

Management Discussion and Analysis

Macquarie Group

Half-year ended 30 September 2019



Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Interim Financial Report (the Financial Report) for the half-year ended 30 September 2019, including further detail in relation to key elements of Macquarie Group Limited and its subsidiaries' (Macquarie, the Consolidated Entity) financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

Certain financial information in this report is prepared on a different basis to that contained in the Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, a reconciliation to the statutory information is provided.

Date of this report

This report has been prepared for the half-year ended 30 September 2019 and is current as at 1 November 2019.

Explanatory notes

Comparative information and conventions

Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group structures.

References to the prior corresponding period (pcp) are to the six months ended 30 September 2018.

References to the prior period are to the six months ended 31 March 2019.

References to the current period and current half-year are to the six months ended 30 September 2019.

In the financial tables throughout this document “**” indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Independent Auditor’s Review Report

This document should be read in conjunction with the Financial Report for the half-year ended 30 September 2019, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers’ independent auditor’s review report to the members of Macquarie Group Limited dated 1 November 2019 was unqualified.

Any additional financial information in this document which is not included in the Financial Report was not subject to independent review by PricewaterhouseCoopers.

Disclaimer

The material in this document has been prepared by Macquarie Group Limited ABN 94 122 169 279 (MGL, the Company) and is general background information about Macquarie Group Limited and its subsidiaries’ (Macquarie) activities current as at the date of this document. This information is given in summary form and does not purport to be complete. The material in this document may include information derived from publicly available sources that have not been independently verified. Information in this document should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. No representation or warranty is made as to the accuracy, completeness or reliability of the information. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

This document may contain forward looking statements – that is, statements related to future, not past, events or other matters – including, without limitation, statements regarding our intent, belief or current expectations with respect to Macquarie’s businesses and operations, market conditions, results of operation and financial condition, capital adequacy, provisions for impairments and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements or to otherwise update any forward looking statements, whether as a result of new information, future events or otherwise, after the date of this document. Actual results may vary in a materially positive or negative manner. Forward looking statements and hypothetical examples are subject to uncertainty and contingencies outside Macquarie’s control. Past performance is not a reliable indication of future performance.

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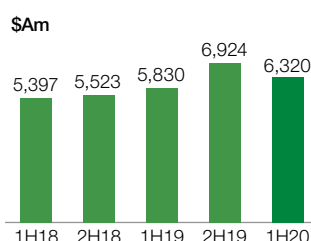
Result
overview

1.1 Executive summary

1H20 NET OPERATING INCOME

\$A6,320m

↑ 8% on pcp



1H20 OPERATING EXPENSES

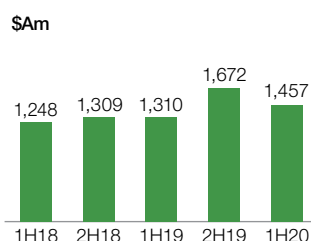
\$A4,480m

↑ 9% on pcp

1H20 NET PROFIT

\$A1,457m

↑ 11% on pcp



1H20 ANNUALISED RETURN ON EQUITY

16.4%

↑ from 16.3%
in pcp

1H20 net profit contribution⁽¹⁾ by activity

ANNUITY-STYLE

\$A1,717m

MARKETS-FACING

\$A1,151m



(1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

MACQUARIE ASSET MANAGEMENT

\$A1,122m

↑ 32% on pcg

- Increased performance fees from MIRA-managed funds and co-investors
- Increased base fees primarily driven by favourable foreign exchange movements and investments made by MIRA-managed funds and mandates.

Partially offset by:

- Higher operating expenses mainly driven by foreign exchange movements and the full period impact of the GLL and ValueInvest business acquisitions completed in the prior corresponding period
- Decreased net operating lease income driven by the disposal of Macquarie AirFinance to a newly-formed joint venture, of which MAM has a 75% interest.

Non-Banking Group

MACQUARIE CAPITAL

\$A223m

↓ 56% on pcg

- Lower fee and commission income due to lower debt capital markets fee income
- Lower net interest and trading income due to reduced interest income from the debt portfolio
- Higher credit and other impairment charges due to a small number of underperforming investments
- Higher operating expenses reflecting additional headcount and foreign exchange movements.

Partially offset by:

- Higher net income on equity and debt investments due to asset realisations in Europe particularly in the green energy sector.

BANKING AND FINANCIAL SERVICES

\$A385m

↑ 2% on pcg

- Growth in BFS deposits, Australian loan portfolio and funds on platform average volumes
- Reduced average headcount mainly due to the realignment of the wealth advice business to focus on the high net worth segment.

Partially offset by:

- Lower wealth management fee income associated with realigning the wealth advice 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
- Higher credit provisions in business banking loans and leasing.

Banking Group

COMMODITIES AND GLOBAL MARKETS

\$A1,138m

↑ 32% on pcg

- Strong results across the commodities platform from increased client hedging activity particularly in Global Oil, North American Gas and Power and EMEA Gas and Power
- Timing of income recognition on storage and transport agreements
- Improved foreign exchange, interest rates and credit results driven by increased client activity across all regions
- Improved equity trading and retail results primarily in Asian markets.

Partially offset by:

- Increased operating expenses driven by expenditure on upgrading technology infrastructure and increased cost of regulatory compliance.

Operating Groups update

In the current period, CAF's businesses were aligned to other Operating Groups, where they have the greatest opportunities in terms of shared clients and complementary offerings:

- CAF Principal Finance joined Macquarie Capital to bring together all principal investing activity and enhance our ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a newly-formed joint venture
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients.

In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

During half-year ended 31 March 2019, certain businesses were reorganised between Operating Groups:

- Macquarie's Australian vehicle finance business moved from CAF into BFS
- Macquarie Capital's global real estate business moved into MAM and merged with MIRA Real Estate.

Comparatives have been reclassified to reflect this reorganisation between Operating Groups.

1.1 Executive summary

Continued

Profit attributable to the ordinary equity holder

\$A1,457m

↑ 11% on prior corresponding period

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Financial performance summary					
Net interest income	790	762	998	4	(21)
Fee and commission income	2,874	2,865	2,661	<1	8
Net trading income	1,627	1,560	1,231	4	32
Net operating lease income	461	489	461	(6)	–
Share of net (losses)/profits of associates and joint ventures	(49)	(63)	7	(22)	*
Credit and Other impairment charges	(139)	(476)	(76)	(71)	83
Other operating income and charges	756	1,787	548	(58)	38
Net operating income	6,320	6,924	5,830	(9)	8
Employment expenses	(2,776)	(2,763)	(2,454)	<1	13
Brokerage, commission and trading-related expenses	(482)	(561)	(579)	(14)	(17)
Occupancy expenses	(201)	(234)	(207)	(14)	(3)
Non-salary technology expenses	(367)	(353)	(331)	4	11
Other operating expenses	(654)	(851)	(554)	(23)	18
Total operating expenses	(4,480)	(4,762)	(4,125)	(6)	9
Operating profit before income tax	1,840	2,162	1,705	(15)	8
Income tax expense	(376)	(505)	(374)	(26)	1
Profit after income tax	1,464	1,657	1,331	(12)	10
(Profit)/loss attributable to non-controlling interests	(7)	15	(21)	*	(67)
Profit attributable to the ordinary equity holders of Macquarie Group Limited	1,457	1,672	1,310	(13)	11
Key metrics					
Expense to income ratio (%)	70.9	68.8	70.8		
Compensation ratio (%)	41.2	37.5	39.4		
Effective tax rate (%)	20.5	23.2	22.2		
Basic Earnings per share (cents per share)	430.1	494.5	388.3		
Diluted Earnings per share (cents per share)	419.5	483.9	383.1		
Dividend per ordinary share (cents per share)	250.0	360.0	215.0		
Dividend payout ratio (%)	60.8	73.2	55.7		
Annualised return on equity (%)	16.4	19.5	16.3		

Net operating income

Net operating income of \$A6,320 million for the half-year ended 30 September 2019 increased 8% from \$A5,830 million in the prior corresponding period. Increases in Fee and commission income, Other operating income and charges and Net interest and trading income was partially offset by higher Credit and Other impairment charges and lower Share of net profits of associates and joint ventures.

Key drivers included:

Net interest and trading income

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
2,417	2,322	2,229

↑ 8%
on prior
corresponding
period

- Strong results in CGM across the commodities platform from increased client hedging activity particularly in Global Oil, North American Gas and Power and EMEA Gas and Power and timing of income recognition on storage and transport agreements. There was also a solid contribution from Agriculture, Metals and Mining
- Growth in BFS deposits and Australian loan portfolio average volumes in BFS.

Partially offset by:

- Reduced contributions from North American Gas Inventory management and trading following a strong prior corresponding period in CGM
- Lower interest income on the debt portfolio in Macquarie Capital
- The sale of an investment in Macquarie Pacific Funding (MPF) in BFS.

Net operating lease income

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
461	489	461

—
In line with
the prior
corresponding
period

- Lower income in MAM driven by the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM.

Offset by:

- The acquisition of rotorcraft assets during the prior period in MAM
- Higher secondary income from the Technology, Media and Telecoms (TMT) portfolio in CGM.

Credit and Other impairment charges

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
(139)	(476)	(76)

↑ 83%
on prior
corresponding
period

- Higher Credit impairment charges due to a small number of underperforming investments in Macquarie Capital.

Fee and commission income

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
2,874	2,865	2,661

↑ 8%
on prior
corresponding
period

- Increased performance fees from MIRA-managed funds and co-investors in MAM
- Increased base fees primarily driven by favourable foreign exchange movements and investments made by MIRA-managed funds and mandates in MAM
- Increased mergers and acquisition fee income in Macquarie Capital.

Partially offset by:

- Lower fee income from debt capital markets in Macquarie Capital
- Lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment in BFS.

Share of net (losses)/profits of associates and joint ventures

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
(49)	(63)	7

↓
significantly
on prior
corresponding
period

- Reduced income primarily due to investments in green energy projects in the development and construction phases including a small number of underperforming assets in Macquarie Capital
- Reduced income from the sale of a number of underlying assets within equity accounted investments in MAM.

Partially offset by:

- The share of net profits from a 75% interest in a newly-formed joint venture following the disposal of Macquarie AirFinance in MAM.

Other operating income and charges

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
756	1,787	548

↑ 38%
on prior
corresponding
period

- Asset realisations in Europe, particularly in the green energy sector in Macquarie Capital
- Gain on sale and reclassification of investments and the sale of a non-financial asset in MAM.

Partially offset by:

- A change in the composition of Macquarie Capital's investment portfolio including increased expenditure in relation to green energy projects.

1.1 Executive summary

Continued

Operating expenses

Total operating expenses of \$A4,480 million for the half-year ended 30 September 2019 increased 9% from \$A4,125 million in the prior corresponding period with increases across Employment expenses, Other operating expenses and Occupancy, and Non-salary technology expenses, partially offset by a decrease in Brokerage, commission and trading-related expenses.

Key drivers included:

Employment expenses

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
2,776	2,763	2,454

↑ 13%
on prior
corresponding
period

- Higher share-based payments expense mainly driven by the accelerated amortisation of prior years' equity awards to retiring Key Management Personnel
- Higher performance-related profit share mainly driven by the overall performance of the Operating Groups
- Higher average headcount driven by central service groups to support business growth, technology projects and ongoing regulatory compliance
- Unfavourable foreign exchange movements.

Brokerage, commission and trading-related expenses

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
482	561	579

↓ 17%
on prior
corresponding
period

- Reductions in brokerage across equities markets in CGM
- The sale of an investment in Macquarie Pacific Funding in BFS.

Non-salary technology expenses

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
367	353	331

↑ 11%
on prior
corresponding
period

- Higher technology expenses from investment and support of business growth
- Unfavourable foreign exchange movements.

Other operating expenses and Occupancy

HALF-YEAR TO

30 Sep 19 \$Am	31 Mar 19 \$Am	30 Sep 18 \$Am
855	1,085	761

↑ 12%
on prior
corresponding
period

- Increased business activity across the Consolidated Entity
- Unfavourable foreign exchange movements.

Income tax expense

Income tax expense for the half-year ended 30 September 2019 of \$A376 million was broadly in line with \$A374 million in the prior corresponding period. The effective tax rate for the half-year ended 30 September 2019 was 20.5%, down from 22.2% in the prior corresponding period and 23.2% in the prior period.

The lower effective tax rate was mainly driven by the geographic composition and nature of earnings.

Note on adoption of new Australian Accounting Standards

The September 2019 financial results reflect the adoption of AASB 16 *Leases* (AASB 16) on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated previously reported financial periods. Refer to Note 1 *Summary of significant accounting policies* in the Financial Report for details regarding the Consolidated Entity's transition to AASB 16.

02

Financial
performance
analysis

2.1 Net interest and trading income

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest income	790	762	998	4	(21)
Net trading income	1,627	1,560	1,231	4	32
Net interest and trading income	2,417	2,322	2,229	4	8

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards, with net interest income brought to account using the effective interest method and net trading income predominantly comprising gains and losses relating to trading activities.

For CGM, which predominantly earns income from trading-related activities, the relative contribution of net interest income and net trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by the Consolidated Entity and its clients.

For businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that are attributable to the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the applicable Operating Groups with changes in fair value recognised within the Corporate segment and is managed via the application of hedge accounting.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, within Specialised and Asset Finance (a business within CGM), interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognised in net interest income, however the related swap is recognised in net trading income. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
MAM	(258)	(252)	(217)	2	19
BFS	838	844	834	(1)	<1
CGM					
Commodities					
Risk management products	632	621	457	2	38
Lending and financing	115	122	128	(6)	(10)
Inventory management and trading	302	434	221	(30)	37
Foreign exchange, interest rates and credit	345	273	291	26	19
Equities	216	79	163	173	33
Specialised and Asset Finance	78	54	97	44	(20)
Macquarie Capital	(18)	26	61	*	*
Corporate	167	121	194	38	(14)
Net interest and trading income	2,417	2,322	2,229	4	8

Net interest and trading income of \$A2,417 million for the half-year ended 30 September 2019 increased 8% from \$A2,229 million in the prior corresponding period.

MAM

Net interest and trading expense includes funding costs related to operating leases, equity investments and receivables.

Net interest and trading expense of \$A258 million for the half-year ended 30 September 2019 increased 19% from \$A217 million in the prior corresponding period. This was mainly driven by foreign exchange movements in the prior corresponding period on an economically hedged investment which is predominantly offset in share of net profits of associates and joint ventures.

BFS

Net interest and trading income in BFS relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, loans to Australian businesses, vehicle leases, insurance premium funding and credit cards. BFS also generates income from deposits by way of a deposit premium received from Group Treasury, which uses the deposits as a source of funding for the Consolidated Entity.

Net interest and trading income of \$A838 million for the half-year ended 30 September 2019 was in line with \$A834 million in the prior corresponding period. This was due to a 14% growth in the average BFS deposit balance and a 9% growth in average Australian loan and lease portfolio volumes, partially offset by the sale of an investment in MPF in the current period.

As at 30 September 2019 the deposit and Australian loan and lease portfolios included:

- BFS deposits of \$A56.2 billion, up 5% from \$A53.4 billion as at 31 March 2019;
- Australian mortgage volumes of \$A43.6 billion, up 13% from \$A38.5 billion as at 31 March 2019;
- Australian vehicle finance volumes of \$A14.7 billion, down 3% from \$A15.2 billion as at 31 March 2019; and
- Business banking loan volumes of \$A8.5 billion, up 4% from \$A8.2 billion as at 31 March 2019.

2.1 Net interest and trading income

Continued

CGM

Commodities

(i) Risk management products

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

Risk management products income of \$A632 million for the half-year ended 30 September 2019 increased 38% from \$A457 million in the prior corresponding period. The current period included strong results across the commodities platform from increased client hedging activity in energy markets including Global Oil, North American Gas and Power, and EMEA Gas and Power in comparison with the prior corresponding period primarily driven by increased commodity price volatility. There was also a solid contribution from Agriculture, Metals and Mining.

(ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture.

Lending and financing income of \$A115 million for the half-year ended 30 September 2019 decreased 10% from \$A128 million in the prior corresponding period mainly due to a reduction in agricultural loans and reduced activity in the gas and power sectors.

(iii) Inventory management and trading

CGM enters into financial and physical contracts including exchange traded derivatives, over the counter (OTC) derivatives, storage contracts and transportation agreements as part of its commodities platform.

These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

Storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Inventory management and trading income of \$A302 million for the half-year ended 30 September 2019 increased 37% from \$A221 million in the prior corresponding period. The current period result was primarily driven by the timing of income recognition on storage and transport for oil and gas contract agreements partially offset by reduced contributions from North American Gas, which benefited from supply and demand imbalances across specific American regions in the prior corresponding period.

Foreign exchange, interest rates and credit

Net interest and trading income from foreign exchange, interest rates and credit related activities are generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A345 million for the half-year ended 30 September 2019 increased 19% from \$A291 million in the prior corresponding period, mainly driven by increased client activity across all regions in a variety of structured interest rate and foreign exchange products.

Equities

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of \$A216 million for the half-year ended 30 September 2019 increased 33% from \$A163 million in the prior corresponding period, reflecting increased opportunities in China and an improved performance from retail products across Asia.

Specialised and Asset Finance (SAF)

Net interest and trading income in SAF predominantly relates to net income from the loan and finance lease portfolios (including ship finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Net interest and trading income of \$A78 million for the half-year ended 30 September 2019 decreased 20% from \$A97 million in the prior corresponding period. The decrease was largely driven by lower secondary income from the equipment finance lease portfolio within TMT, increased funding costs from growth in the TMT operating lease portfolio and a decline in the non-core legacy retail portfolio which is partially offset by favourable foreign exchange movements. The loan and finance lease portfolio was \$A5.8 billion as at 30 September 2019, an increase of 4% from \$A5.6 billion as at 31 March 2019. The increase was largely due to the growth in the funds products offset by the legacy and equipment finance portfolio.

Macquarie Capital

Net interest and trading (expense)/income includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading expense of \$A18 million for the half-year ended 30 September 2019 compared to income of \$A61 million in the prior corresponding period. The decrease was primarily due to lower interest income on the debt portfolio.

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing Macquarie's liquidity and funding requirements, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting in terms of AASB 9 is unable to be achieved.

Net interest and trading income of \$A167 million for the half-year ended 30 September 2019 decreased 14% from \$A194 million in the prior corresponding period primarily due to accounting volatility from the changes in fair value on economic hedges.

2.2 Fee and commission income

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Base fees	967	916	899	6	8
Other asset management fees	146	146	158	–	(8)
Base fees and other asset management fees	1,113	1,062	1,057	5	5
Performance fees	546	577	282	(5)	94
Mergers and acquisitions, advisory and underwriting fees	482	433	573	11	(16)
Brokerage and other trading-related income	412	459	473	(10)	(13)
Other fee and commission income	321	334	276	(4)	16
Total fee and commission income	2,874	2,865	2,661	<1	8

Total fee and commission income of \$A2,874 million for the half-year ended 30 September 2019 increased 8% from \$A2,661 million in the prior corresponding period primarily due to higher performance fees from a broad range of funds, managed accounts and co-investors in MAM, and an increase in base fees from favourable foreign exchange movements as well as investments made by MIRA-managed funds and mandates. This was partially offset by lower debt capital markets fee income in Macquarie Capital and a reduction in BFS primarily due to the realignment of the wealth advice business to focus on the high net worth segment.

Base fees, Other asset management fees and Performance fees

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Base fees					
MAM					
MIM	514	482	494	7	4
MIRA	436	417	385	5	13
Total MAM	950	899	879	6	8
Other Operating Groups	17	17	20	–	(15)
Total base fee income	967	916	899	6	8
Total other asset management fees	146	146	158	–	(8)
Performance fees					
MAM					
MIM	4	3	3	33	33
MIRA	542	480	279	13	94
Total MAM	546	483	282	13	94
Other Operating Groups	–	94	–	(100)	–
Total performance fee income	546	577	282	(5)	94

2.2 Fee and commission income

Continued

Base fees

Base fees of \$A967 million for the half-year ended 30 September 2019 increased 8% from \$A899 million in the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM, where base fees of \$A950 million for the half-year ended 30 September 2019 increased 8% from \$A879 million in the prior corresponding period. Base fee income benefited from foreign exchange movements and investments made by MIRA-managed funds and mandates. This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

Refer to section 7 for further details of MAM's Assets under Management (AUM) and Equity under Management (EUM).

Other asset management fees

Other asset management fees includes fees earned on the BFS Wrap platform as well as distribution and marketing service fees in MAM.

Other asset management fees of \$A146 million for the half-year ended 30 September 2019 decreased 8% from \$A158 million in the prior corresponding period, primarily in BFS due to the realignment of the wealth advice business to focus on the high net worth segment.

Performance fees

Performance fees of \$A546 million for the half-year ended 30 September 2019 increased 94% from \$A282 million in the prior corresponding period.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, included performance fees from a broad range of funds including Macquarie European Infrastructure Fund 1 and 3 (MEIF1 and MEIF3), Macquarie Infrastructure Partners I and II (MIP I and MIP II), Macquarie Global Infrastructure Fund II and III (GIF II and GIF III), managed accounts and co-investors. The prior corresponding period included performance fees from MEIF1, MEIF3, Atlas Arteria (ALX) and other MIRA-managed funds, managed accounts and co-investors.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of \$A482 million for the half-year ended 30 September 2019 decreased 16% from \$A573 million in the prior corresponding period.

Fee income was lower with debt capital markets fee income down on a strong 1H19, partially offset by higher mergers and acquisitions fee income.

Brokerage and other trading-related income

Brokerage and other trading-related income primarily includes brokerage income from the Equities and Futures businesses in CGM and brokerage income from the BFS Wrap and Visions platforms.

Brokerage and other trading-related income of \$A412 million for the half-year ended 30 September 2019 decreased 13% from \$A473 million in the prior corresponding period.

The decrease was driven by a reduction in global turnover impacting the Equities business in CGM.

Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including provision of wealth services, mortgages, vehicle finance, credit cards, business loans and deposits. MAM includes fees related to capital raising and income from True Index products, while CGM includes income from structured, Index and retail products.

Other fee and commission income of \$A321 million for the half-year ended 30 September 2019 increased 16% from \$A276 million in the prior corresponding period, primarily in CGM which included increased fee contributions from Index products and retail products in the technology sector.

2.3 Net operating lease income

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Rental income	1,066	1,199	1,091	(11)	(2)
Depreciation and other operating lease-related charges	(605)	(710)	(630)	(15)	(4)
Net operating lease income	461	489	461	(6)	–

Net operating lease income of \$A461 million for the half-year ended 30 September 2019 was in line with the prior corresponding period. This included the impact of the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM, offset by higher operating lease income driven by the acquisition of rotorcraft assets during the prior period in MAM and higher secondary income from the TMT portfolio in CGM.

Total operating lease portfolio was \$A4.0 billion as at 30 September 2019, a decrease of 64% from \$A11.2 billion as at 31 March 2019 primarily driven by MAM's disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM.

2.4 Share of net (losses)/profits of associates and joint ventures

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Share of net (losses)/profits of associates and joint ventures	(49)	(63)	7	(22)	*

Share of net losses of associates and joint ventures was \$A49 million for the half-year ended 30 September 2019 compared to a profit of \$A7 million in the prior corresponding period. The movement was primarily due to investments in green energy projects in the development and construction phases including a small number of underperforming assets in Macquarie Capital and a decrease in the share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM. This was partially offset by the share of net profits from a 75% interest in a newly-formed joint venture following the disposal of Macquarie AirFinance in MAM.

2.5 Credit and Other impairment charges

	HALF-YEAR TO		MOVEMENT		
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Credit impairment (charges)/reversal					
Loan assets	(126)	(127)	(46)	(1)	174
Loans to associates and joint ventures	(6)	(81)	(8)	(93)	(25)
Other assets	(16)	(36)	(3)	(56)	*
Financial investments	(2)	(30)	(5)	(93)	(60)
Undrawn commitments and financial guarantees	(8)	(6)	8	33	*
Recovery of exposures previously written off	14	4	10	250	40
Total credit impairment charges	(144)	(276)	(44)	(48)	227
Other impairment reversal/(charges)					
Interests in associates and joint ventures	7	(177)	(30)	*	*
Intangible assets and other non-financial assets	(2)	(23)	(2)	(91)	—
Total other impairment reversal/(charges)	5	(200)	(32)	*	*
Total credit and other impairment charges	(139)	(476)	(76)	(71)	83

Total credit and other impairment charges of \$A139 million for the half-year ended 30 September 2019, increased 83% from \$A76 million in the prior corresponding period primarily due to higher impairment charges in Macquarie Capital.

Credit impairment charges

Credit impairment charges of \$A144 million for the half-year ended 30 September 2019 increased significantly from \$A44 million in the prior corresponding period due to a small number of underperforming investments in Macquarie Capital. The prior period included impairment charges across the Operating Segments in Loan assets, Loans to associates and joint ventures and lower Recovery of exposures previously written off.

Other impairment reversal/(charges)

Other impairment reversal of \$A5 million for the half-year ended 30 September 2019 compared to charges of \$A32 million in the prior corresponding period and compared to charges of \$A200 million in the prior period. The prior period included impairment charges recognised on a small number of underperforming investments in Macquarie Capital and CGM. The current period includes a reversal of impairment charges relating to an associate.

2.6 Other operating income and charges

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Investment income					
Net gain on equity investments	91	13	148	*	(39)
Net gain on debt investments	7	4	13	75	(46)
Net gain on interests in associates and joint ventures	248	971	126	(74)	97
Net gain on sale of businesses and subsidiaries held for sale	211	601	23	(65)	*
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	113	28	175	*	(35)
Total investment income	670	1,617	485	(59)	38
Other income	86	170	63	(49)	37
Total other operating income and charges	756	1,787	548	(58)	38

Total other operating income and charges of \$A756 million for the half-year ended 30 September 2019, increased 38% from \$A548 million in the prior corresponding period, mainly driven by higher investment income in Macquarie Capital.

Investment income

Investment income totalled \$A670 million for the half-year ended 30 September 2019, an increase of 38% from \$A485 million in the prior corresponding period mainly due to asset realisations in Europe particularly in the green energy sector in Macquarie Capital. Investment income in the prior period included asset realisations in the technology, green energy, conventional energy and infrastructure sectors in Macquarie Capital.

Other income

Other income of \$A86 million for the half-year ended 30 September 2019 increased 37% from \$A63 million in the prior corresponding period. The increase was primarily driven by the gain on sale of a non-financial asset in MAM and an increase in Corporate due to the non-recurrence of certain charges, partially offset by a reduction in Macquarie Capital which reflected a change in the composition of investments in the portfolio including increased expenditure in relation to green energy projects.

2.7 Operating expenses

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	(2,238)	(2,324)	(2,033)	(4)	10
Share-based payments	(349)	(275)	(247)	27	41
(Provision)/reversal for long service leave and annual leave	(15)	5	(17)	*	(12)
Total compensation expenses	(2,602)	(2,594)	(2,297)	<1	13
Other employment expenses including on-costs, staff procurement and staff training	(174)	(169)	(157)	3	11
Total employment expenses	(2,776)	(2,763)	(2,454)	<1	13
Brokerage, commission and trading-related expenses	(482)	(561)	(579)	(14)	(17)
Occupancy expenses	(201)	(234)	(207)	(14)	(3)
Non-salary technology expenses	(367)	(353)	(331)	4	11
Other operating expenses					
Professional fees	(262)	(276)	(202)	(5)	30
Travel and entertainment expenses	(97)	(95)	(91)	2	7
Advertising and communication expenses	(67)	(60)	(59)	12	14
Amortisation of intangibles assets	(31)	(25)	(22)	24	41
Auditor's remuneration	(19)	(19)	(19)	–	–
Other expenses	(178)	(376)	(161)	(53)	11
Total other operating expenses	(654)	(851)	(554)	(23)	18
Total operating expenses	(4,480)	(4,762)	(4,125)	(6)	9

Total operating expenses of \$A4,480 million for the half-year ended 30 September 2019 increased 9% from \$A4,125 million in the prior corresponding period mainly due to increased compensation expenses, the impact of unfavourable foreign exchange movements, an increase in business activity and higher technology spend. This was partially offset by a decrease in brokerage, commission and trading-related expenses primarily across the equities markets in CGM.

Key drivers of the movement included:

- Total employment expenses of \$A2,776 million for the half-year ended 30 September 2019 increased 13% from \$A2,454 million in the prior corresponding period mainly driven by higher share-based payments expense, increased performance-related profit share and higher salary and related costs. Higher share-based payments was driven by the accelerated amortisation of prior years' equity awards for retiring Key Management Personnel while higher performance-related profit share was mainly driven by the overall performance of the Operating Groups. The increase in salary and related costs was driven by higher average headcount primarily in central service groups due to technology projects and ongoing regulatory compliance and in Macquarie Capital driven by business growth. This was partially offset by lower headcount in BFS as the wealth advice business was realigned to focus on the high net worth segment. In addition, the impact of unfavourable foreign exchange movements also contributed to an increase in total employment expenses
- Brokerage, commission and trading-related expenses of \$A482 million for the half-year ended 30 September 2019 decreased 17% from \$A579 million in the prior corresponding period primarily due to reductions in brokerage across equities markets in CGM and the sale of an investment in MPF in the current period in BFS
- Non-Salary technology expenses of \$A367 million for the half-year ended 30 September 2019 increased 11% from \$A331 million in the prior corresponding period primarily reflecting the impact of upgrading technology infrastructure in CGM and to support business growth in BFS, as well as unfavourable foreign exchange movements
- Total other operating expenses of \$A654 million for the half-year ended 30 September 2019 increased 18% from \$A554 million in the prior corresponding period mainly due to increased business activity across the Consolidated Entity and the impact of unfavourable foreign exchange movements.

2.8 Headcount

	AS AT			MOVEMENT	
	Sep 19	Mar 19	Sep 18	Mar 19 %	Sep 18 %
Headcount by Operating Group^{(1),(2)}					
MAM	1,789	1,900	1,886	(6)	(5)
BFS	2,651	2,772	2,950	(4)	(10)
CGM	2,816	2,866	2,786	(2)	1
Macquarie Capital	1,459	1,369	1,282	7	14
Total headcount – Operating Groups	8,715	8,907	8,904	(2)	(2)
Total headcount – Corporate	6,989	6,695	6,317	4	11
Total headcount	15,704	15,602	15,221	1	3
Headcount by region					
Australia ⁽³⁾	6,537	6,675	6,632	(2)	(1)
International:					
Americas	2,803	2,833	2,754	(1)	2
Asia	3,911	3,681	3,608	6	8
Europe, Middle East and Africa	2,453	2,413	2,227	2	10
Total headcount – International	9,167	8,927	8,589	3	7
Total headcount	15,704	15,602	15,221	1	3
International headcount ratio (%)	58	57	56		

Total headcount increased 3% to 15,704 as at 30 September 2019 from 15,221 as at 30 September 2018 mainly to support business growth, technology projects and ongoing regulatory compliance in central service groups. The decrease in Operating Group headcount was driven by BFS due to the realignment of the wealth advice business to focus on the high net worth segment, partially offset by higher headcount in Macquarie Capital due to business growth.

(1) Headcount numbers in this document includes certain staff employed in operationally segregated subsidiaries (OSS).

(2) The prior corresponding period and prior period headcount numbers have been restated due to the reclassification of OSS.

(3) Includes New Zealand.

2.9 Income tax expense

	HALF-YEAR TO		
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am
Operating profit before income tax	1,840	2,162	1,705
<i>Prima facie</i> tax @ 30%	552	648	512
Income tax permanent differences	(176)	(143)	(138)
Income tax expense	376	505	374
Effective tax rate⁽¹⁾	20.5%	23.2%	22.2%

Income tax expense for the half-year ended 30 September 2019 of \$A376 million was broadly in line with \$A374 million in the prior corresponding period. The effective tax rate for the half-year ended 30 September 2019 was 20.5%, down from 22.2% in the prior corresponding period and 23.2% in the prior period.

The lower effective tax rate was mainly driven by the geographic composition and nature of earnings.

(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests reduced operating profit before income tax by \$A7 million for the half-year ended 30 September 2019 (31 March 2019: increased operating profit before income tax by \$A15 million; 30 September 2018: reduced operating profit before income tax by \$A21 million).

03

Segment
analysis

3.1 Basis of preparation

Operating Segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about the Consolidated Entity's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating Operating Segment performance and for deciding how to allocate resources to Operating Segments. Such information may be produced using different measures to that used in preparing the statutory income statement.

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into Operating Groups and a Corporate segment.

During the half-year ended March 2019, certain businesses were reorganised between Operating Groups including:

- Macquarie's Australian vehicle finance business moved from CAF into BFS
- Macquarie Capital's global real estate business moved into MAM and merged with MIRA Real Estate.

During the current period, CAF businesses have been aligned to other Operating Groups where they have the greatest opportunities in terms of shared clients and complementary offerings as follows:

- CAF Principal Finance joined Macquarie Capital to bring together all principal investing activity and enhance our ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a newly-formed joint venture
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients
- In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

Comparatives have been reclassified to reflect this reorganisation between the Operating Groups. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

These segments have been set up based on the different core products and services offered. Following the reorganisation described above, the Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure, renewables, real estate, agriculture, transportation finance, equities, fixed income, private credit and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes

- **Macquarie Capital** has global capability in advisory, capital raising services, providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors and investing alongside partners and clients, across the capital structure. It also has global capability in infrastructure, green and conventional energy, focusing on utilising its balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases.

The Corporate segment, which is not considered an Operating Group, comprises head office and central service groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and are not allocated to any of the Operating Groups.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, central credit and asset related impairments, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests and holders of Macquarie Income Securities (MIS).

Below is a selection of key policies applied in determining Operating Segment results.

Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Consolidated Entity, and Operating Groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to Operating Groups for the early repayment of term funding.

Generally, Operating Groups may only source funding directly from external sources where the funding is secured by the Operating Group's assets. In such cases the Operating Group bears the funding costs directly and Group Treasury may levy additional charges where appropriate.

Deposits are a funding source for the Consolidated Entity. BFS receives a deposit premium from Group Treasury on deposits that it generates. This deposit premium is included within Net interest and trading income for segment reporting purposes.

Transactions between Operating Segments

Operating Segments that enter into arrangements with other Operating Segments must do so on commercial terms or as agreed by the Consolidated Entity's Chief Executive Officer or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions.

Internal transactions are recognised in each of the relevant categories of income and expense and eliminated on consolidation as appropriate.

Accounting for derivatives that hedge interest rate risk

For businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that is attributable to the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the applicable Operating Groups with changes in fair value recognised within the Corporate segment and managed via the application of hedge accounting.

Central service groups

The central service groups provide a range of functions supporting Macquarie's Operating Groups, ensuring they have the appropriate workplace support and systems to operate effectively and the necessary resources to meet their regulatory, compliance, financial reporting, legal and risk management requirements.

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central service groups include the Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) are recognised in the Corporate segment and not allocated to the Operating Groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and not allocated to the Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, an internal management revenue/charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on consolidation.

Presentation of segment income statements

The income statements on the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

3.1 Basis of preparation

Continued

	MAM \$Am	BFS \$Am
Half-year ended 30 September 2019		
Net interest and trading (expense)/income	(258)	838
Fee and commission income/(expense)	1,648	226
Net operating lease income	303	–
Share of net profits/(losses) of associates and joint ventures	83	(3)
Other operating income and charges		
Credit and Other impairments (charges)/reversal	(5)	(42)
Other operating income and charges	108	–
Internal management revenue/(charge)	–	2
Net operating income	1,879	1,021
Total operating expenses	(755)	(636)
Operating profit/(loss) before income tax	1,124	385
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(2)	–
Net profit/(loss) contribution	1,122	385
Half-year ended 31 March 2019		
Net interest and trading (expense)/income	(252)	844
Fee and commission income/(expense)	1,538	232
Net operating lease income	335	–
Share of net profits/(losses) of associates and joint ventures	27	9
Other operating income and charges		
Credit and Other impairments charges	(87)	(54)
Other operating income and charges	125	21
Internal management revenue/(charge)	107	–
Net operating income	1,793	1,052
Total operating expenses	(770)	(674)
Operating profit/(loss) before income tax	1,023	378
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(1)	–
Net profit/(loss) contribution	1,022	378
Half-year ended 30 September 2018		
Net interest and trading (expense)/income	(217)	834
Fee and commission income/(expense)	1,292	244
Net operating lease income	327	–
Share of net profits/(losses) of associates and joint ventures	87	(1)
Other operating income and charges		
Credit and Other impairments (charges)/reversal	(18)	(28)
Other operating income and charges	63	–
Internal management revenue/(charge)	–	2
Net operating income	1,534	1,051
Total operating expenses	(683)	(673)
Operating profit/(loss) before income tax	851	378
Income tax expense	–	–
Profit attributable to non-controlling interests	(1)	–
Net profit/(loss) contribution	850	378

	CGM \$Am	Macquarie Capital \$Am	Corporate \$Am	Total \$Am
	1,688	(18)	167	2,417
	606	415	(21)	2,874
	157	–	1	461
	9	(137)	(1)	(49)
	(35)	(59)	2	(139)
	49	576	23	756
	2	38	(42)	–
	2,476	815	129	6,320
	(1,338)	(593)	(1,158)	(4,480)
	1,138	222	(1,029)	1,840
	–	–	(376)	(376)
	–	1	(6)	(7)
	1,138	223	(1,411)	1,457
	1,583	26	121	2,322
	611	497	(13)	2,865
	153	–	1	489
	10	(102)	(7)	(63)
	(147)	(179)	(9)	(476)
	82	1,543	16	1,787
	(9)	26	(124)	–
	2,283	1,811	(15)	6,924
	(1,403)	(569)	(1,346)	(4,762)
	880	1,242	(1,361)	2,162
	–	–	(505)	(505)
	(1)	23	(6)	15
	879	1,265	(1,872)	1,672
	1,357	61	194	2,229
	611	526	(12)	2,661
	132	–	2	461
	10	(89)	–	7
	(18)	4	(16)	(76)
	54	506	(75)	548
	5	15	(22)	–
	2,151	1,023	71	5,830
	(1,286)	(504)	(979)	(4,125)
	865	519	(908)	1,705
	–	–	(374)	(374)
	(1)	(10)	(9)	(21)
	864	509	(1,291)	1,310

3.2 MAM

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest and trading expense	(258)	(252)	(217)	2	19
Fee and commission income					
Base fees	950	899	879	6	8
Performance fees	546	483	282	13	94
Other fee and commission income	152	156	131	(3)	16
Total fee and commission income	1,648	1,538	1,292	7	28
Net operating lease income	303	335	327	(10)	(7)
Share of net profits of associates and joint ventures	83	27	87	207	(5)
Other operating income and charges					
Net income on equity and debt investments	52	45	33	16	58
Credit and Other impairment charges	(5)	(87)	(18)	(94)	(72)
Other income	56	80	30	(30)	87
Total other operating income and charges	103	38	45	171	129
Internal management revenue	–	107	–	(100)	–
Net operating income	1,879	1,793	1,534	5	22
Operating expenses					
Employment expenses	(243)	(283)	(236)	(14)	3
Brokerage, commission and trading-related expenses	(127)	(120)	(128)	6	(1)
Other operating expenses	(385)	(367)	(319)	5	21
Total operating expenses	(755)	(770)	(683)	(2)	11
Non-controlling interests⁽¹⁾	(2)	(1)	(1)	100	100
Net profit contribution	1,122	1,022	850	10	32
Non-GAAP metrics					
MAM (including MIRA) assets under management (\$Ab)	562.0	550.0	548.7	2	2
MIRA equity under management (\$Ab)	134.4	127.9	115.6	5	16
Headcount	1,789	1,900	1,886	(6)	(5)

Net profit contribution of \$A1,122 million for the half-year ended 30 September 2019, up 32% from the prior corresponding period:

- increased performance fees from MIRA-managed funds and co-investors
- increased base fees primarily driven by favourable foreign exchange movements and investments made by MIRA-managed funds and mandates.

Partially offset by:

- higher operating expenses mainly driven by foreign exchange movements and the full period impact of the GLL and ValueInvest business acquisitions completed in the prior corresponding period
- decreased net operating lease income driven by the disposal of Macquarie AirFinance to a newly-formed joint venture, of which MAM has a 75% interest.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Net interest and trading expense

Net interest and trading expense includes funding costs related to operating leases, equity investments and receivables.

Net interest and trading expense of \$A258 million for the half-year ended 30 September 2019 increased 19% from \$A217 million in the prior corresponding period. This was mainly driven by foreign exchange movements in the prior corresponding period on an economically hedged investment which is predominantly offset in share of net profits of associates and joint ventures.

Base fees

Base fee income of \$A950 million for the half-year ended 30 September 2019 increased 8% from \$A879 million in the prior corresponding period. Base fee income benefited from foreign exchange movements and investments made by MIRA-managed funds and mandates. This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A546 million for the half-year ended 30 September 2019 increased 94% from \$A282 million in the prior corresponding period. The half-year ended 30 September 2019 included performance fees from a broad range of funds including MEIF1, MEIF3, MIP I, MIP II, GIF II and GIF III, managed accounts and co-investors. The prior corresponding period included performance fees from MEIF1, MEIF3, ALX and other MIRA-managed funds, managed accounts and co-investors.

Other fee and commission income

Other fee and commission income includes fees related to capital raising and distribution services, brokerage and commission income and income from True Index products. Distribution service fees and brokerage and commission income are offset by associated expenses that, for accounting purposes, are recognised in Operating expenses.

Other fee and commission income of \$A152 million for the half-year ended 30 September 2019 increased 16% from \$A131 million in the prior corresponding period largely due to higher income from private capital markets and True Index products.

Net operating lease income

Net operating lease income of \$A303 million for the half-year ended 30 September 2019 decreased 7% from \$A327 million in the prior corresponding period, primarily driven by the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM, partially offset by higher operating lease income driven by the acquisition of rotorcraft assets during the prior period.

The operating lease portfolio was \$A1.7 billion as at 30 September 2019, a decrease of 81% from \$A8.8 billion as at 31 March 2019. The decrease was driven by the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM.

Subsequent to the sale, MAM's equity accounted income from its 75% interest in Macquarie AirFinance has been recognised in Share of net profits of associates and joint ventures. In addition, MAM earns fee income from providing services to the joint venture.

Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures of \$A83 million for the half-year ended 30 September 2019 decreased 5% from \$A87 million in the prior corresponding period, due to a decrease in the share of net profits from the sale of a number of underlying assets within equity accounted investments. This was partially offset by the share of equity accounted income from a 75% interest in a newly-formed joint venture following the disposal of Macquarie AirFinance.

Net income on equity and debt investments

Net income on equity and debt investments of \$A52 million for the half-year ended 30 September 2019 increased 58% from \$A33 million in the prior corresponding period. The current period includes gains on sale and reclassification of investments.

Credit and Other impairment charges

Credit and Other impairment charges of \$A5 million for the half-year ended 30 September 2019 decreased 72% from \$A18 million in the prior corresponding period.

Other income

Other income of \$A56 million for the half-year ended 30 September 2019 increased 87% from \$A30 million in the prior corresponding period primarily driven by the gain on sale of a non-financial asset.

Operating expenses

Total operating expenses of \$A755 million for the half-year ended 30 September 2019 increased 11% from \$A683 million in the prior corresponding period. The increase was mainly driven by foreign exchange movements and the full period impact of the GLL and ValueInvest acquisitions completed in the prior corresponding period.

3.3 BFS

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest and trading income	838	844	834	(1)	<1
Fee and commission income					
Wealth management fee income	144	147	168	(2)	(14)
Banking and leasing fee income	82	85	76	(4)	8
Total fee and commission income	226	232	244	(3)	(7)
Share of net (losses)/profits of associates and joint ventures	(3)	9	(1)	*	200
Other operating income and charges					
Credit impairment charges	(42)	(39)	(28)	8	50
Other impairment charges	–	(15)	–	(100)	–
Other income	–	21	–	(100)	–
Total other operating income and charges	(42)	(33)	(28)	27	50
Internal management revenue	2	–	2	*	–
Net operating income	1,021	1,052	1,051	(3)	(3)
Operating expenses					
Employment expenses	(183)	(202)	(219)	(9)	(16)
Brokerage, commission and trading-related expenses	(87)	(108)	(108)	(19)	(19)
Technology expenses ⁽¹⁾	(191)	(181)	(182)	6	5
Other operating expenses	(175)	(183)	(164)	(4)	7
Total operating expenses	(636)	(674)	(673)	(6)	(5)
Net profit contribution	385	378	378	2	2
Non-GAAP metrics					
Funds on platform ⁽²⁾ (\$Ab)	91.5	86.0	88.1	6	4
Australian loan and lease portfolio ⁽³⁾ (\$Ab)	67.4	62.5	60.0	8	12
BFS deposits ⁽⁴⁾ (\$Ab)	56.2	53.4	49.4	5	14
Headcount	2,651	2,772	2,950	(4)	(10)

Net profit contribution of \$A385 million for the half-year ended 30 September 2019, up 2% from the prior corresponding period:

- growth in BFS deposits, Australian loan portfolio and funds on platform average volumes
- reduced average headcount mainly due to the realignment of the wealth advice business to focus on the high net worth segment.

Partially offset by:

- lower wealth management fee income associated with realigning the wealth advice 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
- higher credit provisions in business banking loans and leasing.

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.

(2) Funds on platform includes Macquarie Wrap and Vision.

(3) The Australian loan and lease portfolio comprises residential mortgages, loans to Australian businesses, vehicle finance, insurance premium funding and credit cards.

(4) BFS deposits excludes corporate/wholesale deposits.

Net interest and trading income

Net interest and trading income in BFS relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, loans to Australian businesses, vehicle leases, insurance premium funding and credit cards. BFS also generates income from deposits by way of a deposit premium received from Group Treasury, which uses the deposits as a source of funding for the Consolidated Entity.

Net interest and trading income of \$A838 million for the half-year ended 30 September 2019 was in line with \$A834 million in the prior corresponding period. This was due to a 14% growth in the average BFS deposit balance and a 9% growth in average Australian loan and lease portfolio volumes, partially offset by the sale of an investment in MPF in the current period.

As at 30 September 2019 the deposit and Australian loan and lease portfolios included:

- BFS deposits of \$A56.2 billion, up 5% from \$A53.4 billion as at 31 March 2019;
- Australian mortgage volumes of \$A43.6 billion, up 13% from \$A38.5 billion as at 31 March 2019;
- Australian vehicle finance volumes of \$A14.7 billion, down 3% from \$A15.2 billion as at 31 March 2019; and
- Business banking loan volumes of \$A8.5 billion, up 4% from \$A8.2 billion as at 31 March 2019.

Wealth management fee income

Wealth management fee income relates to fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits and the provision of wealth services in Australia.

Funds on platform closed at \$A91.5 billion as at 30 September 2019, an increase of 6% from \$A86.0 billion as at 31 March 2019 largely due to net positive client inflows and market movements.

Wealth management fee income of \$A144 million for the half-year ended 30 September 2019 decreased 14% from \$A168 million in the prior corresponding period due to the realignment of the wealth advice business to focus on the high net worth segment.

Banking and leasing fee income

Banking and leasing fee income relates to fees earned on a range of BFS' products including mortgages, vehicle finance, credit cards, business loans and deposits.

Banking and leasing fee income of \$A82 million for the half-year ended 30 September 2019 increased 8% from \$A76 million in the prior corresponding period largely driven by increased lending and payment transaction volumes.

Credit impairment charges

Credit impairment charges of \$A42 million for the half-year ended 30 September 2019 increased 50% from \$A28 million in prior corresponding period largely due to higher provisions in business banking loans and leasing.

Operating expenses

Total operating expenses of \$A636 million for the half-year ended 30 September 2019 decreased 5% from \$A673 million in the prior corresponding period.

Employment expenses of \$A183 million for the half-year ended 30 September 2019 decreased 16% from \$A219 million in the prior corresponding period primarily from reduced headcount due to the realignment of the wealth advice business to focus on the high net worth segment.

Brokerage, commission and trading-related expenses of \$A87 million for the half-year ended 30 September 2019 decreased 19% from \$A108 million in the prior corresponding period, largely due to the sale of an investment in MPF in the current period.

Technology expenses of \$A191 million for the half-year ended 30 September 2019 increased 5% from \$A182 million in the prior corresponding period to support business growth.

Other operating expenses of \$A175 million for the half-year ended 30 September 2019 increased 7% from \$A164 million in the prior corresponding period driven by increased risk and regulatory costs.

3.4 CGM

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest and trading income					
Commodities					
Risk management products	632	621	457	2	38
Lending and financing	115	122	128	(6)	(10)
Inventory management and trading	302	434	221	(30)	37
Total commodities	1,049	1,177	806	(11)	30
Foreign exchange, interest rates and credit	345	273	291	26	19
Equities	216	79	163	173	33
Specialised and Asset Finance	78	54	97	44	(20)
Net interest and trading income	1,688	1,583	1,357	7	24
Fee and commission income					
Brokerage and other trading-related income	383	425	432	(10)	(11)
Other fee and commission income	223	186	179	20	25
Total fee and commission income	606	611	611	(1)	(1)
Net operating lease income	157	153	132	3	19
Share of net profits of associates and joint ventures	9	10	10	(10)	(10)
Other operating income and charges					
Net income on equity and debt investments	4	59	14	(93)	(71)
Credit and Other impairment charges	(35)	(147)	(18)	(76)	94
Other income	45	23	40	96	13
Total other operating income and charges	14	(65)	36	*	(61)
Internal management revenue/(charges)	2	(9)	5	*	(60)
Net operating income	2,476	2,283	2,151	8	15
Operating expenses					
Employment expenses	(389)	(420)	(361)	(7)	8
Brokerage, commission and trading-related expenses	(257)	(316)	(320)	(19)	(20)
Other operating expenses	(692)	(667)	(605)	4	14
Total operating expenses	(1,338)	(1,403)	(1,286)	(5)	4
Non-controlling interests⁽¹⁾	–	(1)	(1)	(100)	(100)
Net profit contribution	1,138	879	864	29	32
Non-GAAP metrics					
Headcount	2,816	2,866	2,786	(2)	1

Net profit contribution of \$A1,138 million for the half-year ended 30 September 2019, up 32% from the prior corresponding period:

- strong results across the commodities platform from increased client hedging activity particularly in Global Oil, North American Gas and Power and EMEA Gas and Power
- timing of income recognition on storage and transport agreements
- improved foreign exchange, interest rates and credit result driven by increased client activity across all regions
- improved equity trading and retail results primarily in Asian markets.

Partially offset by:

- increased operating expenses driven by expenditure on upgrading technology infrastructure and increased cost of regulatory compliance.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Commodities net interest and trading income

(i) Risk management products

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

Risk management products income of \$A632 million for the half-year ended 30 September 2019 increased 38% from \$A457 million in the prior corresponding period. The current period included strong results across the commodities platform from increased client hedging activity in energy markets including Global Oil, North American Gas and Power, and EMEA Gas and Power in comparison with the prior corresponding period primarily driven by increased commodity price volatility. There was also a solid contribution from Agriculture, Metals and Mining.

(ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture.

Lending and financing income of \$A115 million for the half-year ended 30 September 2019 decreased 10% from \$A128 million in the prior corresponding period mainly due to a reduction in agricultural loans and reduced activity in the gas and power sectors.

(iii) Inventory management and trading

CGM enters into financial and physical contracts including exchange traded derivatives, OTC derivatives, storage contracts and transportation agreements as part of its commodities platform.

These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

Storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Inventory management and trading income of \$A302 million for the half-year ended 30 September 2019 increased 37% from \$A221 million in the prior corresponding period. The current period result was primarily driven by the timing of income recognition on storage and transport for oil and gas contract agreements partially offset by reduced contributions from North American Gas, which benefited from supply and demand imbalances across specific American regions in the prior corresponding period.

Foreign exchange, interest rates and credit net interest and trading income

Net interest and trading income from foreign exchange, interest rates and credit related activities are generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A345 million for the half-year ended 30 September 2019 increased 19% from \$A291 million in the prior corresponding period, mainly driven by increased client activity across all regions in a variety of structured interest rate and foreign exchange products.

Equities net interest and trading income

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of \$A216 million for the half-year ended 30 September 2019 increased 33% from \$A163 million in the prior corresponding period, reflecting increased opportunities in China and an improved performance from retail products across Asia.

Specialised and Asset Finance net interest and trading income

Net interest and trading income in Specialised and Asset Finance predominantly relates to net income from the loan and finance lease portfolios (including ship finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Net interest and trading income of \$A78 million for the half-year ended 30 September 2019 decreased 20% from \$A97 million in the prior corresponding period. The decrease was largely driven by lower secondary income from the equipment finance lease portfolio within TMT, increased funding costs from growth in the TMT operating lease portfolio and a decline in the non-core legacy retail portfolio which is partially offset by favourable foreign exchange movements.

The loan and finance lease portfolio was \$A5.8 billion as at 30 September 2019, an increase of 4% from \$A5.6 billion as at 31 March 2019. The increase was largely due to the growth in the funds products offset by the legacy and equipment finance portfolio.

Fee and commission income

Fee and commission income of \$A606 million for the half-year ended 30 September 2019 decreased 1% from \$A611 million in the prior corresponding period.

Brokerage and other trading-related income reduced driven by a reduction in global turnover impacting the Equities business. This was materially offset by increased fee contributions from Index products and retail products in the technology sector.

3.4 CGM

Continued

Net operating lease income

Net operating lease income of \$A157 million for the half-year ended 30 September 2019 was up 19% from \$A132 million in the prior corresponding period with the movement driven by higher secondary income from the TMT portfolio. The Energy portfolio contributes the majority of operating lease income and was stable over the period.

The operating lease portfolio was \$A2.3 billion as at 30 September 2019, broadly in line with \$A2.4 billion as at 31 March 2019.

Net income on equity and debt investments

Net income on equity and debt investments of \$A4 million for the half-year ended 30 September 2019 decreased 71% from \$A14 million in the prior corresponding period and decreased 93% from \$A59 million in the prior period. The prior period included a gain on sale from a specific investment.

Credit and Other impairment charges

Credit and Other impairment charges of \$A35 million for the half-year ended 30 September 2019 increased 94% from \$A18 million in the prior corresponding period, and a decrease of 76% from \$A147 million in the prior period which included higher levels of impairments on underperforming financing facilities and a small number of specific commodity equity positions.

Operating expenses

Total operating expenses of \$A1,338 million for the half-year ended 30 September 2019 increased 4% from \$A1,286 million in the prior corresponding period.

Employment expenses of \$A389 million for the half-year ended 30 September 2019 increased 8% from \$A361 million in the prior corresponding period mainly due to an increase in average headcount and the impact of foreign exchange movements.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of \$A257 million for the half-year ended 30 September 2019 decreased 20% from \$A320 million in the prior corresponding period due to reductions in brokerage across equities markets.

Other operating expenses of \$A692 million for the half-year ended 30 September 2019 increased 14% from \$A605 million in the prior corresponding period, reflecting the impact of upgrading technology infrastructure as well as increased regulatory compliance costs.

3.5 Macquarie Capital

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest and trading (expense)/income	(18)	26	61	*	*
Fee and commission income	415	497	526	(16)	(21)
Share of net losses of associates and joint ventures	(137)	(102)	(89)	34	54
Other operating income and charges					
Net income on equity and debt investments	589	1,493	477	(61)	23
Credit and Other impairment (charges)/reversal	(59)	(179)	4	(67)	*
Other (expenses)/income	(13)	50	29	*	*
Total other operating income and charges	517	1,364	510	(62)	1
Internal management revenue	38	26	15	46	153
Net operating income	815	1,811	1,023	(55)	(20)
Operating expenses					
Employment expenses	(272)	(261)	(216)	4	26
Brokerage, commission and trading-related expenses	(11)	(17)	(23)	(35)	(52)
Other operating expenses	(310)	(291)	(265)	7	17
Total operating expenses	(593)	(569)	(504)	4	18
Non-controlling interests⁽¹⁾	1	23	(10)	(96)	*
Net profit contribution	223	1,265	509	(82)	(56)
Non-GAAP metrics					
Headcount	1,459	1,369	1,282	7	14

Net profit contribution of \$A223 million for the half-year ended 30 September 2019, down 56% from the prior corresponding period:

- lower fee and commission income due to lower debt capital markets fee income
- lower net interest and trading income due to reduced interest income from the debt portfolio
- higher credit and other impairment charges due to a small number of underperforming investments
- higher operating expenses reflecting additional headcount and foreign exchange movements.

Partially offset by:

- higher net income on equity and debt investments due to asset realisations in Europe particularly in the green energy sector.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

3.5 Macquarie Capital

Continued

Net interest and trading (expense)/income

Net interest and trading (expense)/income includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading expense of \$A18 million for the half-year ended 30 September 2019 compared to income of \$A61 million in the prior corresponding period. The decrease was primarily due to lower interest income on the debt portfolio.

Fee and commission income

Fee and commission income of \$A415 million for the half-year ended 30 September 2019 decreased 21% from \$A526 million in the prior corresponding period.

Fee income was lower with debt capital markets fee income down on a strong 1H19, partially offset by higher mergers and acquisitions fee income.

Share of net losses of associates and joint ventures

Share of net losses of associates and joint ventures of \$A137 million for the half-year ended 30 September 2019 increased 54% from \$A89 million in the prior corresponding period.

The movement was primarily due to investments in green energy projects in the development and construction phases including a small number of underperforming assets.

Net income on equity and debt investments

Net income on equity and debt investments of \$A589 million for the half-year ended 30 September 2019 increased 23% from \$A477 million in the prior corresponding period.

The increase in income was due to asset realisations in Europe particularly in the green energy sector. The investment income in the prior period included income from asset realisations in the technology, green energy, conventional energy and infrastructure sectors.

Credit and Other impairment (charges)/reversal

Credit and Other impairment charges were \$A59 million for the half-year ended 30 September 2019 compared to a reversal of \$A4 million in the prior corresponding period and a decrease of 67% from \$A179 million in the prior period.

The impairment charges in the current and prior periods mainly related to a small number of underperforming investments. The reversal in the prior corresponding period was primarily driven by a net reversal of expected credit losses due to loan sales and repayments.

Other (expenses)/income

Other expenses were \$A13 million for the half-year ended 30 September 2019 compared to other income of \$A29 million in the prior corresponding period.

The movement reflected a change in the composition of investments in the portfolio including increased expenditure in relation to green energy projects.

Operating expenses

Total operating expenses of \$A593 million for the half-year ended 30 September 2019 increased 18% from \$A504 million in the prior corresponding period. This increase was driven by additional headcount to support business growth and unfavourable foreign exchange movements.

3.6 Corporate

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Net interest and trading income	167	121	194	38	(14)
Fee and commission expense	(21)	(13)	(12)	62	75
Net operating lease income	1	1	2	–	(50)
Share of net losses of associates and joint ventures	(1)	(7)	–	(86)	*
Other operating income and charges					
Net income/(loss) on equity and debt investments	9	4	(51)	125	*
Credit and Other impairment reversal/(charges)	2	(9)	(16)	*	*
Other income and charges	14	12	(24)	17	*
Total other operating income and charges	25	7	(91)	257	*
Internal management charge	(42)	(124)	(22)	(66)	91
Net operating income and charges	129	(15)	71	*	82
Operating expenses					
Employment expenses	(1,689)	(1,597)	(1,422)	6	19
Other operating expenses	531	251	443	112	20
Total operating expenses	(1,158)	(1,346)	(979)	(14)	18
Income tax expense	(376)	(505)	(374)	(26)	1
Macquarie Income Securities	(6)	(8)	(7)	(25)	(14)
Non-controlling interests ⁽¹⁾	–	2	(2)	(100)	(100)
Net loss contribution	(1,411)	(1,872)	(1,291)	(25)	9
Non-GAAP metrics					
Headcount	6,989	6,695	6,317	4	11

The Corporate segment comprises head office and central service groups including Group Treasury, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group. The Corporate segment also includes costs that are not allocated to the Operating Groups, including performance-related profit share and share-based payments expense, income tax expense and the net result of managing Macquarie's liquidity and funding requirements.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

3.6 Corporate

Continued

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing Macquarie's liquidity and funding requirements, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting in terms of AASB 9 is unable to be achieved.

Net interest and trading income of \$A167 million for the half-year ended 30 September 2019 decreased 14% from \$A194 million in the prior corresponding period primarily due to accounting volatility from the changes in fair value on economic hedges.

Net income/(loss) on equity and debt investments

Net income on equity and debt investments was \$A9 million for the half-year ended 30 September 2019, compared to a net loss of \$A51 million in the prior corresponding period. The loss in the prior corresponding period was due to Group consolidation adjustments recognised in a prior period, realised in the Operating Groups.

Credit and Other impairment reversal/(charges)

Credit and Other impairment reversal was \$A2 million for the half-year ended 30 September 2019, compared to a charge of \$A16 million in the prior corresponding period. The prior corresponding period included impairment charges recognised on certain associates.

Other income and charges

Other income was \$A14 million for the half-year ended 30 September 2019, compared to charges of \$A24 million in the prior corresponding period due to the non-recurrence of certain charges.

Employment expenses

Employment expenses relate to the Consolidated Entity's central service groups including COG, FMG, RMG, Legal and Governance, and Central Executive, as well as expenses associated with the Consolidated Entity's profit share and retention plans.

Employment expenses of \$A1,689 million for the half-year ended 30 September 2019 increased 19% from \$A1,422 million in the prior corresponding period as a result of higher share-based payments expense driven mainly by the accelerated amortisation of prior years' equity awards for retiring Key Management Personnel, higher performance-related profit share driven by the overall performance of the Operating Groups and higher average headcount in central service groups to support business growth, technology projects and ongoing regulatory compliance.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of central service groups, offset by the recovery of central service groups' costs (including employment-related costs) from the Operating Groups.

The net recovery from the Operating Groups of \$A531 million for the half-year ended 30 September 2019 increased 20% from \$A443 million in the prior corresponding period, primarily driven by an increased recovery of a higher central service groups cost base due to a higher average headcount.

3.7 International income

International income by region

	HALF-YEAR TO			MOVEMENT	
	Sep 19 \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Americas	1,857	1,930	1,777	(4)	5
Asia	488	606	532	(19)	(8)
Europe, Middle East and Africa	1,891	1,927	1,545	(2)	22
Total international income	4,236	4,463	3,854	(5)	10
Australia ⁽¹⁾	1,913	2,352	1,883	(19)	2
Total income (excluding earnings on capital and other corporate items)	6,149	6,815	5,737	(10)	7
Earnings on capital and other corporate items	171	109	93	57	84
Net operating income (as reported)	6,320	6,924	5,830	(9)	8
International income (excluding earnings on capital and other corporate items) ratio (%)	69	65	67		

International income by Operating Group and region

	HALF-YEAR TO SEP 19						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽¹⁾ \$Am	Total Income ⁽²⁾ \$Am	Total International %
MAM	825	94	656	1,575	304	1,879	84
BFS	–	–	–	–	1,019	1,019	–
CGM	851	480	696	2,027	447	2,474	82
Macquarie Capital	181	(86)	539	634	143	777	82
Total	1,857	488	1,891	4,236	1,913	6,149	69

Total international income was \$A4,236 million for the half-year ended 30 September 2019, an increase of 10% from \$A3,854 million in the prior corresponding period. Total international income represented approximately 69% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior corresponding period.

Income from the Americas of \$A1,857 million for the half-year ended 30 September 2019 increased 5% from \$A1,777 million in the prior corresponding period. The increase was primarily driven by the timing of income recognition on storage and transport for oil and gas contract agreements in CGM as well as higher performance fees and gains on sale and reclassification of investments in MAM. This was partially offset by lower fee and commission income from lower debt capital markets fee income and higher credit and other impairment charges related to a small number of underperforming investments in Macquarie Capital.

In Asia, income of \$A488 million for the half-year ended 30 September 2019 decreased 8% from \$A532 million in the prior corresponding period. The decrease was primarily due to a higher share of net losses of associates and joint ventures in Macquarie Capital primarily due to investments in green energy projects in the development and construction phases including a small number of underperforming assets.

Income from Europe, Middle East and Africa of \$A1,891 million for the half-year ended 30 September 2019 increased 22% from \$A1,545 million in the prior corresponding period. The increase was primarily driven by asset realisations in Europe particularly in the green energy sector in Macquarie Capital, strong results across the commodities platform from increased client hedging activity in energy markets, including Global Oil and EMEA Gas and Power, primarily driven by increased commodity price volatility in CGM and higher base and performance fees in MAM.

In Australia, income of \$A1,913 million for the half-year ended 30 September 2019 increased 2% from \$A1,883 million in the prior corresponding period mainly due to higher performance fees in MAM, partially offset by lower investment-related income in Macquarie Capital and lower fee and commission income in BFS due to the realignment of the wealth advice business to focus on the high net worth segment.

(1) Includes New Zealand.

(2) Total income reflects net operating income excluding internal management revenue/(charge).

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04

Balance
sheet

4.1 Statement of financial position

	AS AT		MOVEMENT		
	Sep 19 ⁽¹⁾ \$Am	Mar 19 \$Am	Sep 18 \$Am	Mar 19 %	Sep 18 %
Assets					
Cash and bank balances	9,579	9,787	9,625	(2)	(<1)
Cash collateral on securities borrowed and reverse repurchase agreements	30,201	29,348	27,837	3	8
Trading assets	24,230	18,670	20,158	30	20
Margin money and settlement assets	20,312	19,111	20,703	6	(2)
Derivative assets	18,221	14,457	18,115	26	1
Financial investments	7,937	7,161	6,633	11	20
Held for sale assets	608	9,023	2,153	(93)	(72)
Other assets	5,625	5,169	5,248	9	7
Loan assets	85,066	78,474	76,953	8	11
Property, plant and equipment	5,471	4,701	11,361	16	(52)
Interests in associates and joint ventures	8,500	4,219	4,143	101	105
Intangible assets	2,666	2,031	1,894	31	41
Deferred tax assets	1,079	1,031	775	5	39
Total assets	219,495	203,182	205,598	8	7
Liabilities					
Cash collateral on securities lent and repurchase agreements	5,803	4,838	6,916	20	(16)
Trading liabilities	8,146	8,108	7,197	<1	13
Margin money and settlement liabilities	26,683	22,576	24,902	18	7
Derivative liabilities	14,514	12,666	18,205	15	(20)
Deposits	59,042	56,191	52,620	5	12
Held for sale liabilities	94	6,809	504	(99)	(81)
Other liabilities	6,662	6,736	6,411	(1)	4
Borrowings	14,626	9,318	13,336	57	10
Debt issued	56,070	50,188	51,665	12	9
Deferred tax liabilities	297	425	800	(30)	(63)
Total liabilities excluding loan capital	191,937	177,855	182,556	8	5
Loan capital	7,246	6,963	5,883	4	23
Total liabilities	199,183	184,818	188,439	8	6
Net assets	20,312	18,364	17,159	11	18
Equity					
Contributed equity	7,721	6,181	6,144	25	26
Reserves	1,927	1,773	1,567	9	23
Retained earnings	9,969	9,807	8,849	2	13
Total capital and reserves attributable to the ordinary equity holders of Macquarie Group Limited	19,617	17,761	16,560	10	18
Non-controlling interests	695	603	599	15	16
Total equity	20,312	18,364	17,159	11	18

(1) The September 2019 financial position reflects the adoption of AASB 16 Leases (AASB 16) on 1 April 2019. As permitted by the standard, the Consolidated Entity has not restated the comparative financial reporting periods. Refer to Note 1 *Summary of significant accounting policies* of the Financial Report for further details.

Assets

Total assets of \$A219.5 billion as at 30 September 2019 increased 8% from \$A203.2 billion as at 31 March 2019 primarily as a result of an increase in Loan assets, Trading assets, Interests in associates and joint ventures and Derivative assets. This increase was partially offset by a decrease in Held for sale assets.

- Loan assets of \$A85.1 billion as at 30 September 2019 increased 8% from \$A78.5 billion as at 31 March 2019 as a result of net new mortgage and business banking-related loans partially offset by net repayments in vehicle finance products in BFS
- Trading assets of \$A24.2 billion as at 30 September 2019 increased 30% from \$A18.7 billion as at 31 March 2019 following an increase in long equity positions and government bonds, together with an increase in oil inventory partially offset by the sale of treasury bills and corporate bonds in CGM
- Interests in associates and joint ventures of \$A8.5 billion as at 30 September 2019 increased from \$A4.2 billion recorded as at 31 March 2019 primarily as a result of the contribution of 100% of Macquarie AirFinance's net assets to a newly-formed joint venture along with a third-party investor in which Macquarie has a 75% interest
- Derivative assets of \$A18.2 billion as at 30 September 2019 increased 26% from \$A14.5 billion as at 31 March 2019 primarily as result of mark-to-market movements and an increase in client trades in commodity markets, interest rate products and foreign exchange derivatives in CGM
- Held for sale assets decreased from \$A9.0 billion as at 31 March 2019 to \$A0.6 billion as at 30 September 2019. The decrease was primarily attributable to the contribution of 100% of Macquarie AirFinance's assets and liabilities to a newly-formed joint venture, of which Macquarie's 75% interest is accounted for as a part of Interests in associates and joint ventures.

Liabilities

Total liabilities of \$A199.2 billion as at 30 September 2019 increased 8% from \$A184.8 billion as at 31 March 2019 primarily as a result of an increase in Debt issued, Borrowings, Margin money and settlement liabilities, Deposits and Derivative liabilities, partially offset by a decrease in Held for sale liabilities.

- Debt issued of \$A56.1 billion as at 30 September 2019 increased 12% from \$A50.2 billion as at 31 March 2019 primarily as a result of Treasury's funding and liquidity management activities that included the issuance of long and short-term debt and a new BFS securitisation
- Borrowings of \$A14.6 billion as at 30 September 2019 increased 57% from \$A9.3 billion as at 31 March 2019 following new business acquisitions in Macquarie Capital, an increase in financing for trade volumes in energy products in CGM and an increase in GBP and USD funding from financial institutions
- Margin money and settlement liabilities of \$A26.7 billion as at 30 September 2019 increased 18% from \$A22.6 billion as at 31 March 2019 primarily due to an increase in call margin placed by financial institutions as a result of increased client flows and derivative volumes, and outstanding commodity trade settlements in CGM
- Increase in business and retail-related deposits contributed to the 5% increase in Deposits from \$A56.2 billion as at 31 March 2019 to \$A59.0 billion as at 30 September 2019
- Derivative liabilities of \$A14.5 billion as at 30 September 2019 increased 15% from \$A12.7 billion as at 31 March 2019 primarily as a result of mark-to-market movements and an increase in client trade volumes in energy, interest rate products and foreign exchange derivatives in CGM
- Held for sale liabilities decreased from \$A6.8 billion as at 31 March 2019 to \$A0.1 billion as at 30 September 2019. The decrease was primarily attributable to the contribution of 100% of Macquarie AirFinance's assets and liabilities to a newly-formed joint venture, of which Macquarie's 75% interest is accounted for as a part of Interests in associates and joint ventures.

Equity

Total equity increased 11% to \$A20.3 billion as at 30 September 2019 from \$A18.4 billion as at 31 March 2019.

The increase in the Consolidated Entity's equity was attributable to the issuance of Contributed equity of \$A1.7 billion through the Institutional Private Placement and Share Purchase Plan, earnings of \$A1.5 billion generated during the period, partially offset by dividends of \$A1.2 billion, and an increase in the foreign currency and net investment hedge reserve of \$A0.3 billion.

4.2 Loan assets

Reconciliation between the statement of financial position and the funded balance sheet:

	AS AT			MOVEMENT	
	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 %	Sep 18 %
Loan assets per the statement of financial position	85.1	78.5	77.0	8	11
Operating lease assets	3.9	11.2	10.6	(65)	(63)
Other reclassifications ⁽¹⁾	0.8	0.5	0.5	60	60
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽²⁾	(8.6)	(7.2)	(7.5)	19	15
Total loan assets including operating lease assets per the funded balance sheet⁽³⁾	81.2	83.0	80.6	(2)	1

(1) Reclassification between loan assets and other funded balance sheet categories.

(2) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPE).

(3) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

Loan assets⁽¹⁾ including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

	Notes	AS AT		MOVEMENT	
		Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 %
BFS					
Retail mortgages	1	38.8	35.6	32.7	9
Business banking	2	9.0	8.7	8.4	3
Vehicle finance	3	11.9	11.5	12.0	3
Total BFS		59.7	55.8	53.1	7
CGM					
Asset Finance:	4	8.0	7.9	7.6	1
Finance lease assets		5.7	5.6	5.4	2
Operating lease assets		2.3	2.3	2.2	–
Resources and commodities	5	4.5	3.3	3.3	36
Other	6	2.6	2.5	2.5	4
Total CGM		15.1	13.7	13.4	10
MAM					
Operating lease assets ⁽²⁾	7	1.6	8.9	8.4	(82)
Structured investments	8	0.2	0.2	0.1	–
Other	9	0.4	0.3	0.4	33
Total MAM		2.2	9.4	8.9	(77)
Macquarie Capital					
Principal finance loans	10	3.6	3.4	4.0	6
Corporate and other lending	11	0.6	0.7	1.2	(14)
Total Macquarie Capital		4.2	4.1	5.2	2
Total		81.2	83.0	80.6	(2)

(1) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

(2) Movement includes the disposal of Macquarie AirFinance to a newly-formed joint venture with PGGM in 1H20.

4.2 Loan assets

Continued

Explanatory notes concerning asset security of funded loan asset portfolio

1. Retail mortgages

Secured by Australian residential property.

2. Business banking

Secured relationship managed loan portfolio secured largely by working capital, business cash flows and real property.

3. Vehicle finance

Secured by Australian motor vehicles.

4. Asset Finance

Predominantly secured by underlying financed assets.

5. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets.

6. CGM Other

Predominantly relates to recourse loans to financial institutions, as well as financing for other sectors.

7. Operating lease assets

Secured by underlying financed assets including transportation assets.

8. Structured investments

Loans to retail and wholesale counterparties that are secured against equities, investment funds or cash, or are protected by capital guarantees at maturity.

9. MAM Other

Secured by underlying financed assets.

10. Principal finance loans

Diversified corporate and real estate lending portfolio, predominantly consisting of loans which are senior, secured, well covenanted and with a hold to maturity horizon.

11. Corporate and other lending

Includes diversified secured corporate lending.

4.3 Equity investments

Equity investments are reported in the following categories in the statement of financial position:

- Financial investments;
- Interests in associates and joint ventures; and
- Other assets.

The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short-term. For the purpose of analysis, equity investments have been re-grouped into the following categories:

- Investments in Macquarie-managed funds; and
- Other investments.

Equity investments reconciliation

	AS AT		MOVEMENT		
	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 %	Sep 18 %
Equity investments					
Statement of financial position					
Equity investments at fair value	1.3	1.3	1.2	–	8
Interests in associates and joint ventures	8.5	4.2	4.1	102	107
Other assets – Held for sale associates	0.4	0.6	1.2	(33)	(67)
Total equity investments per statement of financial position	10.2	6.1	6.5	67	57
Adjustment for funded balance sheet					
Equity hedge positions ⁽¹⁾	–	(0.1)	(0.1)	(100)	(100)
Non-controlling interests ⁽²⁾	–	(0.1)	(0.1)	(100)	(100)
Borrowings ⁽³⁾	(1.8)	–	–	*	*
Total funded equity investments	8.4	5.9	6.3	42	33
Adjustment for equity investment analysis					
Associates' reserves ⁽⁴⁾	0.1	–	–	*	*
Total adjusted equity investments⁽⁵⁾	8.5	5.9	6.3	44	35

(1) These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity-linked instruments except investment in associates. Consequently, these have been excluded from the analysis of equity investment exposures.

(2) These represent the portion of ownership in equity investments not attributable to Macquarie. As this is not a position that Macquarie is required to fund it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.

(3) Macquarie's investment in East Anglia ONE Limited was partially funded with borrowings of \$A1.8 billion.

(4) Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.

(5) The adjusted book value represents the total net exposure to Macquarie.

4.3 Equity investments

Continued

Equity investments by category

	AS AT		MOVEMENT		
	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 %	Sep 18 %
Macquarie-managed funds					
Listed MIRA managed funds	0.9	0.9	0.9	–	–
Unlisted MIRA managed funds	1.0	1.0	1.0	–	–
Other Macquarie-managed funds	0.3	0.3	0.4	–	(25)
Total Macquarie-managed funds	2.2	2.2	2.3	–	(4)
Other investments					
Investments held to seed new MIRA products and mandates ⁽¹⁾	1.6	–	0.1	*	*
Transport, industrial and infrastructure	0.7	0.6	0.7	17	–
Telecommunications, information technology, media and entertainment	1.0	0.5	0.6	100	67
Green energy ⁽²⁾	1.0	1.0	1.2	–	(17)
Conventional energy, resources and commodities	0.4	0.4	0.6	–	(33)
Real estate investment, property and funds management	1.0	0.7	0.3	43	233
Finance, wealth management and exchanges	0.6	0.5	0.5	20	20
Total other investments	6.3	3.7	4.0	70	58
Total equity investments	8.5	5.9	6.3	44	35

(1) Includes a 75% interest in a newly-formed joint venture with PGGM to which Macquarie AirFinance was sold.

(2) Green energy includes Macquarie's \$A2.2 billion investment in East Anglia ONE Limited less \$A1.8 billion which has been funded with borrowings.

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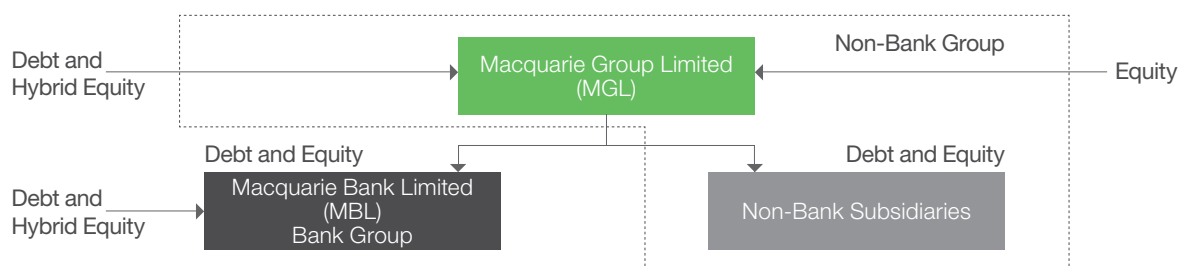
Funding
and liquidity

5.1 Liquidity risk governance and management framework

Governance and oversight

Macquarie's two primary external funding vehicles are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Bank Group and limited funding to some MBL subsidiaries. MBL provides funding to the Bank Group.

The high level funding structure of the Group is shown below:



Macquarie's liquidity risk management framework is designed to ensure that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and the Risk Management Group (RMG). Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a regular basis. The ALCO includes the MGL Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

Liquidity policy and risk appetite

The MGL and MBL liquidity policy is designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. In some cases, certain entities within Macquarie may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are consistent with those applied in the broader MGL and MBL policy.

Macquarie establishes a liquidity risk appetite for both MGL and MBL, which is defined within the liquidity policy. The risk appetite is approved by the MGL and MBL Boards and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie's strategic objectives.

Macquarie's liquidity risk appetite is intended to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period, with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an Authorised Deposit-taking Institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

Liquidity risk tolerance and principles

Macquarie's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing liquidity risk in both MGL and MBL.

Risk tolerances

- term assets must be funded by term liabilities and short term assets must exceed short term wholesale liabilities
- cash and liquid assets must be sufficient to cover the expected outflow under a twelve month stress scenario and meet minimum regulatory requirements
- cash and liquid assets held to cover stress scenarios and regulatory minimums must be high quality unencumbered liquid assets and cash
- diversity and stability of funding sources is a key priority
- balance sheet currency mismatches are managed within set tolerances
- funding and liquidity exposures between entities within Macquarie are subject to constraints where required.

Liquidity management principles

- Macquarie has a centralised approach to liquidity management
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities
- a regional liquidity framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis
- a liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis'
- a funding strategy is prepared annually and monitored on a regular basis
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them
- strong relationships are maintained to assist with managing confidence and liquidity
- the MGL and MBL Boards and Senior Management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high level checklist of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The plan also incorporates a retail run management plan (RRMP) that outlines the Bank's processes and operational plans for managing a significant increase in customer withdrawals during a potential deposit 'run' on Macquarie.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The liquidity contingency plan is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the liquidity contingency plan contains a supplement providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie prepares a funding strategy on an annual basis and monitors progress against the strategy throughout the year. The funding strategy aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The funding strategy is reviewed by the ALCO and approved by the respective Boards.

5.2 Management of liquidity risk

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Macquarie-specific crises. Scenario analysis performs a range of functions within the liquidity risk management framework, including:

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios
- determining Macquarie's minimum level of cash and liquid assets
- determining the appropriate minimum tenor of funding for Macquarie's assets
- determining the overall capacity for future asset growth.

The scenarios separately consider the requirements of the Bank Group, the Non-Bank Group and the Consolidated Entity. A range of assumptions Macquarie intends to be conservative are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie name-specific crisis over a twelve month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio.

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. Certain other business units also hold cash and liquid assets as part of their operations. Macquarie had \$A23.7 billion cash and liquid assets as at 30 September 2019 (31 March 2019: \$A26.3 billion), of which \$A21.9 billion was held by Macquarie Bank (31 March 2019: \$A24.3 billion).

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for Macquarie as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Result overview	Financial performance analysis	Segment analysis	Balance sheet	Funding and liquidity	Capital	Funds management	Glossary	Ten year history

Credit ratings⁽¹⁾ as at 30 September 2019

	MACQUARIE BANK LIMITED			MACQUARIE GROUP LIMITED		
	Short-term rating	Long-term rating	Outlook	Short-term rating	Long-term rating	Outlook
Moody's Investors Service	P-1	A2	Stable	P-2	A3	Stable
Standard and Poor's ⁽²⁾	A-1	A	Positive	A-2	BBB	Positive
Fitch Ratings	F-1	A	Stable	F-2	A-	Stable

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie. As an APRA authorised and regulated Non-Operating Holding Company, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements. Separate quantitative requirements are imposed internally by the ALCO and the Board.

Liquidity coverage ratio

The LCR requires sufficient levels of unencumbered HQLA to be held to meet expected net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. In Australia, HQLA includes cash, balances held with the RBA, Commonwealth Government and semi-government securities, as well as any CLF allocation. The LCR determines Macquarie Bank's regulatory minimum required level of liquid assets.

Macquarie Bank's three month average LCR to 30 September 2019 was 172% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net stable funding ratio

The NSFR is a twelve month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than twelve months. Macquarie Bank's NSFR as at 30 September 2019 was 111%. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

(2) Standard and Poor's does not place outlook statements on short-term ratings.

5.3 Funded balance sheet

Macquarie's statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement to Macquarie.

The table below reconciles the reported assets of Macquarie to the net funded assets as at 30 September 2019. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

	Notes	AS AT		
		Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab
Total assets per Macquarie's statement of financial position		219.5	203.2	205.6
Accounting deductions:				
Self-funded trading assets	1	(19.1)	(16.6)	(18.2)
Derivative revaluation accounting gross-ups	2	(14.3)	(12.5)	(18.0)
Segregated funds	3	(11.1)	(10.0)	(10.5)
Outstanding trade settlement balances	4	(8.2)	(7.4)	(9.3)
Short-term working capital assets	5	(9.7)	(8.8)	(7.5)
Non-controlling interests	6	(0.3)	(0.2)	(0.2)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	7	(10.4)	(7.2)	(7.5)
Net funded assets		146.4	140.5	134.4

Explanatory notes concerning net funded assets

1. Self-funded trading assets

Macquarie enters into stock borrowing and lending as well as repurchase agreements and reverse repurchase agreements in the normal course of trading activity that it conducts with its clients and counterparties. Also as part of its trading activities, Macquarie pays and receives margin collateral on its outstanding derivative positions. These trading-related asset and liability positions are presented gross on the statement of financial position but are viewed as being self-funded to the extent that they offset one another and, therefore, are netted as part of this adjustment.

2. Derivative revaluation accounting gross-ups

Macquarie's derivative activities are mostly client driven with client positions hedged by offsetting positions with a variety of counterparties. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

3. Segregated funds

These represent the assets and liabilities that are recognised where Macquarie provides products such as investment-linked policy contracts or where Macquarie holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount and hence do not require funding.

4. Outstanding trade settlement balances

At any particular time Macquarie will have outstanding trades to be settled as part of its brokering business and trading activities. These amounts (payables) can be offset in terms of funding by amounts that Macquarie is owed on other trades (receivables).

5. Short-term working capital assets

As with the outstanding trade settlement balances above, Macquarie through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

6. Non-controlling interests

These represent the portion of equity ownership in subsidiaries not attributable to Macquarie. As this is not a position that Macquarie is required to fund, it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.

7. Securitised assets and other non-recourse funding

These represent assets that are funded by third parties with no recourse to Macquarie including lending assets (mortgages and leasing) sold down into external securitisation entities.

5.4 Funding profile for Macquarie

Funded balance sheet

	Notes	AS AT		
		Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		1.0	1.0	0.8
Commercial paper		7.8	6.3	5.9
Net trade creditors	2	0.6	2.1	1.4
Structured notes	3	2.4	2.5	2.2
Secured funding	4	3.6	5.8	6.2
Bonds	5	34.8	32.2	34.8
Other loans	6	1.5	1.2	1.0
Syndicated loan facilities	7	8.7	8.3	7.0
Customer deposits	8	58.8	56.0	52.3
Subordinated debt	9	3.1	3.0	2.9
Equity and hybrids	10	24.1	22.1	19.9
Total		146.4	140.5	134.4
Funded assets				
Cash and liquid assets	11	23.7	26.3	23.5
Self-securitisation	12	23.6	21.1	17.2
Net trading assets	13	27.9	20.6	19.3
Loan assets including operating lease assets less than one year	14	13.6	14.3	15.2
Loan assets including operating lease assets greater than one year	14	44.0	47.6	48.2
Debt investment securities	15	1.7	1.7	1.8
Co-investment in Macquarie-managed funds and other equity investments	16	8.4	5.9	6.3
Property, plant and equipment and intangibles		3.5	3.0	2.9
Total		146.4	140.5	134.4

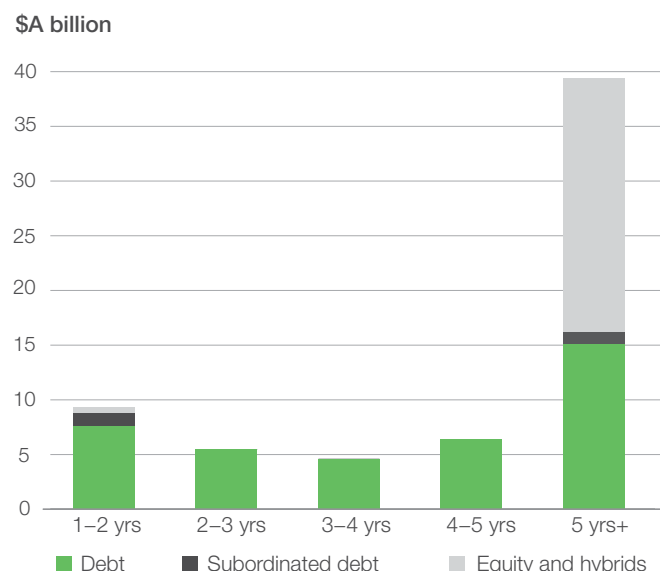
See section 5.7 for notes 1–16.

5.4 Funding profile for Macquarie

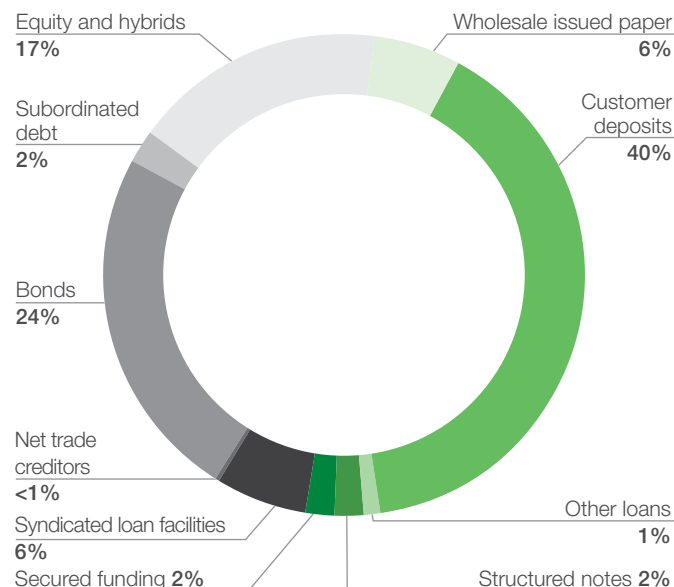
Continued

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



AS AT SEP 19

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	0.1	–	0.1	1.7	1.9
Secured funding	1.0	0.1	0.2	0.2	0.3	1.8
Bonds	5.4	3.2	1.8	6.1	9.8	26.3
Other loans	–	0.1	–	–	0.4	0.5
Syndicated loan facilities	1.2	2.0	2.6	–	2.9	8.7
Total debt	7.6	5.5	4.6	6.4	15.1	39.2
Subordinated debt ⁽²⁾	1.2	–	–	–	1.1	2.3
Equity and hybrids ⁽²⁾	0.5	–	–	–	23.2	23.7
Total funding sources drawn	9.3	5.5	4.6	6.4	39.4	65.2
Undrawn	1.1	2.0	–	–	–	3.1
Total funding sources drawn and undrawn	10.4	7.5	4.6	6.4	39.4	68.3

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets.

As at 30 September 2019, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity⁽³⁾ which is a permanent source of funding, and securitisations) was 5.1 years as at 30 September 2019.

As at 30 September 2019, customer deposits represented \$A58.8 billion, or 40% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A8.8 billion, or 6% of total funding, and other debt funding maturing within 12 months and net trade creditors represented \$A13.6 billion, or 9% of total funding.

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(3) Equity includes Macquarie Income Securities of \$A0.4 billion which does not have a maturity date.

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2019, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2019 and 30 September 2019:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured funding	– Term securitisation and other secured finance	4.4	0.7	5.1
Issued paper	– Senior unsecured	5.2	0.1	5.3
Loan facilities	– MGL loan facilities	–	0.4	0.4
Total		9.6	1.2	10.8

Macquarie has continued to develop its major funding markets and products during the half-year ended 30 September 2019.

From 1 April 2019 to 30 September 2019, Macquarie raised \$A10.8 billion of term funding including:

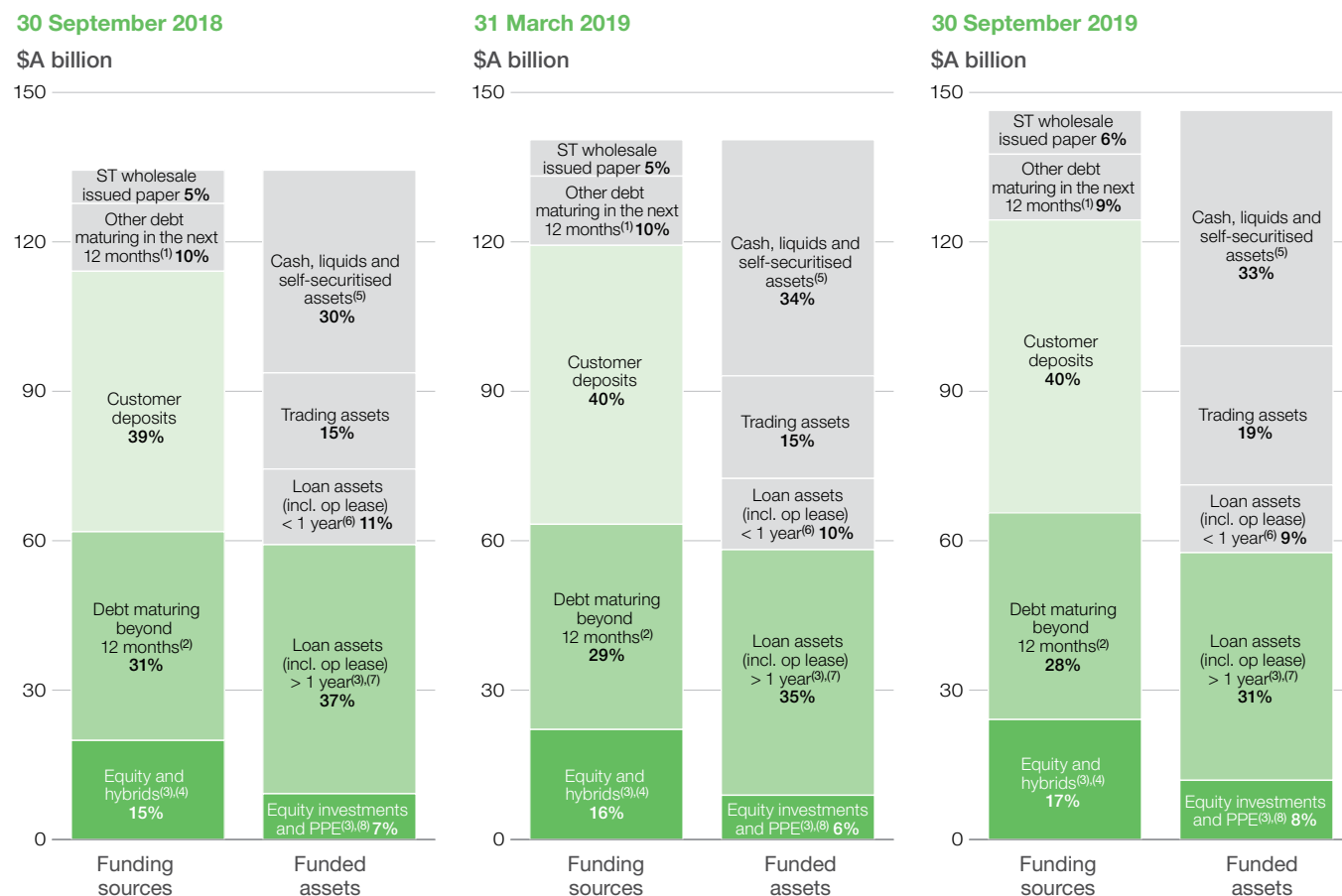
- \$A5.3 billion of term wholesale issued paper comprising of \$A3.0 billion of senior unsecured debt issuance, \$A2.2 billion of private placements and \$A0.1 billion of structured notes
- \$A2.8 billion of PUMA RMBS securitisation issuances
- \$A2.3 billion of secured trade finance facilities
- \$A0.4 billion of MGL USD syndicated loan facility.

In addition to the \$A10.8 billion of term funding raised, \$A1.7 billion of equity capital was raised through \$A1.0 billion institutional placement and \$A0.7 billion share purchase plan.

5.4 Funding profile for Macquarie

Continued

The change in composition of the funded balance sheet is illustrated in the chart below.



(1) 'Other debt maturing in the next 12 months' includes Structured notes, Secured funding, Bonds, Other loans, Subordinated debt maturing within the next 12 months and Net trade creditors.

(2) 'Debt maturing beyond 12 months' includes Subordinated debt not maturing within the next 12 months.

(3) Non-controlling interests is netted down in 'Equity and hybrids' and 'Equity investments and PPE' and 'Loan assets (incl. op lease) > 1 year'.

(4) Hybrid instruments include MIS, MACS, MCN 2, 3 and 4 and BCN.

(5) 'Cash, liquids and self-securitised assets' includes self-securitisation of repo eligible Australian assets originated by Macquarie, a portion of which Macquarie can utilise as collateral in the Reserve Bank of Australia's Committed Liquidity Facility.

(6) 'Loan assets (incl. op lease) < 1 year' includes Net trade debtors.

(7) 'Loan assets (incl. op lease) > 1 year' includes Debt investment securities.

(8) 'Equity investments and PPE' includes Macquarie's co-investments in Macquarie-managed funds and equity investments.

5.5 Funding profile for the Bank Group

Funded balance sheet

	Notes	AS AT		
		Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		1.0	1.0	0.8
Commercial paper		7.8	6.3	5.9
Net trade creditors	2	1.1	1.1	1.4
Structured notes	3	2.0	2.2	2.0
Secured funding	4	2.5	1.4	5.9
Bonds	5	18.9	16.1	20.0
Other loans	6	1.0	0.7	0.9
Syndicated loan facilities	7	–	–	1.2
Customer deposits	8	58.8	56.0	52.3
Subordinated debt	9	3.1	3.0	2.9
Equity and hybrids	10	14.0	12.8	14.5
Total		110.2	100.6	107.8
Funded assets				
Cash and liquid assets	11	21.9	24.3	21.4
Self-securitisation	12	23.6	21.1	17.2
Net trading assets	13	25.8	19.6	18.8
Loan assets including operating lease assets less than one year	14	12.7	13.0	15.0
Loan assets including operating lease assets greater than one year	14	38.3	35.3	46.8
Debt investment securities	15	1.1	1.1	1.3
Non-Bank Group deposit with MBL		(14.2)	(14.8)	(14.1)
Co-investment in Macquarie-managed funds and other equity investments	16	0.4	0.4	0.8
Property, plant and equipment and intangibles		0.6	0.6	0.6
Total		110.2	100.6	107.8

See section 5.7 for notes 1–16.

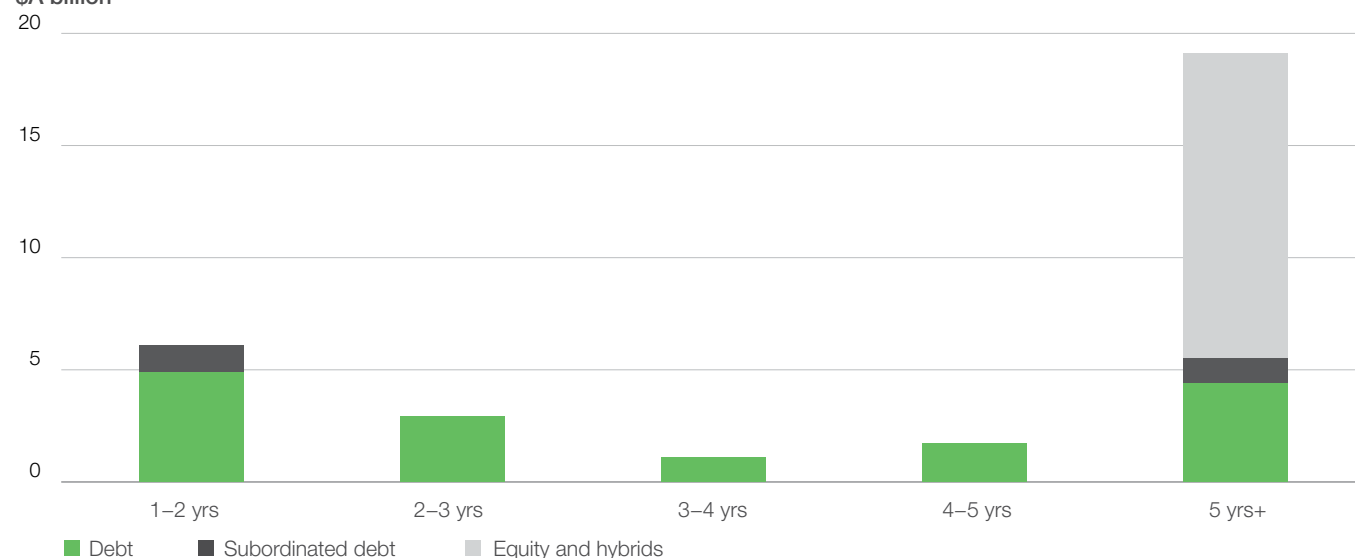
5.5 Funding profile for the Bank Group

Continued

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



	AS AT SEP 19					
	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	0.1	–	0.1	1.6	1.8
Secured funding	0.9	–	0.2	–	–	1.1
Bonds	4.0	2.8	0.9	1.6	2.7	12.0
Other loans	–	–	–	–	0.1	0.1
Total debt	4.9	2.9	1.1	1.7	4.4	15.0
Subordinated debt ⁽²⁾	1.2	–	–	–	1.1	2.3
Equity and hybrids ⁽²⁾	–	–	–	–	13.6	13.6
Total funding sources drawn	6.1	2.9	1.1	1.7	19.1	30.9
Undrawn	0.9	–	–	–	–	0.9
Total funding sources drawn and undrawn	7.0	2.9	1.1	1.7	19.1	31.8

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity⁽³⁾ which is a permanent source of funding, and securitisations) was 4.1 years as at 30 September 2019.

As at 30 September 2019, customer deposits represented \$A58.8 billion, or 53% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A8.8 billion, or 8% of total funding, and other debt funding maturing within 12 months and net trade creditors represented \$A11.7 billion, or 11% of total funding.

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(3) Equity includes Macquarie Income Securities of \$A0.4 billion which does not have a maturity date.

The key tools used for raising debt funding for MBL, which primarily funds the Bank Group are as follows:

- \$US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US9.0 billion debt securities outstanding as at 30 September 2019
- \$US15 billion Commercial Paper Program under which \$US5.2 billion of debt securities were outstanding as at 30 September 2019
- \$US20 billion US Rule 144A/Regulation S Medium-Term Note Program under which \$US6.0 billion of issuances were outstanding as at 30 September 2019
- \$US1.1 billion Secured Trade Finance Facility of which \$US0.5 billion was drawn as at 30 September 2019
- \$US5 billion Structured Note Program under which \$US1.3 billion of funding from structured notes was outstanding as at 30 September 2019
- \$A5 billion Covered Bond Programme under which \$A0.8 billion of debt securities were outstanding as at 30 September 2019.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 30 September 2019, Macquarie Bank had \$A1.0 billion of these securities outstanding.

At 30 September 2019, Macquarie Bank had internally securitised \$A23.6 billion of its own Australian assets (predominantly mortgages and motor vehicles).

Macquarie Bank, as an ADI, has access to liquidity from the RBA daily market operations.

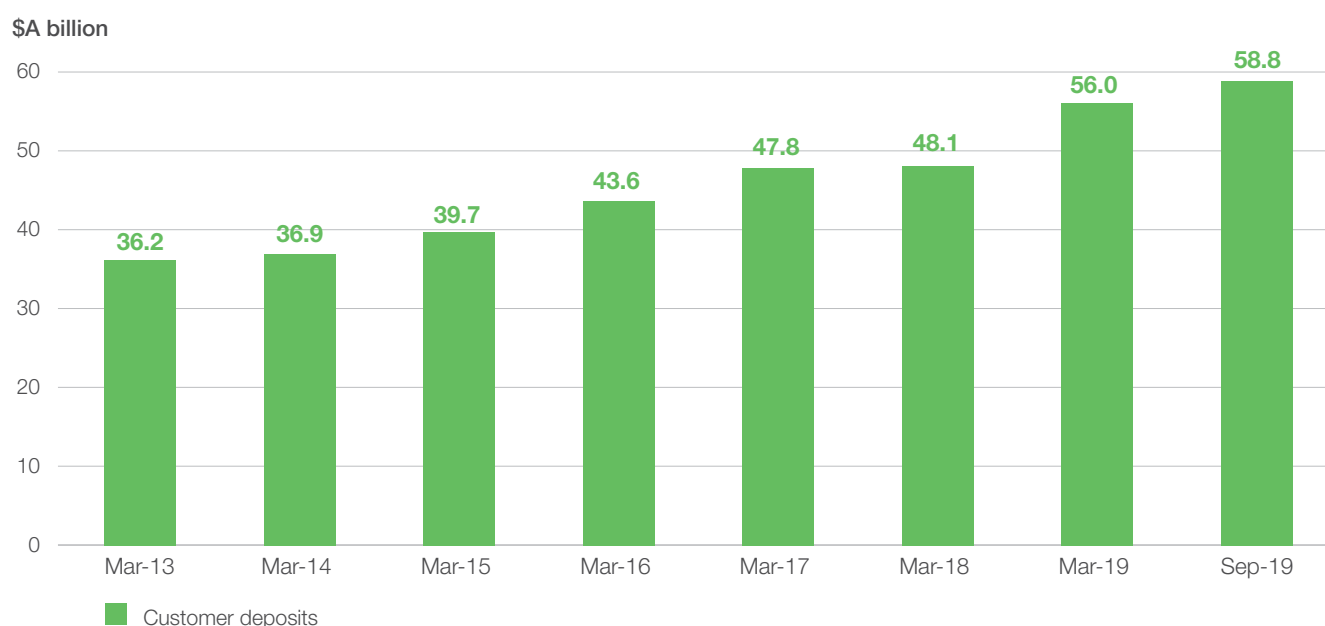
Deposit strategy

MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's reliance on wholesale funding markets.

In particular, MBL is focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits. The majority of MBL's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at \$A250,000 per account holder.

The chart below illustrates the customer deposit growth since 31 March 2013.

Deposit trend



5.6 Funding profile for the Non-Bank Group

Funded balance sheet

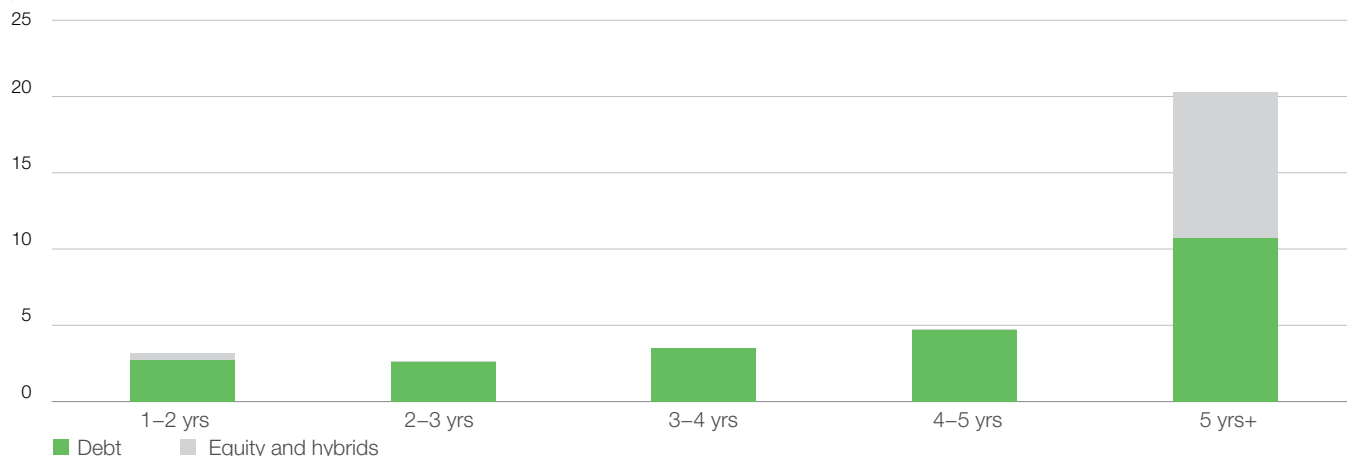
		AS AT		
	Notes	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab
Funding sources				
Net trade (debtors)/creditors	2	(0.5)	1.0	–
Structured notes	3	0.4	0.3	0.2
Secured funding	4	1.1	4.4	0.3
Bonds	5	15.9	16.1	14.8
Other loans	6	0.5	0.5	0.1
Syndicated loan facilities	7	8.7	8.3	5.8
Equity and hybrids	10	10.1	9.3	5.4
Total		36.2	39.9	26.6
Funded assets				
Cash and liquid assets	11	1.8	2.0	2.1
Non-Bank Group deposit with MBL		14.2	14.8	14.1
Net trading assets	13	2.1	1.0	0.5
Loan assets including operating lease assets less than one year	14	0.9	1.3	0.2
Loan assets including operating lease assets greater than one year	14	5.7	12.3	1.4
Debt investment securities	15	0.6	0.6	0.5
Co-investment in Macquarie-managed funds and other equity investments	16	8.0	5.5	5.5
Property, plant and equipment and intangibles		2.9	2.4	2.3
Total		36.2	39.9	26.6

See section 5.7 for notes 2–16.

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



AS AT SEP 19

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	–	–	–	0.1	0.1
Secured funding	0.1	0.1	–	0.2	0.3	0.7
Bonds	1.4	0.4	0.9	4.5	7.1	14.3
Other loans	–	0.1	–	–	0.3	0.4
Syndicated loan facilities	1.2	2.0	2.6	–	2.9	8.7
Total debt	2.7	2.6	3.5	4.7	10.7	24.2
Equity and hybrids ⁽²⁾	0.5	–	–	–	9.6	10.1
Total funding sources drawn	3.2	2.6	3.5	4.7	20.3	34.3
Undrawn	0.2	2.0	–	–	–	2.2
Total funding sources drawn and undrawn	3.4	4.6	3.5	4.7	20.3	36.5

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 5.8 years as at 30 September 2019.

As at 30 September 2019, other debt funding maturing within 12 months represented \$A2.4 billion, or 7% of total funding.

The key tools used for raising debt funding of MGL, which primarily funds the Non-Bank Group are as follows:

- \$US20 billion US Rule 144A/Regulation S Medium-Term Note Program, of which \$US6.9 billion was outstanding as at 30 September 2019
- \$US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had \$US1.7 billion debt securities outstanding as at 30 September 2019
- \$A10.8 billion⁽³⁾ of Syndicated Loan Facilities of which \$A8.7 billion⁽³⁾ was drawn as at 30 September 2019
- \$US0.5 billion Secured Trade Finance Facility of which \$US0.3 billion was drawn as at 30 September 2019
- \$US2.2 billion of Muni-gas Prepayment funding outstanding as at 30 September 2019
- \$US5 billion Structured Note Program under which \$US0.1 billion of funding from structured notes was outstanding as at 30 September 2019.

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(3) Values are AUD equivalents as at 30 September 2019.

5.7 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

Unsecured short-term wholesale funding comprised of both Certificates of Deposit and Commercial Paper.

2. Net trade creditors

Short-term working capital balances (debtors and creditors) are created through Macquarie's day-to-day operations. A net funding use (or source) will result due to timing differences in cash flows.

3. Structured notes

Includes debt instruments on which the return is linked to a number of variables including interest rates, currencies, equities and credit. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

4. Secured funding

Certain funding arrangements secured against an asset (or pool of assets).

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

Unsecured funding from BFS, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in Macquarie Bank.

9. Subordinated debt

Long-term subordinated debt.

10. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include MIS, MACS, MCN 2, 3 and 4 and BCN.

11. Cash and liquid assets

Cash and liquid assets generally consist of amounts due from banks and liquid debt investment securities available for sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

12. Self-securitisation

This represents Australian assets which have been internally securitised and is a form of collateral on the RBA's list of eligible securities for repurchase agreements. Macquarie can utilise a portion of this as collateral in the Reserve Bank of Australia's Committed Liquidity Facility.

13. Net trading assets

The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

14. Loan assets including operating lease assets

This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases.

See section 4.2 for further information.

15. Debt investment securities

These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

16. Co-investment in Macquarie-managed funds and other equity investments

These equity securities include co-investments in Macquarie-managed funds.

06

Capital

6.1 Overview

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for Macquarie, including the Non-Bank Group. MGL and APRA have agreed a capital adequacy framework for Macquarie, based on APRA's capital standards for ADIs and Macquarie's Board-approved Economic Capital Adequacy Model (ECAM).

Macquarie's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of:

- the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
- the Non-Bank Group's capital requirement, calculated using Macquarie's ECAM. Transactions internal to Macquarie are eliminated.

Eligible regulatory capital of Macquarie consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2019 include the Macquarie Income Securities (MIS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes 2 (MCN2), Macquarie Group Capital Notes 3 (MCN3) and Macquarie Group Capital Notes 4 (MCN4).

Capital disclosures in this section include Harmonised Basel III⁽¹⁾ and APRA Basel III⁽²⁾. The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's regulatory requirements under APRA Basel III rules.

Pillar 3

The APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. Pillar 3 documents are available on Macquarie's website.

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS) and further updated by BCBS 279 'The standardised approach for measuring counterparty credit risk exposures'.

(2) APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

Macquarie Basel III regulatory capital surplus calculation

	AS AT SEP 19		AS AT MAR 19		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Macquarie eligible capital:						
Bank Group Gross Tier 1 capital	13,649	13,649	12,500	12,500	9	9
Non-Bank Group eligible capital	10,127	10,127	9,358	9,358	8	8
Eligible capital	23,776	23,776	21,858	21,858	9	9
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA) ⁽¹⁾	81,070	87,076	72,011	77,182	13	13
Capital required to cover RWA at 8.5% ⁽²⁾	6,891	7,401	6,121	6,560	13	13
Tier 1 deductions	508	1,933	538	2,035	(6)	(5)
Total Bank Group capital requirement	7,399	9,334	6,659	8,595	11	9
Total Non-Bank Group capital requirement	7,790	7,790	7,153	7,153	9	9
Total Macquarie capital requirement (at 8.5%^{(2),(3)} of the Bank Group RWA)	15,189	17,124	13,812	15,748	10	9
Macquarie regulatory capital surplus (at 8.5%^{(2),(3)} of Bank Group RWA)	8,587	6,652	8,046	6,110	7	9

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA internal to Macquarie are eliminated (30 September 2019: \$A1,016 million; 31 March 2019: \$A335 million).

(2) Calculated at 8.5% of the Bank Group's RWA. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB).

(3) Based on materiality, the countercyclical capital buffer (CCyB) of ~13bps has not been included. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions.

6.1 Overview

Continued

The Bank Group is accredited by APRA under the Basel Foundation Internal Ratings Based approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

In July 2019, APRA implemented the standardised approach for measuring counterparty credit risk exposures (SA-CCR)⁽¹⁾

Common Equity Tier 1 capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2019 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

MIS are a perpetual instrument with no ordinary equity conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. MIS are included in Additional Tier 1 capital under Basel III transitional rules.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

(1) Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk.

6.2 Bank Group capital

Bank Group Basel III Tier 1 Capital

	AS AT SEP 19		AS AT MAR 19		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Common Equity Tier 1 capital						
Paid-up ordinary share capital	7,507	7,507	7,507	7,507	–	–
Retained earnings	3,824	3,824	2,852	2,852	34	34
Reserves	637	637	515	515	24	24
Gross Common Equity Tier 1 capital	11,968	11,968	10,874	10,874	10	10
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	44	44	42	42	5	5
Deferred tax assets	67	437	85	420	(21)	4
Net other fair value adjustments	(131)	(131)	(61)	(61)	115	115
Intangible component of investments in subsidiaries and other entities	52	52	50	50	4	4
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	415	–	411	–	1
Shortfall in provisions for credit losses	315	350	237	269	33	30
Equity exposures	–	565	–	678	–	(17)
Other Common Equity Tier 1 capital deductions	161	201	185	226	(13)	(11)
Total Common Equity Tier 1 capital deductions	508	1,933	538	2,035	(6)	(5)
Net Common Equity Tier 1 capital	11,460	10,035	10,336	8,839	11	14
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	1,681	1,681	1,626	1,626	3	3
Gross Additional Tier 1 capital	1,681	1,681	1,626	1,626	3	3
Deduction from Additional Tier 1 capital	–	–	–	–	–	–
Net Additional Tier 1 capital	1,681	1,681	1,626	1,626	3	3
Total Net Tier 1 capital	13,141	11,716	11,962	10,465	10	12

6.2 Bank Group capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 19		AS AT MAR 19		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Credit risk						
Subject to IRB approach:						
Corporate	24,927	24,927	19,860	19,860	26	26
SME Corporate	3,573	3,573	3,573	3,573	–	–
Sovereign	199	199	211	211	(6)	(6)
Bank	1,535	1,535	1,424	1,424	8	8
Residential mortgage	6,839	15,948	5,918	13,890	16	15
Other retail	4,373	4,373	4,375	4,375	(<1)	(<1)
Retail SME	3,584	3,591	3,688	3,695	(3)	(3)
Total RWA subject to IRB approach	45,030	54,146	39,049	47,028	15	15
Specialised lending exposures subject to slotting criteria⁽¹⁾	6,079	6,079	3,847	3,847	58	58
Subject to Standardised approach:						
Corporate	320	320	333	333	(4)	(4)
Residential mortgage	762	762	762	762	–	–
Other Retail	2,240	2,240	2,673	2,673	(16)	(16)
Total RWA subject to Standardised approach	3,322	3,322	3,768	3,768	(12)	(12)
Credit risk RWA for securitisation exposures	740	740	875	875	(15)	(15)
Credit Valuation Adjustment RWA	5,343	5,343	3,093	3,093	73	73
Exposures to Central Counterparties RWA	716	716	1,011	1,644	(29)	(56)
RWA for Other Assets	3,766	2,426	3,019	1,769	25	37
Total Credit risk RWA	64,996	72,772	54,662	62,024	19	17
Equity risk exposures RWA	1,770	–	2,191	–	(19)	–
Market risk RWA	4,934	4,934	5,382	5,382	(8)	(8)
Operational risk RWA	10,386	10,386	10,111	10,111	3	3
Interest rate risk in banking book RWA	–	–	–	–	–	–
Total Bank Group RWA	82,086	88,092	72,346	77,517	13	14
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	14.0	11.4	14.3	11.4		
Bank Group Tier 1 capital ratio (%)	16.0	13.3	16.5	13.5		

(1) Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

6.3 Non-Bank Group capital

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for banks, with both calculating capital at a one year 99.9% confidence level. The key features are:

RISK ⁽¹⁾	BASEL III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment ⁽²⁾ . Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

(1) The ECAM also covers non-traded interest rate risk and the risk on assets held as part of business operations, including fixed assets, goodwill, intangible assets and capitalised expenses.

(2) Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

6.3 Non-Bank Group capital

Continued

Non-Bank Group capital requirement

The capital requirement of the Non-Bank Group is set out in the table below.

	AS AT SEP 19		
	Assets \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	57	39%
Loan assets ⁽¹⁾	6.6	567	107%
Debt investment securities	0.6	102	213%
Co-investments in Macquarie-managed funds and other equity investments	7.5	4,042	671%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.5		
Property, plant and equipment and intangibles	2.9	1,001	431%
Non-Bank Group deposit with MBL	14.2		
Net trading assets	2.1		
Total funded assets	36.2	5,769	
Self-funded and non-recourse assets			
Self-funded trading assets	0.7		
Broker settlement balances	4.4		
Derivative revaluation accounting gross ups	0.4		
Short-term working capital assets	7.6		
Assets funded non-recourse	1.8		
Non-controlling interests	0.3		
Total self-funded and non-recourse assets	15.2		
Total Non-Bank Group assets	51.4		
Equity commitments		842	
Off balance sheet exposures, operational, market and other risks and diversification offset ⁽²⁾		1,179	
Non-Bank Group capital requirement		7,790	

(1) Includes leases.

(2) Capital associated with net trading assets (including market risk capital) and net trade debtors has been included here.

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7

Funds
management

7.1 Assets under Management

	AS AT		MOVEMENT		
	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 %	Sep 18 %
Assets under Management by type					
MIM					
Fixed Income	200.1	209.2	208.0	(4)	(4)
Equities	150.5	141.5	143.5	6	5
Alternatives and Multi-asset	10.5	10.3	12.1	2	(13)
Total MIM	361.1	361.0	363.6	<1	(1)
MIRA					
Infrastructure Equity	158.3	152.6	160.2	4	(1)
Infrastructure Debt	8.9	7.3	6.2	22	44
Real Estate ⁽¹⁾	29.5	26.8	16.7	10	77
Agriculture	2.6	2.3	2.0	13	30
Transport Finance	1.6	–	–	*	*
Total MIRA	200.9	189.0	185.1	6	9
Total MAM	562.0	550.0	548.7	2	2
Other Operating Groups	1.4	1.3	2.3	8	(39)
Total Assets under Management	563.4	551.3	551.0	2	2
Assets under Management by region					
Americas	270.5	275.5	283.5	(2)	(5)
Europe, Middle East and Africa	122.1	107.5	112.1	14	9
Australia	109.7	108.1	100.2	1	9
Asia	61.1	60.2	55.2	1	11
Total Assets under Management	563.4	551.3	551.0	2	2

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. AUM excludes uninvested equity in MIRA.

AUM of \$A563.4 billion as at 30 September 2019 increased 2% from \$A551.3 billion as at 31 March 2019. The increase in AUM during the period was largely due to foreign exchange impacts, investments made by MIRA-managed funds and market movements. These were partially offset by asset realisations made by MIRA-managed funds (see section 7.2 Equity under Management for further details) and net flows in MIM.

(1) Sep 19 and Mar 19 includes AUM for Macquarie Real Estate Investments.

7.2 Equity under Management

The MIRA division of MAM tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

Type of equity investment	Basis of EUM calculation
Listed equity	Market capitalisation at the measurement date plus underwritten or committed future capital raisings for listed funds.
Unlisted equity	Committed capital from investors at the measurement date less called capital subsequently returned to investors for unlisted funds; Invested capital at measurement date for managed businesses ⁽¹⁾ .

If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	AS AT ^{(2),(3)}		MOVEMENT	
	Sep 19 \$Ab	Mar 19 \$Ab	Sep 18 \$Ab	Mar 19 % Sep 18 %
Equity under Management by type				
Listed equity	11.6	10.8	15.5	7 (25)
Unlisted equity	122.8	117.1	100.1	5 23
Total EUM	134.4	127.9	115.6	5 16
Equity under Management by region⁽⁴⁾				
Australia	13.1	14.2	12.7	(8) 3
Europe, Middle East and Africa	75.0	67.0	57.3	12 31
Americas	22.2	23.4	24.6	(5) (10)
Asia	24.1	23.3	21.0	3 15
Total EUM	134.4	127.9	115.6	5 16

EUM of \$A134.4 billion as at 30 September 2019 increased 5% from \$A127.9 billion as at 31 March 2019. The increase was primarily due to equity raised for unlisted funds and co-investments, and foreign exchange and share price movements. These were partially offset by equity returned by unlisted infrastructure funds and co-investments due to divestment of underlying assets.

(1) Managed businesses includes third-party equity invested in MIRA managed businesses where management arrangements exist with Macquarie.

(2) Excludes equity invested by Macquarie directly into businesses managed by MIRA.

(3) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.

(4) By location of fund management team.



Glossary

8.1 Glossary

1H19	The half-year ended 30 September 2018.
1H20	The half-year ended 30 September 2019.
AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	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. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for sale (HFS) associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises of BFS and certain activities of CGM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 <i>Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i> .
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.

8.1 Glossary

Continued

BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
BIS	Bank for International Settlements.
CAF	Corporate and Asset Finance.
CCB	Capital Conservation Buffer.
Central service groups	The central service groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
Compensation ratio	The ratio of Compensation expense to Net operating income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 <i>Earnings Per Share</i> .
ECAM	Economic Capital Adequacy Model.
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer to definition in section 7.2.
Expense/Income ratio	Total operating expenses expressed as a percentage of Net operating income.
Financial Report	Macquarie Group Limited Interim Financial Report.

FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FVOCI	Fair value through other comprehensive income.
FVTPL	Fair value through profit or loss.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High-quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie AirFinance	Macquarie AirFinance Ltd.
Macquarie Bank	MBL and its subsidiaries.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million \$A100 face value MIS on issue.
MACS	<p>On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions.</p> <p>Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
MAM	Macquarie Asset Management.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MCN	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of \$A100 each. MCN were subordinated, non-cumulative, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. MCN were redeemed on 7 June 2018.
MCN2	<p>On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of \$A100 each. MCN2 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>

8.1 Glossary

Continued

MCN3	<p>On 7 June 2018, MGL issued 10 million Macquarie Group Capital Notes 3 (MCN3) at a face value of \$A100 each. MCN3 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>MCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 15 December 2027; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
MCN4	<p>On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of \$A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
MIM	Macquarie Investment Management.
MIRA	Macquarie Infrastructure and Real Assets.
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital, MAM and some business activities of CGM that use certain offshore regulated entities of the Non-Banking Group.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.
Operating Groups	The Operating Groups consist of MAM, BFS, CGM and Macquarie Capital.
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of FVOCI, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
Specialised and Asset Finance (SAF)	SAF is a global provider of specialist finance and asset management solutions across: Technology, Media & Telecoms; Energy, Renewables & Sustainability; Fund Finance; Resources; Structured Lending; and Shipping & Export Credit Agencies.
SPEs	Special purpose entities.

Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
UK	The United Kingdom.
US	The United States of America.

09

Ten year
history

9.1 Ten year history

	FIRST HALF	YEAR ENDED 31 MARCH								
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Income statement (\$Am)										
Net operating income	6,320	12,754	10,920	10,364	10,158	9,262	8,132	6,657	6,963	7,665
Total operating expenses	(4,480)	(8,887)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)	(6,394)
Operating profit before income tax	1,840	3,867	3,464	3,104	3,015	2,522	2,106	1,405	1,049	1,271
Income tax expense	(376)	(879)	(883)	(868)	(927)	(899)	(827)	(533)	(287)	(282)
Profit after income tax	1,464	2,988	2,581	2,236	2,088	1,623	1,279	872	762	989
Profit attributable to non-controlling interests	(7)	(6)	(24)	(19)	(25)	(19)	(14)	(21)	(32)	(33)
Profit attributable to ordinary equity holders of Macquarie Group Limited	1,457	2,982	2,557	2,217	2,063	1,604	1,265	851	730	956
Statement of financial position (\$Am)										
Total assets	219,495	203,182	191,325	182,877	196,755	187,976	153,904	144,748	153,626	157,568
Total liabilities	(199,183)	(184,818)	(173,145)	(165,607)	(181,091)	(173,580)	(141,990)	(132,793)	(141,894)	(145,636)
Net assets	20,312	18,364	18,180	17,270	15,664	14,396	11,914	11,955	11,732	11,932
Total loan assets	85,066	78,474	73,509	69,288	72,393	67,663	49,965	47,449	41,930	42,923
Impaired loan assets (net of provisions) ⁽¹⁾	1,641	1,674	351	547	418	594	365	368	357	340
Share information										
Dividends per share (cents per share)										
Interim	250	215	205	190	160	130	100	75	65	86
Final	n/a	360	320	280	240	200	160	125	75	100
Special ⁽²⁾	–	–	–	–	–	–	116	–	–	–
Total	–	575	525	470	400	330	376	200	140	186
Basic earnings per share (cents per share)	430.1	883.3	758.2	657.6	619.2	502.3	383.6	251.2	210.1	282.5
Share price at reporting date (\$A)	131.08	129.42	102.90	90.20	66.09	76.67	57.93	37.15	29.08	36.60
Ordinary shares (million shares)	354.4	340.4	340.4	340.4	340.3	333.5	321.1	339.5	348.6	346.8
Market capitalisation as at reporting date (fully paid ordinary shares) (\$Am)	46,452	44,050	35,024	30,700	22,491	25,569	18,601	12,613	10,137	12,693
Net tangible assets per ordinary share (\$A)	47.83	46.21	45.12	42.74	41.23	38.19	31.71	29.94	28.12	28.91
Ratios										
Return on average ordinary shareholders' funds (%)	16.4	18.0	16.8	15.2	14.7	14.0	11.1	7.8	6.8	8.8
Dividend payout ratio (%)	60.8	65.6	69.8	72.0	65.7	67.6	66.8	79.0	66.4	67.3
Expense/income ratio (%)	70.9	69.7	68.3	70.1	70.3	72.8	74.1	78.9	84.9	83.4
Net loan loss as % of loan assets (excluding securitisation SPVs)	0.2	0.4	0.3	0.5	1.0	0.7	0.4	0.4	0.5	0.4
Assets under Management (\$Ab)	563.4	551.3	496.7	481.7	478.6	486.3	426.9	347.4	326.9	309.8
Staff numbers	15,704	15,602	14,810	13,925	14,660	14,373	14,180	13,905	14,519	15,791

- (1) Represents net exposure in credit impaired loan assets as per Australian Accounting Standards for the period ended 30 September 2019 and 31 March 2019. For financial years ended 31 March 2011–2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.
- (2) The special dividend for the year ended 31 March 2014 represented the special dividend component of the in-specie distribution of Sydney Airport stapled securities in January 2014. The total distribution including return of capital was 373 cents per share.

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