



# Operational Briefing

## Presentation to Investors and Analysts

11 February 2020

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Unless otherwise specified all information is as at 31 Dec 2019.

Numbers are subject to rounding and may not fully reconcile.



01

# Introduction

Sam Dobson  
Head of Investor Relations



# Agenda

- 10:00 Introduction**  
Sam Dobson
- 10:05 Update since the interim result**  
Shemara Wikramanayake
- 10:30 Risk Management Group**  
Patrick Upfold
- 10:40 The Banking Group**  
Mary Reemst
- 10:50 Banking and Financial Services**  
Greg Ward
- 11:25 Commodities and Global Markets**  
Nicholas O’Kane



02

# Update since the interim result

Shemara Wikramanayake  
Managing Director and Chief Executive Officer



# About Macquarie

## Annuity-style activities

### Annuity-style Net Profit Contribution

## Markets-facing activities

### Markets-facing Net Profit Contribution

~60%

~40%

#### Macquarie Asset Management (MAM)

- Top 50<sup>1</sup> global specialist asset manager with \$A587.5b<sup>2</sup> of assets under management, diversified across regions, products, asset classes and investor types
- Provides investment solutions to clients across a range of capabilities, including infrastructure, renewables, real estate, agriculture, transportation, equities, fixed income, private credit and multi-asset solutions

#### Banking and Financial Services (BFS)

- Macquarie's retail banking and financial services business with total BFS deposits<sup>3</sup> of \$A57.7b<sup>2</sup>, Australian loan and lease portfolio<sup>4</sup> of \$A72.2b<sup>2</sup> and funds on platform<sup>5</sup> of \$A91.6b<sup>2</sup>
- Provides a diverse range of personal banking, wealth management, business banking and vehicle finance<sup>6</sup> products and services to retail clients, advisers, brokers and business clients

#### Commodities and Global Markets (CGM)

- Specialised and Asset Finance delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes
- Commodity Markets – lending and financing provides clients with loans and working capital finance across a range of commodity sectors including metals, energy and agriculture
- Integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms
- Provides clients with risk and capital solutions across physical and financial markets
- Diverse platform covering more than 25 market segments, with more than 200 products

#### Macquarie Capital (MacCap)

Global capability in:

- Advisory and 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
- 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

## 1H20 Net Profit Contribution

MAM BFS CGM  
~39% ~13% ~8%

CGM MacCap  
~32% ~8%

Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. All numbers have been reclassified to reflect the reorganisation between Operating Groups effective 1 Jul 19 and 1 Sep 19. Principal Finance is now classified under markets-facing activities within MacCap following the change in nature of the business and consolidating all principal investing activity. 1. P&I Largest Money Managers 2019. 2. As at 31 Dec 19. 3. BFS deposits exclude corporate/wholesale deposits. 4. The Australian loan and lease portfolio comprises residential mortgages, loans to Australian businesses, vehicle finance, and credit cards. 5. Funds on platform include Macquarie Wrap and Vision. 6. Includes general plant & equipment.





# 3Q20

## Overview

- Satisfactory trading conditions in 3Q20 across the Group
- Macquarie's annuity-style businesses' (MAM and BFS) combined 3Q20 net profit contribution<sup>1</sup> up on prior corresponding period (pcp) (3Q19)
  - FY20 year to date (YTD)<sup>2</sup> net profit contribution up on FY19 YTD<sup>2</sup> mainly due to: higher base and performance fees in MAM; and continued volume growth partially offset by margin pressure in BFS.
- Macquarie's market-facing businesses' (CGM and MacCap) combined 3Q20 net profit contribution significantly down on pcp
  - FY20 YTD<sup>2</sup> net profit contribution down on FY19 YTD<sup>2</sup> primarily due to: significantly lower investment-related income in MacCap compared to a strong pcp that benefited from large asset realisations; partially offset by stronger activity across most of the businesses in CGM.

1. Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. 2. YTD refers to the nine months to 31 Dec for the relevant year.



# 3Q20

## Overview

### Annuity-style businesses

#### Macquarie Asset Management

# 39%

1H20 contribution<sup>1</sup>

- AUM of \$A587.5b at Dec 19, up 5% on Sep 19
- MIM: \$A384.2b in AUM, up 6% on Sep 19, primarily driven by the acquisition of the assets related to the mutual fund management business of Foresters Investment Management Company Inc. and market movements, partially offset by foreign exchange
- MIRA: \$A137.5b in EUM<sup>2</sup>, up 2% on Sep 19. In 3Q20, \$A5.5b in new equity raised, \$A7.2b of equity invested and \$A5.5b of asset divestments. \$A21.1b of equity to deploy at Dec 19
- Macquarie entered into a sales agreement with Sunsuper to sell a 25% stake of Macquarie AirFinance in Dec 19

#### Banking and Financial Services

# 13%

1H20 contribution<sup>1</sup>

- Total BFS deposits<sup>3</sup> of \$A57.7b at Dec 19, up 3% on Sep 19
- Australian mortgage portfolio of \$A48.6b at Dec 19, up 11% on Sep 19
- Funds on platform<sup>4</sup> of \$A91.6b at Dec 19, flat on Sep 19
- Business banking loan portfolio of \$A8.9b at Dec 19, up 4% on Sep 19
- Australian vehicle finance portfolio of \$A14.2b at Dec 19, down 3% on Sep 19

1. Based on 1H20 net profit contribution from operating groups as reported on 1 Nov 19. Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. 2. MIRA's total EUM includes market capitalisation at measurement date for listed funds, the sum of original committed capital less capital subsequently returned for unlisted funds and mandates as well as invested capital for managed businesses. 3. BFS deposits exclude corporate/wholesale deposits. 4. Funds on platform include Macquarie Wrap and Vision.





# 3Q20

## Overview

## Markets-facing businesses

### Commodities and Global Markets

# 40%

1H20 contribution<sup>1</sup>

- Strong contribution from client hedging and trading opportunities across the commodities platform, particularly from Global Oil, North American Gas & Power, EMEA Gas & Power, Metals and Agriculture businesses
- Continued strong customer activity in FX across all regions
- Ongoing strength in ANZ and US Futures driven by customer activity
- Consistent performance from asset finance portfolio on pc, primarily from the Technology, Media and Telecoms (TMT) leasing business and continued strong performance from the UK energy meters business
- Maintained ranking as No. 2 physical gas marketer in North America
- No 1 Futures Broker on the ASX<sup>2</sup>
- Awarded 2019 Natural Gas/LNG House of the Year<sup>3</sup>

### Macquarie Capital

# 8%

1H20 contribution<sup>1</sup>

- 109 transactions valued at \$A76.4b<sup>4</sup> completed globally, up on prior period and down on a strong pc
- Maintained No. 1 in ANZ for Completed and Announced M&A<sup>5</sup>
- Fee revenue up on pc across advisory, DCM and ECM
- Investment-related income significantly down on a particularly strong pc that benefited from large asset realisations including Quadrant, PEXA and Energetics

### Transaction Highlights

- Sole financial advisor to Alaska National Insurance Company, a leading specialty insurer focused on workers compensation, on its sale to CopperPoint Insurance Companies
- Strong principal finance lending activity in Q3 with \$A1b committed in new primary debt financings, weighted towards bespoke originations, provided to clients globally
- Sole financial advisor and lead equity sponsor for the Europe Transport Deal of the Year<sup>6</sup>, the £1bn Silvertown Tunnel PPP project. The project will be the first new road crossing of the River Thames in the last 30 years and the largest UK transport PPP in the past 10 years
- Formosa 2, a ~US\$2bn offshore wind project reached Financial Close which, once complete, will generate 376MW to support approximately 380,000 Taiwanese households while displacing around 18,750kt CO<sub>2</sub>e over its lifetime
- No. 1 Global New Energy Finance Sponsor<sup>7</sup>

1. Based on 1H20 net profit contribution from operating groups as reported on 1 Nov 2019. Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.  
 2. Based on overall market share on ASX24 Futures volumes as at 31 Dec 19. 3. 2019 Energy Risk Awards. 4. Dealogic and IJGlobal for Macquarie Group completed M&A, investments, ECM and DCM transactions converted as at 31 Dec 2019. Deal values reflect the full transaction value and not an attributed value. 5. Dealogic & Refinitiv 1 Jan – 31 Dec 2019 (by volume). 6. Project Finance International Awards 2019.  
 7. Bloomberg New Energy Finance Clean Energy League Tables CY19 (by volume).



# Macquarie's global footprint

Total staff<sup>1</sup>

15,760

58%

International staff

## Americas

Staff

2,731

**CANADA**  
Calgary  
Montreal  
Toronto  
Vancouver

**LATIN AMERICA**  
Mexico City  
Sao Paulo  
Santiago

**USA**  
Austin  
Boston  
Chicago  
Houston  
Jacksonville  
Los Angeles  
Minneapolis  
Nashville  
New York  
Orlando

Philadelphia  
San Diego  
San Francisco  
San Jose  
Walnut Creek

## EMEA

Staff

2,411

**EUROPE**  
Amsterdam  
Brantree  
Dublin  
Edinburgh  
Frankfurt  
Geneva  
London  
Luxembourg  
Madrid  
Munich  
Paris  
Reading  
Vienna  
Zurich

**MIDDLE EAST**  
Dubai

**SOUTH AFRICA**  
Cape Town  
Johannesburg

## Asia

Staff

3,983

**ASIA**  
Bangkok  
Beijing  
Gurugram  
Hong Kong  
Hsin-Chu  
Jakarta  
Kuala Lumpur

Manila  
Mumbai  
Seoul  
Shanghai  
Singapore  
Taipei  
Tokyo

## Australia<sup>2</sup>

Staff

6,635

**AUSTRALIA**  
Adelaide  
Brisbane  
Canberra  
Gold Coast  
Manly  
Melbourne

Newcastle  
Parramatta  
Perth  
Sydney

**NEW ZEALAND**  
Auckland

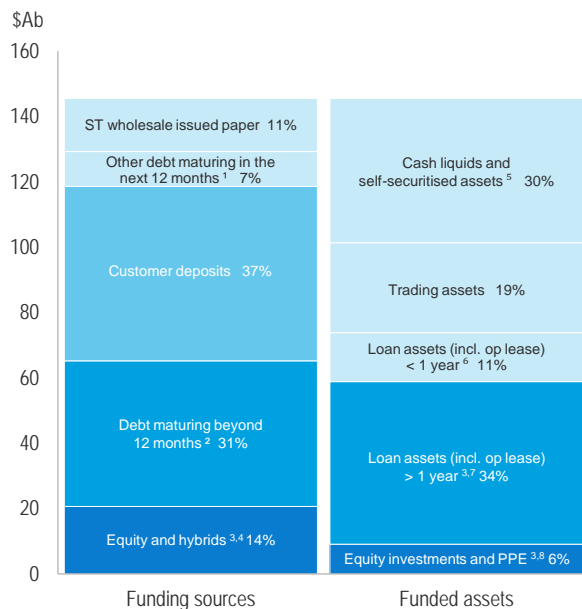




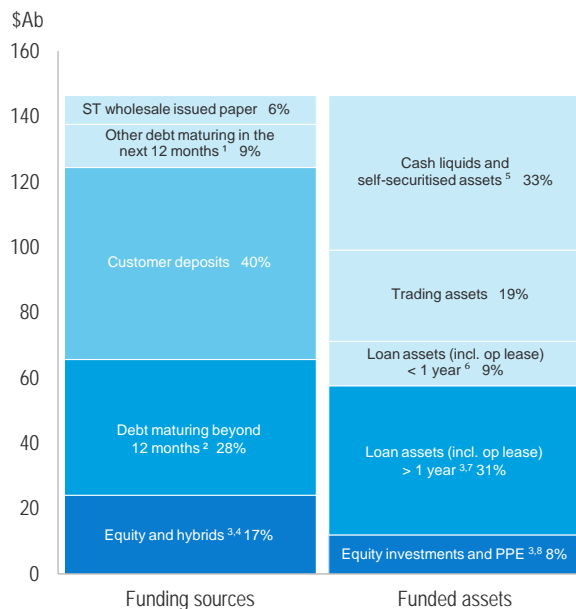
# Funded balance sheet remains strong

## Term liabilities exceed term assets

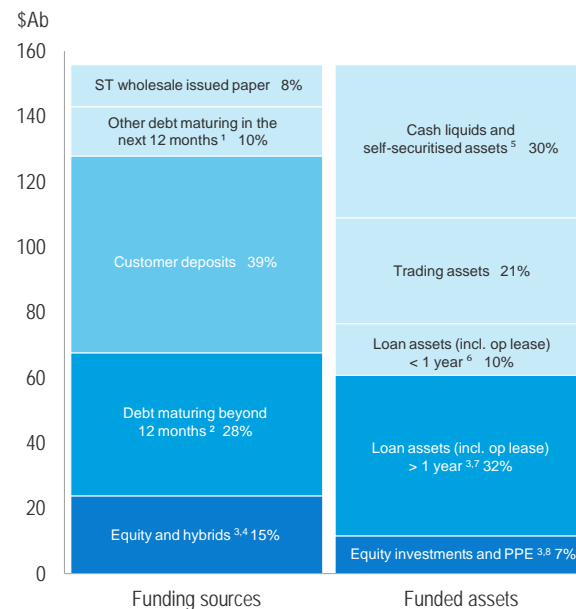
31 Dec 2018



30 Sep 2019



31 Dec 2019



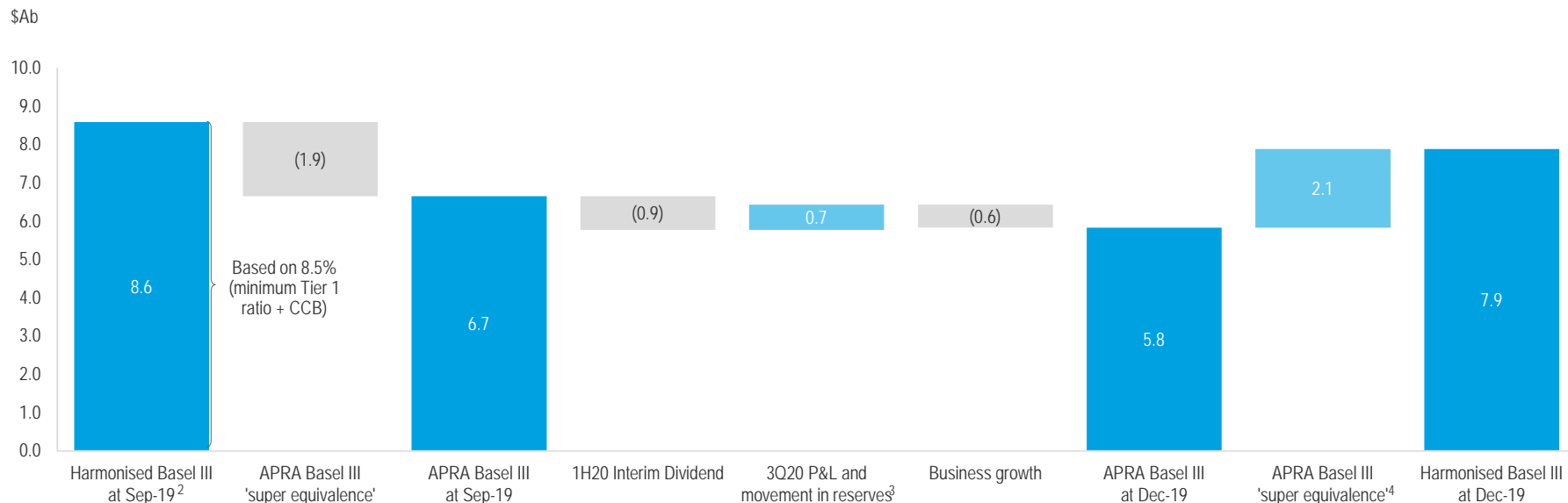
These charts represent Macquarie's funded balance sheets at the respective dates noted above. 1. 'Other debt maturing in the next 12 months' includes Structured Notes, Secured Funding, Bonds, Other Loans, Subordinated debt maturing within the next 12 months and Net Trade Creditors. 2. 'Debt maturing beyond 12 months' includes Subordinated debt not maturing within next 12 months. 3. Non-controlling interests netted down in 'Equity and hybrids', 'Equity investments and PPE' and 'Loan assets (incl. op lease) > 1 year'. 4. Hybrid instruments include Macquarie Income Securities, Macquarie Additional Capital Securities, Macquarie Capital Notes 2, 3 & 4 and Macquarie Bank Capital Notes. 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.



# Basel III capital position

APRA Basel III Group capital at Dec 19 of \$A23.6b; Group capital surplus of \$A5.8b<sup>1</sup>

## Group regulatory surplus: Basel III (Dec 19)



1. Calculated at 8.5% RWA including the capital conservation buffer (CCB), per APRA ADI Prudential Standard 110; Based on materiality, the 8.5% used to calculate the Group capital surplus does not include the countercyclical capital buffer (CCyB) of ~13bps. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions. 2. Basel III applies only to the Bank Group and not the Non-Bank Group. 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework. 3. Includes current quarter P&L, movement in the foreign currency translation reserve and other movements in capital supply. 4. APRA Basel III 'super-equivalence' includes the impact of changes in capital requirements in areas where APRA differs from the BCBS Basel III framework. Differences include the treatment of mortgages \$A0.9b; capitalised expenses \$A0.4b; equity investments \$A0.3b; investment into deconsolidated subsidiaries \$A0.1b; DTAs and other impacts \$A0.4b.





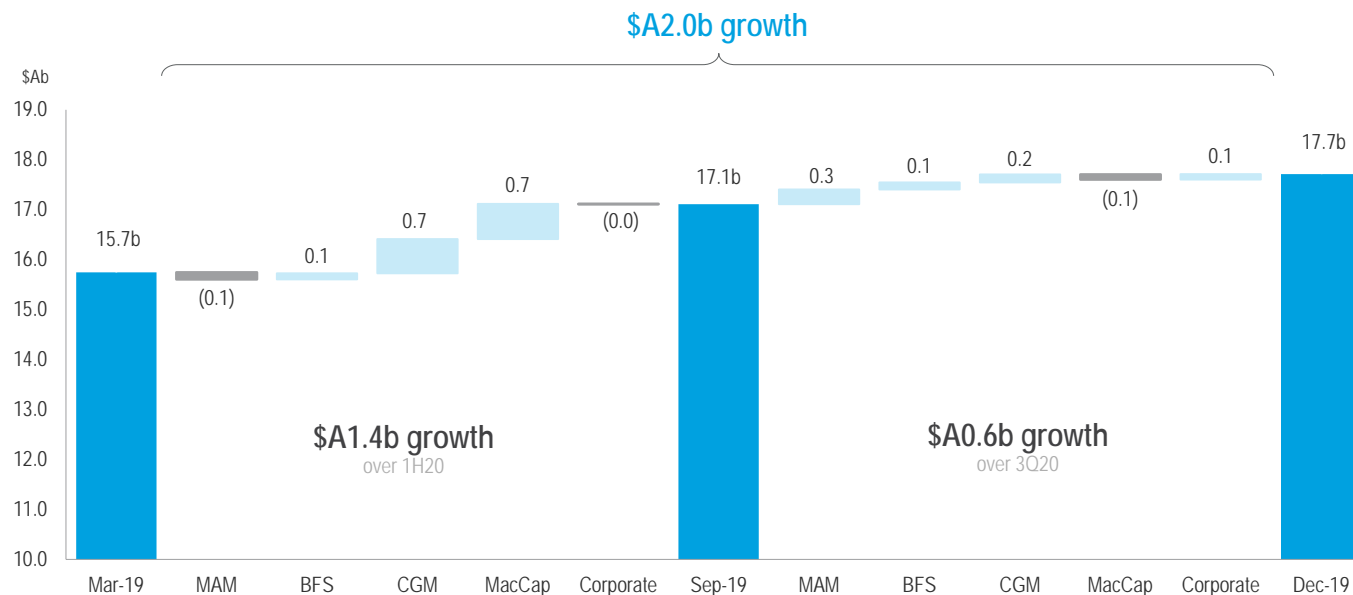
# Capital management update

## Additional Tier 1 Capital

- On 30 Jan 2020, MBL announced that it intends to repay the \$A400m Macquarie Income Securities (MIS) on 15 Apr 2020
  - MIS were issued in 1999 and receive transitional treatment under APRA's prudential standards that results in reducing capital recognition. The repayment will reduce Tier 1 capital by \$A94m
- MBL also intends to redeem the \$A429m Macquarie Bank Capital Notes (BCN) on 24 Mar 2020
- A new offer of Macquarie Bank Capital Notes 2 (BCN2), issued by Macquarie Bank Limited, is expected to launch shortly
  - A prospectus for the BCN2 offer will be made available when the offer is launched



# Business capital requirements<sup>1</sup>



## 3Q20 KEY DRIVERS

### MAM

- Increased requirements driven by short-term underwriting activity

### BFS

- Increase in mortgages and business banking loan portfolios, partially offset by decrease in the vehicle finance portfolio

### CGM

- Increased requirements driven by lending and trading activity

### MacCap

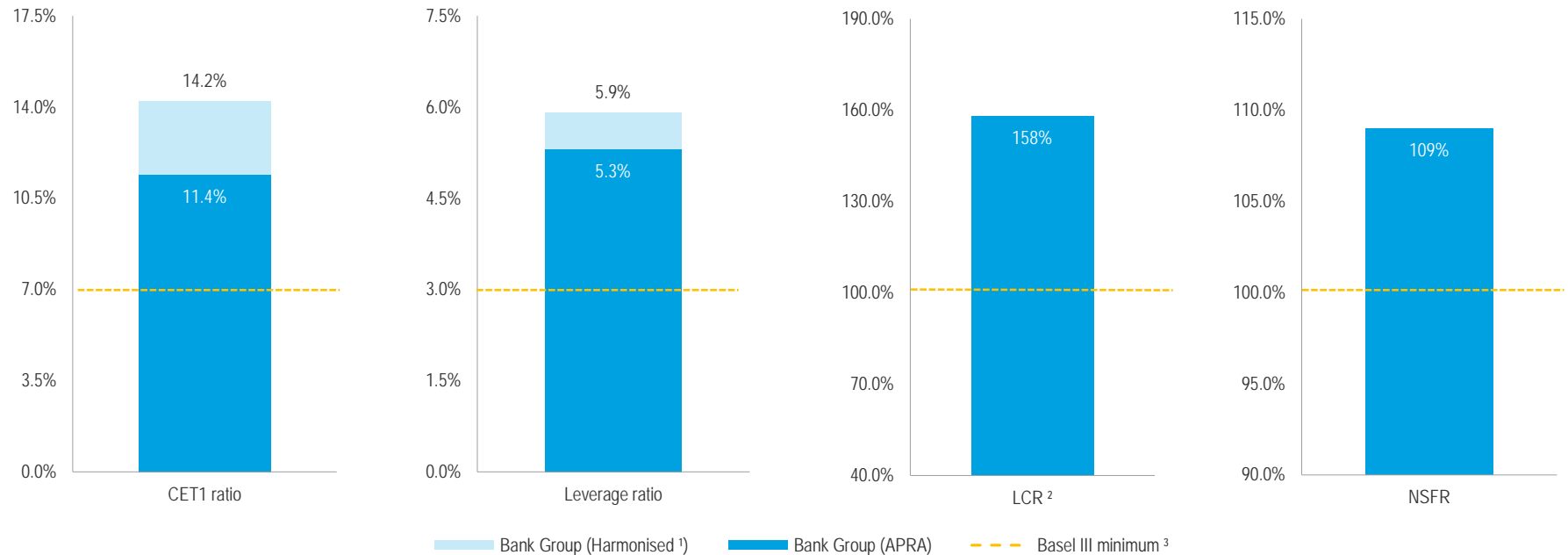
- Includes asset realisations, partially offset by lending activity

1. Regulatory capital requirements are calculated at 8.5% RWA including the capital conservation buffer (CCB), per APRA ADI Prudential Standard 110.



# Strong regulatory ratios

## Bank Group (Dec 19)



1. 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III. 2. Average LCR for Dec 19 quarter is based on an average of daily observations. 3. Includes the capital conservation buffer in the minimum CET1 ratio requirement. In Nov 18, APRA released a draft update to 'Prudential Standard APS 110 Capital Adequacy' proposing a minimum requirement for the leverage ratio of 3.5% effective 1 Jan 22.





# Regulatory update

## Australia

- APRA is currently undertaking regulatory reviews in a number of areas, including:
  - Finalisation of Basel III - APRA is still finalising rules for Australian banks to ensure that their capital levels can be considered 'unquestionably strong'<sup>1</sup>
  - In Dec 19, APRA noted that it is giving consideration to the introduction of a non-zero default level for the countercyclical capital buffer (CCyB), as part of its broader reforms to the ADI capital framework<sup>2</sup>
  - In Dec 19, APRA released final standards on Operational Risk (APS 115), with the key update to the Jun 19 draft standards being confirmation of a 1 Jan 21 implementation date<sup>3</sup>
  - In Oct 19, APRA released its draft standards relating to APS 111, including changes to the capital treatment of investments in banking and insurance subsidiaries<sup>4</sup>, with implementation from 1 Jan 21.
  - In Sep 19, APRA commenced a second consultation on capital calculation and risk management requirements relating to Interest Rate Risk in the Banking Book<sup>5</sup>
  - Loss-absorbing capacity (LAC) - APRA released a 'response to submissions' paper in Jul 19 outlining its approach for LAC to support the orderly resolution of Australian ADIs<sup>6</sup>
    - APRA has confirmed that MBL will be subject to additional LAC requirements, consistent with the approach for the major banks
  - In Jan 19, the Basel Committee on Banking Supervision (BCBS) released revisions to the market risk framework<sup>7</sup>, with implementation from 1 Jan 22. APRA is yet to release draft standards
  - In Nov 18, APRA released draft prudential standards on its implementation of a minimum requirement for the leverage ratio of 3.5% expected to be effective from 1 Jan 22<sup>8</sup>. MBL's APRA leverage ratio was 5.3% at 31 Dec 19
  - In Aug 18, APRA released a discussion paper setting out potential options to improve the transparency, international comparability and flexibility of the capital framework. The proposals are not intended to change the amount of capital that ADIs are required to hold<sup>9</sup>
- As previously noted, APRA is in discussions with Macquarie on resolution planning and intragroup funding. These discussions are progressing and Macquarie will continue working on these initiatives in consultation with APRA.
- Based on the current information available, it is Macquarie's expectation that it will have sufficient capital to accommodate likely additional regulatory Tier 1 capital requirements as a result of the above changes, noting that some of them are at an early stage of review and hence the final impact is uncertain
- In Jul 19, APRA released a draft prudential standard CPS 511 aimed at clarifying and strengthening remuneration requirements in APRA-regulated entities. A three-month consultation period closed 23 Oct 2019 during which Macquarie lodged its submission. APRA is yet to release final prudential standards
- In Jan 20, consistent with the Royal Commission recommendations, Federal Treasury released a proposals paper outlining its plan to extend BEAR to a new regime, FAR (Financial Accountability Regime) to include all APRA regulated entities. In a similar way to BEAR impacting ADIs, FAR will add a personal accountability regime to insurers and responsible superannuation entities. Treasury has commenced the consultation process and called for submissions by 14 Feb 2020. Macquarie is participating in the process and will make a submission

1. 'Revisions to the capital framework for ADIs'; 14 Feb 18; 'APRA responds to first phase of consultation on revisions to ADI capital framework'; 17 Jun 19. 2. 'APRA flags setting countercyclical capital buffer at non-zero default level'; 11 Dec 2019. 3. 'APRA finalises updated prudential standard on operational risk requirements for ADIs'; 11 Dec 2019. 4. 'Revisions to APS 111 Capital Adequacy: Measurement of Capital'; 15 Oct 19. 5. 'Response to submissions: Interest rate risk in the banking book for authorised deposit-taking institutions'; 4 Sep 19. 6. 'Response to submissions - loss-absorbing capacity'; 9 Jul 19. 7. 'Minimum capital requirements for market risk'; 14 Jan 19. 8. 'Draft Prudential Standard APS 110 Capital Adequacy' and 'Response to submissions: Leverage ratio requirement for ADIs'; 27 Nov 18. 9. 'Improving the transparency, comparability and flexibility of the ADI capital framework'; 14 Aug 18.



# Regulatory update

## Brexit

- As previously stated, Macquarie does not believe that the UK's withdrawal from the European Union (EU) will be a material event for the Group
- Macquarie now has all its required licences to carry on regulated activity in Europe
- Macquarie has a longstanding and deep commitment to the UK as the hub for the EMEA region's operations and this will continue to be the case. Macquarie has been in the UK for 30 years with approximately 2,000 staff based there as at 31 Dec 2019
- Many of Macquarie's EMEA business lines have successfully built out from a strong UK hub to create a meaningful presence across continental Europe

## Germany

- Macquarie continues to cooperate with German authorities in relation to an historical German lending transaction in 2011
- As indicated previously, the industry-wide investigation relating to dividend trading continues and Macquarie has been responding to requests for information about its activities
- As part of their industry-wide investigation, the authorities have recently designated as suspects approximately 60 current and former Macquarie staff in relation to historical short selling-related activities, most of whom are no longer at Macquarie and some of whom were already named in relation to the 2011 lending matter, including the MGL CEO
- The total amount at issue is not material and MGL has provided for the matter. We note that no current staff members have been interviewed to date



# Factors impacting short-term outlook

## Annuity-style businesses

Non-Banking Group

### Macquarie Asset Management (MAM)

- **Base fees** expected to be up on FY19
- **Combined performance fees, investment-related income (net of impairments) and net operating lease income** expected to be broadly in line

Banking Group

### Banking and Financial Services (BFS)

- **Higher** deposit, loan portfolio and platform volumes
- Competitive dynamics to drive **marginal pressure**

## Markets-facing businesses

Non-Banking Group

### Macquarie Capital (MacCap)

- Assume **market conditions broadly consistent** with FY19
- **Investment-related income will be down** on a particularly strong FY19

Banking Group

### Commodities and Global Markets<sup>1</sup> (CGM)

- **Strong customer base** expected to continue to drive consistent flow across Commodities, Fixed Income, Foreign Exchange and Futures
- **Consistent contribution** from Specialised and Asset Finance linked to stable balance sheet
- Business benefitted from strong market conditions **across the commodities platform** YTD, which have not historically persisted

## Corporate

- **Compensation ratio** expected to be consistent with historical levels
- Based on present mix of income, the FY20 **effective tax rate** is expected to be broadly in line with FY19

1. Note certain assets of the Credit Markets business, certain activities of the Cash Equities business and the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking Group.



# Short-term outlook

- While the impact of future market conditions makes forecasting difficult, we continue to expect the Group's result for FY20 to be slightly down on FY19
- Our short-term outlook remains subject to a range of factors including:
  - The completion rate of transactions and period-end reviews
  - Market conditions and the impact of geopolitical events
  - The impact of foreign exchange
  - Potential regulatory changes and tax uncertainties
  - Geographic composition of income





# Medium-term

- Macquarie remains well-positioned to deliver superior performance in the medium term
- Deep expertise in major markets
- Build on our strength in business and geographic diversity and continue to adapt our portfolio mix to changing market conditions
  - Annuity-style income is primarily provided by two Operating Groups' businesses which are delivering superior returns following years of investment and acquisitions
    - Macquarie Asset Management and Banking and Financial Services
  - Two markets-facing businesses well positioned to benefit from improvements in market conditions with strong platforms and franchise positions
    - Commodities and Global Markets and Macquarie Capital
- Ongoing program to identify cost saving initiatives and efficiency
- Strong and conservative balance sheet
  - Well-matched funding profile with minimal reliance on short-term wholesale funding
  - Surplus funding and capital available to support growth
- Proven risk management framework and culture



# Medium term

## Annuity-style businesses

Non-Banking  
Group

### Macquarie Asset Management (MAM)

- Leading specialist global asset manager, well-placed to grow assets under management through its diversified product offering, track record and experienced local investment teams

Banking  
Group

### Banking and Financial Services (BFS)

- Strong growth opportunities through intermediary and direct retail client distribution, platforms and client service
- Opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments
- Modernising technology to improve client experience and support growth

## Markets-facing businesses

Non-Banking  
Group

### Macquarie Capital (MacCap)

- Positioned to benefit from any improvement in M&A and capital markets activity
- Continues to tailor the business offering to current opportunities, market conditions and strengths in each sector and region
- Opportunities for project development and balance sheet investment by the group and in support of partners and clients subject to market conditions

Banking  
Group

### Commodities and Global Markets<sup>1</sup> (CGM)

- Opportunities to grow commodities business, both organically and through acquisition
- Development of institutional and corporate coverage for specialised credit, rates and foreign exchange products
- Tailored finance solutions globally across a variety of industries and asset classes
- Growing the client base across all regions
- Leveraging a strong market position in Asia-Pacific through investment in the equities platform
- Continued investment in asset finance portfolio

1. Note certain assets of the Credit Markets business, certain activities of the Cash Equities business and the Commodity Markets and Finance business and some other less financially significant activities are undertaken from within the Non-Banking Group.



# Approximate business Basel III Capital and ROE

As at 30 Sep 2019

Operating Group	APRA Basel III Capital <sup>1</sup> @ 8.5% (\$Ab)	Approx. 1H20 Return on Ordinary Equity <sup>2</sup>	Approx. 13-year Average Return on Ordinary Equity <sup>3</sup>
<b>Annuity-style businesses</b>	<b>7.9</b>		
Macquarie Asset Management	3.7	24%	22%
Banking and Financial Services	4.2		
<b>Markets-facing businesses</b>	<b>8.7</b>		
Commodities and Global Markets	5.0	18%	16%
Macquarie Capital	3.7		
<b>Corporate</b>	<b>0.4</b>		
Total regulatory capital requirement @ 8.5%	17.1		
Group surplus	6.7		
<b>Total APRA Basel III capital supply</b>	<b>23.8<sup>4</sup></b>	<b>16.4%</b>	<b>14%</b>

Note: Differences in totals due to rounding. 1. Operating Group capital allocations are based on 30 Jun 19 allocations adjusted for material movements over the Sep 19 quarter. 2. NPAT used in the calculation of approx. 1H20 ROE is based on Operating Groups' annualised net profit contribution adjusted for indicative allocations of profit share, tax and other corporate expenses. Accounting equity is attributed to businesses based on regulatory capital requirements which are based on the quarterly average capital usage from FY07 to 1H20, inclusive. 3. 13-year average covers FY07 to FY19, inclusive, and has not been adjusted for the impact of business restructures or changes in internal P&L and capital attribution. 4. Comprising of \$A19.7b of ordinary equity and \$A4.1b of hybrids.

03

# Risk Management Group

Patrick Upfold  
Group Head



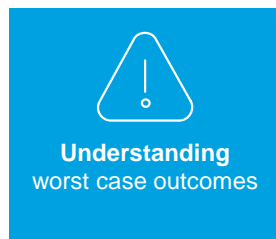


# Macquarie's approach to risk management

Strong focus on business accountability and risk ownership

## Stable and robust core risk management principles

Supported by our longstanding approach to establishing and maintaining an appropriate risk culture



Principles stable for **30+** years

## Our approach is consistent with the 'three lines of defence' model with clear accountability for risk management

The three lines of defence model, which is a widely adopted standard across the industry, sets risk ownership responsibilities functionally independent from oversight and assurance.

### Line 1

Primary responsibility for risk management lies with the business.

### Line 2

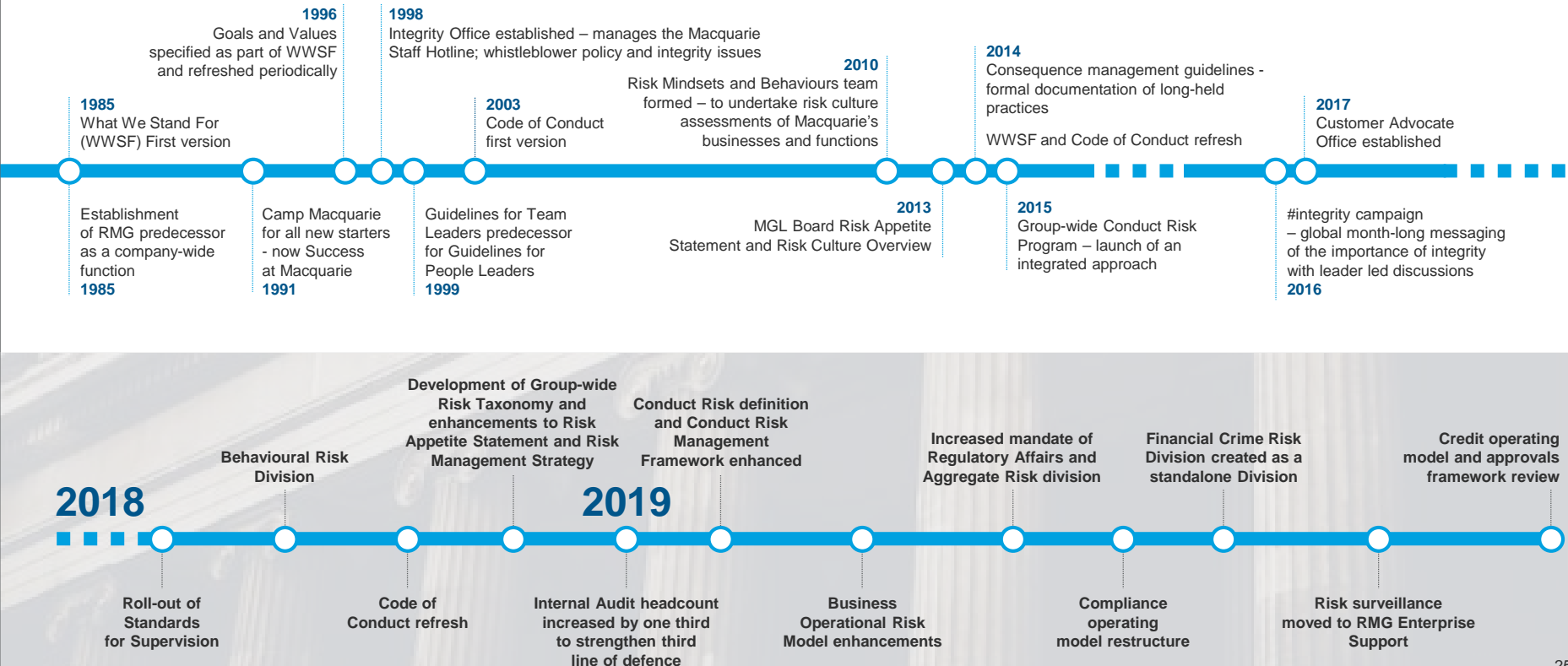
The Risk Management Group (RMG) forms the second line of defence and independently assesses material risks.

### Line 3

Internal Audit provides independent and objective risk-based assurance on the compliance with, and effectiveness of, Macquarie's financial and risk management framework.













# RMG supports Macquarie's strong risk culture





# RMG divisions

RMG's specialist functional divisions together provide broad independent coverage of Macquarie's material risks

Chief Risk Officer						
Non-financial risk				Financial risk		
						
Compliance	Operational Risk	Behavioural Risk	Financial Crime Risk (FCR)	Credit Risk	Market Risk	Quantitative Applications Division (QAD)
Enables business management to fulfil their supervisory responsibilities by establishing an effective, robust, compliance framework.	Applies the operational risk management framework to identify, assess and manage the risks arising from failures of people, processes, systems and external events.	Provides expertise and oversight on risk culture, conduct risk, environmental and social risk, and work health and safety.	Develops and maintains an Anti-Money Laundering, Sanctions and Anti-Bribery and Corruption control framework providing expertise on these risks.	Assesses, approves and monitors all material credit and equity risk undertaken by Macquarie.	Quantifies and constrains Macquarie's exposure to adverse movements in market rates and volatility.	Manages model risk in Macquarie's models used for pricing, capital calculation and credit provisioning.
Across all areas						
	Regulatory Affairs & Aggregate Risk (RAAR)			RMG Enterprise Support (RES)		 Internal Audit
Ensures Macquarie is compliant with prudential regulation and provides oversight for regulatory affairs.  Monitors aggregate risk across all risk types.			Supports the effective and efficient operation of RMG by providing centralised services for strategy, data management, analytics, change, projects, and operational risk management in RMG. Supports Group-wide risk governance, risk training and risk surveillance.		Provides independent and objective risk-based assurance on compliance with, and effectiveness of Macquarie's financial and risk management framework.	



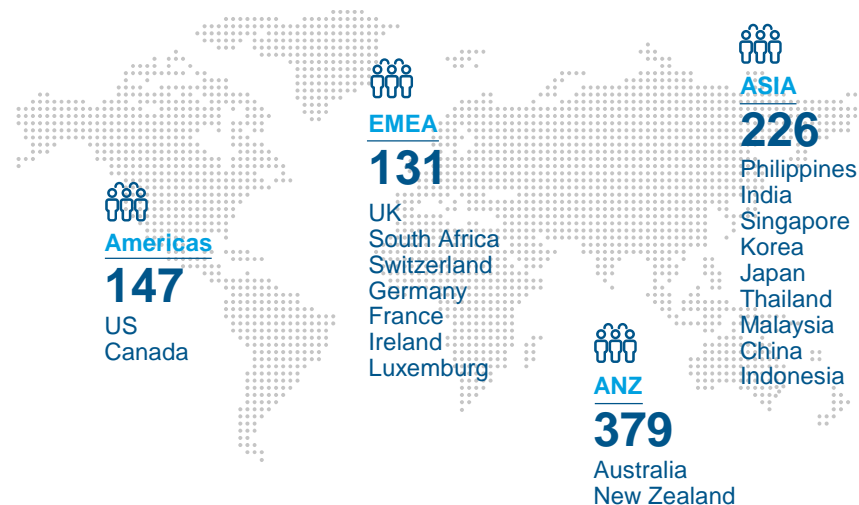
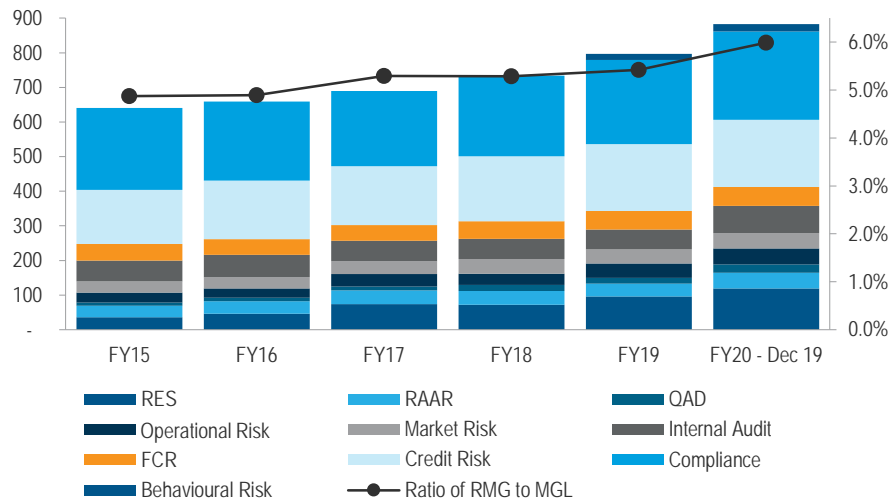
# Our people

RMG has grown in line with Macquarie's global business mix and in response to the changing regulatory landscape to ensure appropriate resourcing and effective oversight of risk

**7%** RMG staff 5-year CAGR

**883** RMG staff globally

**57%** of RMG staff are based outside ANZ



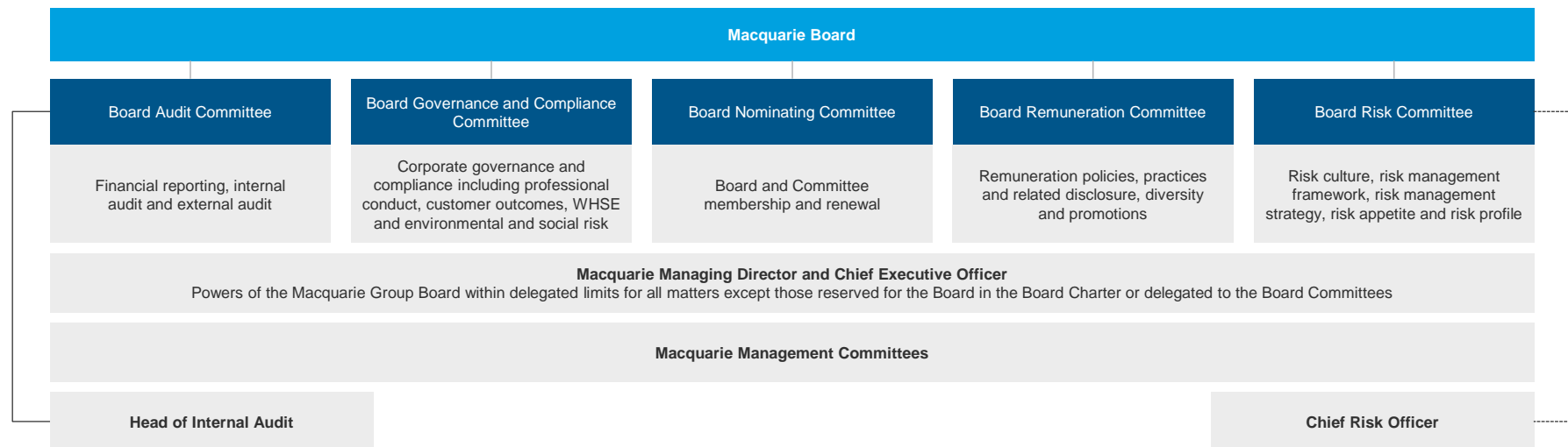


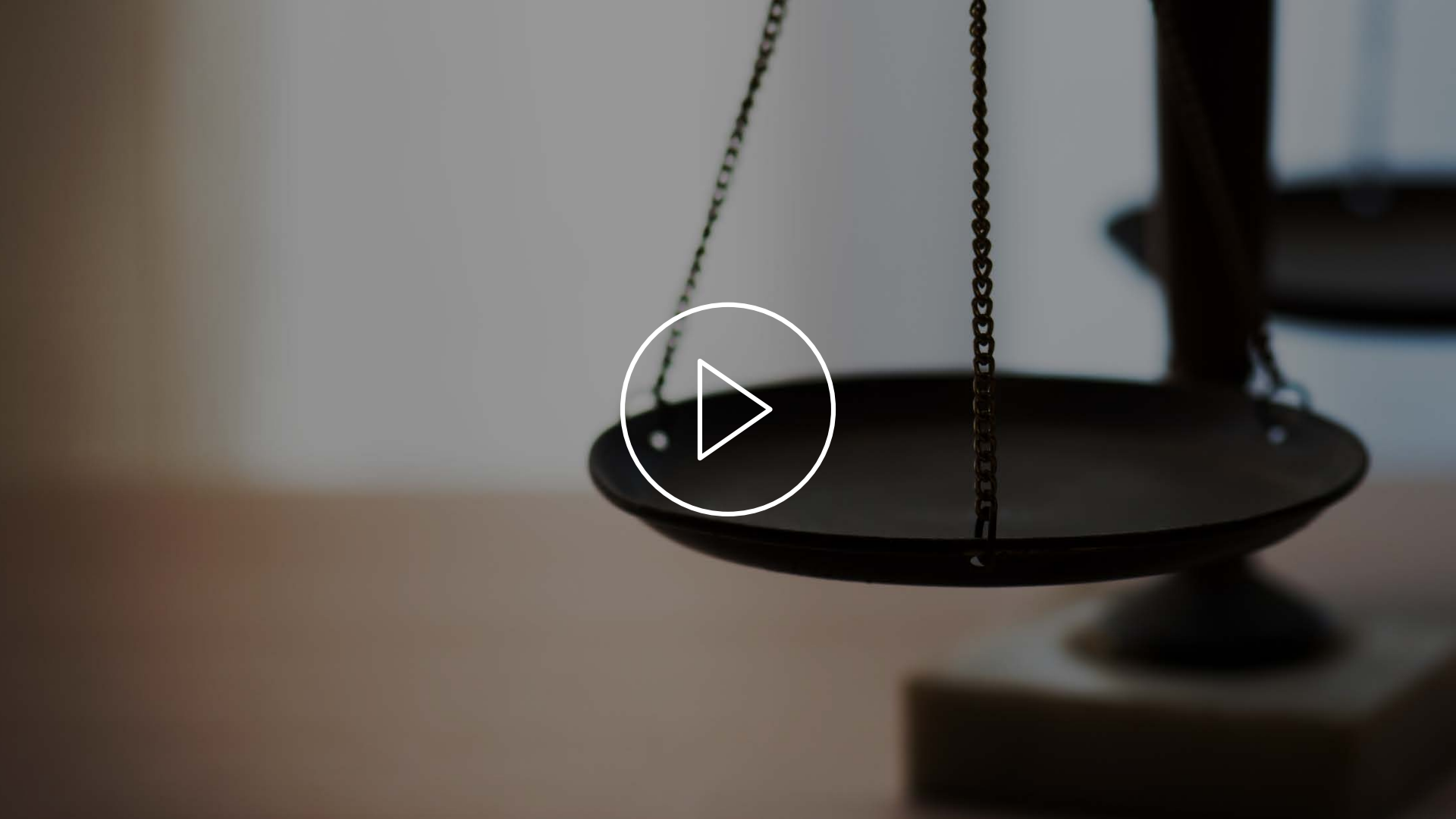


# Risk governance

Macquarie's strong risk governance structure supports risk-based decision making and oversight

Macquarie's five standing Board Committees assist the Board in its oversight role. The CEO has been granted authority for those matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority.







04

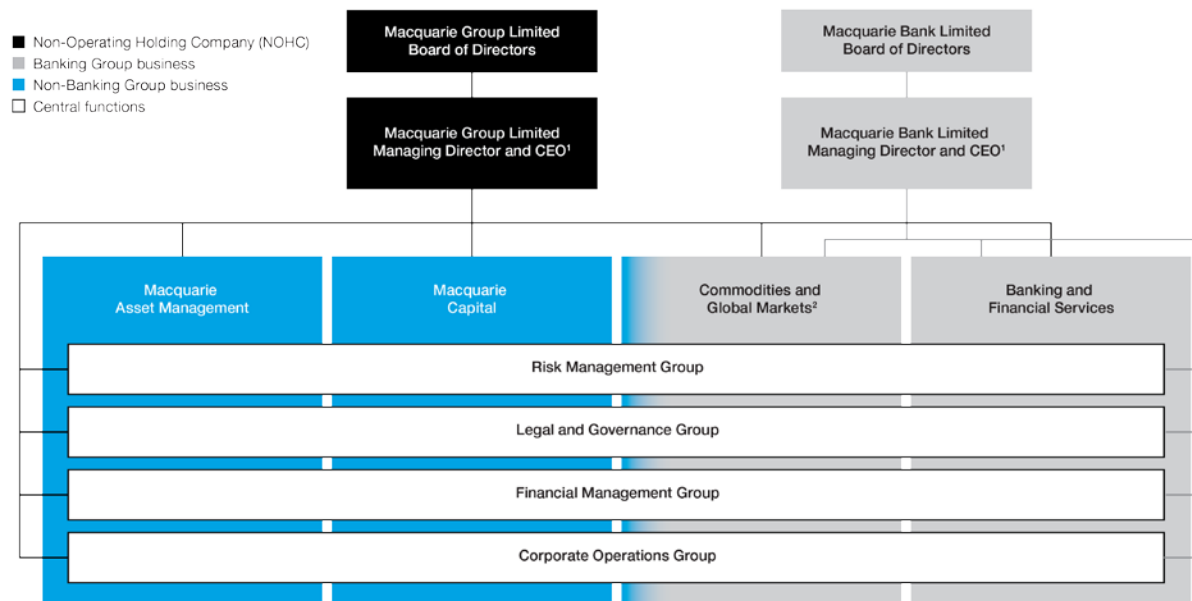
# The Banking Group

Mary Reemst  
Macquarie Bank Limited  
Managing Director and Chief Executive Officer



# Group structure

The current structure allows the Bank and the Group to undertake a diverse range of businesses domestically and globally, which adds to their financial strength



1. The MGL CEO has senior executive responsibility for the management of the business activities of the Banking Group. The MBL CEO has senior executive oversight of the Banking Group's position in order to protect MBL's interests and fulfil its responsibilities as an ADI. The MBL CEO assists the MGL CEO in fulfilling her responsibilities to MBL. 2. Certain assets of the Credit Markets business, certain activities of the Cash Equities business and the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking group.





# Regulatory framework

MBL is authorised by APRA as an ADI in Australia

Additional regulatory focus on Non-financial risk, with attention on matters relating to Governance, Culture, Remuneration and Accountability

Increased coordination amongst regulators domestically and with regulators globally

Offshore regulators have raised their expectation of regional management accountability, oversight and control

Increased expectations and actions from our regulators across the industry, through an extensive regulatory change agenda

Macquarie's Regulatory Affairs and Aggregate Risk team is enhancing the global framework for regulatory engagement, and ensuring that our approach to regulatory affairs is coordinated across regions



# Governance structure

Separate MBL and MGL Boards and Executive Committees, with separate charters, meetings and minutes

Common membership of MGL and MBL non-executive directors, with the MBL CEO as an additional member on the MBL Board

The MBL CEO has senior executive oversight of management's consideration of the Banking Group's position in order to protect the interests of MBL and fulfil its responsibilities as an ADI

Clear roles and responsibilities for risk management are established through the 'three lines of defence'

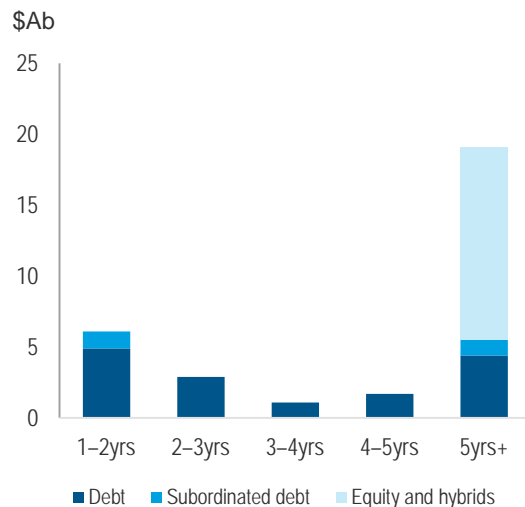
The Banking Group adopts the Macquarie Group-wide Risk Management Framework and core risk management principles



# Funding and capital

MBL S&P long-term rating upgraded to A+ from A on 11 Dec 2019

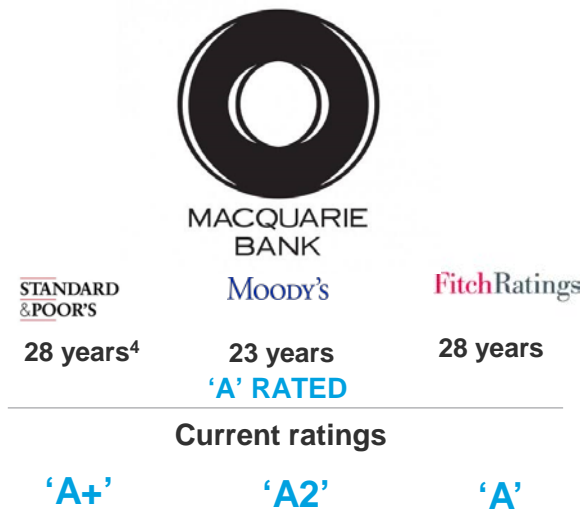
## Term funding profile<sup>1</sup>



## Basel III ratios

MBL Basel III ratios	Harmonised Basel III <sup>3</sup>	APRA Basel III
Common Equity Tier 1 Capital Ratio <sup>2</sup>	14.2%	11.4%
Tier 1 Capital Ratio <sup>1</sup>	16.0%	13.3%
Leverage Ratio <sup>2</sup>	5.9%	5.3%

## Credit ratings







# Benefits from diversification and group structure

Macquarie's international presence and business diversity provides significant benefits to Macquarie Bank

## Access to international capital markets

Access to funding across a range of markets, currencies and structures adds to MBL's resilience

## Innovation and Competition

Leader in delivery of the low-cost, digital banking experience, and has a growing presence in the Australian retail market

## Ability to withstand economic shocks

A diversified group leads to lower concentration and greater ability to withstand economic shocks

## Economies of scale

Scale provides cost efficiencies (e.g. less duplication of resources) and supports investment in technologies and products that would otherwise not be possible

## Revenue from external customers by region<sup>1</sup>



■ Australia ■ Europe, Middle East and Africa ■ Americas ■ Asia Pacific

## Annuity-style v Markets-facing net profit contribution<sup>1</sup>



■ Annuity-style income ■ Markets-facing income

## Funding by currency<sup>2</sup>



■ AUD ■ USD ■ EUR ■ Other

## Gross Credit Exposure<sup>3</sup>



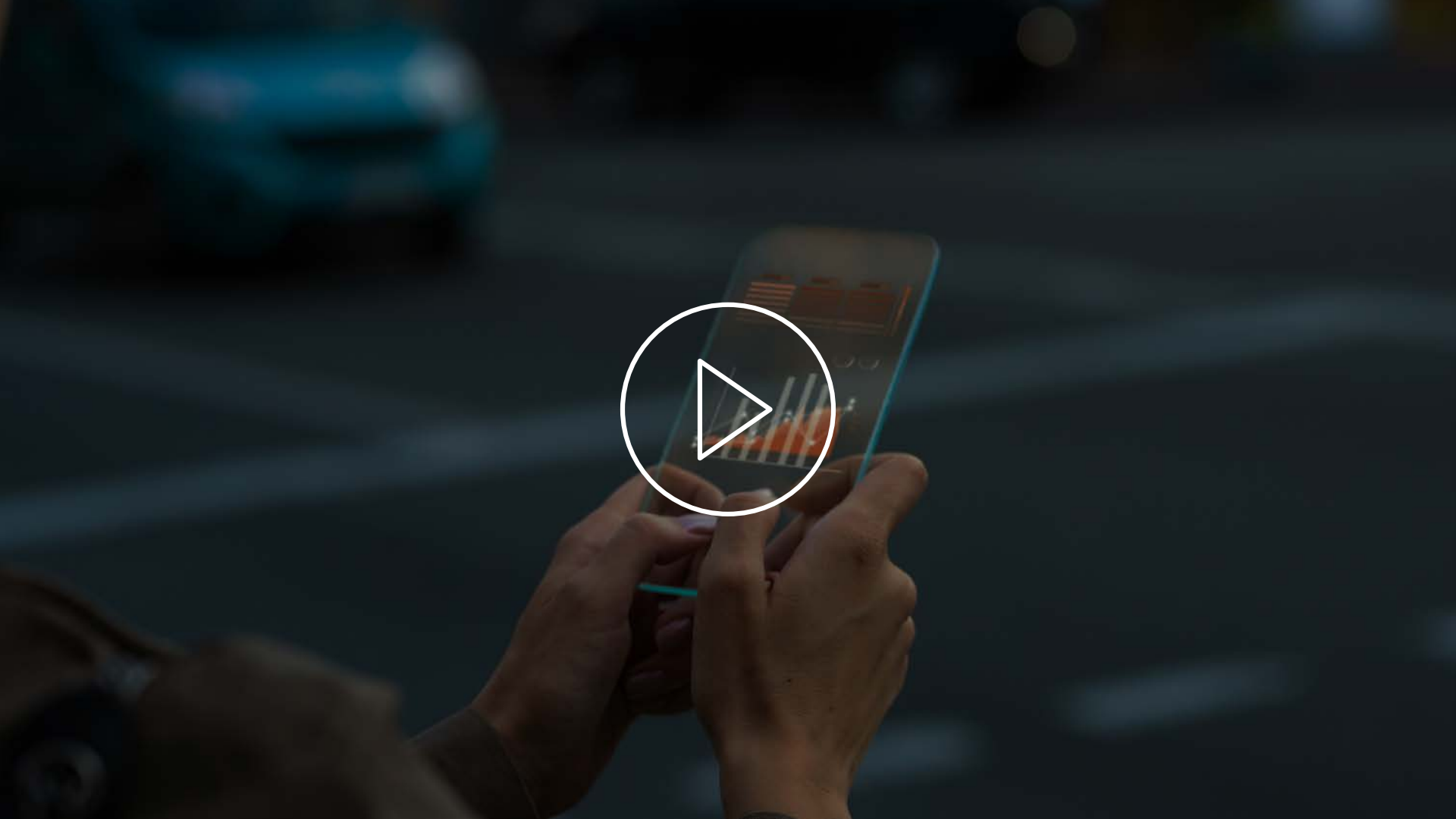
■ Wholesale ■ Retail

05

# Banking and Financial Services

Greg Ward  
Group Head







# Banking and Financial Services

A technology-driven Australian retail bank and wealth manager

## BFS

More than  
**1.5m**  
clients

**2,650+**  
Staff<sup>1</sup>

FY19 Net profit  
contribution<sup>2</sup>

**\$A756m**

## Highlights

**\$A57.7b**  
deposits<sup>1,2</sup>

**\$A72.2b**  
loan and lease  
portfolio<sup>1</sup>

**\$A91.6b**  
funds on  
platform<sup>1,4</sup>

## Comprehensive offering



### Personal banking

Retail banking products including home loans, credit cards, transaction and savings accounts and vehicle finance



### Business banking

Deposit, lending and payment for solutions for business clients, and dealer and wholesale vehicle finance



### Wealth management

Wrap platform and cash management services, investment and superannuation products and private banking

## Expertise and awards

Award winning **digital banking offering**

**40+ years** bringing innovation and competition to **Australian consumers**

Australia's **1<sup>st</sup> open banking platform** giving customers **control over their data**

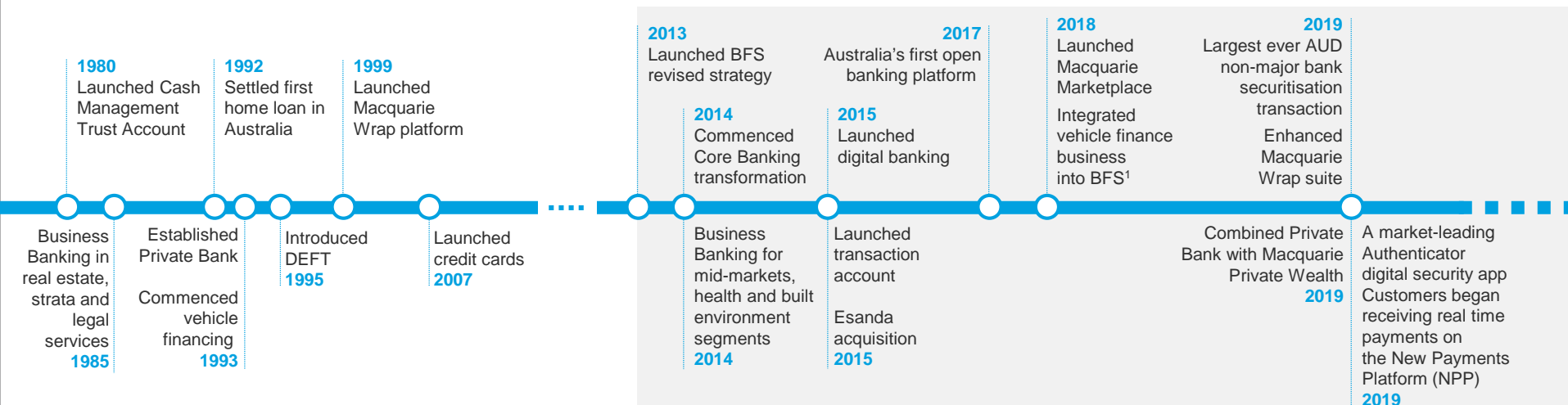
**Rebuilt our tech stack** to become the first bank with lending and retail deposits powered by **one core banking system**



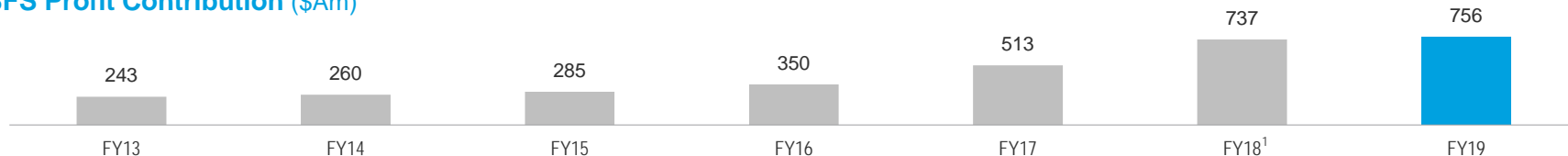


# Evolution of Macquarie's retail banking business

We've transformed to focus on our Australian retail banking brand



## BFS Profit Contribution (\$Am)



1. During 2018, vehicle finance moved from Corporate and Asset Finance to BFS as a part of a reorganisation between Operating Groups. FY18 financial results were restated to reflect this change.



# Focused on delivering exceptional client experiences

Client feedback shapes what we prioritise as a business

## We map the client experience of banking with Macquarie to shape the products and services we deliver

- Embedded **Human Centred Design (HCD)** to map the experience of banking with Macquarie
- **Client insights** create **actionable feedback** and **prioritise** new initiatives, products and services
- Significant focus on the **faster resolution of client complaints** and **addressing the root causes** of issues
- Extended **vulnerable client support measures** and **staff training** to assist vulnerable clients with respect and compassion

## We measure and learn from our clients' feedback

- **Proactive measurement of customer advocacy (NPS)** at specific interaction points, i.e. home loan settlement
- **Text analytics** interpret verbatim feedback at scale to gain insights into the experience of our clients
- **'Listen, Learn, Act'** forums share insights to inform product and service design
- **Prioritise** changes to our products and services **based on the impact to clients**

## We assess client journeys

### Human Centred Design in action

#### We understand our clients...

**650+** client interactions observed as moments of delight or pain points

**15** client journeys mapped

**300+** client empathy interviews conducted

#### ...in order to build the right things for the right problems, the first time

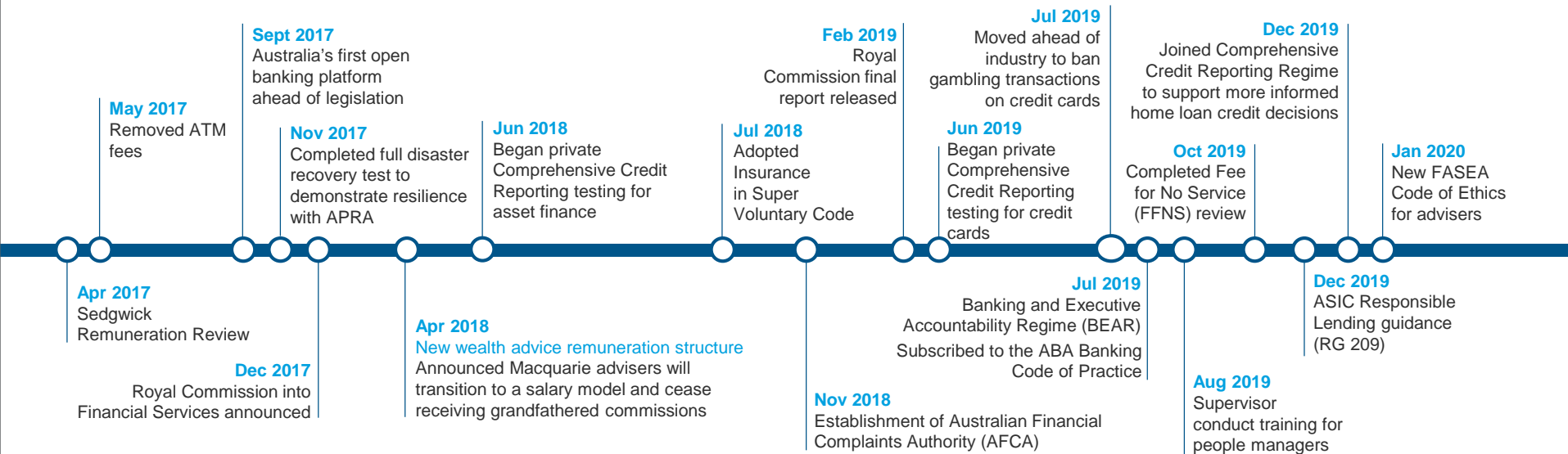
**145** client pain points resolved to date

**550+** opportunities identified

Enhancements include dramatic reduction in home loan approval times, **geo-triggered travel notifications** and in-app **natural language search**



# We put client outcomes at the centre of our decision making



## What more are we doing?



### Client outcomes metrics

Continued focus on client outcomes through management reporting



### Design and distribution

Embedding focus on vulnerability, customer outcomes, HCD and fairness



### Supervision capability

Ongoing development program to support people manager supervision standards



### Conduct risk management

Dedicated function to coordinate regulatory change, conduct and risk culture programs





# Our focus on client outcomes is enabled by our risk culture

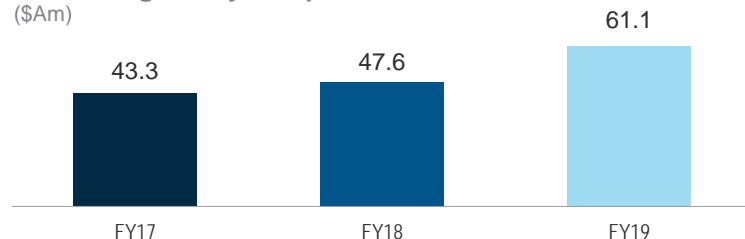
## Comprehensive governance and accountability

### Deep experience and strong governance

- **14.2** years average tenure across **23** BFS Executive, Operational and Risk Committee members who are subject to director retention scheme
- **600+** specialised risk and credit FTEs
- No variable incentives linked directly to sales volumes
- **Employee risk mindset and behaviours** monitoring, reporting and surveys to support risk culture<sup>1</sup>
- **Embedded financial and non financial risk management**, with robust long-term decision making and focus on fair client outcomes

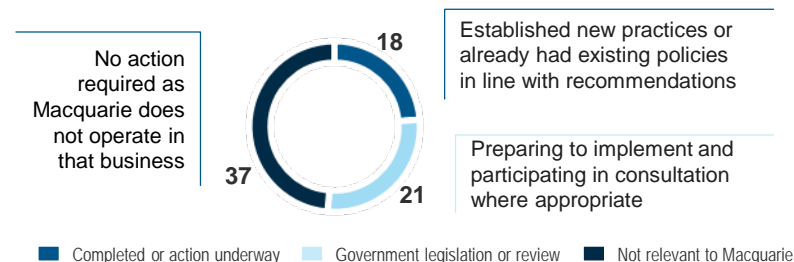
### Increased investment in regulatory compliance

Cost of regulatory compliance  
(\$Am)



### Royal Commission - no specific findings against Macquarie

Royal Commission's 76 recommendations (#)



### Our people are accountable for sound risk management

What our people say...

**94%** say they work hard to deliver the best outcome for their clients

**90%** say team members value and respect each others' contribution

**89%** feel senior leaders role model the right risk behaviours

All staff assessed twice yearly against **core risk management KPI** together with **robust consequence management**

1. Surveys include Global Staff Survey, D&I and risk culture.



# We have simplified our operations

Simplification across businesses, product offering and technology systems has been a core focus of BFS and remains a key priority

## Operations

- **Closed our global offices** to focus on the Australian retail opportunity
- **Exited non-core businesses** and investments
- Combined Private Wealth with Private Bank under a single structure, with a **clear focus on High Net Worth clients**

## Product design and distribution

- Increased our focus on core Macquarie branded products, **discontinuing origination of white label home loans** and new white label products
- **Reduced home loan pricing** to single rate card
- Launched **new Macquarie Wrap pricing structure** and enhanced digital capabilities
- Simplified pricing structures for home loans and vehicle finance

## Technology

- Fleet of robots deployed in operations to improve efficiencies and reduce manual handling risks
- **Invested in systems** to provide a **single unified view of the client** and decommissioning legacy systems

## Simplified business with strategic exits



Offshore mortgages businesses<sup>1</sup>



Margin Lending<sup>2</sup>



Offshore Wrap platforms<sup>3</sup>



White label home loans<sup>4</sup>



Closed global offices



Consumer Lending<sup>5</sup>



Offshore Macquarie Private Wealth<sup>6</sup>



Life insurance business<sup>7</sup>



Premium funding<sup>8</sup>

1. US '07; Italy '08; Canada '11. 2. Australia '09. 3. UK Wrap '10. 4. Australia '18. 5. Australia '08. 6. Asia '11; Canada '13. 7. Australia '16. 8. UK and Canada '13, Australia '19.

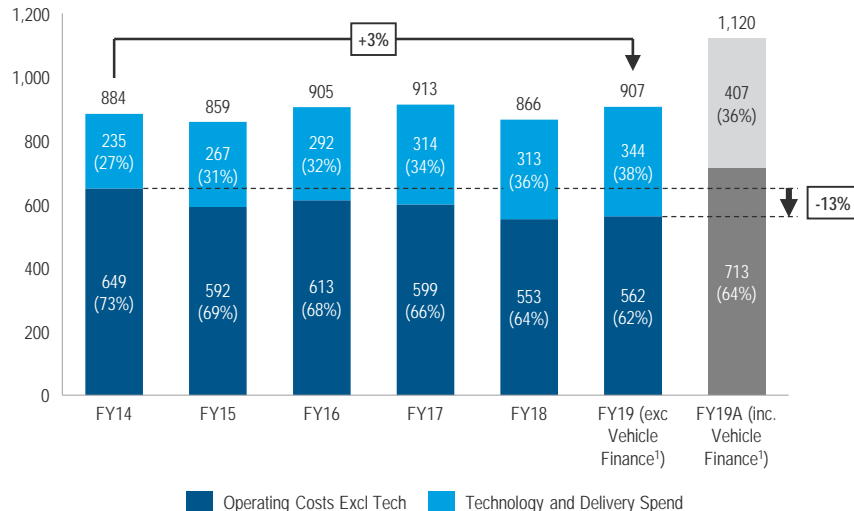


# Cost base has remained flat

Costs have remained broadly flat despite significant volume growth in core products, and increasing investment in compliance and technology

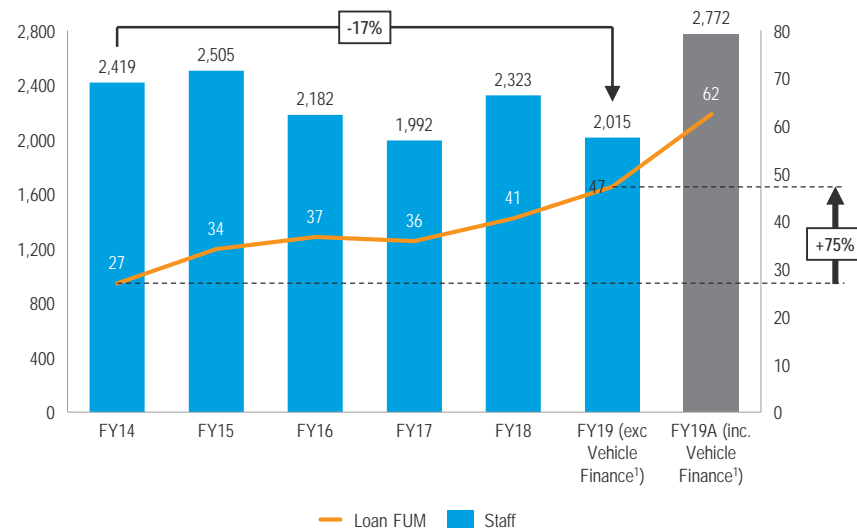
**BFS operating costs (ex. Tech and Vehicle Finance<sup>1</sup>) have decreased 13% in five years**

**BFS Cost Base**  
(\$Am)



**Staff numbers (ex. Vehicle Finance<sup>1</sup>) has decreased 17% in five years while loan FUM has increased 75%**

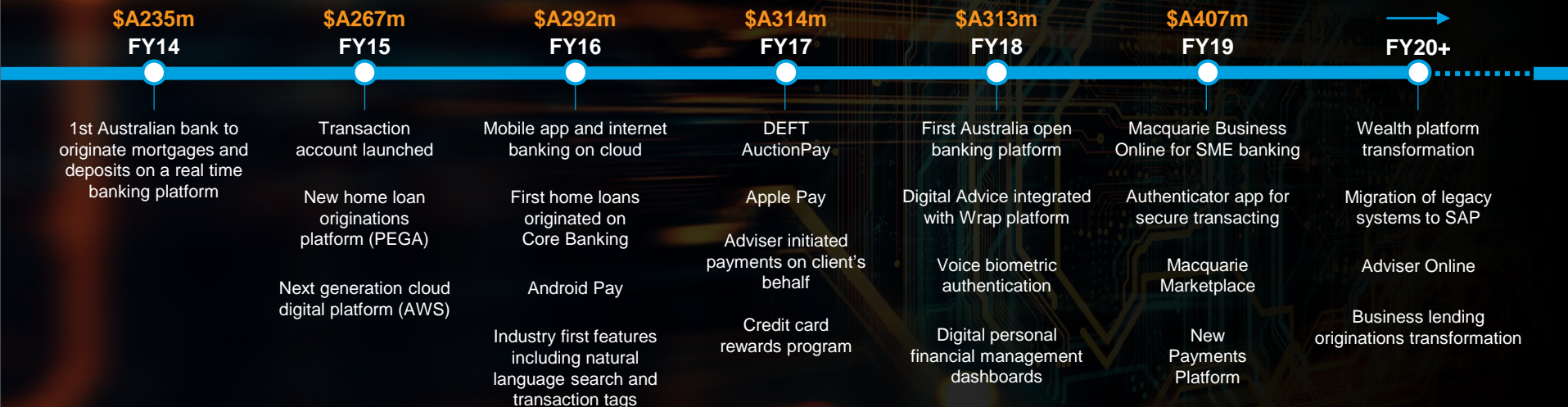
**Staff numbers # (LHS) / Loan FUM \$Ab (RHS)**





# Our technology journey is delivering scale, efficiencies and exceptional client experiences

## BFS technology and delivery spend





# Bringing best in class technology to banking

Our multi cloud platform and system architecture allows us to move at speed

## Market first technology



### Leading Digital Bank

- Australian first technologies and features to provide more personalised client experiences
- Focus on secure and frictionless access, with greater resilience and stability



### Cloud migration

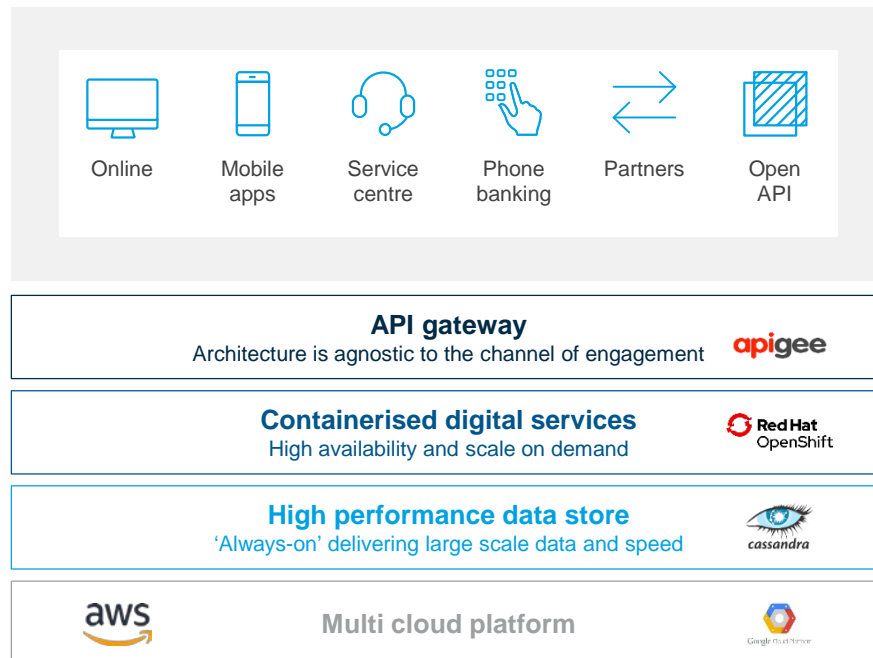
- All customer engagements, data, analytics and regulatory data workload on the cloud
- **50%** of IT infrastructure on the cloud, aim for **100%** in FY22
- Unlocking technical limitations with cloud agnostic strategy



### Data and analytics led platforms

- Predictive analytics supporting strong risk management
- Secure and trusted data management systems providing a better understanding of clients' financial circumstances
- Comprehensive and accurate regulatory reporting

## Digital banking platform on the cloud







# Three business channels powered by specialist teams



**BFS Group Head**  
Greg Ward



**Personal Banking**  
Ben Perham



**Business Banking**  
Dean Firth



**Wealth Management**  
Sean West

## Across all areas



**Product and Technology**  
Tony Graham



**People, Culture and Client Experience**  
Rosalind Coffey



**Credit**  
Carolyn Bray



**Chief Operating Officer**  
Bruce Phipson



**Chief Financial Officer**  
Katie Robertson



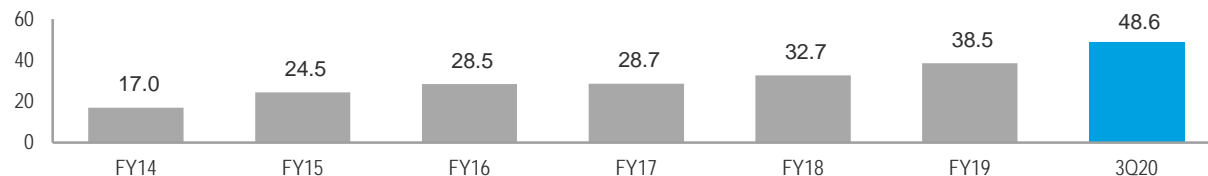
# Home loans

Scalable business centred around the client experience

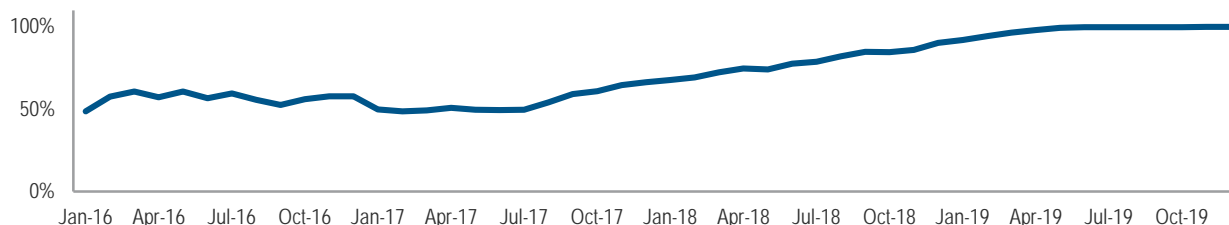
**We've grown our home loans book by 42% (+\$A14b) in the last 18 months<sup>1</sup>**

- **Strategic focus on <70% LVR** lending tier
- **Discontinued originating new white label loans** and **simplified product suite** to prioritise core Macquarie branded offering
- Replaced legacy systems with **real-time home loans originations platform**, delivering greater speed and efficiency
- **Over 90%** of home loans originated through brokers

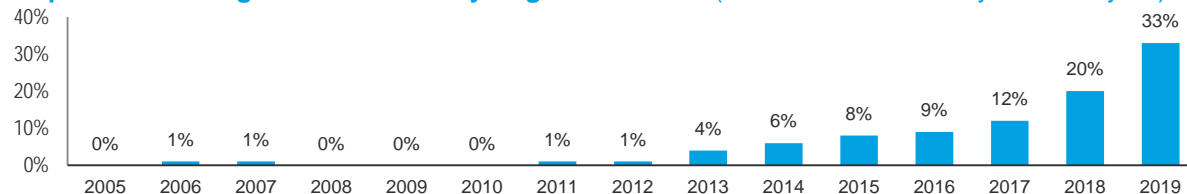
## Home loans funds under management<sup>2</sup> (\$Ab)



## We have redirected our focus to Macquarie branded home loans (% originations Macquarie branded)



## Our portfolio is weighted toward newly originated loans<sup>3</sup> (% home loans book by calendar year)



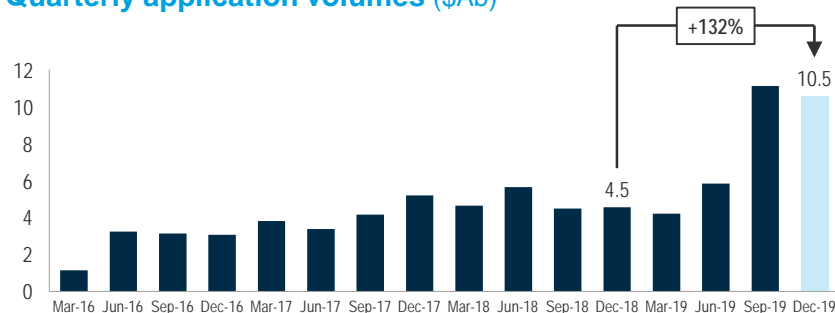
1. From Jun-18 to Dec-19. 2. The Home Loans portfolio consists of loans secured by residential mortgages located in Australia originated through the personal banking channel. This differs to the amounts published in the APRA Monthly ADI Statistics, which includes residential home loans originated through the business banking channel; excludes loans to a company or trust; excludes loans for personal purposes rather than housing purposes and exclude off balance sheet securitised loans. 3. Home loans portfolio by settlement year calculated based on home loan balances net of offset account balances.



# Home loans – delivering sustainable growth

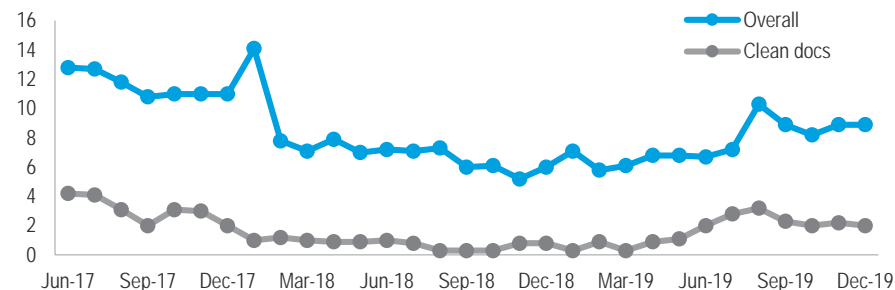
We've grown market share and volumes

## Quarterly application volumes (\$Ab)

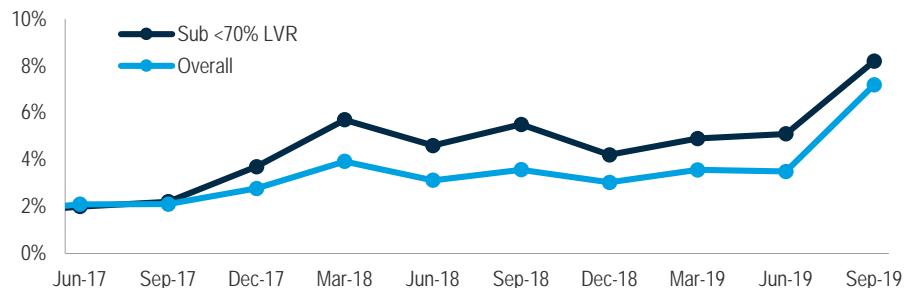


While maintaining approval times and reducing attrition

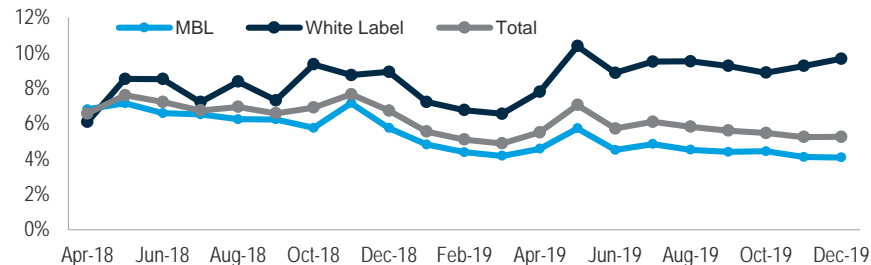
## Median time to formal (days)



## Home loan market share<sup>1</sup> (by flow %)



## Annualised external refinance rate<sup>2</sup> (attrition %)

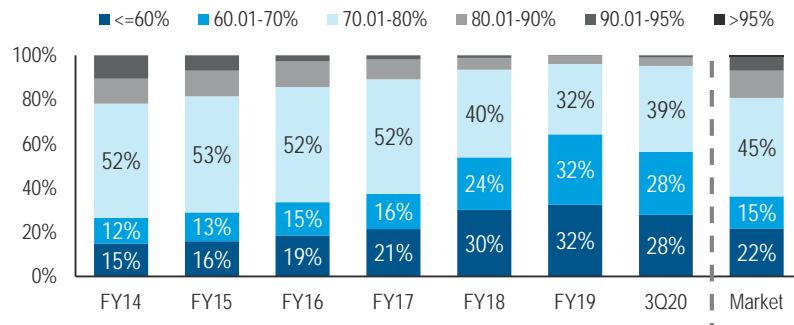


1. Comparator Quarterly Market Data, as at quarter ending 31 Dec 19. Data based on origination value. 2. MBL is Macquarie Branded home loan, White Label is Non-Macquarie Branded home loan.

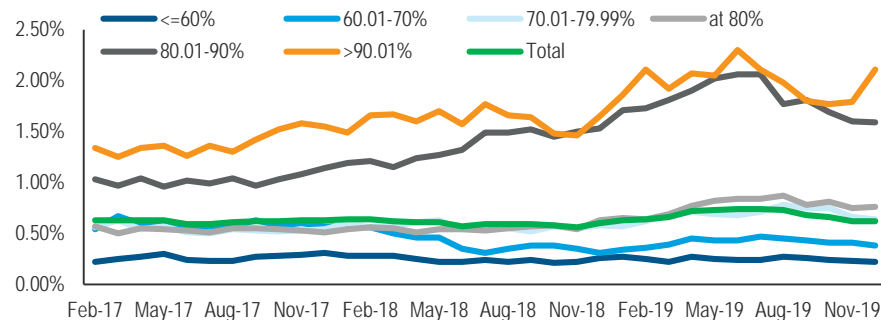


# Home loans – prudent lending standards

Loan to value ratio<sup>1</sup> (by flow %)



90+ day arrears by origination LVR



May 2015

Began assessing all debts at buffered rate

Aug 2015

Income tiered HEM living expense floor

Mar 2017

Increased granularity of data captured in living expenses

Jul 2017

Introduced <70% LVR tier

Jun 2018

Ceased offering Reverse Mortgages

Mar-Jul 2019

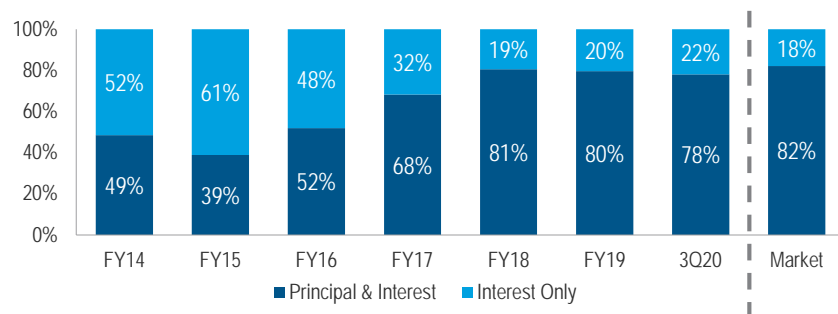
Ceased family guarantee loans (Mar 19) and SMSF loans (Jul 19)

Continually **enhancing credit capability** through loan scenario learning, credit policy deep dives and quality assurance across all teams

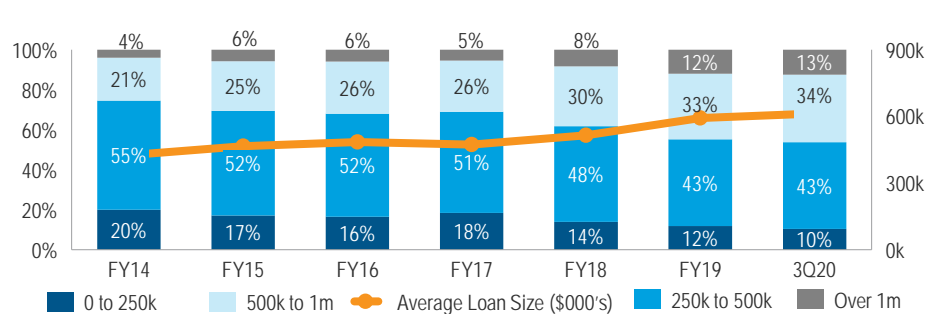


# Home loans – prudent portfolio management

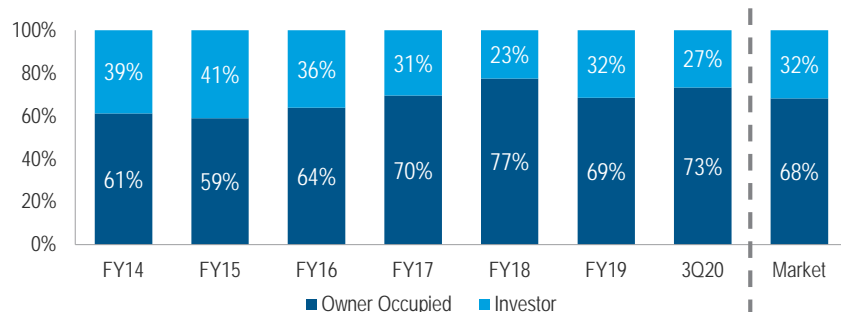
## Repayment split<sup>1</sup> (by flow %)



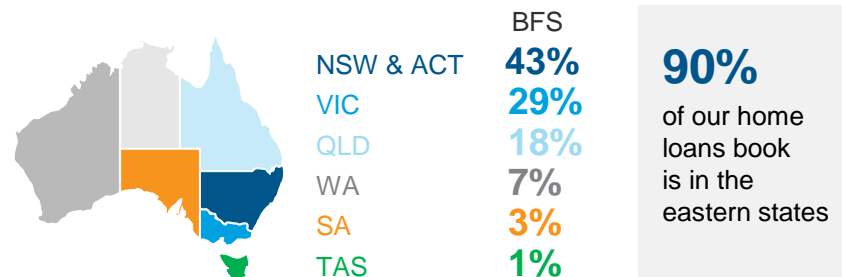
## Loan size at origination (# of new loan settlements)



## Owner occupied versus investor loans<sup>1,2</sup> (by flow %)



## Geographic split (portfolio as at Dec 19)



1. Comparator Quarterly Market Data, as at quarter ending 31 Dec 19. Data based on the credit limit at origination. 2. Owner occupied and investor loans are categorised based on the occupancy of the primary property used as security for the loan, this may differ to the loan purpose utilised for APRA Economic and Financial Statistics reporting purposes.





# Business Banking

Developing deep industry knowledge, building trust and long term relationships

## Strategy of verticality

Specialist lending, deposit and payment solutions for Australian SMEs

### Property services



Strata



Residential Real Estate Agencies



Commercial Real Estate Agencies

### Professional services



Insurance Broking



Insolvency



Legal



Accounting



Financial Services

### Emerging segments



Built



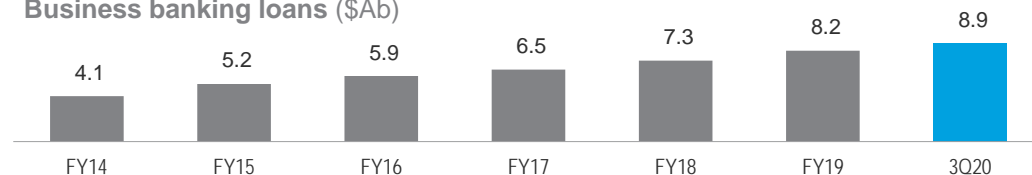
Health



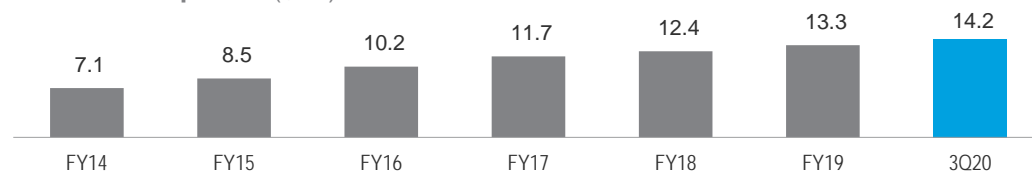
Technology

## Continued growth in core segments

Business banking loans (\$Ab)



Business deposits<sup>4</sup> (\$Ab)



# 93%

Client retention rate<sup>1</sup>

# +11%

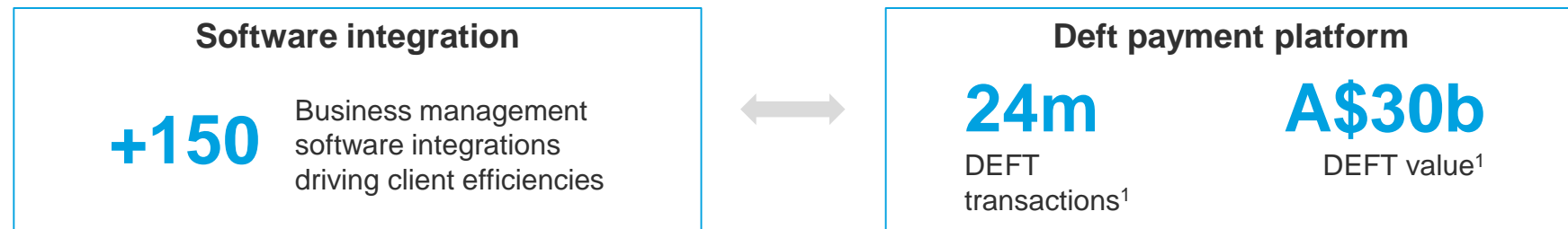
Growth in lending volumes<sup>2</sup>

# 1.6:1

Deposit to Loan ratio<sup>3</sup>

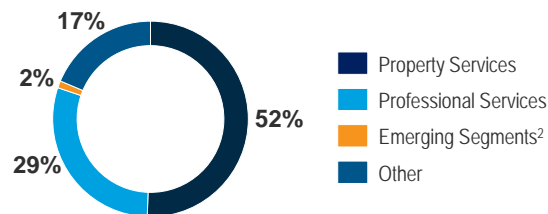


# Business deposits – integration delivering operational efficiency

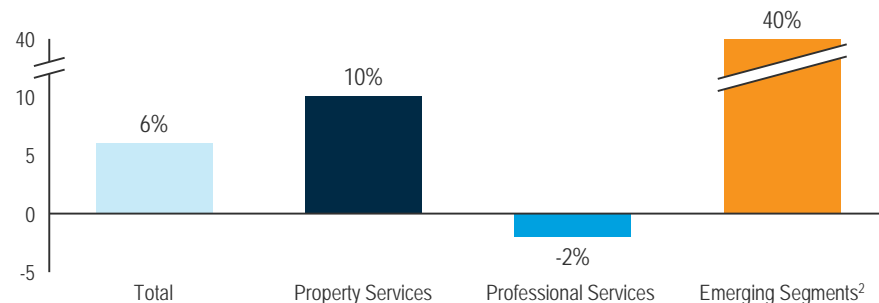


## Heightened focus on deposit growth

Business deposits heavily weighted towards property although increasingly diversified



## Business deposit growth by segment (Average deposit FUM growth Dec 18 to Dec 19)

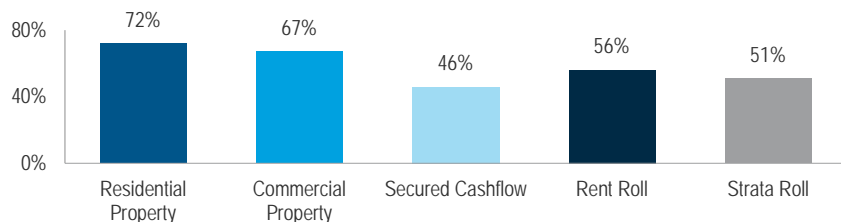


1. FY19. 2. Emerging segments include Health, Technology and Built Environment.

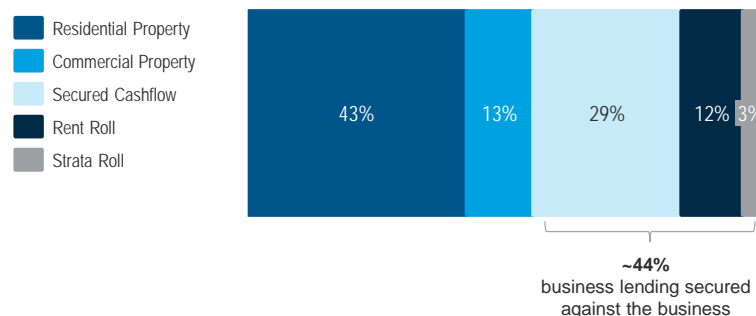


# Business lending – evolving portfolio dynamics

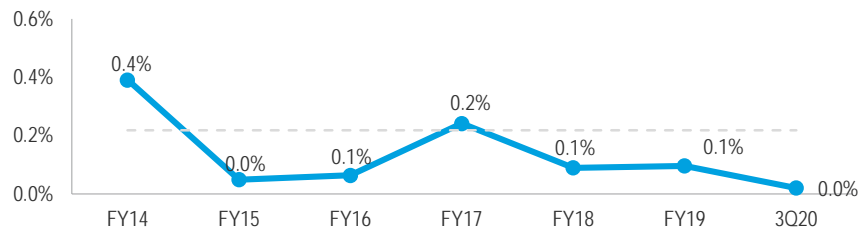
## Business lending LVR<sup>1</sup> (%)



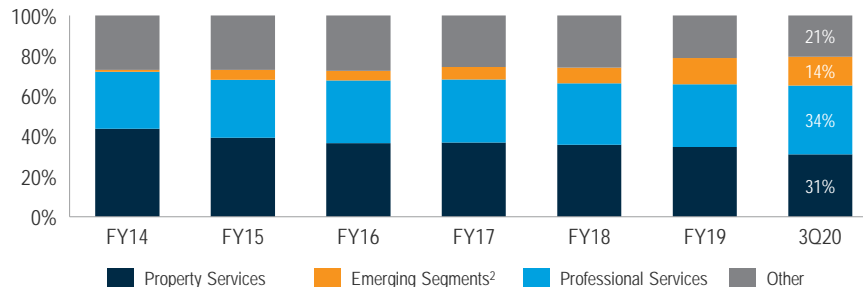
## Business lending security type<sup>1</sup>



## Business lending realised losses (% on average business lending book)



## Business lending segment composition<sup>2</sup>



1. As at 31 Dec 19. 2. Emerging segments include Health, Technology and Built Environment.



# Vehicle Finance

Supporting SMEs and consumers with secured vehicle finance

## Key highlights

**\$A14.2b**

Vehicle Finance portfolio<sup>1,2</sup>

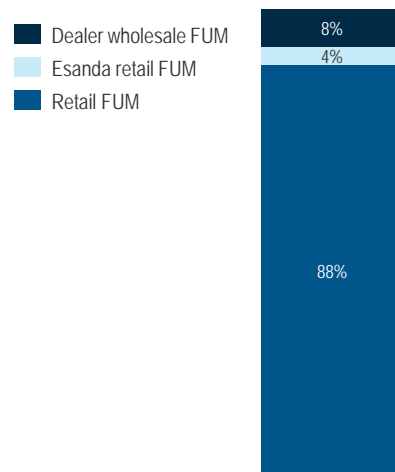
**Over 475k**

Vehicles in market

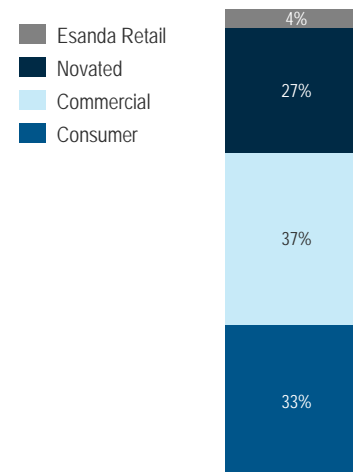
**10k+**

Registered introducers, including brokers, car dealers and direct channel

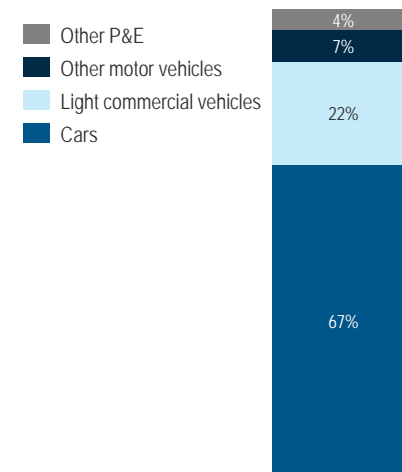
## Total Vehicle Finance portfolio overview by FUM<sup>2</sup>



## Retail portfolio overview by client<sup>2,3</sup>



## Retail portfolio overview by asset type<sup>2,3</sup>





# Wealth solutions

Committed to providing the best digital wealth experience for advisers and clients

## Key highlights

### 40 year

History for the CMA in the Australian market

### \$A28.9b

CMA FUM as at Dec 19

### 1 in 3

Australian SMSFs use the CMA<sup>4</sup>

### 20 year

History for Wrap in the Australian market

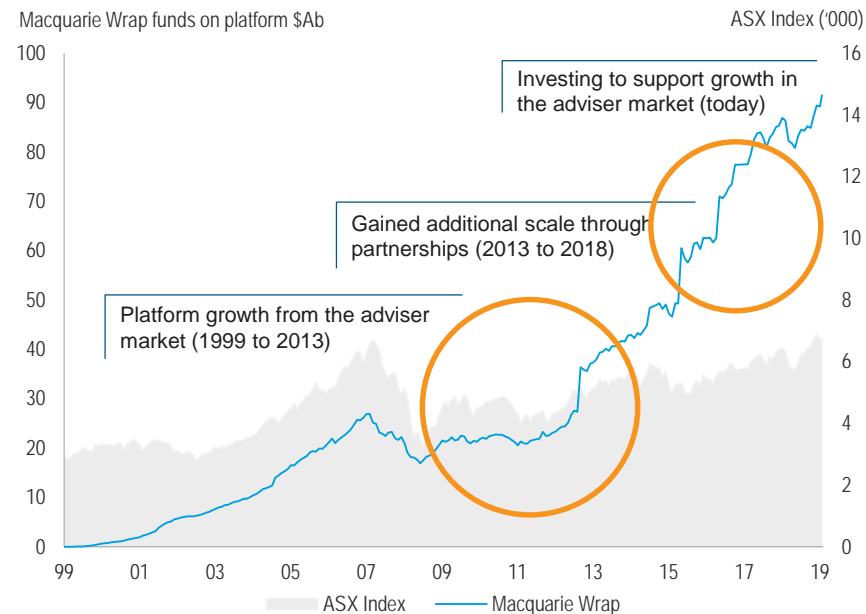
### 2<sup>nd</sup>

Largest Wrap platform in the Australian market<sup>1</sup>, **\$A91.6b** funds on platform<sup>2</sup> and growing with **\$A3.3b** net platform flows<sup>3</sup> (**21.5%** market share)

### +53%

Managed Account assets under management growth<sup>5</sup>

## Focused on the open external adviser market







# Wrap Evolution

We have achieved platform scale and are now focused on sustainable growth in the adviser market

## Client experience

### Providing simplified solutions for more clients

- Launched new low cost investment solution for clients with less complex financial needs (Macquarie Engage)
- Introduced simplified, transparent and competitive pricing

### Enhancing the digital experience for advisers

- Enhanced the digital experience for advisers via Adviser Online, including tools that enable greater efficiencies:
  - Digital adviser help centre
  - Increased ability for advisers to self serve

### Launching an automated advice tool

- Digital Portfolio Manager automates investment recommendations, advice documentation and portfolio implementation

## Improved efficiency

### Investment in re-platforming will significantly improve efficiency and capabilities to support future growth

- Investment in cloud-based technology to increase platform efficiency
- Open architecture technology allowing us to integrate with an advisers' ecosystem
- Improved speed, reliability and stability of the platform
- Decommissioning legacy systems and simplifying our back end technology systems
- Additional capabilities for advisers and clients (e.g. international)

## Delivering sustainable growth by improving the client experience and increasing platform efficiencies

**\$A93m**

Investment in re-platforming

**193k**

Active accounts on platform<sup>1</sup>

**7k**

Advisers with active accounts on platform<sup>1</sup>

**+15%**

CAGR funds on platform growth from FY14-3Q20



# Private Bank transformation

We have combined our Private Bank and Private Wealth business to focus on High Net Worth clients

## Focused on HNW opportunity

- Australia ranks in the top 10 globally for High Net Worth (HNW) individuals
- Over 270,000 new individuals have entered the HNW segment since 2012<sup>1</sup>
- We have an award-winning Private Bank offering and have refocused our advice business to serve this growing HNW segment<sup>3</sup>

## Reshaped business model

- Combined Private Wealth with Private Bank under a single structure to focus on HNW clients
- Transitioned advisers to a salary model and ceased receiving grandfathered commissions
- Introduced a team based structure to leverage best practice relationship management models

## Enhanced service proposition

- Service proposition focused on servicing a broader range of client needs, including market-leading banking services and accessing the broader Macquarie Group

## Key highlights

**129**

Advice professionals nationally across 25 teams<sup>2</sup>

**\$A29.8b**

Funds Under Management<sup>2</sup>

**7.5k**

High Net Worth clients<sup>2</sup>



Award winning Private Bank offering<sup>3</sup>



# Well positioned for the future

Led by our commitment to doing business the right way

## Exceptional client experiences



Commitment to delivering best in class client outcomes in a highly competitive retail banking landscape

## Excellent risk management



Earning trust by doing business the right way for our clients, communities and shareholders

## Scalable and efficient platforms



Supporting doing business with more clients, more efficiently through leading technology



06

# Commodities and Global Markets

Nicholas O'Kane  
Group Head







# CGM is a client focused business

## Deep

longstanding  
client relationships

## Specialised

expertise of our staff

## Diverse

and stable earnings

## Risk management

is core to everything  
we do



# Deep, longstanding client relationships

Investment in long-term relationships underpins everything we do

## ~5,000

unique client relationships<sup>1</sup>

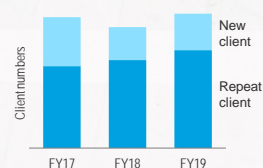
## 85%

of client revenue is generated from existing relationships<sup>2,3</sup>

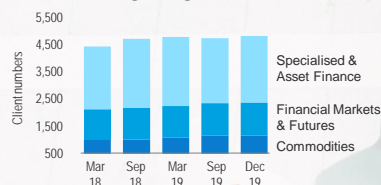
## Customers

are spread over a full spectrum of products and services

### Repeat business is strong<sup>3</sup>



### Diverse and growing client base<sup>4</sup>



### Differentiated offering

- “ Service**  
They make me feel like I am the only client
- Insights**  
We have respect for them and their understanding of the market
- Expertise**  
I buy Macquarie for the people



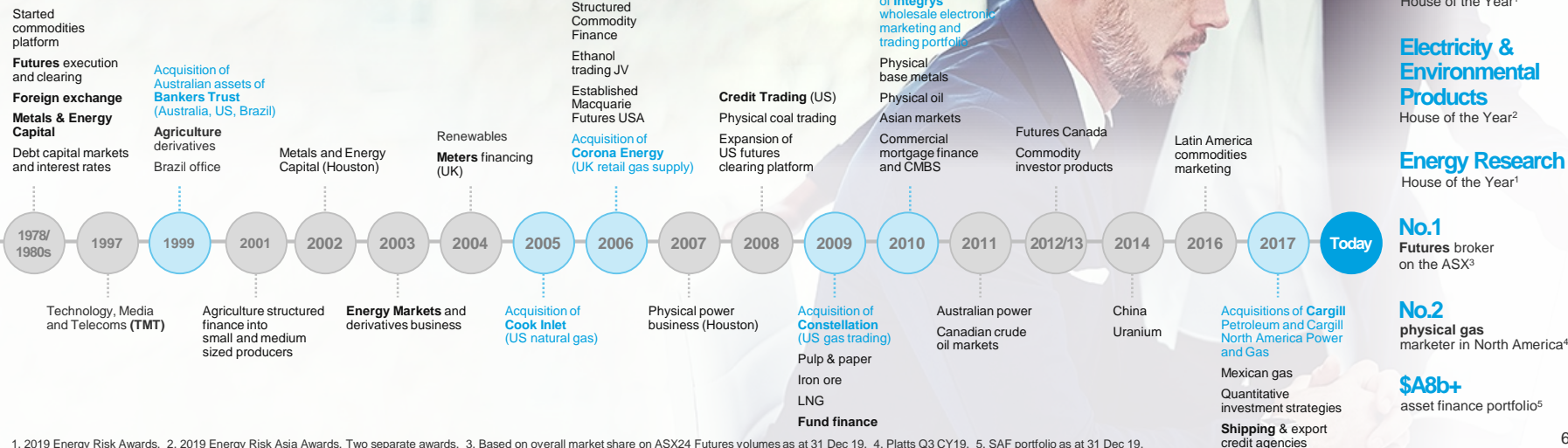


# Platform continues to evolve according to client needs

We evolve the platform into agencies utilising our deep expertise

## 40+ years

of client partnership  
has evolved into niche  
activities in some markets,  
and scale in others



1. 2019 Energy Risk Awards. 2. 2019 Energy Risk Asia Awards. Two separate awards. 3. Based on overall market share on ASX24 Futures volumes as at 31 Dec 19. 4. Platts Q3 CY19. 5. SAF portfolio as at 31 Dec 19.



# We put clients at the forefront of our portfolio

We are where our clients need us to be, offering deep local expertise and specialist skills



**In-house technical experts including:**



**Logistics experts**



**Petroleum and mining engineers**



**Geologists**



**Meteorologists**



**Data scientists**



**Quant finance and theoretical physics PhDs**



Resulting in broad skills and deep expertise across

**2,660+ staff**

**27**



markets

**50**



locations around the world



# Strong, stable earnings

Our platform diversity drives earnings stability and de-risks the portfolio

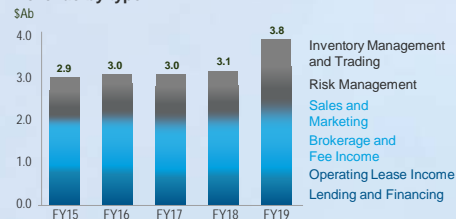
## 65%

of the portfolio represents recurring income

## 60-70%

of businesses have low correlation with each other

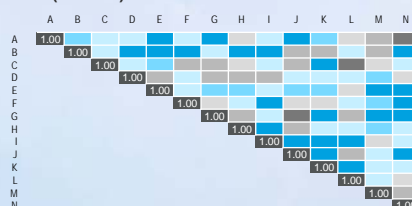
Revenue by type<sup>1</sup>



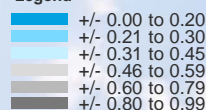
Strong repeat client base

Annuity-style income

Correlation of annual net profit contribution by CMF desk (FY12-19)<sup>2</sup>



Legend



Correlation closer to 0 is desirable

1. Represents management view of revenue. 2. Correlation only calculated for desks with complete data from FY12 – FY19; sample represents 92% of Commodity Markets and Finance (CMF) net profit contribution in FY19.





# Risk management is core to everything we do

Risk is owned by the business and governed by Macquarie's robust risk management principles

Built on  
**50 years**  
of accumulated  
experience in  
managing risk

Resulting in a  
**mature**  
and consistent  
control environment  
that evolves as  
activity expands

Every individual is  
**accountable**  
for all aspects of risk management  
including risk limits, second line  
review and worst-case scenarios

Allows CGM to  
**partner**  
with clients to help manage  
their risks, utilising our deep  
risk management expertise



## Market risk

Granular risk limits based on worst case scenarios

Aggregate limits constrain overall market risk appetite

Worst Case Contingent Loss (WCCL) framework



## Credit risk

Active management of exposures to sectors and individual counterparties

Dedicated CGM Transaction Assurance team



## Operational risk

Independent oversight of comprehensive processes and controls

Dedicated Control Assurance team

120% increase in staff numbers over the last 18 months



## Behavioural risk

Expectation of high standards of behaviour and decision making

Strong supervisory oversight

Independent assessment of trader controls

Culture of 'speak up' and 'listen up' when dealing with issues



## Compliance risk

Established policy and control framework to manage market conduct

Dedicated Compliance advisory team supporting CGM globally

Identification of regulatory risk and implementation of risk mitigation



# North American Power, Gas & Emissions

**Cindy Khek**

Co-Head of North American Power, Gas & Emissions



# Growth has largely been organic with adjacent acquisition

## 15+ years providing clients with access to North American Power, Gas & Emissions markets

**2005** Cook Inlet Energy Supply

✓ Organic growth

**2009** Constellation Energy

✓ Organic growth

**2017** Cargill North America Power & Gas

✓ Organic growth

Canada Gas Desk

West Power Desk

West Gas Desk

Mid Gas Desk

Mid Power Desk

East Gas Desk

East Power Desk

SE Power Desk

Gulf Gas Desk

LNG Desk

Options Desk

Operations

**Continuity and dedication of our people**

## 14+ years

average time the senior leadership team have worked together

**In-house specialists**



Schedulers



Analysts



Logistic experts



Meteorologists



Marketers



Traders

**24-hour coverage**

in the gas and power markets, with trading and operations available over the weekend and holidays to address clients' **real-time needs**



# What differentiates Macquarie

Our extensive physical presence gives us valuable insight into supply/demand fundamentals and market dynamics

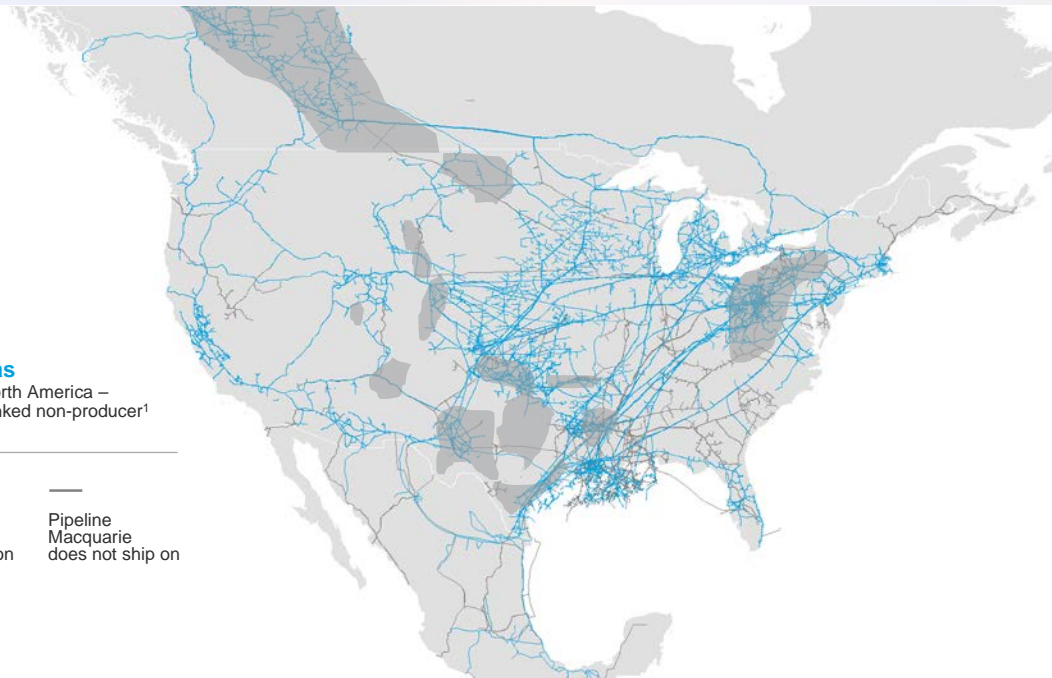


**No.2**  
physical gas

marketer in North America –  
the highest ranked non-producer<sup>1</sup>

Pipeline  
Macquarie  
actively ships on

Pipeline  
Macquarie  
does not ship on



## 80+ systems

Macquarie was active on in Dec 2019

## 80%+ of major pipelines

Macquarie physically shipped gas on 50 of the 61 major interstate gas pipelines in 2019

## 13 Bcf/day

Macquarie peak day activity in 2019



## Actively trades with 500+ counterparties

Through hundreds of individual interactions each day, we provide market liquidity, evaluate transportation and storage dynamics, and identify production and consumption trends

This information feeds into our fundamental analysis and provides us a best in class view on supply and demand

## Experience & analysis

guides us in establishing a portfolio of assets providing critical supply or takeaway options in regions that are often capacity-constrained, and then managing the risk around those assets

## Physical commodity trading

gives us a deeper insight into volatile basis markets

## Extensive relationships

enable us to engage with key upstream and downstream players in each region

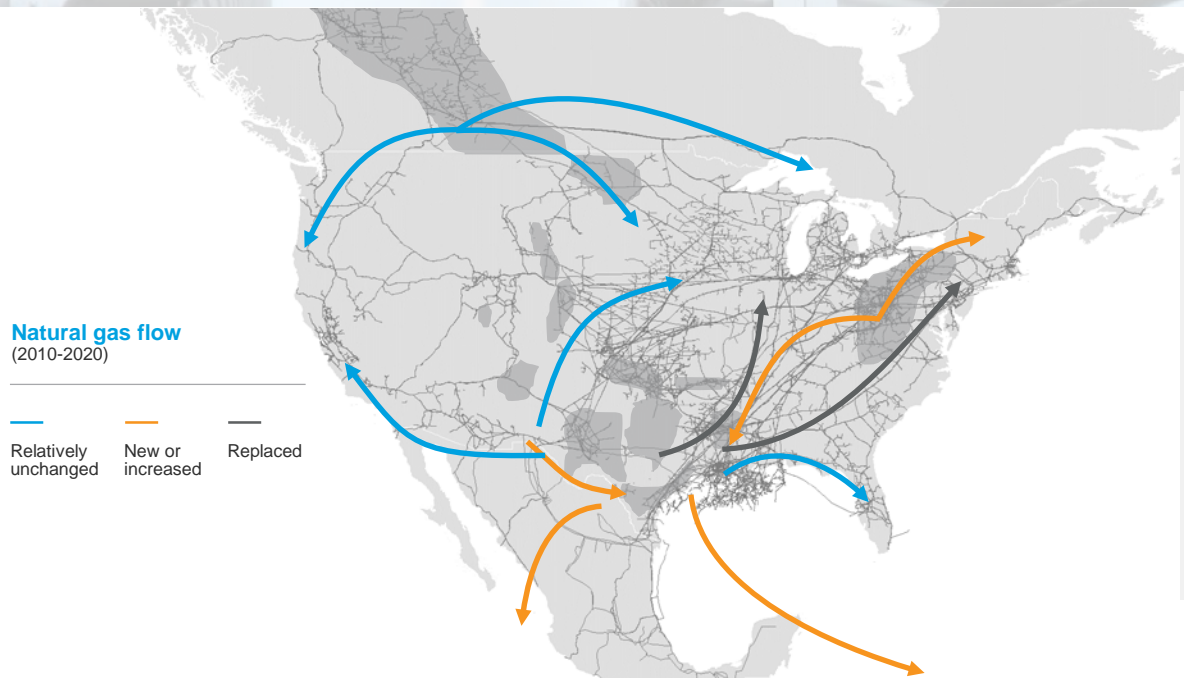
## Leased physical asset portfolio

positions us to serve our customers' needs and work together to profitably optimise transportation options when bottlenecks arise



# A rapidly changing market presents opportunities

Production basins, infrastructure, and consumption patterns are all rapidly shifting



**20 Bcf/day**

27% increase in peak-day gas production since 2015

**12 Bcf/day**

57% increase in production in the Northeast since 2015

**11 Bcf/day**

357% increase in exports to Mexico and LNG since 2015

**8 Bcf/day**

**Complete reversal** of interregional flows between the Gulf/South Central and other regions – from 1.0 Bcf/d of exports in 2015 to 7.1 Bcf/d of imports in 2019

**-73 Bcf**

2% decrease in total natural gas storage capacity since 2015, despite the massive growth in supply and demand





# Fixed Income and Currencies

**Simon Wright**

Division Head, Fixed Income and Currencies



# Fixed Income and Currencies

A client-led business model for 30+ years

## Coverage

- **All FX markets:** Cash and derivatives across G10 and emerging markets
- **Most interest rates:** Offering G10 and emerging markets
- **Structured credit:** Focused offering around the origination, placement and trading of asset backed securities in Australia and Europe

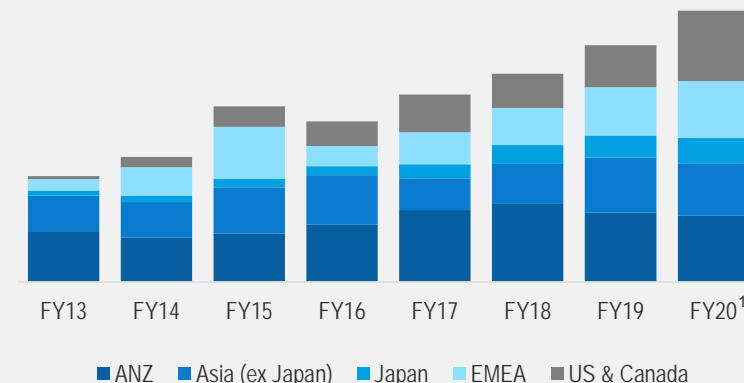
## Clients

- Corporates and private equity funds
- Real money, hedge funds and sovereign wealth
- Money service brokers and private clients

## Deep experience and strong risk management

- **18+ years** average tenure for business heads

## Regional revenue contribution



## Growth

### 1990-2000s

An Australian-led “fly-in/fly-out” business focused on primary markets in ANZ and secondary markets in the rest of the world

### 2008+

Changing market dynamics saw less need for secondary market liquidity and a greater opportunity to face clients directly in offshore markets

### Since FY14

Substantial growth outside Australia – particularly in Japan, EMEA, the US and Canada, with a focus on the primary market. Hired local people, to service local clients and provide local market products

### Today

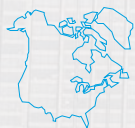
250+ counterparties globally serviced by in-country, local staff, backed and powered by long service risk managers...with significant opportunity for further growth



# Growth through expanding expertise and entering new markets

Focused on delivering exceptional client service

## Putting client outcomes at the centre of our business



### US and Canada

**Evolution:** strong growth in private equity, with a **500%** increase in revenue over the last 5 years, in collaboration with Macquarie Capital

**Clients:** including funds acquiring assets who need deal contingency, asset purchase and dividend hedges

**Growing:** corporate client base, with all regions leveraging the development and provision of hedging product



### Japan

**Evolution:** no presence in 2011

**Clients:** typically private multi generational corporates with strong balance sheets

**Growing:** hedging solutions, supporting client exposures to a number of activities including: manufacturers, food imports, and ship builders

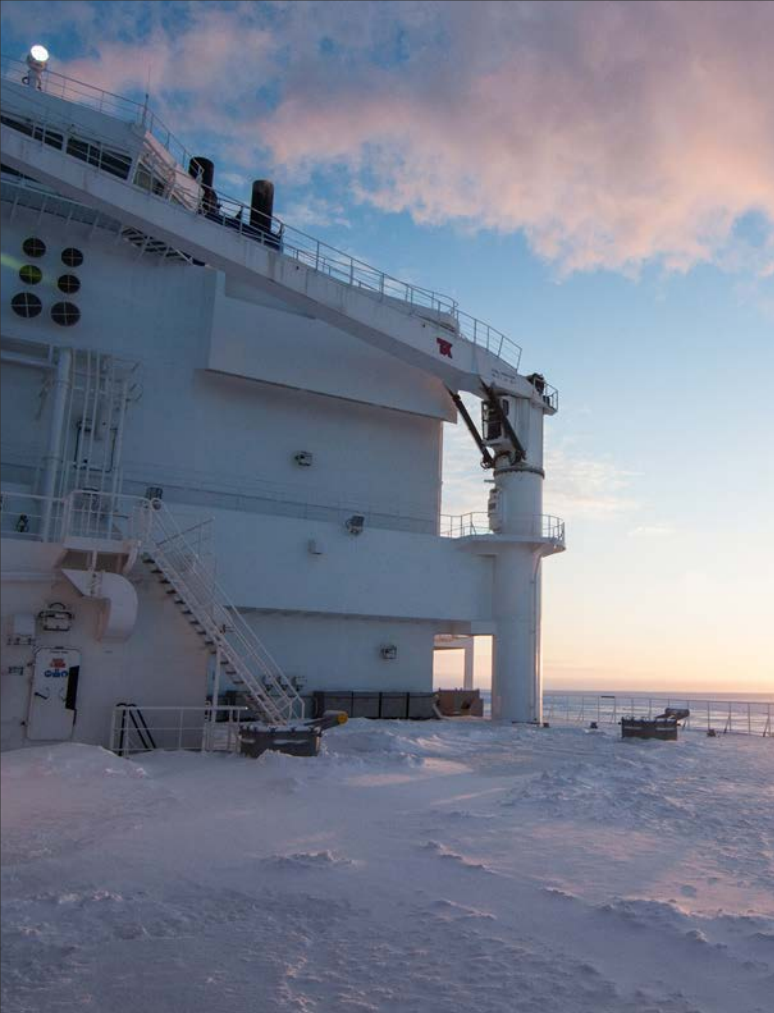


### EMEA

**Evolution:** significant growth with corporate clients over the last 5 years

**Clients:** including importers of fish, steel fabricators, timber importers, asset originators, to agriculture and commodity businesses

**Growing:** private equity client base, in conjunction with the US team and other parts of Macquarie



# What's next?

**Nicholas O'Kane**

Head of Commodities and Global Markets





# Attuned to evolving market opportunities

We go where our clients want us to be, supporting new areas of growth

## Adjacencies

Disruptive technologies

Aging energy infrastructure

Geographic markets

New classes of customers

## Energy transition

Commodity index products

Carbon as an asset class

Voluntary carbon offsets

Tradeable digital certificates for recycled precious metals

Jet fuel bundled with a carbon offset

Battery storage

Carbon-neutral barrels of crude

Financing refinery upgrades

Investing in new exchanges

Low sulfur fuel oil financing

LNG demand

Environmental, tradable attributes across the commodity spectrum

Hydrogen emergence

Renewable power

Carbon-neutral food products

Carbon-offsetting election in mobile apps

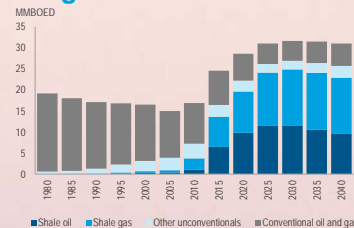
## Client-led



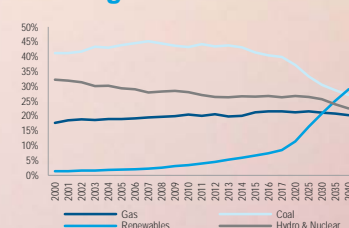
### Projected global LNG demand



### US gas outlook



### Power generation mix





# Earnings certainty, plus well-positioned to capitalise on growth opportunities



**65%**

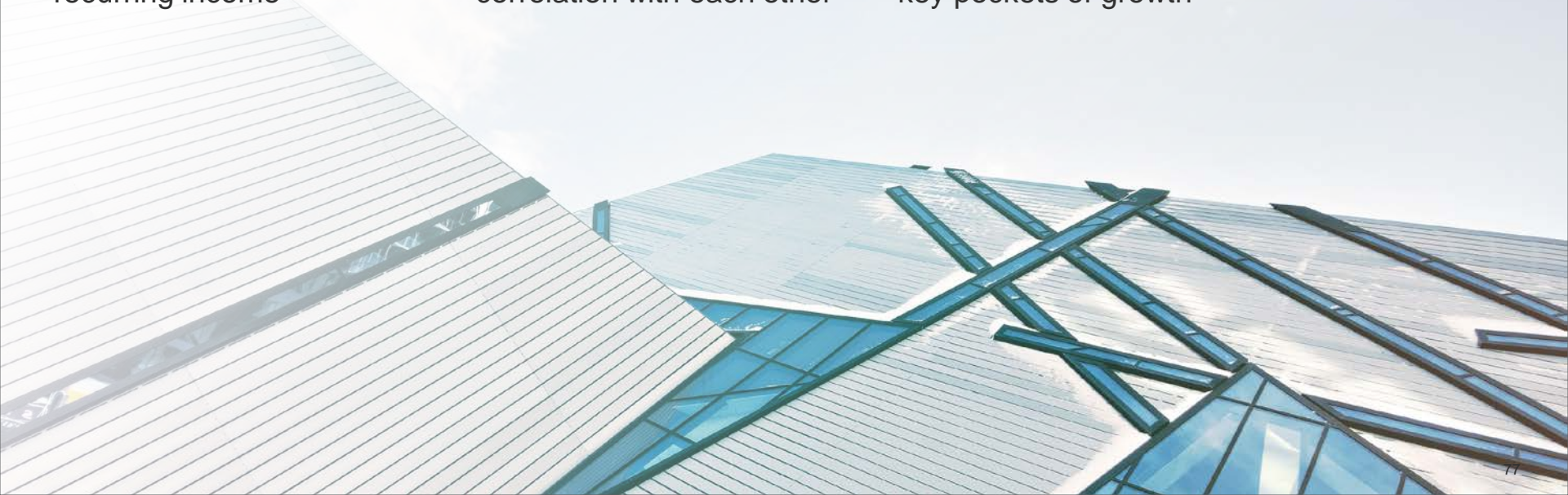
of the portfolio represents recurring income

**60-70%**

of businesses have low correlation with each other

**Upside**

with transparency around key pockets of growth



# 07

## Glossary





# Glossary

<b>1H20</b>	First Half ended 30 Sep 2019
<b>1Q20</b>	First Quarter ended 30 Jun 2019
<b>3Q19</b>	Third Quarter ended 31 Dec 2018
<b>3Q20</b>	Third Quarter ended 31 Dec 2019
<b>ABN</b>	Australian Business Number
<b>ADI</b>	Authorised Deposit-Taking Institution
<b>ALX</b>	Atlas Arteria
<b>AML</b>	Anti-Money Laundering
<b>ANZ</b>	Australia and New Zealand
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ASX</b>	Australian Stock Exchange
<b>AUM</b>	Assets under Management
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>BCF</b>	Billion cubic feet
<b>BEAR</b>	Banking and Executive Accountability Regime
<b>BFS</b>	Banking and Financial Services
<b>CMF</b>	Commodity Markets and Finance
<b>CAGR</b>	Compound Annual Growth Rate
<b>Capex</b>	Capital Expenditure
<b>CCB</b>	Capital Conservation Buffer
<b>CET1</b>	Common Equity Tier 1
<b>CFM</b>	Commodities and Financial Markets
<b>CGM</b>	Commodities and Global Markets

<b>CMA</b>	Cash Management Account
<b>CO2e</b>	Carbon dioxide equivalent
<b>CY18</b>	Calendar Year ended 31 Dec 2018
<b>CY19</b>	Calendar Year ending 31 Dec 2019
<b>DCM</b>	Debt Capital Markets
<b>DPS</b>	Dividends Per Share
<b>DRP</b>	Dividend Reinvestment Plan
<b>DTA</b>	Deferred Tax Asset
<b>ECAM</b>	Economic Capital Adequacy Model
<b>ECM</b>	Equity Capital Markets
<b>ECS</b>	Exchangeable Capital Securities
<b>EMEA</b>	Europe, the Middle East and Africa
<b>EPS</b>	Earnings Per Share
<b>EUM</b>	Equity Under Management
<b>FAR</b>	Financial Accountability Regime
<b>FCR</b>	Financial Crime Risk
<b>FTE</b>	Full time equivalent
<b>FX</b>	Foreign Exchange
<b>FY16</b>	Full Year ended 31 Mar 2016
<b>FY17</b>	Full Year ended 31 Mar 2017
<b>FY18</b>	Full Year ended 31 Mar 2018
<b>FY19</b>	Full Year ended 31 Mar 2019
<b>FY20</b>	Full Year ended 31 Mar 2020





# Glossary

<b>GIFI</b>	Macquarie Global Infrastructure Fund 2
<b>GIG</b>	Green Investment Group
<b>GLL</b>	GLL Real Estate Partners
<b>G10</b>	Group of Ten
<b>HEM</b>	Household Expenditure Measure
<b>IFRS</b>	International Financial Reporting Standards
<b>IT</b>	Information Technology
<b>KMGF</b>	Korea Macquarie Growth Fund
<b>LBO</b>	Leveraged Buyout
<b>LCR</b>	Liquidity Coverage Ratio
<b>LNG</b>	Liquefied Natural Gas
<b>M&amp;A</b>	Mergers and Acquisitions
<b>MacCap</b>	Macquarie Capital
<b>MAM</b>	Macquarie Asset Management
<b>MBL</b>	Macquarie Bank Limited
<b>MEREP</b>	Macquarie Group Employee Retained Equity Plan
<b>MGL / MQG</b>	Macquarie Group Limited
<b>MIC</b>	Macquarie Infrastructure Corporation
<b>MIDIS</b>	Macquarie Infrastructure Debt Investment Solutions
<b>MiFID</b>	Markets in Financial Instruments Directive
<b>MIM</b>	Macquarie Investment Management
<b>MIRA</b>	Macquarie Infrastructure and Real Assets
<b>MMBOED</b>	Million barrels of oil equivalent per day
<b>MTpa</b>	Million tonnes per Annum
<b>MW</b>	Mega Watt

<b>NPAT</b>	Net Profit After Tax
<b>NPC</b>	Net Profit Contribution
<b>NPP</b>	New Payments Platform
<b>NSFR</b>	Net Stable Funding Ratio
<b>PCP</b>	Prior corresponding period
<b>PHD</b>	Doctor of Philosophy
<b>PPE</b>	Property, Plant and Equipment
<b>PPP</b>	Public Private Partnership
<b>P&amp;E</b>	Plant & Equipment
<b>P&amp;L</b>	Profit & Loss
<b>RMG</b>	Risk Management Group
<b>ROE</b>	Return on Equity
<b>RWA</b>	Risk Weighted Assets
<b>SA-CCR</b>	Standardised approach for measuring counterparty credit risk exposures
<b>SAF</b>	Specialised and Asset Finance
<b>SME</b>	Small and Medium Enterprise
<b>SMSF</b>	Self Managed Super Fund
<b>TMT</b>	Technology, Media and Telecoms
<b>UK</b>	United Kingdom
<b>US</b>	United States of America
<b>VaR</b>	Value at Risk
<b>WCCL</b>	Worst Case Contingent Loss
<b>WHSE</b>	Work, Health, Safety and Environment
<b>YTD</b>	Year to Date



# Operational Briefing

## Presentation to Investors and Analysts

11 February 2020