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ASX/Media Release

MACQUARIE GROUP 3Q 2023 TRADING UPDATE

Key points

- Varied conditions for Macquarie's diverse businesses in the three months to 31 December 2022 (3Q23) resulted in a good quarter for the Group
- Net profit after tax (NPAT) for the nine months to 31 December 2022 (FY23 YTD) slightly up on the nine months to 31 December 2021 (FY22 YTD) – a period which included a record December 2021 quarter (3Q22) result
- Macquarie's annuity-style businesses' (Macquarie Asset Management (MAM) and Banking and Financial Services (BFS)) combined 3Q23 net profit contribution[1] substantially down on the prior corresponding period (3Q22) mainly due to larger green energy sector asset realisations in MAM in the prior corresponding period. This was partially offset by continued growth in BFS
    - FY23 YTD net profit contribution significantly down on FY22 YTD primarily due to larger green energy sector asset realisations in MAM in the prior corresponding period. This was partially offset by continued growth in BFS
- Macquarie's markets-facing businesses' (Commodities and Global Markets (CGM) and Macquarie Capital) combined 3Q23 net profit contribution substantially up on prior corresponding period primarily due to the CGM result for 3Q23, which was substantially up on half year ended 30 September 2022 (1H23) driven by commodities including gas and power contributions across all regions partially offset by a lower level of realisations and lower fee and commission income in Macquarie Capital
    - FY23 YTD net profit contribution substantially up on FY22 YTD mainly due to exceptionally strong results in commodities including gas and power contributions across all regions in CGM partially offset by a lower level of realisations and lower fee and commission income in Macquarie Capital
- Group financial position comfortably exceeds regulatory requirements
    - Group capital surplus of $A12.5 billion[2,3]
    - Bank CET1 ratio 13.3% (Harmonised: 16.9%[4]), Leverage ratio 5.2% (Harmonised: 5.9%[4]), LCR 203%[5], NSFR 117%[5]

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[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. All numbers in this presentation have been reclassified to reflect the transfer of the Green Investment Group from Macquarie Capital to Macquarie Asset Management effective 1 Apr 22.

[2] The capital surplus shown is above regulatory minimums including the capital conservation buffer (CCB), per APRA ADI Prudential Standard 110, calculated at 8.5% RWA on a Level 2 basis for Macquarie Bank Limited (MBL). This surplus also includes provision for internal capital buffers, forthcoming regulatory changes, as well as differences between Level 2 and Level 1 capital requirements, including the $A500m Level 1 operational capital overlay imposed by APRA from 1 Apr 21.

[3] Based on materiality, the 8.5% used to calculate the Group capital surplus does not include the countercyclical buffer (CCyB) of ~9bps. 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] Basel III applies only to the Bank Group and not the Non-Bank Group. 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework, noting that MBL is not regulated by the BCBS and so impacts shown are indicative only.

[5] APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, and a 1% decrease to the Available Stable Funding component of the NSFR calculation, effective from 1 Apr 21. The LCR Net Cash Outflow add-on increased to 25% from 1 May 22.

SYDNEY, 7 February 2023 Macquarie Group Limited (Macquarie) (ASX: MQG; ADR: MQBKY) today provided an update on business activity in the third quarter of the financial year ending 31 March 2023 (3Q23).

Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said: "Varied market conditions have resulted in a good quarter for the Group reflecting the diversity of our activities."

The annuity-style businesses' combined 3Q23 net profit contribution was substantially down on 3Q22. For FY23 YTD, net profit contribution significantly down on FY22 YTD, primarily due to larger green energy sector asset realisations in MAM in the prior corresponding period. This was partially offset by continued growth in BFS.

The markets-facing businesses' combined 3Q23 net profit contribution was substantially up on 3Q22. For FY23 YTD, net profit contribution was substantially up on FY22 YTD. This was mainly due to exceptionally strong results in commodities including gas and power contributions across all regions in CGM partially offset by a lower level of realisations and lower fee and commission income in Macquarie Capital.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements, with a Group capital surplus of $A12.5 billion[2,3] at 31 December 2022, up from $A12.2 billion at 30 September 2022. The Bank Group's APRA Basel III Common Equity Tier 1 capital ratio was 13.3 per cent (Harmonised: 16.9 per cent[4]) at 31 December 2022, up from 12.8 per cent at 30 September 2022. The Bank Group's APRA leverage ratio was 5.2 per cent (Harmonised: 5.9 per cent[4]), the Liquidity Coverage Ratio (LCR) was 203 per cent[5] and the Net Stable Funding Ratio (NSFR) was 117 per cent[5] at 31 December 2022.

Third quarter business highlights

Ms Wikramanayake provided an overview of business activity undertaken during 3Q23:

MAM had assets under management (AUM) of $A797.8 billion at 31 December 2022, broadly in line with 30 September 2022. In the quarter, Public Investments AUM fell one per cent to $A513.5 billion, driven by foreign exchange movements and net flows, partially offset by positive market movements. Private Markets AUM[6] rose three per cent to $A284.3 billion, driven by fund investments and increased asset valuations. At 31 December 2022, Private Markets had equity under management of $A193.1 billion with $A31.6 billion to deploy after raising $A7.4 billion in new equity, investing $A5.3 billion and divesting $A0.5 billion.

BFS had total deposits[7] of $A125.7 billion at 31 December 2022, up eight per cent on 30 September 2022. The home loan portfolio of $A105.4 billion increased four per cent on 30 September 2022, while funds on platform[8] of $A117.0 billion increased five per cent. During 3Q23, the business banking loan portfolio increased two per cent to $A12.5 billion, while the car loans portfolio decreased ten per cent to $A6.6 billion.

CGM had exceptionally strong results across the commodities platform, particularly in global Gas & Power and Oil products, driven by increased trading, physical execution and logistics and client risk management opportunities from unusually volatile market conditions. CGM also saw solid contribution from client risk management, market access and financing activity across the Financial Markets businesses including fixed income, foreign exchange, credit, futures and equities. CGM also saw a strong performance from Asset Finance driven by Technology, Media & Telecoms and Structured Lending with strong annuity revenues continuing across the platform.

Macquarie Capital completed 84 transactions globally valued at $A92 billion in 3Q23[9]. Fee revenue was significantly down on prior corresponding period however up on prior period. Investment-related income was significantly down on the prior corresponding period and prior period, with significant realisations in the comparative periods. The Principal Finance credit portfolio stood at over $A16 billion[10] with more than $A1 billion deployed in 3Q23 through focused investment in credit markets and bespoke financing solutions.

[6] As at 31 Dec 22. Private Markets Assets under Management (AUM) is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. Private Markets AUM excludes uninvested equity.
[7] Deposits in BFS include home loan offset accounts and exclude corporate/wholesale deposits.
[8] Funds on platform includes Macquarie Wrap and Vision.
[9] Dealogic & IJ Global for Macquarie Group completed M&A, investments, ECM and DCM transactions converted as at the relevant report date. Deal values reflect the full transaction value and not an attributed value. Comparatives are presented as previously reported.
[10] Principal Finance committed portfolio as at Dec 22.

Outlook

The Group highlighted business-specific factors impacting its short-term outlook:

Macquarie Asset Management

- Base fees expected to be broadly in line with raising and deployment in Private Markets and the impact of recent Public Investments acquisitions, substantially offset by unfavourable market movements
- Net Other Operating Income[11] expected to be significantly down due to non repeat of Macquarie Infrastructure Corporation gains partially offset by higher performance fees
- Green Investment Group expected to be significantly down due to strong financial year ending 31 March 2022 (FY22) performance. Material gains on realisations in 1H23 not expected to recur in the half year ended 31 March 2023 (2H23)

Banking and Financial Services

- Growth in loan portfolio, deposits and platform volumes
- Market dynamics to continue to drive margins
- Ongoing monitoring of provisioning
- Higher expenses to support volume growth, technology investment and regulatory requirements

Macquarie Capital – subject to market conditions:

- Transaction activity is expected to be substantially down on a record FY22, with market conditions weakening in the financial year ending 31 March 2023 (FY23)
- Investment-related income expected to be broadly in line with FY22 with increased revenue from growth in the Principal Finance credit portfolio, offset by lower revenue from asset realisations. No material realisations are expected in the March 2023 quarter (4Q23)
- Continued balance sheet deployment in both debt and equity investments

Commodities and Global Markets - subject to market conditions, which make forecasting difficult:

- Commodities income, which has benefitted from strong trading conditions in FY23 YTD, is expected to be substantially up on FY22, including the impact of timing of income recognition on gas and power transport and storage contracts
- Increased contribution from the Financial Markets platform across client and trading activity
- Continued contribution from Asset Finance across sectors (excluding FY22 gain on disposal of certain assets)

From a Corporate perspective, the FY23 compensation ratio and effective tax rate are expected to be within the range of historical levels.

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:

- Market conditions including global economic conditions, inflation and interest rates, significant volatility events, and the impact of geopolitical events
- Completion of period-end reviews and the completion rate of transactions
- The geographic composition of income and the impact of foreign exchange
- Potential tax or regulatory changes and tax uncertainties

[11] Net Other Operating Income includes all operating income excluding base fees as well as income related to Green Investment Group (GIG).

Ms Wikramanayake said, "Macquarie remains well-positioned to deliver superior performance over the medium term. This is 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; an ongoing program to identify cost saving initiatives and efficiency; ongoing technology spend across the Group; a strong and conservative balance sheet; and a proven risk management framework and culture."

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