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MACQUARIE

ASX/Media Release

MACQUARIE GROUP ANNOUNCES $A2,043 MILLION HALF-YEAR PROFIT AND CAPITAL RAISING

Key points

- 1H22 net profit of $A2,043 million, up 107% on 1H21 and in line with 2H21
- International income 72% of total income[1] in 1H22
- Assets under management of $A737.0 billion at 30 September 2021, up 31% from 31 March 2021
- Financial position comfortably exceeds regulatory minimum requirements
  - Group capital surplus of $A8.4 billion[2,3]
  - Bank CET1 Level 2 ratio 11.7% (Harmonised: 14.8%); Leverage ratio 5.3% (Harmonised: 6.0%); LCR 179%[4]; NSFR 122%[4]
- Annualised return on equity (ROE) 17.8%, compared with 14.3% in FY21
- Interim ordinary dividend of $A2.72 per share (40% franked), representing a payout ratio of 50%
- Capital raising in the form of a non-underwritten $A1.5 billion institutional placement and a non-underwritten share purchase plan, the size of which will depend on demand from Eligible Shareholders[5]

SYDNEY, 29 October 2021 – Macquarie Group (ASX: MQG; ADR: MQBKY) today announced a net profit after tax attributable to ordinary shareholders of $A2,043 million for the half year ended 30 September 2021 (1H22), up 107 per cent on the half year ended 30 September 2020 (1H21) and in line with the $A2,030 million net profit for the half year ended 31 March 2021 (2H21).

The Group also announced that it is seeking to raise $A1.5 billion in the form of a non-underwritten institutional placement (Placement), which will be followed by a non-underwritten share purchase plan (SPP). The capital raising will provide additional flexibility to invest in new opportunities where the expected risk-adjusted returns are attractive, while maintaining an appropriate capital surplus.

Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said: "This first half saw a significant increase in net profit contribution from all four operating groups compared with 1H21, a period which was affected by the COVID-19 pandemic. Today's result is consistent with a strong 2H21 and reflects improved trading conditions across our diverse platform."

1. Where referenced in this document, total income is net operating income excluding earnings on capital and other corporate items.
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, such as the $A500 million operational capital overlay which is applied to Level 1 only.
3. Based on materiality, the 8.5% used to calculate the Group capital surplus does not include the countercyclical 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.
4. As announced on 1 April 2021, APRA has 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 April 2021.
5. Share Purchase Plan subject to scale back depending on take-up. Eligible Shareholders are shareholders with a registered address in Australia or New Zealand on the register as at 7.00pm on Thursday, 28 October 2021 and who are outside the United States.

In relation to the capital raising, Ms Wikramanayake said: “Macquarie has experienced a period of sustained and material growth in capital requirements across our annuity-style and markets-facing activities. Having deployed $A5.5 billion of capital over 2H21 and 1H22, we continue to see a strong pipeline of opportunities. Raising new capital provides us with additional flexibility to invest in new opportunities where the expected risk-adjusted returns are attractive to our shareholders, while maintaining an appropriate capital surplus.”

During 1H22, annuity-style activities, which are undertaken by Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and certain businesses in Commodities and Global Markets (CGM), generated a combined net profit contribution of $A2,517 million, up 57 per cent on 1H21 and up 47 per cent on 2H21.

Markets-facing activities, which are undertaken by Macquarie Capital and most businesses in CGM, delivered a combined net profit contribution of $A1,467 million, up 118 per cent on 1H21 and down 31 per cent on 2H21.

Net operating income of $A7,804 million was up 41 per cent on 1H21 and up eight per cent on 2H21, while operating expenses of $A5,069 million were up 19 per cent on 1H21 and up 10 per cent on 2H21. International income accounted for 72 per cent of Macquarie’s total income[1].

Income tax expense of $A603 million was up from $A275 million in 1H21 and down from $A624 million in 2H21. The effective tax rate for 1H22 was 22.8 per cent, up from 21.8 per cent in 1H21 and down from 23.5 per cent in 2H21. The higher effective tax rate compared to 1H21 was mainly driven by the geographic composition and nature of earnings.

At 30 September 2021, the Group employed 17,209 people[6], which was up five per cent on 31 March 2021. In addition, over 160,000 people were employed at assets managed by Macquarie and investments where Macquarie holds significant influence.

Macquarie’s assets under management at 30 September 2021 were $A737.0 billion, up 31 per cent from $A563.5 billion at 31 March 2021, primarily due to the acquisition of Waddell & Reed, positive impacts from foreign exchange, investment by Private Markets-managed funds and Public Investments positive net flows and market movements.

Operating group performance

MAM delivered a net profit contribution of $A1,305 million, up 23 per cent from $A1,062 million in 1H21. The result was driven by income related to the disposition of Macquarie Infrastructure Corporation assets, partially offset by a gain on sale of Macquarie European Rail in 1H21 and lower performance fees.

BFS delivered a net profit contribution of $A482 million, up 52 per cent from $A317 million in 1H21. The result reflected strong home loan, business lending, platforms and deposits growth and lower credit impairment charges, partially offset by increased headcount and investment in technology to support growth.

CGM delivered a net profit contribution of $A1,729 million, up 60 per cent from $A1,082 million in 1H21. The result reflects increased revenue across Commodities, with strong risk management income from Gas and Power, Resources, and Agriculture. Commodities inventory management and trading income decreased, with strong trading gains from supply and demand imbalances in Gas and Power more than offset by the unfavourable impact of timing of income recognition on storage contracts and transport agreements. The result also benefited from the partial sale of the UK meters portfolio of assets in May 2021.

Macquarie Capital delivered a net profit contribution of $A468 million, up significantly from a loss of $A189 million in 1H21. The result reflected higher fee and commission income which was driven by mergers and acquisition and debt capital markets income, partially offset by lower equity capital markets and brokerage income following a strong 1H21. Investment-related income increased, primarily due to material asset realisations and an increase in the Advisory and Capital Solutions Principal Finance debt portfolio.

Operating group and management update

Effective 1 April 2022, the Green Investment Group (GIG) will operate as part of MAM, bringing together Macquarie’s specialist capabilities to provide clients with greater access to green investment opportunities. The need for investment has grown substantially in GIG’s areas of focus, and this move will enable long-term investment across the asset lifecycle, from development to operations. GIG will retain its brand within MAM Private Markets, and continue its mission to accelerate the green transition, providing greater scale of decarbonisation solutions for clients, portfolio companies, communities, and the environment.

6. Includes staff employed in certain operationally segregated subsidiaries.

Daniel Wong has decided to step down as Co-Head of Macquarie Capital and from Macquarie's Executive Committee, effective today, 29 October 2021, to pursue opportunities outside Macquarie. Mr Wong has been with Macquarie for 22 years, on the Executive Committee for two years, and Chair of GIG since leading its acquisition in 2017. Michael Silverton, currently Co-Head of Macquarie Capital with Mr Wong, becomes Group Head of Macquarie Capital.

After 25 years with Macquarie, Patrick Upfold has decided to step down as Chief Risk Officer, Head of the Risk Management Group (RMG) and from Macquarie's Executive Committee, effective 31 December 2021. Mr Upfold intends to retire in mid-2022 after completing an extended handover to his successor, Andrew Cassidy. Mr Cassidy, who is based in Sydney, has been with Macquarie for 18 years in various roles, including leadership of Macquarie's principal investment activity in Asia Pacific. Mr Cassidy transferred to RMG two years ago to work closely with Mr Upfold in further strengthening Macquarie's risk framework. He will join Macquarie's Executive Committee, effective 1 January 2022.

After 17 years with Macquarie, Michael Herring has decided to retire as Group General Counsel and Head of the Legal and Governance Group, effective 6 May 2022. Evie Bruce, currently Australian Managing Partner for King & Wood Mallesons Australia's Mergers & Acquisitions and Banking & Finance practice teams, will join Macquarie in January 2022 and work alongside Mr Herring and his leadership team for an extended handover period before taking over his responsibilities. Ms Bruce, who is based in Sydney, will join Macquarie's Executive Committee, effective 6 May 2022.

Regulatory update[7]

APRA is in the process of implementing changes to a number of regulatory standards[8]. Based on current information available, it remains Macquarie's expectation that it will have sufficient capital to accommodate likely additional regulatory Tier 1 capital requirements as a result of the proposed changes, noting that the final impact is uncertain given a number of these changes are subject to consultation and finalisation.

On 1 April 2021, APRA announced actions required regarding MBL's risk management practices and ability to calculate and report key prudential ratios[9]. APRA increased MBL's operational risk capital requirement and made adjustments to requirements for certain liquidity prudential ratios, effective from 1 April 2021. The actions relate to specific intra-group funding arrangements as well as breaches of APRA's reporting standards on liquidity between 2018 and 2020. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions. On 22 October 2021, MBL published restated historical Pillar 3 disclosures for the period March 2018 to June 2021.

Macquarie has ongoing programs which focus on strengthening MBL's processes and controls, including those around intragroup funding arrangements and internal exposures; capital and liquidity reporting; risk management frameworks; and accountabilities and governance. A number of these programs also form part of a remediation plan as required by APRA, which has been established to define and deliver programs of work that strengthen MBL's governance, risk culture, structure, and incentives to ensure full and ongoing compliance with prudential standards.

Capital management and funding position

Macquarie's financial position exceeds the Australian Prudential Regulation Authority's (APRA's) Basel III regulatory requirements, with a Group capital surplus of $A8.4 billion[2,3] at 30 September 2021, down from $A8.8 billion at 31 March 2021.

The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 11.7 per cent (Harmonised: 14.8 per cent) at 30 September 2021, down from 12.6 per cent (Harmonised: 16.2 per cent) at 31 March 2021. The Bank Group's APRA Leverage Ratio was 5.3 per cent (Harmonised: 6.0 per cent), the Liquidity Coverage Ratio (LCR) was 179 per cent[4] and the Net Stable Funding Ratio (NSFR) was 122 per cent[4] at 30 September 2021.

Total customer deposits[10] increased to $A91.5 billion at 30 September 2021 from $A84.0 billion at 31 March 2021. A further $A24.4 billion of term funding[11] was raised during 1H22 which included $A9.5 billion drawn from the Reserve Bank of Australia Term Funding Facility.

7. The APRA Capital Framework applies to the Bank Group only.
8. These changes include APS 110, APS 111, APS 112, APS 113, APS 115, APS 116, APS 117, APS 180, APS 220, APS 222.
9. 'APRA takes action against Macquarie Bank over multiple breaches of prudential and reporting standards'; 1 Apr 21.
10. Total customer deposits as per funded balance ($A91.5b) differs from total deposits as per the statutory balance sheet ($A91.7b). The funded balance sheet reclassifies certain balances to other funded balance sheet categories.
11. Issuances cover a range of tenors, currencies and product types and are AUD equivalent based on FX rates at the time of issuance. Includes refinancing of loan facilities.

1H22 interim ordinary dividend

The Macquarie Group Limited Board has announced today a 1H22 interim ordinary dividend of $A2.72 per share (40 per cent franked), up on the 1H21 interim ordinary dividend of $A1.35 per share (40 per cent franked) and down on the 2H21 final ordinary dividend of $A3.35 per share (40 per cent franked). This represents a payout ratio of 50 per cent. Macquarie's dividend policy remains a 50 to 70 per cent annual payout ratio.

The record date for the interim ordinary dividend is 9 November 2021 and the payment date is 14 December 2021. Shares will be issued to satisfy the Dividend Reinvestment Plan (DRP), with no discount applied, for the 1H22 dividend.

Capital raising

Placement

The Placement announced today is a non-underwritten placement of fully paid ordinary shares (Placement Shares) and is expected to raise approximately $A1.5 billion.

The placement price (Placement Price) will be determined via a bookbuild process, to be conducted today, Friday, 29 October 2021 commencing at $A190.00 per Placement Share, representing a 4.0 per cent discount to the last closing price of $A197.83 on Thursday, 28 October 2021.

The Placement is expected to result in the issue of approximately 7.9 million Placement Shares, representing approximately 2.1 per cent of total existing Macquarie shares on issue. The Placement is within Macquarie's existing capacity under ASX Listing Rule 7.1 and therefore no shareholder approval is required to issue the Placement Shares.

The Placement Shares are expected to settle on Wednesday, 3 November 2021 and be issued and commence trading on ASX on Thursday, 4 November 2021. Placement Shares will rank equally with existing Macquarie ordinary shares and, as they will be allotted prior to the record date, will be entitled to receive the 1H22 dividend.

Share Purchase Plan

Macquarie will offer Eligible Shareholders[12] in Australia and New Zealand the opportunity to participate in a non-underwritten SPP with a maximum application size of $A30,000 per Eligible Shareholder. The size of the SPP will depend upon demand from Eligible Shareholders.

New shares issued under the SPP (SPP Shares) will be offered at the lower of:

- the Placement Price, adjusted for the 1H22 dividend of $A2.72 per share; and
- a 2.0 per cent discount to the VWAP[13] of Macquarie ordinary shares traded on an ex-dividend basis during the five ASX trading days immediately prior to and including the SPP closing date (SPP Price).

Depending upon the level of demand, Macquarie may at its discretion decide to scale back applications. SPP Shares will rank equally with existing Macquarie ordinary shares, noting that as they will be issued after the record date, they will not be entitled to receive the 1H22 dividend. An SPP booklet containing further details on the SPP is expected to be despatched to Eligible Shareholders on Monday, 8 November 2021.

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

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12. Eligible Shareholders are shareholders with a registered address in Australia or New Zealand on the register as at 7.00pm on Thursday, 28 October 2021 and who are outside the United States.
13. Volume Weighted Average Price.

Ms Wikramanayake said: “Macquarie remains well-positioned to deliver superior performance in 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; a strong and conservative balance sheet; and a proven risk management framework and culture.”

IMPORTANT NOTICE AND DISCLAIMER

This announcement does not constitute an offer of any securities (including the shares to be issued under the Placement and the SPP (the **New Shares**) for sale or issue. No action has been taken to register or qualify the New Shares or to otherwise permit a public offering of New Shares outside Australia and New Zealand. In particular, this announcement does not constitute an offer of securities for sale in the United States. Neither the New Shares nor the Macquarie ordinary shares have been or will be, registered under the U.S. Securities Act of 1933 (the **Securities Act**) or the securities laws of any state or other jurisdiction of the United States, and they may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable securities laws.

The timetable for the Placement and the SPP are indicative only and subject to change without notice in Macquarie’s absolute discretion. Macquarie reserves the right to withdraw the Placement and the SPP in its absolute discretion.

FORWARD LOOKING STATEMENTS

This announcement may contain forward looking statements, including but not limited to expectations, estimates, beliefs, assumptions and projections about Macquarie, its subsidiaries and associates, the outcome and effects of the Capital Raising and the use of proceeds. Forward looking statements should, or can generally, be identified by the use of forward looking words such as “believe”, “expect”, “estimate”, “will”, “may”, “target” and other similar expressions within the meaning of securities laws of applicable jurisdictions. Forward looking statements in this announcement include statements regarding Macquarie’s outlook and the effect of new capital on Macquarie’s strategic flexibility and ability to take advantage of future opportunities. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements.

Those risks, uncertainties, assumptions and other important factors are not all within the control of Macquarie or its directors and management and cannot be predicted by Macquarie, its directors or management, and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which Macquarie operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

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