 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 September 2019 quarter is based on an average of daily observations. NSFR refers to the Net Stable Funding Ratio.

Annuity-style activities, which are undertaken by Macquarie Asset Management, Banking and Financial Services and certain businesses of Commodities and Global Markets (CGM), generated a combined net profit contribution of $A1,717 million, up 15 per cent on 1H19 and up 11 per cent on 2H19.

Markets-facing activities, which are undertaken by Macquarie Capital and most businesses of CGM delivered a combined net profit contribution of $A1,151 million, up four per cent on 1H19 and down 42 per cent on 2H19.

Net operating income of $A6,320 million in 1H20 was up eight per cent on 1H19 and down nine per cent on 2H19, while operating expenses of $A4,480 million were up nine per cent on 1H19 and down six per cent on 2H19.

The income tax expense for 1H20 was $A376 million, which was broadly in line with 1H19. The effective tax rate for 1H20 was 20.5 per cent, down from 22.2 per cent in 1H19 and 23.2 per cent in 2H19. The decrease was mainly driven by the geographic composition and nature of earnings.

At 30 September 2019 the Group employed 15,704 staff, which was in line with 31 March 2019. In addition, more than 120,000 people were employed at assets managed by Macquarie.

Macquarie's assets under management (AUM) at 30 September 2019 were $A563.4 billion, up two per cent from $A551.3 billion at 31 March 2019, largely due to foreign exchange impacts, investments made by funds managed by Macquarie Infrastructure and Real Assets (MIRA) and market movements, partially offset by asset realisations made by MIRA-managed funds and net flows in Macquarie Investment Management.

Macquarie also announced today a 1H20 interim ordinary dividend of $A2.50 per share (40 per cent franked), up 16 per cent on the 1H19 interim ordinary dividend of $A2.15 per share (45 per cent franked) and down 31 per cent on the 2H19 final ordinary dividend of $A3.60 per share (45 per cent franked). This represents a payout ratio of 61 per cent. The record date for the final ordinary dividend is 12 November 2019 and the payment date is 18 December 2019.

**Operating group performance**

- Macquarie Asset Management delivered a net profit contribution of $A1,122 million for 1H20, up 32 per cent from $A850 million in 1H19. This reflected: increased performance fees from MIRA-managed funds and co-investors; and increased base fees primarily driven by favourable foreign exchange movements and investments made by MIRA-managed funds and mandates. This was partially offset by higher operating expenses which were mainly driven by foreign exchange movements and the full-period impact of the GLL and ValueInvest acquisitions completed in 1H19. There was also lower net operating lease income due to the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM.
- Banking and Financial Services (BFS) delivered a net profit contribution of $A385 million for 1H20, up two per cent from $A378 million in 1H19. The improved result reflected growth in BFS deposits, the Australian loan portfolio and funds on platform average volumes. This was partially offset by: lower wealth management fee income associated with realigning the wealth business to focus on the high net worth segment; increased costs associated with investment in technology to support business growth and to meet regulatory requirements; and higher credit provisions in business banking loans and leasing.
- Commodities and Global Markets delivered a net profit contribution of $A1,138 million for 1H20, up 32 per cent from $A864 million in 1H19. The result primarily reflected: strong results from the commodities platform driven by increased client hedging activity together with the timing of income recognition on storage and transport agreements; and improved foreign exchange, interest rates and credit results. This was partially offset by challenging market conditions and reduced opportunities in Cash Equities and higher operating expenses.

- Macquarie Capital delivered a net profit contribution of $A223 million for 1H20, down 56 per cent from $A509 million in 1H19. Fee income was down compared with a strong 1H19 and investment-related income was also slightly down with higher revenue from asset realisations offset by lower interest income from the debt portfolio and a higher share of net losses of associates and joint ventures. There were higher impairment charges due to a small number of underperforming investments while operating expenses increased due to additional headcount and foreign exchange movements. Invested regulatory capital increased from $A3.0 billion at 31 March 2019 to $A3.7 billion at 30 September 2019.

**Strong funding and balance sheet position**

Macquarie Group Chief Financial Officer Alex Harvey said: "Macquarie remains well funded with a solid and conservative balance sheet characterised by 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."

Total customer deposits[4] increased to $A58.8 billion at 30 September 2019 from $A56.0 billion at 31 March 2019. A further $A10.8 billion of new term funding[5] was raised covering a range of tenors, currencies and product types.

**Capital management**

During 1H20, $A1.7 billion of equity capital was raised through a $A1.0 billion institutional placement and $A0.7 billion share purchase plan. The additional equity capital provides flexibility to invest in new opportunities while maintaining appropriate capital levels in light of ongoing regulatory change.

Macquarie's financial position exceeds APRA's Basel III regulatory requirements, with a Group capital surplus of $A6.7 billion at 30 September 2019. This surplus was up from $A6.1 billion at 31 March 2019, following 1H20 profit and movement in reserves and proceeds from the equity capital issuance but partially offset by strong business growth, payment of the FY19 final dividend and the FY19 Macquarie Group Employee Retained Equity Plan buying requirement.

The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 11.4 per cent (Harmonised: 14.0 per cent) at 30 September 2019, in line with 31 March 2019. The Bank Group's APRA Leverage Ratio was 5.5 per cent (Harmonised: 6.1 per cent), the Liquidity Coverage Ratio was 172 per cent and the Net Stable Funding Ratio was 111 per cent at 30 September 2019. No discount will apply for the 1H20 Dividend Reinvestment Plan and the shares are to be acquired on market[6].

**Regulatory update[7]**

APRA is currently undertaking regulatory reviews in a number of areas including, but not limited to: the capital treatment of investments in banking and insurance subsidiaries[8]; capital calculation and risk management requirements relating to Interest Rate Risk in the Banking Book[9]; loss-absorbing capacity[10]; and the finalisation of Basel III ('unquestionably strong')[11]. In addition, and as previously noted, APRA is in discussions with Macquarie on resolution planning and intra-group funding. 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 reviews are at an early stage and the final impact is therefore uncertain.

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[4] Total customer deposits as per the funded balance sheet ($A58.8 billion) differs from total deposits per the statutory balance sheet ($A59.0 billion). The funded balance sheet reclassifies certain balances to other funded balance sheet categories.
[5] Issuances cover a range of tenors, currencies and product types and are AUD equivalent based on FX rates at the time of issuance and include undrawn facilities.
[6] Shares will be issued if purchasing becomes impractical or inadvisable.
[7] The APRA Capital Framework applies to the Bank Group only.
[8] 'Revisions to APS 111 Capital Adequacy: Measurement of Capital'; 15 October 2019.
[9] 'Response to submissions: Interest rate risk in the banking book for authorised deposit-taking institutions'; 4 September 2019.
[10] 'Response to submissions - loss-absorbing capacity'; 9 July 2019.
[11] 'Revisions to the capital framework for ADIs'; 14 February 2018.

## Outlook

While the impact of future market conditions makes forecasting difficult, the Group currently expects the FY20 result to be slightly down on FY19.

The Group's short-term outlook remains subject to a range of factors including:

- the conduct of period-end reviews and the completion rate of transactions;
- market conditions;
- the impact of foreign exchange;
- potential regulatory changes and tax uncertainties; and
- geographic composition of income.

Ms Wikramanayake said: "Macquarie remains well-positioned to deliver superior performance in the medium term due to: our deep expertise in major markets; strength in business and geographic diversity and ability to adapt the portfolio mix to changing market conditions; the ongoing program to identify cost saving initiatives and efficiency; a strong and conservative balance sheet; 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