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MACQUARIE

ASX/Media Release

MACQUARIE GROUP 2022 OPERATIONAL BRIEFING

Key points

- Improved overall market conditions in the December 2021 quarter (3Q22) resulting in a record quarter for the Group
- Annuity-style businesses' (Macquarie Asset Management (MAM) and Banking and Financial Services (BFS)) combined 3Q22 net profit contribution[1] down on the December 2020 quarter (3Q21) mainly due to the timing of performance fees and investment-related income
  - Net profit contribution for the nine months to 31 December 2021 (FY22 YTD) was up on the nine months to 31 December 2020 (FY21 YTD), mainly due to continued volume growth in BFS. MAM was broadly in line, driven by income from Macquarie Infrastructure Corporation (MIC) and higher base fees, partially offset by the gain on sale of Macquarie European Rail in the prior corresponding period (pcp) and lower performance fees
- Markets-facing businesses' (Commodities and Global Markets (CGM) and Macquarie Capital) combined 3Q22 net profit contribution substantially up on 3Q21
  - FY22 YTD net profit contribution substantially up on FY21 YTD, primarily due to higher principal income in Macquarie Capital including exceptionally strong investment realisations in the infrastructure (including green energy), business services and technology sectors. CGM included strong commodities income, partially offset by the timing of income recognition on storage contracts and transport agreements, as well as the gain on the partial sale of the UK Meters portfolio of assets
- Group financial position comfortably exceeds regulatory requirements
  - Group capital surplus of $A11.5 billion[2,3]
  - Bank CET1 ratio 12.2% (Harmonised: 15.4%[4]), Leverage ratio 5.1% (Harmonised: 5.8%[4]), LCR 177%[5], NSFR 121%[5]

SYDNEY, 8 February 2022 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 2022 (3Q22).

During a presentation at Macquarie's annual Operational Briefing in Sydney today, Macquarie Group Managing Director and Chief Executive Officer, Shemara Wikramanayake, said: "Improved overall market conditions have resulted in a record quarter for the Group."

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[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
[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] 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.
[5] 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.

The annuity-style businesses' combined 3Q22 net profit contribution was down on 3Q21, mainly due to the timing of performance fees and investment-related income. For FY22 YTD, net profit contribution was up on FY21 YTD, mainly due to continued volume growth in BFS. MAM's contribution was broadly in line, driven by income from MIC and higher base fees, partially offset by the gain on sale of Macquarie European Rail in the pcp and lower performance fees.

The markets-facing businesses' combined 3Q22 net profit contribution was substantially up on 3Q21. For FY22 YTD, net profit contribution was substantially up on FY21 YTD. This was primarily due to higher principal income in Macquarie Capital, including exceptionally strong investment realisations in the infrastructure (including green energy), business services and technology sectors. CGM's contribution included strong commodities income, partially offset by the timing of income recognition on storage contracts and transport agreements, as well as the gain on the partial sale of the UK Meters portfolio of assets.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements, with a Group capital surplus of $A11.5 billion[2,3] at 31 December 2021, up from $A8.4 billion at 30 September 2021. The Bank Group's APRA Basel III Common Equity Tier 1 capital ratio was 12.2 per cent (Harmonised: 15.4 per cent[4]) at 31 December 2021, up from 11.7 per cent at 30 September 2021. The Bank Group's APRA leverage ratio was 5.1 per cent (Harmonised: 5.8 per cent[4]), the Liquidity Coverage Ratio (LCR) was 177 per cent[5] and the Net Stable Funding Ratio (NSFR) was 121 per cent[5] at 31 December 2021.

Third quarter business highlights

Ms Wikramanayake provided an overview of business activity undertaken during 3Q22:

MAM had assets under management (AUM) of $A750.1 billion at 31 December 2021, up two per cent on 30 September 2021. In the quarter, Public Investments AUM rose two per cent to $A522.5 billion, driven by positive impacts from market movements, partially offset by foreign exchange and net flows. Private Markets AUM rose three per cent to $A227.6 billion, driven by fund investments, partially offset by divestments. At 31 December 2021, Private Markets had equity under management of $A160.1 billion with $A24.0 billion to deploy after raising $A8.1 billion in new equity, investing $A7.5 billion and divesting $A1.0 billion.

BFS had total deposits[6] of $A91.6 billion at 31 December 2021, up four per cent on 30 September 2021. The home loan portfolio of $A82.8 billion increased eight per cent on 30 September 2021, while funds on platform[7] of $A120.9 billion increased four per cent. During 3Q21, the business banking loan portfolio increased four per cent to $A11.4 billion, while the car loans portfolio decreased 12 per cent to $A9.6 billion.

CGM had strong results across the commodities platform, particularly in global Gas & Power and Resources, driven by increased client hedging and trading opportunities from unusually challenging market conditions. CGM also saw solid contribution from client and trading activity across the Financial Markets businesses including fixed income, foreign exchange, credit and equities. CGM also saw continued growth in the Asset Finance balance sheet largely driven by Resources and Structured Lending, which contributed to strong annuity revenue flows across the platform.

Macquarie Capital completed 126 transactions globally in 3Q22, valued at $A105 billion[8]. Fee revenue was significantly up across Advisory, DCM and ECM, and investment-related income was also up substantially following exceptionally strong investment realisations. The Principal Finance portfolio of over $A15 billion including a $A13 billion credit portfolio at 31 December 2021, reflected more than $A4.5 billion committed in 3Q22 through focused investing in credit markets and the provision of bespoke financing solutions. Macquarie Capital is the No.1 Global Financial Adviser for infrastructure/project finance[9] and No.1 in ANZ for M&A[10]. Macquarie Equities maintained its market leading ranking in Australia across research, sales, trading, ECM and corporate access[11].

[6] Deposits in BFS exclude corporate/wholesale deposits.
[7] Funds on platform includes Macquarie Wrap and Vision.
[8] Dealogic and IJ Global for Macquarie Group completed M&A, investments, ECM and DCM transactions converted as at 31 December 2021. Deal values reflect the full transaction value and not an attributed value.
[9] Inframation (Calendar Year 2021 by deal count).
[10] Dealogic (Calendar Year 2021 completed by deal value and deal count).
[11] Peter Lee Associates 2021 & 2020 Survey of Australian Investors.

Outlook

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

Macquarie Asset Management - excluding the Waddell & Reed acquisition, which is not expected to provide a meaningful net profit contribution in FY22 due to integration and one-off costs:

- Base fees are expected to be broadly in line
- Net Other Operating Income is expected to be slightly down due to significant one-off items in FY21

Banking and Financial Services - ongoing momentum in loan, deposit and platform volumes:

- Competitive dynamics to continue to drive margin pressure
- Ongoing monitoring of provisioning in the COVID-19 environment
- Higher expenses to support volume growth, technology investment and increased regulatory investment

Macquarie Capital

- Transaction activity in 2H22 expected to be significantly up on pcp
- Investment-related income in 2H22 expected to be substantially up on pcp with exceptionally strong investment realisations in 3Q22 and no meaningful realisations expected in 4Q22
- Balance sheet deployment in 2H22 up on pcp and expected to continue in 4Q22

Commodities and Global Markets

- Commodities income, including the impacts of timing of income recognition on storage contracts and transport agreements, is expected to be significantly up on FY21
- Strong contribution from client and trading activity, with consistent client contribution across the financial markets platform
- Continued contribution from Asset Finance linked to business activity (excluding 1H22 gain on the disposal of certain assets)

From a Corporate perspective, the FY22 compensation ratio and effective tax rate are expected to be broadly in line with historical levels.

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

Ms Wikramanayake said, “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. More broadly, we remain well positioned over the medium term, based on our deep expertise in major markets, a diversified and adaptable mix of strong businesses, an ongoing program to identify cost saving initiatives and efficiency, a strong and conservative balance sheet and a proven risk management framework and culture.”

Social Impact

Macquarie also announced a one-time $A20 million additional allocation to the Macquarie Group Foundation to expand its Social Impact Investing pilot, to address employment and education social impact needs.

Macquarie's Chief Financial Officer and Chair of the Macquarie Group Foundation, Alex Harvey, said: "This $A20 million allocation will enable the Foundation to build on the groundwork of a successful FY22 pilot, and more than ten years of wider sector support. The funds will be used to address important employment and education social impact needs across the spectrum of catalytic capital, as well as philanthropic grants to support sector building. Any financial returns will flow back to the Foundation for additional social impact."

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