



MACQUARIE GROUP MANAGEMENT DISCUSSION AND ANALYSIS

Half year ended 30 September 2020

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 2020, 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 2020 and is current as at 6 November 2020.

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 2019.

References to the prior period are to the six months ended 31 March 2020.

References to the current period and current half year are to the six months ended 30 September 2020.

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 2020, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 6 November 2020 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

1H2021 net profit

\$A985m

↓ 32% on pcp

1H2021 annualised return on equity

9.5%

↓ from 16.4% in the pcp

1H2021 operating expenses

\$A4,266m

↓ 5% on pcp

1H2021 net operating income

\$A5,519m

↓ 13% on pcp

1H2021 net profit contribution⁽¹⁾ by activity

Annuity-style activities

\$A1,600m

↓ 7% on pcp

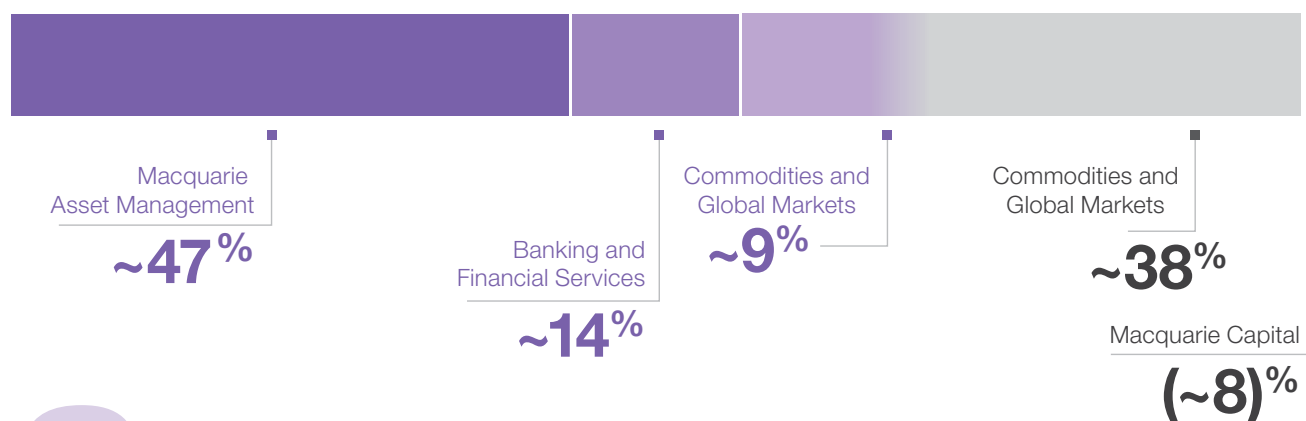
Markets-facing activities

\$A672m

↓ 42% on pcp

~70%

~30%



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

1H2021 net profit contribution by Operating Group

Summary of the Operating Groups' performance for the half year ended 30 September 2020.

Macquarie Asset Management (MAM)

\$A1,062m

↓ 5% on pcp

- Decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior corresponding period and the sale of Macquarie European Rail in the current period
- Decreased performance fees following a strong pcp.

Partially offset by:

- increased investment-related income⁽²⁾ primarily driven by the sale of Macquarie European Rail in the current period, partially offset by the impact of COVID-19 on aircraft leasing income and related aircraft impairments
- increased base fees primarily driven by contributions from MIM as a result of additional assets acquired in the prior period, fees earned from Macquarie AirFinance and investments made by MIRA-managed funds and mandates
- decreased operating expenses primarily driven by lower professional fees; and reduced travel on account of COVID-19.

Macquarie Capital⁽¹⁾

(\$A189m)

↓ significantly on pcp

- Significantly lower net income on equity investments due to fewer material asset realisations driven by the impact of COVID-19
- Lower fee and commission income due to lower mergers and acquisitions fee income, partially offset by higher equity capital markets fee income
- Increased credit and other impairment charges primarily due to a small number of underperforming loan facilities and the growth of the debt portfolio.

Partially offset by:

- lower share of net losses of associates and joint ventures due to a small number of underperforming assets in the prior corresponding period
- lower operating expenses driven by the structural change to refocus Equities on the Asia-Pacific region and lower travel and entertainment expenses due to COVID-19.

Banking and Financial Services (BFS)

\$A317m

↓ 18% on pcp

- Increased credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19
- Higher employment expenses including increased headcount to better support clients through the impacts of COVID-19 as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Partially offset by:

- higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.

Commodities and Global Markets⁽³⁾ (CGM)

\$A1,082m

↓ 5% on pcp

- Reduced client contribution in Risk management products on a strong prior corresponding period, predominantly due to lower activity in 2Q21
- Increased credit and other impairment charges reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period due to COVID-19, resulting in overlays for regional and industry specific risks as well as impairments taken on a small number of underperforming positions
- Reduced fee and commission income due to decreased demand for commodity risk premia products.

Partially offset by:

- increased opportunities in inventory management and trading in 1Q21 driven by market dislocations and increased volatility particularly across Oil and Precious Metals markets as well as gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements
- consistent client and trading activity in foreign exchange, interest rate and credit products
- increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Operating Groups update

Cash Equities was transferred from CGM to Macquarie Capital on 1 June 2020. Comparatives have been reclassified to reflect this reorganisation.

(1) Certain activities of the Equities business are undertaken from within the Banking Group.

(2) 'Investment-related income' refers to Net income on equity and debt investments and Share of net (losses)/profits of associates and joint ventures.

(3) The Non-Banking Group includes certain activities of CGM.

1.1 Executive Summary

Continued

Profit attributable to the ordinary equity holder

\$A985m

↓ 32% on prior corresponding period

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar-20 %	Sep-19 %
Financial performance summary					
Net interest income	1,033	1,069	790	(3)	31
Fee and commission income	2,613	2,963	2,874	(12)	(9)
Net trading income	1,487	1,234	1,627	21	(9)
Net operating lease income	245	284	461	(14)	(47)
Share of net (losses)/profits of associates and joint ventures	(54)	144	(49)	*	10
Net credit impairment charges	(407)	(661)	(144)	(38)	183
Other impairment (charges)/reversals	(40)	(240)	5	(83)	*
Other operating income and charges	642	1,212	756	(47)	(15)
Net operating income	5,519	6,005	6,320	(8)	(13)
Employment expenses	(2,615)	(2,547)	(2,776)	3	(6)
Brokerage, commission and trading-related expenses	(471)	(482)	(482)	(2)	(2)
Occupancy expenses	(196)	(199)	(201)	(2)	(2)
Non-salary technology expenses	(395)	(382)	(367)	3	8
Other operating expenses	(589)	(781)	(654)	(25)	(10)
Total operating expenses	(4,266)	(4,391)	(4,480)	(3)	(5)
Operating profit before income tax	1,253	1,614	1,840	(22)	(32)
Income tax expense	(275)	(352)	(376)	(22)	(27)
Profit after income tax	978	1,262	1,464	(23)	(33)
Loss/(profit) attributable to non-controlling interests	7	12	(7)	(42)	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	985	1,274	1,457	(23)	(32)
Key metrics					
Expense to income ratio (%)	77.3	73.1	70.9		
Compensation ratio (%)	44.0	40.0	41.2		
Effective tax rate (%)	21.8	21.6	20.5		
Basic Earnings per share (cents per share)	276.7	362.1	430.1		
Diluted Earnings per share (cents per share)	272.9	350.7	419.5		
Dividend per ordinary share (cents per share)	135.0	180.0	250.0		
Dividend payout ratio (%)	49.5	50.0	60.7		
Annualised return on equity (%)	9.5	12.7	16.4		

Net operating income

Net operating income of \$A5,519 million for the half year ended 30 September 2020 decreased 13% from \$A6,320 million in the prior corresponding period. Higher Credit and Other impairment charges and decreases across Fee and commission income and Net operating lease income were partially offset by higher Net interest and trading income.

Net interest and trading income

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
2,520	2,303	2,417

↑ 4%
on pcg

- Increased opportunities in inventory management and trading in 1Q21 driven by market dislocations and increased volatility in CGM
- Lower interest expense in MAM driven by the sale of the Macquarie AirFinance business to a joint venture
- Growth in average BFS deposits and loan portfolio volumes in BFS.

Partially offset by:

- the impact of greater accounting volatility from changes in the fair value of economic hedges in Corporate
- margin compression on deposits and lower vehicle finance volumes in BFS
- Risk management products down on a strong pcg in CGM.

Fee and commission income

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
2,613	2,963	2,874

↓ 9%
on pcg

- Lower performance fees on a strong pcg and lower income from True Index products and private capital markets in MAM
- Lower mergers and acquisitions fee income in Macquarie Capital.

Partially offset by:

- higher equity capital markets fee income in Macquarie Capital
- higher base fee income in MAM which included fees earned from Macquarie AirFinance, as well as investments made by MIRA-managed funds and mandates, partially offset by asset realisations in MIRA-managed funds.

Net operating lease income

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
245	284	461

↓ 47%
on pcg

- Lower income in MAM driven by the sale of the Macquarie AirFinance business to a joint venture in the prior corresponding period.

Partially offset by:

- higher secondary income from the asset financing portfolio in CGM.

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

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
(54)	144	(49)

↑ 10%
on pcg

- Losses from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income and related aircraft impairments in MAM.

Partially offset by:

- losses recognised in the prior corresponding period due to a small number of underperforming assets in Macquarie Capital.

Credit and other impairment charges

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
(447)	(901)	(139)

↑
significantly
on pcg

- Higher credit impairment charges recognised across the Consolidated Entity primarily reflecting the economic impact of COVID-19 on our clients and customers, and new loans originated during the period.
- Higher impairment charges in the prior period reflect the initial impact of COVID-19 on markets and its impact on the forward-looking economic outlook.

Other operating income and charges

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
642	1,212	756

↓ 15%
on pcg

- Significantly lower net income on equity investments in Macquarie Capital due to fewer material asset realisations driven by the impact of COVID-19.

Partially offset by:

- the gain on sale of Macquarie European Rail in MAM.

1.1 Executive Summary

Continued

Operating expenses

Total operating expenses of \$A4,266 million for the half year ended 30 September 2020 decreased 5% from \$A4,480 million in the prior corresponding period with decreases across Employment expenses, and Other operating expenses and Occupancy, partially offset by an increase in Non-salary technology expenses.

Employment expenses

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
2,615	2,547	2,776

↓ 6%
on pcp

- Decrease in performance-related profit share expense mainly as a result of lower Group performance
- Lower share-based payments expense mainly driven by the non-recurrence of accelerated amortisation of equity awards relating to retiring Key Management Personnel recognised in the prior corresponding period.

Partially offset by:

- higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19.

Brokerage, commission and trading-related expenses

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
471	482	482

↓ 2%
on pcp

- Broadly in line with the prior corresponding period.

Non-salary technology expenses

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
395	382	367

↑ 8%
on pcp

- Higher technology infrastructure costs from an increase in business activity.

Other operating expenses and Occupancy

HALF YEAR TO

30 Sep 20 \$Am	31 Mar 20 \$Am	30 Sep 19 \$Am
785	980	855

↓ 8%
on pcp

- Reduced travel and entertainment expenses across the Consolidated Entity driven by COVID-19
- Reduction in professional fees across most Operating Groups.

Partially offset by:

- the recognition of certain transaction related charges in Corporate.

Income tax expense

Income tax expense of \$A275 million for the half year ended 30 September 2020 decreased 27% from \$A376 million in the prior corresponding period. The effective tax rate for the half year ended 30 September 2020 was 21.8%, up from 20.5% in the prior corresponding period and 21.6% in the prior period.

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

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2.1 Net Interest and Trading Income

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net interest income	1,033	1,069	790	(3)	31
Net trading income	1,487	1,234	1,627	21	(9)
Net interest and trading income	2,520	2,303	2,417	9	4

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.

With respect to businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are measured at fair value through profit or loss (FVTPL). Changes in fair value are presented in net trading income and gives rise to income statement volatility unless designated in a hedge accounting relationship, in which case the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk to reduce volatility in the income statement. If designated in a cash flow hedge accounting relationship, the effective portion of the derivative's fair value gains or losses is deferred in the cash flow hedge reserve as part of Other Comprehensive Income (OCI), and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. For segment reporting, derivatives are accounted for on an accrual basis in the results of the Operating Groups to the extent that the Corporate segment manages the derivative volatility, either through the application of hedge accounting or where the derivative volatility may offset the volatility of other positions managed within the Corporate segment.

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 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
MAM	(123)	(144)	(258)	(15)	(52)
BFS	844	890	838	(5)	1
CGM					
Commodities					
Risk management products	578	662	632	(13)	(9)
Lending and financing	118	151	115	(22)	3
Inventory management and trading	416	(124)	302	*	38
Foreign exchange, interest rates and credit	349	337	345	4	1
Equities	206	153	218	35	(6)
Specialised and Asset Finance	70	88	78	(20)	(10)
Macquarie Capital	6	(39)	(20)	*	*
Corporate	56	329	167	(83)	(66)
Net interest and trading income	2,520	2,303	2,417	9	4

Net interest and trading income of \$A2,520 million for the half year ended 30 September 2020 increased 4% from \$A2,417 million in the prior corresponding period.

MAM

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

Net interest and trading expense of \$A123 million for the half year ended 30 September 2020 decreased 52% from \$A258 million in the prior corresponding period, driven by a decrease in interest expense as a result of the sale of the Macquarie AirFinance business to a joint venture during the prior corresponding period and a decrease in receivables.

BFS

Net interest and trading income in BFS relates to interest income earned from the loan portfolio that primarily comprises home loans in Australia, loans to Australian businesses, vehicle leases 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 Banking Group.

Net interest and trading income of \$A844 million for the half year ended 30 September 2020 increased 1% from \$A838 million in the prior corresponding period due to a 32% increase in the average BFS deposit volumes and a 38% increase in average loan portfolio volumes, partially offset by margin compression on deposits and reduction in vehicle finance volumes.

As at 30 September 2020 the deposit and loan and lease portfolios included:

- BFS Deposits of \$A74.4 billion, up 16% from \$A63.9 billion as at 31 March 2020;
- Home loan volumes of \$A57.4 billion, up 10% from \$A52.1 billion as at 31 March 2020;
- Vehicle finance volumes of \$A12.4 billion, down 9% from \$A13.7 billion as at 31 March 2020; and
- Business banking loan volumes of \$A8.9 billion, down 1% from \$A9.0 billion as at 31 March 2020.

CGM

Net interest and trading income of \$A1,737 million for the half year ended 30 September 2020 increased 3% from \$A1,690 million in the prior corresponding period.

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 \$A578 million for the half year ended 30 September 2020 reduced 9% on a strong prior corresponding period. The current half year included solid client activity across the commodities platform, primarily in 1Q21, due to client hedging activity in Resources, Agriculture, North American Gas & Power, Global Oil and EMEA Gas and

Power. Elevated volatility in 1Q21 contributed to strong hedging activity with clients rebalancing portfolios.

(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. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

Lending and financing income of \$A118 million for the half year ended 30 September 2020 increased 3% from \$A115 million in the prior corresponding period driven by continued activity across Resources, Agricultural and Energy 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 \$A416 million for the half year ended 30 September 2020 increased 38% from \$A302 million in the prior corresponding period primarily driven by market dislocations and increased volatility in 1Q21 particularly across Oil and Precious Metals markets, as well as gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements.

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 \$A349 million for the half year ended 30 September 2020 was broadly in line with \$A345 million in the prior corresponding period driven by consistent client activity in structured foreign exchange and interest rate products due to FX volatility and movement in spreads.

2.1 Net Interest and Trading Income

Continued

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 \$A206 million for the half year ended 30 September 2020 decreased 6% from \$A218 million in the prior corresponding period driven by a reduced equities presence in EMEA, partially offset by an increased contribution from trading activities.

Specialised and Asset Finance (SAF)

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 \$A70 million for the half year ended 30 September 2020 decreased 10% from \$A78 million in the prior corresponding period. The decrease was largely as a result of a stronger prior corresponding period which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A4.9 billion as at 30 September 2020, a reduction of 21% from \$A6.2 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and unfavourable foreign exchange movements.

Macquarie Capital

Net interest and trading income/(expense) 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 income of \$A6 million for the half year ended 30 September 2020, compared to a net interest and trading expense of \$A20 million in the prior corresponding period. The increase was primarily due to higher interest income resulting from the growth in the debt portfolio, partially offset by higher trading losses mainly due to mark-to-market movements.

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 and centrally held investments 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 \$A56 million for the half year ended 30 September 2020 decreased 66% from \$A167 million in the prior corresponding period and decreased 83% from \$A329 million in the prior period primarily due to greater accounting volatility from changes in the fair value of economic hedges in those comparative periods.

2.2 Fee and Commission Income

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Base fees	985	1,086	967	(9)	2
Other asset management fees	145	157	146	(8)	(1)
Base fees and other asset management fees	1,130	1,243	1,113	(9)	2
Performance fees	413	275	546	50	(24)
Mergers and acquisitions, advisory and underwriting fees	413	578	482	(29)	(14)
Brokerage and other trading-related income	401	458	412	(12)	(3)
Other fee and commission income	256	409	321	(37)	(20)
Total fee and commission income	2,613	2,963	2,874	(12)	(9)

Total fee and commission income of \$A2,613 million for the half year ended 30 September 2020 decreased 9% from \$A2,874 million in the prior corresponding period primarily due to a decrease in performance fees from a range of funds in MAM and a decrease in mergers and acquisitions fee income in Macquarie Capital. This was partially offset by higher equity capital markets fee income in Macquarie Capital and higher base fees in MAM.

Base fees, Other asset management fees and Performance fees

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Base fees					
MAM					
MIM	500	573	514	(13)	(3)
MIRA	471	498	436	(5)	8
Total MAM	971	1,071	950	(9)	2
Other Operating Groups	14	15	17	(7)	(18)
Total base fee income	985	1,086	967	(9)	2
Total other asset management fees	145	157	146	(8)	(1)
Performance fees					
MAM					
MIM	2	2	4	–	(50)
MIRA	411	273	542	51	(24)
Total MAM	413	275	546	50	(24)
Total performance fee income	413	275	546	50	(24)

2.2 Fee and Commission Income

Continued

Base fees

Base fees of \$A985 million for the half year ended 30 September 2020 increased 2% from \$A967 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 \$A971 million for the half year ended 30 September 2020 increased 2% from \$A950 million in the prior corresponding period. Base fee income benefited from contributions from MIM as a result of additional assets acquired in the prior period, fees earned from Macquarie AirFinance, as well as investments made by MIRA-managed funds and mandates. This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

Base fee income of \$A985 million for the half year ended 30 September 2020 decreased 9% from \$A1,086 million in the prior period. The decrease is primarily driven by MAM, which included the impact of foreign exchange movements, net flows and market movements 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 \$A145 million for the half year ended 30 September 2020 were broadly in line with \$A146 million in the prior corresponding period.

Performance fees

Performance fees of \$A413 million for the half year ended 30 September 2020 decreased 24% from \$A546 million in the prior corresponding period.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks consisted of performance fees from a range of funds including Macquarie Infrastructure Partners (MIP) II, Macquarie European Infrastructure Fund (MEIF) 4, and other MIRA-managed funds and accounts in the current period. The prior corresponding period included performance fees from MEIF1, MEIF3, MIP I, MIP II, Macquarie Global Infrastructure Fund (GIF) II, GIF III, 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 \$A413 million for the half year ended 30 September 2020 decreased 14% from \$A482 million in the prior corresponding period.

Movement in fee and commission income was primarily due to lower mergers and acquisitions fee income, partially offset by higher equity capital markets fee income.

Brokerage and other trading-related income

Brokerage and other trading-related income primarily includes brokerage income from the Equity Derivatives and Trading and Futures businesses in CGM, the Equities business in Macquarie Capital and brokerage income from the provision of wealth services in BFS.

Brokerage and other trading-related income of \$A401 million for the half year ended 30 September 2020 was broadly in line with \$A412 million in the prior corresponding period.

Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including BFS Wrap and Vision platforms, home loans, 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 \$A256 million for the half year ended 30 September 2020 decreased 20% from \$A321 million in the prior corresponding period. The decrease was primarily due to lower income from True Index products and private capital markets in MAM and reduced demand for commodity risk premia products in CGM.

2.3 Net Operating Lease Income

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Rental income	539	682	1,066	(21)	(49)
Depreciation and other operating lease-related charges	(294)	(398)	(605)	(26)	(51)
Net operating lease income	245	284	461	(14)	(47)

Net operating lease income of \$A245 million for the half year ended 30 September 2020 decreased 47% from \$A461 million in the prior corresponding period, driven by the sale of the Macquarie AirFinance business to a joint venture during the prior corresponding period and the sale of Macquarie European Rail in the current period in MAM, partially offset by higher secondary income from the asset financing portfolio in CGM.

The total operating lease portfolio was \$A2.7 billion as at 30 September 2020, a decrease of 31% from \$A3.9 billion as at 31 March 2020. The decrease was mainly driven by the sale of Macquarie European Rail in the current period.

2.4 Share of Net (Losses)/Profits of Associates and Joint Ventures

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Share of net (losses)/profits of associates and joint ventures	(54)	144	(49)	*	10

Share of net losses of associates and joint ventures of \$A54 million for the half year ended 30 September 2020 increased 10% from \$A49 million in the prior corresponding period. The movement includes an equity accounted loss from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income due to deferrals and non-payments and related aircrafts impairments, as well as equity accounted losses across a small number of MIRA-managed funds. This was partially offset by the share of net profits from the sale of underlying assets within equity accounted investments in MAM during the current period. In addition, Macquarie Capital was impacted by a small number of underperforming assets in the prior corresponding period.

The prior period included share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM.

2.5 Credit and Other Impairment Charges

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net credit impairment charges					
Loan assets	(368)	(492)	(126)	(25)	192
Loans to associates and joint ventures	2	(7)	(6)	*	*
Other assets	(20)	(65)	(16)	(69)	25
Margin money and settlement assets	(36)	(71)	–	(49)	*
Financial investments	(4)	(10)	(2)	(60)	100
Undrawn commitments and financial guarantees	17	(16)	(8)	*	*
Gross credit impairment charges	(409)	(661)	(158)	(38)	159
Recovery of loans previously written off	2	–	14	*	(86)
Total net credit impairment charges	(407)	(661)	(144)	(38)	183
Other impairment (charges)/reversal					
Interests in associates and joint ventures	(28)	(126)	7	(78)	*
Intangible assets and other non-financial assets	(12)	(114)	(2)	(89)	*
Total other impairment (charges)/reversal	(40)	(240)	5	(83)	*
Total credit and other impairment charges	(447)	(901)	(139)	(50)	222

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
MAM	(11)	(226)	(5)	(95)	120
BFS	(78)	(106)	(42)	(26)	86
CGM	(166)	(211)	(32)	(21)	*
Macquarie Capital	(119)	(220)	(62)	(46)	92
Corporate	(73)	(138)	2	(47)	*
Total credit and other impairment charges	(447)	(901)	(139)	(50)	222

Total credit and other impairment charges of \$A447 million for the half year ended 30 September 2020 increased from \$A139 million in the prior corresponding period reflecting the impact of COVID-19 in the current period. Included in this is \$A407 million of total credit impairment charges, up from \$A144 million in the prior corresponding period. This includes losses arising from defaulted positions and ECL charges calculated on a forward-looking basis using modelled outcomes as well as overlays reflecting regional and industry specific risks.

MAM

Credit and Other impairment charges of \$A11 million for the half year ended 30 September 2020, compared to a charge of \$A5 million in the prior corresponding period.

The prior period charge of \$A226 million included a write-down of MIRA's investment in Macquarie Infrastructure Corporation (MIC) and a small number of other investments.

BFS

Credit and Other impairment charges of \$A78 million for the half year ended 30 September 2020 increased 86% from \$A42 million in prior corresponding period largely due to credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19.

CGM

Credit and Other impairment charges of \$A166 million for the half year ended 30 September 2020 increased significantly from \$A32 million in the prior corresponding period reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period due to COVID-19, resulting in overlays for regional and industry specific risks as well as impairments taken on a small number of underperforming positions.

Macquarie Capital

Credit and Other impairment charges of \$A119 million for the half year ended 30 September 2020 increased 92% from \$A62 million in the prior corresponding period primarily due to a small number of underperforming loan facilities and the growth of the debt portfolio.

Corporate

Credit and Other impairment charges of \$A73 million for the half year ended 30 September 2020, compared to an impairment reversal of \$A2 million in the prior corresponding period predominantly reflecting an overlay for the impact of macroeconomic uncertainty across the credit portfolio.

For further information on the Consolidated Entity's determination of its expected credit losses, please refer to Note 12 *Expected credit losses* in the Financial Report.

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2.6 Other Operating Income and Charges

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Investment income					
Net gain/(loss) on equity investments	33	(15)	91	*	(64)
Net gain/(loss) on debt investments	4	(45)	7	*	(43)
Net gain on interests in associates and joint ventures	109	987	248	(89)	(56)
Net gain on sale of businesses and subsidiaries held for sale	407	80	211	*	93
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	11	–	113	*	(90)
Total investment income	564	1,007	670	(44)	(16)
Net other income	78	205	86	(62)	(9)
Total other operating income and charges	642	1,212	756	(47)	(15)

Total other operating income and charges of \$A642 million for the half year ended 30 September 2020 decreased 15% from \$A756 million in the prior corresponding period, mainly driven by lower investment income in Macquarie Capital, partially offset by the gain on sale of Macquarie European Rail in MAM.

Investment income

Investment income totalled \$A564 million for the half year ended 30 September 2020, a decrease of 16% from \$A670 million in the prior corresponding period primarily driven by fewer asset realisations in Europe, particularly in the green energy sector, mainly due to the impact of COVID-19 in Macquarie Capital. This was partially offset by the gain on sale of Macquarie European Rail in MAM.

Net other income

Net other income of \$A78 million for the half year ended 30 September 2020 decreased 9% from \$A86 million in the prior corresponding period. The movement was primarily driven by increased development expenditure in relation to green energy projects in Macquarie Capital.

2.7 Operating Expenses

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	(2,077)	(2,157)	(2,238)	(4)	(7)
Share-based payments	(279)	(237)	(349)	18	(20)
Provision for long service leave and annual leave	(75)	(5)	(15)	*	*
Total compensation expenses	(2,431)	(2,399)	(2,602)	1	(7)
Other employment expenses including on-costs, staff procurement and staff training	(184)	(148)	(174)	24	6
Total employment expenses	(2,615)	(2,547)	(2,776)	3	(6)
Brokerage, commission and trading-related expenses	(471)	(482)	(482)	(2)	(2)
Occupancy expenses	(196)	(199)	(201)	(2)	(2)
Non-salary technology expenses	(395)	(382)	(367)	3	8
Other operating expenses					
Professional fees	(216)	(243)	(262)	(11)	(18)
Travel and entertainment expenses	(8)	(86)	(97)	(91)	(92)
Advertising and communication expenses	(64)	(72)	(67)	(11)	(4)
Amortisation of intangibles assets	(33)	(39)	(31)	(15)	6
Auditor's remuneration	(23)	(21)	(19)	10	21
Other expenses	(245)	(320)	(178)	(23)	38
Total other operating expenses	(589)	(781)	(654)	(25)	(10)
Total operating expenses	(4,266)	(4,391)	(4,480)	(3)	(5)

Total operating expenses of \$A4,266 million for the half year ended 30 September 2020 decreased 5% from \$A4,480 million in the prior corresponding period mainly driven by lower performance-related profit share expense, a decrease in share-based payment expense and reduced travel and entertainment expenses driven by COVID-19. This was partially offset by higher leave provisions driven by less holiday entitlements being taken by staff across the Consolidated Entity.

Key drivers of the movement included:

- Total employment expenses of \$A2,615 million for the half year ended 30 September 2020 decreased 6% from \$A2,776 million in the prior corresponding period mainly driven by lower performance-related profit share expense mainly as a result of lower Group performance, a decrease in share-based payment expense primarily due to the non-recurrence of accelerated amortisation of equity awards for retiring Key Management Personnel recognised in the prior corresponding period and lower headcount in Macquarie Capital following the structural change in the prior period to refocus Equities on the Asia-Pacific region. This was partially offset by higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19 and higher average headcount in central service groups to support business growth, technology projects and ongoing regulatory compliance
- Brokerage, commission and trading-related expenses of \$A471 million for the half year ended 30 September 2020 decreased 2% from \$A482 million in the prior corresponding period primarily due to the sale of an investment in Macquarie Pacific Funding (MPF) in BFS in the prior corresponding period
- Non-salary technology expenses of \$A395 million for the half year ended 30 September 2020 increased 8% from \$A367 million in the prior corresponding period primarily due to higher technology infrastructure costs from an increase in business activity
- Total other operating expenses of \$A589 million for the half year ended 30 September 2020 decreased 10% from \$A654 million in the prior corresponding period mainly due to reduced travel and entertainment expenses across the Consolidated Entity driven by COVID-19 and a reduction in professional fees across most Operating Groups. This was partially offset by the recognition of certain transaction related charges in Corporate.

2.8 Headcount

	AS AT			MOVEMENT	
	Sep 20	Mar 20	Sep 19	Mar 20 %	Sep 19 %
Headcount by Operating Group⁽¹⁾					
MAM	1,904	1,899	1,789	<1	6
BFS	2,895	2,660	2,651	9	9
CGM ⁽²⁾	2,167	2,136	2,145	1	1
Macquarie Capital ⁽²⁾	1,992	2,047	2,130	(3)	(6)
Total headcount – Operating Groups	8,958	8,742	8,715	2	3
Total headcount – Corporate	7,398	7,107	6,989	4	6
Total headcount⁽³⁾	16,356	15,849	15,704	3	4
Headcount by region					
Australia ⁽⁴⁾	7,076	6,670	6,537	6	8
International:					
Americas	2,728	2,756	2,803	(1)	(3)
Asia	4,104	4,014	3,911	2	5
Europe, Middle East and Africa	2,448	2,409	2,453	2	(<1)
Total headcount – International	9,280	9,179	9,167	1	1
Total headcount⁽³⁾	16,356	15,849	15,704	3	4
International headcount ratio (%)	57	58	58		

Total headcount of 16,356 as at 30 September 2020 increased 4% from 15,704 as at 30 September 2019, mainly due to an increase in headcount in the central service groups to support business growth, technology projects and ongoing regulatory compliance, and an increase in BFS as additional resources were required to support customers impacted by COVID-19. This was partially offset by a decrease in the Macquarie Capital headcount driven by the structural change in the prior period to refocus Equities on the Asia-Pacific region.

The headcount increase in MAM in the prior period included an internal restructure resulting in the transfer of certain business-aligned support headcount from Financial Management Group (FMG) to MAM.

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

(2) Headcount as at 31 March 2020 and 30 September 2019 has been restated to reflect the transfer of Cash Equities from CGM to Macquarie Capital.

(3) Total headcount excludes certain employees who are due to exit the Consolidated Entity post 30 September 2020.

(4) Includes New Zealand.

2.9 Income Tax Expense

	HALF YEAR TO		
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am
Operating profit before income tax	1,253	1,614	1,840
<i>Prima facie</i> tax @ 30%	376	484	552
Income tax permanent differences	(101)	(132)	(176)
Income tax expense	275	352	376
Effective tax rate⁽¹⁾	21.8%	21.6%	20.5%

Income tax expense of \$A275 million for the half year ended 30 September 2020 decreased 27% from \$A376 million in the prior corresponding period. The effective tax rate for the half year ended 30 September 2020 was 21.8%, up from 20.5% in the prior corresponding period and 21.6% in the prior period.

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

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(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests increased operating profit before income tax by \$A7 million for the half year ended 30 September 2020 (31 March 2020: increased operating profit before income tax by \$A12 million; 30 September 2019: reduced operating profit before income tax by \$A7 million).

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Segment Analysis

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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 four Operating Groups and a Corporate segment (Reportable Segments).

During the current period, Cash Equities was transferred from CGM to Macquarie Capital. 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. The Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance⁽¹⁾ products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an 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 range of tailored specialised asset finance solutions across a variety of industries and asset classes
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and construction of infrastructure and energy projects, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients. Additionally, Macquarie Capital's equities brokerage business provides clients with access to equity research, sales, execution capabilities and corporate access.

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 and strategic investments, assets and businesses that 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. Central overlays for expected credit losses and impairments representing adjustments to modelled results which are not allocated to specific Operating Groups are presented as part of the Corporate segment. Other items of income and expenses include earnings from investments, 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.

Below is a selection of key policies applied in determining the 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 may be 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 Banking Group. 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.

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

(1) Includes general plant and equipment.

Accounting for derivatives that hedge interest rate risk

With respect to businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are measured at FVTPL. Changes in fair value are presented in net trading income and gives rise to income statement volatility unless designated in a hedge accounting relationship, in which case the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk to reduce volatility in the income statement. If designated in a cash flow hedge accounting relationship, the effective portion of the derivative's fair value gains or losses is deferred in the cash flow hedge reserve as part of OCI, and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. For segment reporting, derivatives are accounted for on an accrual basis in the results of the Operating Groups to the extent that the Corporate segment manages the derivative volatility, either through the application of hedge accounting or where the derivative volatility may offset the volatility of other positions managed within the Corporate segment.

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 are not allocated to Operating Groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and are not allocated to the Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, the internal management revenue/charge category is used.

This internal management revenue/charge category, which is primarily used for permanent income tax differences generated by the Operating Groups, 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.

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3.1 Basis of Preparation

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	MAM \$Am	BFS \$Am
Half year ended 30 September 2020		
Net interest and trading (expense)/income	(123)	844
Fee and commission income/(expense)	1,505	203
Net operating lease income	46	–
Share of net (losses)/profits of associates and joint ventures	(55)	(1)
Other operating income and charges		
Credit and Other impairment charges	(11)	(78)
Other operating income and charges	425	16
Internal management revenue/(charge)	2	1
Net operating income	1,789	985
Total operating expenses	(721)	(668)
Operating profit/(loss) before income tax	1,068	317
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(6)	–
Net profit/(loss) contribution	1,062	317
Half year ended 31 March 2020		
Net interest and trading (expense)/income	(144)	890
Fee and commission income/(expense)	1,559	219
Net operating lease income	77	–
Share of net profits/(losses) of associates and joint ventures	141	5
Other operating income and charges		
Credit and Other impairment charges	(226)	(106)
Other operating income and charges	357	8
Internal management revenue/(charge)	89	–
Net operating income	1,853	1,016
Total operating expenses	(799)	(631)
Operating profit/(loss) before income tax	1,054	385
Income tax expense	–	–
Loss/(profit) attributable to non-controlling interests	1	–
Net profit/(loss) contribution	1,055	385
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 impairment (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

	CGM \$Am	Macquarie Capital \$Am	Corporate \$Am	Total \$Am
	1,737	6	56	2,520
	257	665	(17)	2,613
	198	–	1	245
	13	(17)	6	(54)
	(166)	(119)	(73)	(447)
	90	79	32	642
	1	–	(4)	–
	2,130	614	1	5,519
	(1,048)	(816)	(1,013)	(4,266)
	1,082	(202)	(1,012)	1,253
	–	–	(275)	(275)
	–	13	–	7
	1,082	(189)	(1,287)	985
	1,267	(39)	329	2,303
	347	854	(16)	2,963
	203	–	4	284
	15	(61)	44	144
	(211)	(220)	(138)	(901)
	48	821	(22)	1,212
	13	23	(125)	–
	1,682	1,378	76	6,005
	(1,084)	(852)	(1,025)	(4,391)
	598	526	(949)	1,614
	–	–	(352)	(352)
	–	16	(5)	12
	598	542	(1,306)	1,274
	1,690	(20)	167	2,417
	283	738	(21)	2,874
	157	–	1	461
	9	(137)	(1)	(49)
	(32)	(62)	2	(139)
	49	576	23	756
	2	38	(42)	–
	2,158	1,133	129	6,320
	(1,018)	(913)	(1,158)	(4,480)
	1,140	220	(1,029)	1,840
	–	–	(376)	(376)
	–	1	(6)	(7)
	1,140	221	(1,411)	1,457

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3.2 MAM

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net interest and trading expense	(123)	(144)	(258)	(15)	(52)
Fee and commission income					
Base fees	971	1,071	950	(9)	2
Performance fees	413	275	546	50	(24)
Other fee and commission income	121	213	152	(43)	(20)
Total fee and commission income	1,505	1,559	1,648	(3)	(9)
Net operating lease income	46	77	303	(40)	(85)
Share of net (losses)/profits of associates and joint ventures	(55)	141	83	*	*
Other operating income and charges					
Net income on equity and debt investments	371	201	52	85	*
Credit and Other impairment charges	(11)	(226)	(5)	(95)	120
Other income	54	156	56	(65)	(4)
Total other operating income and charges	414	131	103	216	*
Internal management revenue	2	89	–	(98)	*
Net operating income	1,789	1,853	1,879	(3)	(5)
Operating expenses					
Employment expenses	(257)	(262)	(243)	(2)	6
Brokerage, commission and trading-related expenses	(123)	(140)	(127)	(12)	(3)
Other operating expenses	(341)	(397)	(385)	(14)	(11)
Total operating expenses	(721)	(799)	(755)	(10)	(5)
Non-controlling interests⁽¹⁾	(6)	1	(2)	*	200
Net profit contribution	1,062	1,055	1,122	1	(5)
Non-GAAP metrics					
MAM (including MIRA) assets under management (\$Ab) ⁽²⁾	554.9	597.7	562.0	(7)	(1)
MIRA equity under management (\$Ab)	139.8	149.3	134.4	(6)	4
Headcount	1,904	1,899	1,789	<1	6

Net profit contribution of \$A1,062 million for the half year ended 30 September 2020, down 5% from the prior corresponding period due to:

- decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior corresponding period and the sale of Macquarie European Rail in the current period
- decreased performance fees following a strong pcip.

Partially offset by:

- increased investment-related⁽³⁾ income primarily driven by the sale of Macquarie European Rail in the current period, partially offset by the impact of COVID-19 on aircraft leasing income and related aircraft impairments
- increased base fees primarily driven by contributions from MIM as a result of additional assets acquired in the prior period, fees earned from Macquarie AirFinance and investments made by MIRA-managed funds and mandates
- decreased operating expenses primarily driven by lower professional fees; and reduced travel on account of COVID-19.

(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.

(2) Assets under management as at 31 Mar 20 has been restated to reflect an immaterial misstatement in total MAM AUM reported on 8 May 2020.

(3) 'Investment-related income' refers to Net income on equity and debt investments and Share of net (losses)/profits of associates and joint ventures.

Net interest and trading expense

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

Net interest and trading expense of \$A123 million for the half year ended 30 September 2020 decreased 52% from \$A258 million in the prior corresponding period, driven by a decrease in interest expense as a result of the sale of the Macquarie AirFinance business to a joint venture during the prior corresponding period and a decrease in receivables.

Base fees

Base fee income of \$A971 million for the half year ended 30 September 2020 increased 2% from \$A950 million in the prior corresponding period. Base fee income benefited from contributions from MIM as a result of additional assets acquired in the prior period, fees earned from Macquarie AirFinance, as well as investments made by MIRA-managed funds and mandates. This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

Base fee income of \$A971 million for the half year ended 30 September 2020 decreased 9% from \$A1,071 million in the prior period. This decrease was primarily driven by foreign exchange movements, net flows and market movements in MIM.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A413 million for the half year ended 30 September 2020 decreased 24% from \$A546 million in the prior corresponding period. The half year ended 30 September 2020 included performance fees from a range of funds including MIP II, MEIF4 and other MIRA-managed funds and accounts. The prior corresponding period included performance fees from MEIF1, MEIF3, MIP I, MIP II, GIF II, GIF III, managed accounts and co-investors.

Other fee and commission income

Other fee and commission income includes fees related to capital raising, distribution services and transactions, 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 \$A121 million for the half year ended 30 September 2020 decreased 20% from \$A152 million in the prior corresponding period, largely due to lower income from True Index products and private capital markets.

Net operating lease income

Net operating lease income of \$A46 million for the half year ended 30 September 2020 decreased 85% from \$A303 million in the prior corresponding period, driven by the sale of the Macquarie AirFinance business to a joint venture during the prior corresponding period and the sale of Macquarie European

Rail in the current period. The operating lease portfolio was \$A0.9 billion as at 30 September 2020, a decrease of 47% from \$A1.7 billion⁽¹⁾ as at 31 March 2020. The decrease was driven by the sale of Macquarie European Rail in the current period.

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

Share of net losses of associates and joint ventures of \$A55 million for the half year ended 30 September 2020 decreased significantly from a profit of \$A83 million in the prior corresponding period.

The current period includes an equity accounted loss from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income due to deferrals and non-payments and related aircraft impairments. In addition, equity accounted losses were recognised across a small number of MIRA-managed funds, partially offset by the share of net profits from the sale of underlying assets within equity accounted investments.

The prior period included gains from the sale of a number of underlying assets within equity accounted investments in MAM.

Net income on equity and debt investments

Net income on equity and debt investments of \$A371 million for the half year ended 30 September 2020 increased significantly from \$A52 million in the prior corresponding period. The current period includes the gain on sale of Macquarie European Rail.

Credit and Other impairment charges

Credit and Other impairment charges of \$A11 million for the half year ended 30 September 2020, compared to a charge of \$A5 million in the prior corresponding period.

The prior period charge of \$A226 million included a write-down of MIRA's investment in MIC and a small number of other investments.

Other income

Other income of \$A54 million for the half year ended 30 September 2020 was broadly in line with \$A56 million in the prior corresponding period. The current period includes a gain on revaluation of property investments. The prior corresponding period included the gain on sale of a non-financial asset.

Operating expenses

Total operating expenses of \$A721 million for the half year ended 30 September 2020 decreased 5% from \$A755 million in the prior corresponding period. The decrease was primarily driven by lower professional fees including Aladdin platform implementation costs, reduced travel on account of COVID-19, the sale of the Macquarie AirFinance business to a joint venture during the prior corresponding period and the completion of Delaware intangible amortisation expenses. This was partially offset by the impact of a new business acquired during the prior period. The business continues to focus on cost saving initiatives.

(1) Within the operating lease portfolio Macquarie European Rail was classified as held for sale as at 31 March 2020.

3.3 BFS

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 20 %
Net interest and trading income	844	890	838	(5)	1
Fee and commission income					
Wealth management fee income	136	140	144	(3)	(6)
Banking and leasing fee income	67	79	82	(15)	(18)
Total fee and commission income	203	219	226	(7)	(10)
Share of net (losses)/profits of associates and joint ventures	(1)	5	(3)	*	(67)
Other operating income and charges					
Credit and Other impairment charges	(78)	(106)	(42)	(26)	86
Other income	16	8	–	100	*
Total other operating income and charges	(62)	(98)	(42)	(37)	48
Internal management revenue	1	–	2	*	(50)
Net operating income	985	1,016	1,021	(3)	(4)
Operating expenses					
Employment expenses	(197)	(172)	(183)	15	8
Brokerage, commission and trading-related expenses	(81)	(85)	(87)	(5)	(7)
Technology expenses ⁽¹⁾	(202)	(183)	(191)	10	6
Other operating expenses	(188)	(191)	(175)	(2)	7
Total operating expenses	(668)	(631)	(636)	6	5
Net profit contribution	317	385	385	(18)	(18)
Non-GAAP metrics					
Funds on platform ⁽²⁾ (\$Ab)	89.3	79.1	91.5	13	(2)
Loan and lease portfolio ⁽³⁾ (\$Ab)	79.1	75.3	67.4	5	17
BFS deposits ⁽⁴⁾ (\$Ab)	74.4	63.9	56.2	16	32
Headcount	2,895	2,660	2,651	9	9

Net profit contribution of \$A317 million for the half year ended 30 September 2020, down 18% from the prior corresponding period due to:

- increased credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19
- higher employment expenses including increased headcount to better support clients through the impacts of COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Partially offset by:

- higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.

(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 Loan and lease portfolio comprises home loans, loans to businesses, vehicle finance 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 home loans in Australia, loans to Australian businesses, vehicle leases 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 Banking Group.

Net interest and trading income of \$A844 million for the half year ended 30 September 2020 increased 1% from \$A838 million in the prior corresponding period due to a 32% increase in the average BFS deposit volumes and a 38% increase in average loan portfolio volumes, offset by margin compression on deposits and reduction in vehicle finance volumes.

As at 30 September 2020 the deposit and loan and lease portfolios included:

- BFS Deposits of \$A74.4 billion, up 16% from \$A63.9 billion as at 31 March 2020;
- Home loan volumes of \$A57.4 billion, up 10% from \$A52.1 billion as at 31 March 2020;
- Vehicle finance volumes of \$A12.4 billion, down 9% from \$A13.7 billion as at 31 March 2020; and
- Business banking loan volumes of \$A8.9 billion, down 1% from \$A9.0 billion as at 31 March 2020.

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, and the provision of wealth services.

Funds on platform closed at \$A89.3 billion at 30 September 2020, from \$A79.1 billion at 31 March 2020 and \$A91.5 billion at 30 September 2019. The movements were reflective of strong client inflows as well as market movements during the year.

Wealth management fee income of \$A136 million for the half year ended 30 September 2020 decreased 6% from \$A144 million in the prior corresponding period due to lower advisor fees in the current environment and higher deposit origination costs.

Banking and leasing fee income

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

Banking and leasing fee income of \$A67 million for the half year ended 30 September 2020 decreased 18% from \$A82 million in the prior corresponding period driven by the impact of supporting clients through COVID-19.

Credit and Other impairment charges

Credit and Other impairment charges of \$A78 million for the half year ended 30 September 2020 increased 86% from \$A42 million in prior corresponding period largely due to credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19.

Other income

Other income of \$A16 million for the half year ended 30 September 2020 was mainly driven by the revaluation of an equity investment.

Operating expenses

Total operating expenses of \$A668 million for the half year ended 30 September 2020 increased 5% from \$A636 million in the prior corresponding period.

Employment expenses of \$A197 million for the half year ended 30 September 2020 increased 8% from \$A183 million in the prior corresponding period largely due to higher leave provisions driven by less holiday entitlements being taken by staff and higher headcount as additional resources were required to support customers impacted by COVID-19.

Brokerage, commission and trading-related expenses of \$A81 million for the half year ended 30 September 2020 decreased 7% from \$A87 million in the prior corresponding period largely due to the sale of an investment in MPF in the prior corresponding period.

Technology expenses of \$A202 million for the half year ended 30 September 2020 increased 6% from \$A191 million in the prior corresponding period to support business growth and to meet regulatory requirements.

Other operating expenses of \$A188 million for the half year ended 30 September 2020 increased 7% from \$A175 million in the prior corresponding period included increased risk, regulatory and other business related costs.

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3.4 CGM

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net interest and trading income					
Commodities					
Risk management products	578	662	632	(13)	(9)
Lending and financing	118	151	115	(22)	3
Inventory management and trading	416	(124)	302	*	38
Total commodities	1,112	689	1,049	61	6
Foreign exchange, interest rates and credit	349	337	345	4	1
Equities	206	153	218	35	(6)
Specialised and Asset Finance	70	88	78	(20)	(10)
Net interest and trading income	1,737	1,267	1,690	37	3
Fee and commission income					
Brokerage and other trading-related income	112	139	112	(19)	–
Other fee and commission income	145	208	171	(30)	(15)
Total fee and commission income	257	347	283	(26)	(9)
Net operating lease income	198	203	157	(2)	26
Share of net profits of associates and joint ventures	13	15	9	(13)	44
Other operating income and charges					
Net income on equity and debt investments	44	6	–	*	*
Credit and Other impairment charges	(166)	(211)	(32)	(21)	*
Other income	46	42	49	10	(6)
Total other operating income and charges	(76)	(163)	17	(53)	*
Internal management revenue	1	13	2	(92)	(50)
Net operating income	2,130	1,682	2,158	27	(1)
Operating expenses					
Employment expenses	(298)	(308)	(276)	(3)	8
Brokerage, commission and trading-related expenses	(216)	(200)	(218)	8	(1)
Other operating expenses	(534)	(576)	(524)	(7)	2
Total operating expenses	(1,048)	(1,084)	(1,018)	(3)	3
Net profit contribution	1,082	598	1,140	81	(5)
Non-GAAP metrics					
Headcount	2,167	2,136	2,145	1	1

Net profit contribution of \$A1,082 million for the half year ended 30 September 2020, down 5% on a strong prior corresponding period.

Result reflective of:

- reduced client contribution in Risk management products on a strong prior corresponding period, predominantly due to lower activity in 2Q21
- increased Credit and other impairment charges reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period due to COVID-19, resulting in overlays for regional and industry specific risks as well as impairments taken on a small number of underperforming positions
- reduced fee and commission income due to decreased demand for commodity risk premia products.

Partially offset by:

- increased opportunities in inventory management and trading in 1Q21 driven by market dislocations and increased volatility particularly across Oil and Precious Metals markets, as well as gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements
- consistent client and trading activity in foreign exchange, interest rate and credit products
- increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Result overview

The CGM result of \$A1,082 million for the half year ended 30 September 2020 is reflective of two distinct quarters with 2Q21 down significantly on 1Q21. 1Q21 was characterised by dislocated markets and elevated volatility, which resulted in strong client activity as clients sought to rebalance portfolios and increased trading opportunities. 2Q21 activity was increasingly subdued as liquidity increased following government and central bank economic support initiatives resulting in lower volatility and significantly reduced client activity. The 1H21 result was also impacted by increased credit and other impairment charges reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19.

Net interest and trading income

Net interest and trading income of \$A1,737 million for the half year ended 30 September 2020 increased 3% from \$A1,690 million in the prior corresponding period.

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 \$A578 million for the half year ended 30 September 2020 reduced 9% on a strong prior corresponding period. The current half year included solid client activity across the commodities platform, primarily in 1Q21, due to client hedging activity in Resources, Agriculture, North American Gas & Power, Global Oil and EMEA Gas and Power. Elevated volatility in 1Q21 contributed to strong hedging activity with clients rebalancing portfolios.

(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. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

Lending and financing income of \$A118 million for the half year ended 30 September 2020 increased 3% from \$A115 million in the prior corresponding period driven by continued activity across Resources, Agricultural and Energy 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 \$A416 million for the half year ended 30 September 2020 increased 38% from \$A302 million in the prior corresponding period primarily driven by market dislocations and increased volatility in 1Q21 particularly across Oil and Precious Metals markets, as well as gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements.

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 \$A349 million for the half year ended 30 September 2020 was broadly in line with \$A345 million in the prior corresponding period driven by consistent client activity in structured foreign exchange and interest rate products due to FX volatility and movement in spreads.

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 \$A206 million for the half year ended 30 September 2020 decreased 6% from \$A218 million in the prior corresponding period driven by a reduced equities presence in EMEA, partially offset by an increased contribution from trading activities.

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 \$A70 million for the half year ended 30 September 2020 decreased 10% from \$A78 million in the prior corresponding period. The decrease was largely as a result of a stronger prior corresponding period which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A4.9 billion as at 30 September 2020, a reduction of 21% from \$A6.2 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and unfavourable foreign exchange movements.

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Fee and commission income

Fee and commission income of \$A257 million for the half year ended 30 September 2020 decreased 9% from \$A283 million in the prior corresponding period.

The decrease primarily relates to reduced demand for commodity risk premia products.

Net operating lease income

Net operating lease income of \$A198 million for the half year ended 30 September 2020 increased 26% from \$A157 million in the prior corresponding period. The movement was primarily driven by higher secondary income from the asset financing portfolio.

Net income on equity and debt investments

Net income on equity and debt investments of \$A44 million for the half year ended 30 September 2020 was up significantly on the prior corresponding period. The current period reflected gains on listed equity investments in the commodities sector.

Credit and Other impairment charges

Credit and Other impairment charges of \$A166 million for the half year ended 30 September 2020 increased significantly from \$A32 million in the prior corresponding period reflecting a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period due to COVID-19, resulting in overlays for regional and industry specific risks as well as impairments taken on a small number of underperforming positions.

Operating expenses

Total operating expenses of \$A1,048 million for the half year ended 30 September 2020 increased 3% from \$A1,018 million in the prior corresponding period.

Employment expenses of \$A298 million for the half year ended 30 September 2020 increased 8% from \$A276 million in the prior corresponding period primarily driven by higher leave provisions due to less holiday entitlements being taken by staff.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of \$A216 million for the half year ended 30 September 2020 were broadly in line with the prior corresponding period.

Other operating expenses of \$A534 million for the half year ended 30 September 2020 increased 2% from \$A524 million in the prior corresponding period, driven by expenditure on technology infrastructure, as well as increasing compliance and regulatory requirements.

3.5 Macquarie Capital

	HALF YEAR TO			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net interest and trading income/(expense)	6	(39)	(20)	*	*
Fee and commission income	665	854	738	(22)	(10)
Share of net losses of associates and joint ventures	(17)	(61)	(137)	(72)	(88)
Other operating income and charges					
Net income on equity and debt investments	123	827	590	(85)	(79)
Credit and Other impairment charges	(119)	(220)	(62)	(46)	92
Other (expenses)/income	(44)	(6)	(14)	*	214
Total other operating income and charges	(40)	601	514	*	*
Internal management revenue	–	23	38	(100)	(100)
Net operating income	614	1,378	1,133	(55)	(46)
Operating expenses					
Employment expenses	(361)	(348)	(385)	4	(6)
Brokerage, commission and trading-related expenses	(50)	(57)	(50)	(12)	–
Other operating expenses	(405)	(447)	(478)	(9)	(15)
Total operating expenses	(816)	(852)	(913)	(4)	(11)
Non-controlling interests⁽¹⁾	13	16	1	(19)	*
Net (loss)/profit contribution	(189)	542	221	*	*
Non-GAAP metrics					
Headcount	1,992	2,047	2,130	(3)	(6)

Net loss contribution of \$A189 million for the half year ended 30 September 2020, compared to net profit contribution of \$A221 million in the prior corresponding period due to:

- significantly lower net income on equity investments due to fewer material asset realisations driven by the impact of COVID-19
- lower fee and commission income due to lower mergers and acquisitions fee income, partially offset by higher equity capital markets fee income
- increased credit and other impairment charges primarily due to a small number of underperforming loan facilities and the growth of the debt portfolio.

Partially offset by:

- lower share of net losses of associates and joint ventures due to a small number of underperforming assets in the prior corresponding period
- lower operating expenses driven by the structural change to refocus Equities on the Asia-Pacific region and lower travel and entertainment expenses due to COVID-19.

(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 income/(expense)

Net interest and trading income/(expense) 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 income of \$A6 million for the half year ended 30 September 2020, compared to a net interest and trading expense of \$A20 million in the prior corresponding period. The increase was primarily due to higher interest income resulting from the growth in the debt portfolio, partially offset by higher trading losses mainly due to mark-to-market movements.

Fee and commission income

Fee and commission income of \$A665 million for the half year ended 30 September 2020 decreased 10% from \$A738 million in the prior corresponding period.

The decrease in fee and commission income was primarily due to lower mergers and acquisitions fee income, partially offset by higher equity capital markets fee income.

Brokerage income was broadly in line with the prior corresponding period.

Share of net losses of associates and joint ventures

Share of net losses of associates and joint ventures of \$A17 million for the half year ended 30 September 2020 decreased 88% from \$A137 million in the prior corresponding period.

The movement was primarily due to a small number of underperforming assets in the prior corresponding period. There were no individually significant items during the current period.

Net income on equity and debt investments

Net income on equity and debt investments of \$A123 million for the half year ended 30 September 2020 decreased 79% from \$A590 million in the prior corresponding period.

The decrease in income was primarily due to fewer asset realisations in Europe, particularly in the green energy sector mainly due to the impact of COVID-19.

Credit and Other impairment charges

Credit and Other impairment charges of \$A119 million for the half year ended 30 September 2020 increased 92% from \$A62 million in the prior corresponding period primarily due to a small number of underperforming loan facilities and the growth of the debt portfolio.

Other (expenses)/income

Other expenses were \$A44 million for the half year ended 30 September 2020 compared to \$A14 million in the prior corresponding period.

The movement primarily reflected increased development expenditure in relation to green energy projects.

Operating expenses

Total operating expenses of \$A816 million for the half year ended 30 September 2020 decreased 11% from \$A913 million in the prior corresponding period. This decrease was primarily driven by the structural change in the prior period to refocus Equities on the Asia-Pacific region and lower travel and entertainment expenses due to COVID-19.

3.6 Corporate

	HALF YEAR TO		MOVEMENT		
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Net interest and trading income	56	329	167	(83)	(66)
Fee and commission expense	(17)	(16)	(21)	6	(19)
Net operating lease income	1	4	1	(75)	–
Share of net profits/(losses) of associates and joint ventures	6	44	(1)	(86)	*
Other operating income and charges					
Net income/(loss) on equity and debt investments	5	(24)	9	*	(44)
Credit and Other impairment (charges)/reversal	(73)	(138)	2	(47)	*
Other income and charges	27	2	14	*	93
Total other operating income and charges	(41)	(160)	25	(74)	*
Internal management charge	(4)	(125)	(42)	(97)	(90)
Net operating income and charges	1	76	129	(99)	(99)
Operating expenses					
Employment expenses	(1,502)	(1,457)	(1,689)	3	(11)
Other operating expenses	489	432	531	13	(8)
Total operating expenses	(1,013)	(1,025)	(1,158)	(1)	(13)
Income tax expense	(275)	(352)	(376)	(22)	(27)
Macquarie Income Securities	–	(6)	(6)	(100)	(100)
Non-controlling interests ⁽¹⁾	–	1	–	(100)	*
Net loss contribution	(1,287)	(1,306)	(1,411)	(1)	(9)
Non-GAAP metrics					
Headcount	7,398	7,107	6,989	4	6

The Corporate segment comprises head office and central service groups, including Group Treasury, and non-core and centrally held investments that are not 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 and centrally held investments and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting under AASB 9 is unable to be achieved.

Net interest and trading income of \$A56 million for the half year ended 30 September 2020 decreased 66% from \$A167 million in the prior corresponding period and decreased 83% from \$A329 million in the prior period primarily due to greater accounting volatility from changes in the fair value of economic hedges in those comparative periods.

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

Share of net profits of associates and joint ventures of \$A6 million for the half year ended 30 September 2020 compared to losses of \$A1 million in the prior corresponding period.

Credit and Other impairment (charges)/reversal

Credit and Other impairment charges of \$A73 million for the half year ended 30 September 2020, compared to an impairment reversal of \$A2 million in the prior corresponding period predominantly reflecting an overlay for the impact of macroeconomic uncertainty across the credit portfolio.

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 \$A1,502 million for the half year ended 30 September 2020 decreased 11% from \$A1,689 million in the prior corresponding period. The prior corresponding period included higher share-based payments expense driven mainly by the accelerated amortisation of equity awards for retiring Key Management Personnel. The current period includes lower performance-related profit share mainly driven by lower Group performance, the impact of higher average headcount in central service groups to support technology projects and ongoing regulatory compliance and higher leave provisions driven by less holiday entitlements being taken by staff as a result of COVID-19.

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 \$A489 million for the half year ended 30 September 2020 decreased 8% from \$A531 million in the prior corresponding period. The current period includes the recognition of certain transaction related charges, partially offset by increased recovery of a higher central services groups' cost base driven by higher average headcount.

Macquarie Income Securities (MIS)

MIS was redeemed on 16 April 2020.

3.7 International Income

International income⁽¹⁾ by region

	HALF YEAR TO		MOVEMENT		
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 \$Am	Mar 20 %	Sep 19 %
Americas	1,725	1,161	1,857	49	(7)
Asia	665	1,085	488	(39)	36
Europe, Middle East and Africa	1,348	1,579	1,891	(15)	(29)
Total international income	3,738	3,825	4,236	(2)	(12)
Australia ⁽²⁾	1,776	1,979	1,913	(10)	(7)
Total income (excluding earnings on capital and other corporate items)	5,514	5,804	6,149	(5)	(10)
Earnings on capital and other corporate items	5	201	171	(98)	(97)
Net operating income (as reported)	5,519	6,005	6,320	(8)	(13)
International income (excluding earnings on capital and other corporate items) ratio (%)	68	66	69		

International income by Operating Group and region

	HALF YEAR TO SEP 20						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽²⁾ \$Am	Total Income \$Am	Total International %
MAM	879	112	650	1,641	146	1,787	92
BFS	–	–	–	–	984	984	–
CGM	753	330	664	1,747	382	2,129	82
Macquarie Capital	93	223	34	350	264	614	57
Total	1,725	665	1,348	3,738	1,776	5,514	68

Total international income was \$A3,738 million for the half year ended 30 September 2020 decreased 12% from \$A4,236 million in the prior corresponding period. Total international income represented 68% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior corresponding period.

Income from the Americas of \$A1,725 million for the half year ended 30 September 2020 decreased 7% from \$A1,857 million in the prior corresponding period. The decrease was primarily driven by lower net income on equity and debt investments in Macquarie Capital primarily in the technology and services sectors.

In Asia, income of \$A665 million for the half year ended 30 September 2020 increased 36% from \$A488 million in the prior corresponding period. The increase was mainly driven by lower share of net losses of associates and joint ventures in Macquarie Capital due to a small number of underperforming assets in the prior corresponding period. The current period included higher net income on equity and debt investments in Macquarie Capital and MAM.

Income from Europe, Middle East and Africa of \$A1,348 million for the half year ended 30 September 2020 decreased 29% from \$A1,891 million in the prior corresponding period. The decrease was primarily due to fewer asset realisations in Macquarie Capital, particularly in the green energy sector mainly due to the impact of COVID-19. MAM included decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior corresponding period. In addition, MAM recognised an equity accounted loss from the impact of COVID-19 on aircraft leasing income due to deferrals and non-payments and related aircraft impairments, as well as lower performance fees. This was partially offset by the gain on sale of Macquarie European Rail in MAM.

In Australia, income of \$A1,776 million for the half year ended 30 September 2020 decreased 7% from \$A1,913 million in the prior corresponding period mainly due to lower performance fees in MAM. BFS included increased credit impairment charges driven by portfolio growth as well as a deterioration in current and expected macroeconomic conditions compared to the prior corresponding period as a result of COVID-19 and margin compression on deposits, partially offset by volume growth in BFS deposits and the loan portfolio.

(1) International income reflects net operating income excluding internal management revenue/(charge).

(2) Includes New Zealand.

04

Balance Sheet

4.1 Statement of Financial Position

	AS AT			MOVEMENT	
	Sep 20 \$Am	Mar 20 \$Am	Sep 19 ⁽¹⁾ \$Am	Mar 20 %	Sep 19 %
Assets					
Cash and bank balances	8,681	9,717	8,357	(11)	4
Cash collateral on securities borrowed and reverse repurchase agreements	42,933	37,710	30,201	14	42
Trading assets	19,252	16,855	23,900	14	(19)
Margin money and settlement assets	12,338	16,393	15,221	(25)	(19)
Derivative assets	22,055	45,607	18,221	(52)	21
Financial investments	8,977	8,930	8,267	1	9
Held for sale assets	2,176	1,634	608	33	258
Other assets	6,331	6,868	7,568	(8)	(16)
Loan assets	93,414	94,117	83,212	(1)	12
Interests in associates and joint ventures	6,012	8,319	8,500	(28)	(29)
Property, plant and equipment and right-of-use assets	4,519	5,044	5,471	(10)	(17)
Intangible assets	2,816	3,268	2,666	(14)	6
Deferred tax assets	1,231	1,340	1,079	(8)	14
Total assets	230,735	255,802	213,271	(10)	8
Liabilities					
Cash collateral on securities lent and repurchase agreements	4,961	2,334	5,803	113	(15)
Trading liabilities	6,136	5,544	6,982	11	(12)
Margin money and settlement liabilities	20,093	22,815	20,370	(12)	(1)
Derivative liabilities	16,467	38,399	14,514	(57)	13
Deposits	77,258	67,342	59,042	15	31
Held for sale liabilities	1,267	260	94	*	*
Other liabilities	6,561	8,027	6,751	(18)	(3)
Borrowings	12,288	17,093	14,626	(28)	(16)
Debt issued	56,339	64,556	57,234	(13)	(2)
Deferred tax liabilities	165	234	297	(29)	(44)
Total liabilities excluding loan capital	201,535	226,604	185,713	(11)	9
Loan capital	8,411	7,414	7,246	13	16
Total liabilities	209,946	234,018	192,959	(10)	9
Net assets	20,789	21,784	20,312	(5)	2
Equity					
Contributed equity	8,434	7,851	7,721	7	9
Reserves	1,378	2,773	1,927	(50)	(28)
Retained earnings	10,696	10,439	9,969	2	7
Total capital and reserves attributable to the ordinary equity holders of Macquarie Group Limited	20,508	21,063	19,617	(3)	5
Non-controlling interests	281	721	695	(61)	(60)
Total equity	20,789	21,784	20,312	(5)	2

(1) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

Statement of Financial Position

The Consolidated Entity's statement of financial position has been impacted during the period ended 30 September 2020 by changes resulting from business activities, Group Treasury management initiatives, developments with respect to COVID-19 and macroeconomic factors including the appreciation of the Australian dollar against major currencies.

Assets

Total assets of \$A230.7 billion as at 30 September 2020 decreased 10% from \$A255.8 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total assets, the principal drivers for the decrease in the Consolidated Entity's total assets were as follows:

- derivative assets of \$A22.1 billion as at 30 September 2020 decreased 52% from \$A45.6 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM
- margin money and settlement assets of \$A12.3 billion as at 30 September 2020 decreased 25% from \$A16.4 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margins placed with financial institutions by CGM and lower unsettled client balances related to Equities in Macquarie Capital
- interests in associates and joint ventures of \$A6 billion as at 30 September 2020 decreased 28% from \$A8.3 billion as at 31 March 2020 driven by the reclassification of certain associates to Held for sale

These decreases were partially offset by:

- cash collateral on securities borrowed and reverse repurchase agreements of \$A42.9 billion as at 30 September 2020 increased 14% from \$A37.7 billion as at 31 March 2020, primarily driven by an increase in reverse repurchase agreements in CGM and an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements
- trading assets of \$A19.3 billion as at 30 September 2020 increased 14% from \$A16.9 billion as at 31 March 2020 primarily due to an increase in oil and precious metals inventories, and trading and equity positions held as hedges in CGM, partially offset by a decrease in certain bond and treasury bills.

Liabilities

Total liabilities of \$A209.9 billion as at 30 September 2020 decreased 10% from \$A234.0 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total liabilities, the principal drivers for the decrease in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of \$A16.5 billion as at 30 September 2020 decreased 57% from \$A38.4 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM
- debt issued of \$A56.3 billion as at 30 September 2020 decreased 13% from \$A64.6 billion as at 31 March 2020 driven by the maturity of debt positions and repayment of notes
- borrowings of \$A12.3 billion as at 30 September 2020 decreased 28% from \$A17.1 billion as at 31 March 2020 driven by the net repayment of debt facilities and the reclassification of certain borrowings to Held for sale
- margin money and settlement liabilities of \$A20.1 billion as at 30 September 2020 decreased 12% from \$A22.8 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in call margins placed by financial institutions with CGM and lower unsettled client balances related to Equities in Macquarie Capital

These decreases were partially offset by:

- deposits of \$A77.3 billion as at 30 September 2020 increased 15% from \$A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of \$A5.0 billion as at 30 September 2020 increased significantly from \$A2.3 billion as at 31 March 2020 primarily due to the initial draw down of the new Term Funding Facility from the Reserve Bank of Australia by Group Treasury and increased stock lending agreements in CGM.

Equity

Total equity of \$A20.8 billion as at 30 September 2020 decreased 5% from \$A21.8 billion as at 31 March 2020.

The decrease in the Consolidated Entity's equity was predominantly attributable to the decrease in the foreign currency translation and net investment hedge reserve of \$A1.3 billion following the appreciation of the Australian dollar against major currencies, and redemption of the Macquarie Income Securities of \$A0.4 billion. This decrease was partially offset by an increase in retained earnings of \$A0.3 billion, vesting of share-based payment arrangements of \$A0.3 billion and share issuance of \$A0.2 billion pursuant to the Dividend Reinvestment Plan.

4.2 Loan Assets

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

	AS AT			MOVEMENT	
	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 ⁽¹⁾ \$Ab	Mar 20 %	Sep 19 %
Loan assets per the statement of financial position	93.4	94.1	83.2	(1)	12
Operating lease assets	2.7	3.9	3.9	(31)	(31)
Other reclassifications ⁽²⁾	1.0	1.3	0.8	(23)	25
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽³⁾	(11.9)	(12.8)	(8.6)	(7)	38
Total loan assets including operating lease assets per the funded balance sheet⁽⁴⁾	85.2	86.5	79.3	(2)	7

(1) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

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

(3) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPEs).

(4) 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:

		AS AT			MOVEMENT	
	Notes	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 ⁽²⁾ \$Ab	Mar 20 %	Sep 19 %
BFS						
Home loans	1	48.8	43.2	38.8	13	26
Business banking	2	9.2	9.4	9.0	(2)	2
Vehicle finance	3	9.7	10.6	11.9	(8)	(18)
Total BFS		67.7	63.2	59.7	7	13
CGM						
Loans and finance lease assets		4.9	6.2	5.7	(21)	(14)
Operating lease assets		1.8	2.2	2.3	(18)	(22)
Specialised and Asset Finance	4	6.7	8.4	8.0	(20)	(16)
Resources and commodities	5	2.0	3.0	2.6	(33)	(23)
Foreign exchange, interest rate and credit	6	2.2	3.2	2.6	(31)	(15)
Total CGM		10.9	14.6	13.2	(25)	(17)
MAM						
Operating lease assets	7	0.9	1.7	1.6	(47)	(44)
Structured investments	8	–	–	0.2	–	(100)
Other	9	0.3	0.3	0.4	–	(25)
Total MAM		1.2	2.0	2.2	(40)	(45)
Macquarie Capital						
Corporate and other lending	10	5.4	6.7	4.2	(19)	29
Total Macquarie Capital		5.4	6.7	4.2	(19)	29
Total		85.2	86.5	79.3	(2)	7

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

(2) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

4.2 Loan Assets

Continued

Explanatory notes concerning asset security of funded loan asset portfolio

1. Home loans

Secured by Australian residential property.

2. Business banking

Loan portfolio secured largely by working capital, business cash flows and real property.

3. Vehicle finance

Secured by Australian motor vehicles.

4. Specialised and 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 with associated price hedging to mitigate risk.

6. Foreign exchange, interest rate and credit

Diversified lending predominantly consisting of loans which are secured by other loan collateral, assets including rights and receivables and warehoused security from mortgages and auto loans.

7. Operating lease assets

Secured by underlying financed assets including transportation assets.

8. Structured investments

Commercial real estate loans backed by security of underlying commercial real estate properties.

9. MAM Other

Secured by underlying financed assets.

10. Corporate and other lending

Diversified corporate and real estate lending portfolio, predominantly consisting of loans which are senior, secured, covenanted and with a hold to maturity horizon. 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 20 \$Ab	Mar 20 \$Ab	Sep 19 \$Ab	Mar 20 %	Sep 19 %
Equity investments					
Statement of financial position					
Equity investments at fair value	1.2	1.3	1.3	(8)	(8)
Interests in associates and joint ventures ⁽¹⁾	7.4	8.4	8.9	(12)	(17)
Total equity investments per statement of financial position	8.6	9.7	10.2	(11)	(16)
Adjustment for funded balance sheet					
Borrowings ⁽²⁾	(2.3)	(2.3)	(1.8)	–	28
Total funded equity investments	6.3	7.4	8.4	(15)	(25)
Adjustment for equity investment analysis					
Associates' reserves ⁽³⁾	0.2	0.1	0.1	100	100
Total adjusted equity investments⁽⁴⁾	6.5	7.5	8.5	(13)	(24)

(1) Includes certain associates classified as held for sale.

(2) Asset specific borrowings relating to Macquarie's associate investment in East Anglia ONE Limited.

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

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

4.3 Equity Investments

Continued

Equity investments by category

	AS AT		MOVEMENT		
	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 \$Ab	Mar 20 %	Sep 19 %
Macquarie-managed funds					
Listed MIRA managed funds	0.7	0.9	0.9	(22)	(22)
Unlisted MIRA managed funds	0.9	0.9	1.0	–	(10)
Other Macquarie-managed funds	0.4	0.3	0.3	33	33
Total Macquarie-managed funds	2.0	2.1	2.2	(5)	(9)
Other investments					
Transport, industrial and infrastructure ⁽¹⁾	1.0	1.3	2.3	(23)	(57)
Telecommunications, information technology, media and entertainment	1.0	1.2	1.0	(17)	–
Green energy ⁽²⁾	0.9	1.0	1.0	(10)	(10)
Conventional energy, resources and commodities	0.4	0.4	0.4	–	–
Real estate investment, property and funds management	0.7	1.0	1.0	(30)	(30)
Finance, wealth management and exchanges	0.5	0.5	0.6	–	(17)
Total other investments	4.5	5.4	6.3	(17)	(29)
Total equity investments	6.5	7.5	8.5	(13)	(24)

(1) Includes a 50% interest in Macquarie AirFinance investment following the sale of the Macquarie AirFinance business to a joint venture in the prior year. Macquarie held a 75% interest in 1H19 and sold a 25% interest in the joint venture in 2H20.

(2) Green energy includes Macquarie's associate investment in East Anglia ONE Limited. The investment was partially funded with asset-specific borrowings of \$A2.3 billion as at 30 September 2020.

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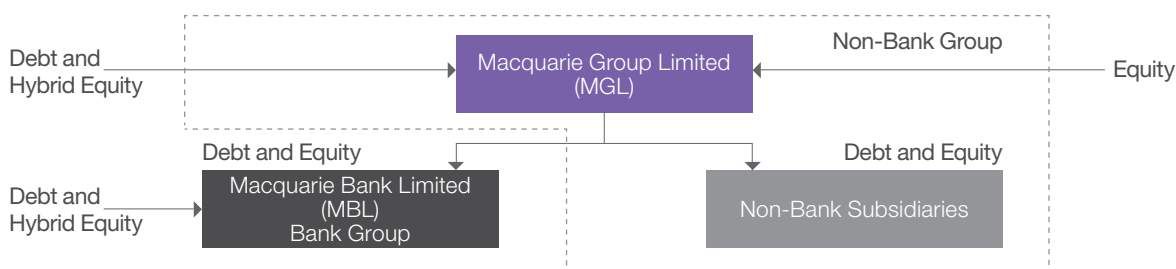
Funding and Liquidity

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 predominantly 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 policies are 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 policies are 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. The MBL liquidity policy outlines the standalone framework for the Bank Group and its principles are consistent with the MGL policy. In some cases, other 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 also consistent with those applied in the broader MGL policy.

Macquarie establishes a liquidity risk appetite, which 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 Board, MBL Board 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, Group Treasury 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 either a supplement or a reference to a separate document, providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie prepares funding strategies for MGL and MBL on an annual basis and monitors progress against the strategies throughout the year. The funding strategies aim to maintain diversity of current and projected funding sources for MGL and MBL, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth. The funding strategies are reviewed by the ALCO and approved by the respective Boards.

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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 additional liquidity scenarios covering both market-wide and Macquarie name-specific crises. Scenario analysis performs a range of functions within the liquidity risk management framework, including being a basis for:

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios
- determining a minimum level of cash and liquid assets
- determining an appropriate minimum tenor of funding for Macquarie's assets; and
- 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 timeframe. This scenario assumes no access to wholesale funding markets, 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 which are intended to ensure adequate liquidity is available under a range of 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 (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or be eligible as collateral in the Reserve Bank of Australia's (RBA) facilities such as the 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 consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches. Certain other Operating Segments also hold cash and liquid assets as part of their operations. Macquarie had \$A37.3 billion cash and liquid assets as at 30 September 2020 (31 March 2020: \$A38.9 billion), of which \$A31.8 billion was held by Macquarie Bank (31 March 2020: \$A33.6 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.

Credit ratings⁽¹⁾ as at 30 September 2020

	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	A-1	A+	Negative	A-2	BBB+	Stable
Fitch Ratings	F-1	A	Negative	F-2	A-	Negative

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 unencumbered liquid assets be held to cover expected net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. Under APS 210, liquid assets include cash, balances held with central banks, Australian dollar Commonwealth Government and semi-government securities, any CLF allocation as well as foreign currency HQLA securities.

Macquarie Bank's three month average LCR to 30 September 2020 was 176% (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 2020 was 121%. 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.

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 2020. 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 20 \$Ab	Mar 20 \$Ab	Sep 19 ⁽¹⁾ \$Ab
Total assets per Macquarie's statement of financial position		230.7	255.8	213.3
Accounting deductions:				
Self-funded trading assets	1	(17.1)	(17.7)	(19.1)
Derivative revaluation accounting gross-ups	2	(16.4)	(38.0)	(14.3)
Segregated funds	3	(7.4)	(7.0)	(4.9)
Outstanding trade settlement balances	4	(5.6)	(6.8)	(8.2)
Short-term working capital assets	5	(7.7)	(8.4)	(9.7)
Non-controlling interests	6	(0.3)	(0.3)	(0.3)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	7	(15.2)	(16.0)	(10.4)
Net funded assets		161.0	161.6	146.4

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. The associated margins paid and received are included as part of self-funded trading assets.

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.

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 include 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 include assets funded by third party debt with no recourse to Macquarie beyond the borrowing entity and lending assets (mortgages and leasing) sold down into external securitisation entities.

(1) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

5.4 Funding Profile for Macquarie

Funded balance sheet

		AS AT		
	Notes	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 ⁽¹⁾ \$Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		0.4	0.6	1.0
Commercial paper		5.7	5.0	7.8
Net trade creditors	2	0.4	2.0	0.6
Structured notes	3	1.9	2.0	2.4
Secured funding	4	4.6	3.8	3.6
Bonds	5	33.7	40.9	34.8
Other loans	6	1.0	1.2	1.5
Syndicated loan facilities	7	7.3	10.1	8.7
Customer deposits	8	77.1	67.1	58.8
Subordinated debt	9	4.2	3.5	3.1
Equity and hybrids	10	24.7	25.4	24.1
Total		161.0	161.6	146.4
Funded assets				
Cash and liquid assets	11	37.3	38.9	23.7
Self-securitisation	12	23.1	23.5	23.6
Net trading assets	13	26.9	23.2	29.8
Loan assets including operating lease assets less than one year	14	11.8	13.4	11.7
Loan assets including operating lease assets greater than one year	14	50.3	49.6	44.0
Debt investment securities	15	2.2	1.9	1.7
Co-investment in Macquarie-managed funds and other equity investments	16	6.3	7.4	8.4
Property, plant and equipment and intangibles		3.1	3.7	3.5
Total		161.0	161.6	146.4

See section 5.7 for Notes 1–16.

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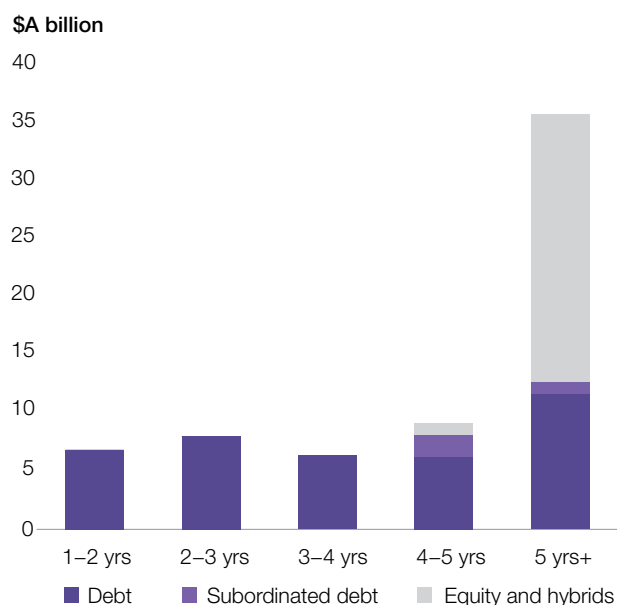
(1) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

5.4 Funding Profile for Macquarie

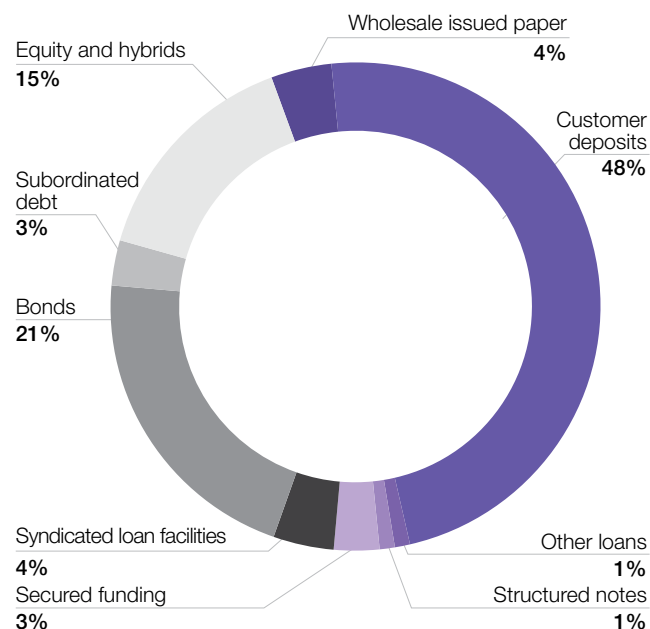
Continued

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



AS AT SEP 20

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	0.1	0.4	0.3	1.1	1.9
Secured funding ⁽²⁾	0.4	2.0	–	–	–	2.4
Bonds	4.4	3.4	6.0	5.2	8.5	27.5
Other loans	0.2	–	–	–	0.1	0.3
Syndicated loan facilities	1.9	2.6	–	0.8	2.0	7.3
Total debt	6.9	8.1	6.4	6.3	11.7	39.4
Subordinated debt ⁽³⁾	–	–	–	1.9	1.1	3.0
Equity and hybrids ⁽³⁾	–	–	–	1.0	23.2	24.2
Total funding sources drawn	6.9	8.1	6.4	9.2	36.0	66.6
Undrawn ⁽⁴⁾	2.4	–	–	0.4	–	2.8
Total funding sources drawn and undrawn	9.3	8.1	6.4	9.6	36.0	69.4

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

As at 30 September 2020, 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⁽⁵⁾ was 4.7 years as at 30 September 2020.

As at 30 September 2020, customer deposits represented \$A77.1 billion, or 48% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A6.1 billion, or 4% of total funding, and other debt funding maturing within 12 months⁽⁶⁾ and net trade creditors represented \$A11.2 billion, or 7% of total funding.

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

(2) Includes drawn RBA Term Funding Facility (TFF) Initial Allowance of \$A1.7 billion.

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

(4) Does not include undrawn accessible TFF Allowances.

(5) Including drawn TFF, excluding equity which is a permanent source of funding, and securitisations.

(6) Includes hybrids maturing in the next 12 months.

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 2020, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2020 and 30 September 2020:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Issued paper	– Senior and subordinated	1.9	0.4	2.3
Secured funding	– Term securitisation and other secured finance	1.9	0.7	2.6
	– RBA Term Funding Facility ⁽¹⁾	1.7	–	1.7
Hybrids	– Hybrid instruments	0.6	–	0.6
Total		6.1	1.1	7.2

Macquarie has continued to develop its major funding markets and products during the half year ended 30 September 2020.

From 1 April 2020 to 30 September 2020, Macquarie raised \$A7.2 billion⁽²⁾ of term funding including:

- \$A2.3 billion of term wholesale issued paper comprising of \$A1.9 billion of subordinated unsecured debt issuance and \$A0.4 billion of structured notes
- \$A2.3 billion refinance of secured trade finance facilities
- \$A1.7 billion draw down of the RBA Term Funding Facility⁽¹⁾
- \$A0.6 billion of Macquarie Bank Capital Notes 2 issuance; and
- \$A0.3 billion of PUMA RMBS securitisation issuance.

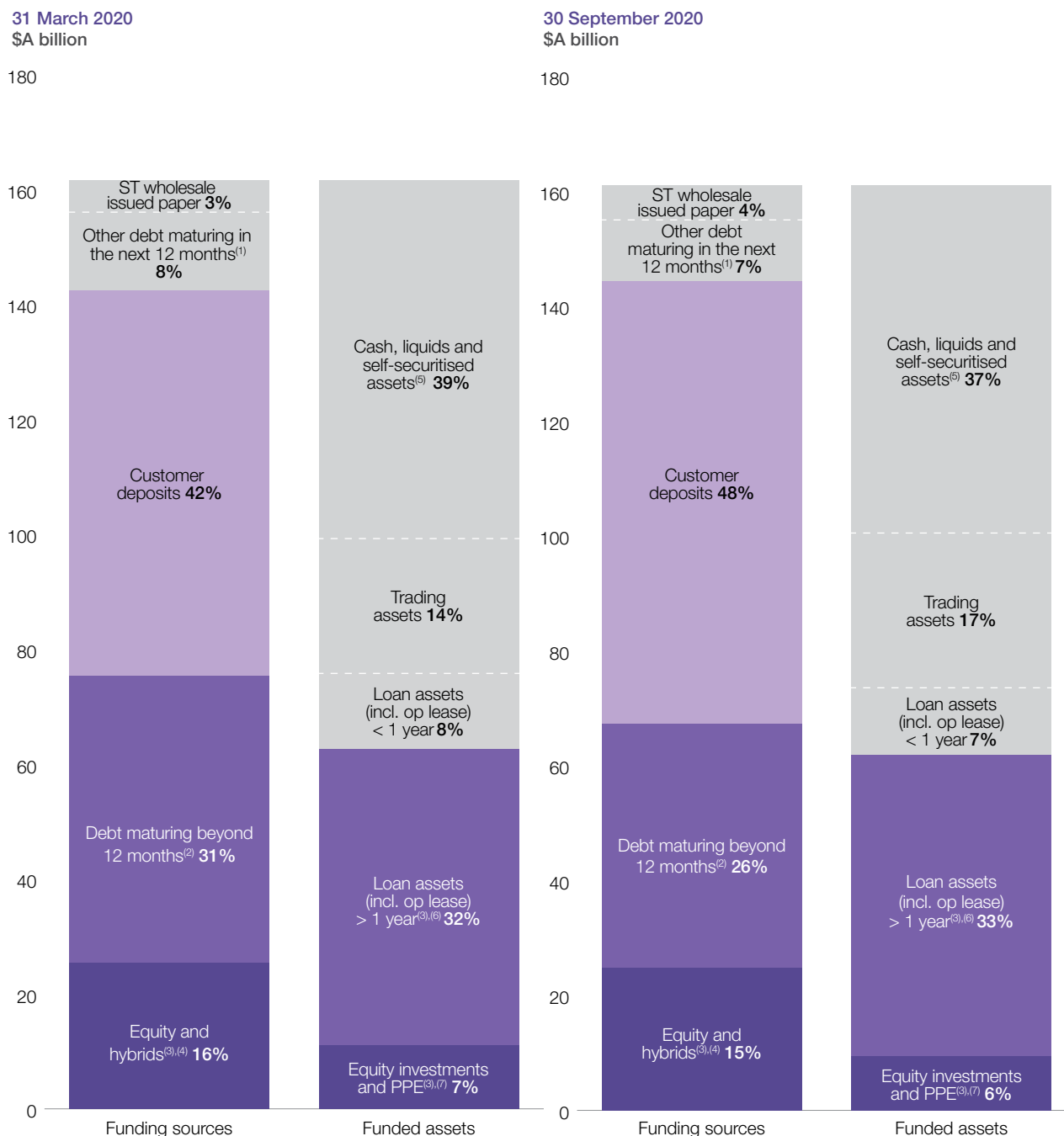
(1) Initial Allowance drawn as at 30 September 2020. MBL has \$A1.3 billion of undrawn TFF Supplementary Allowance. MBL has access to the TFF Additional Allowance, the volume of which will be determined by business lending growth to April 2021.

(2) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities (does not include undrawn accessible TFF Allowances).

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 Secured funding, Bonds, Other loans, Subordinated debt and Net trade creditors.

(2) 'Debt maturing beyond 12 months' includes Subordinated debt, Structured notes, Secured funding (including drawn TFF), Bonds, Syndicated loan facilities and Other loans not maturing within next 12 months.

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

(4) Hybrid instruments include MIS, MACS, BCN2 and MCN 2, 3 and 4 (MIS were redeemed in April 2020).

(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 and Term Funding Facility.

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

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

5.5 Funding Profile for the Bank Group

Funded balance sheet

		AS AT		
	Notes	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 ⁽¹⁾ \$Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		0.4	0.6	1.0
Commercial paper		5.7	5.0	7.8
Net trade creditors	2	0.1	1.1	1.1
Structured notes	3	1.3	1.9	2.0
Secured funding	4	4.1	3.2	2.5
Bonds	5	19.3	24.4	18.9
Other loans	6	0.9	0.9	1.0
Customer deposits	8	77.1	67.1	58.8
Subordinated debt	9	4.2	3.5	3.1
Equity and hybrids	10	15.7	15.8	14.0
Total		128.8	123.5	110.2
Funded assets				
Cash and liquid assets	11	31.8	33.6	21.9
Self-securitisation	12	23.1	23.5	23.6
Net trading assets	13	25.7	22.0	27.7
Loan assets including operating lease assets less than one year	14	11.2	12.2	10.8
Loan assets including operating lease assets greater than one year	14	44.1	41.7	38.3
Debt investment securities	15	1.8	1.7	1.1
Non-Bank Group deposit with MBL		(9.9)	(12.2)	(14.2)
Co-investment in Macquarie-managed funds and other equity investments	16	0.4	0.4	0.4
Property, plant and equipment and intangibles		0.6	0.6	0.6
Total		128.8	123.5	110.2

See section 5.7 for Notes 1–16.

(1) Refer to Note 1(ii) *Comparatives* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

5.5 Funding Profile for the Bank Group

Continued

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion

20

15

10

5

0

1–2 yrs

2–3 yrs

3–4 yrs

4–5 yrs

5 yrs+

■ Debt

■ Subordinated debt

■ Equity and hybrids

	AS AT SEP 20					
	1–2yrs \$Ab	2–3yrs \$Ab	3–4yrs \$Ab	4–5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	0.1	–	0.2	1.0	1.3
Secured funding ⁽²⁾	0.3	2.0	–	–	–	2.3
Bonds	4.0	2.6	1.7	4.5	1.7	14.5
Other loans	0.2	–	–	–	–	0.2
Total debt	4.5	4.7	1.7	4.7	2.7	18.3
Subordinated debt ⁽³⁾	–	–	–	1.9	1.1	3.0
Equity and hybrids ⁽³⁾	–	–	–	–	15.7	15.7
Total funding sources drawn	4.5	4.7	1.7	6.6	19.5	37.0
Undrawn ⁽⁴⁾	0.3	–	–	–	–	0.3
Total funding sources drawn and undrawn	4.8	4.7	1.7	6.6	19.5	37.3

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year⁽⁵⁾ was 4.1 years as at 30 September 2020.

As at 30 September 2020, customer deposits represented \$A77.1 billion, or 60% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A6.1 billion, or 5% of total funding, and other debt funding maturing within 12 months and net trade creditors represented \$A8.6 billion, or 7% of total funding.

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

(2) Includes drawn RBA Term Funding Facility (TFF) Initial Allowance of \$A1.7 billion.

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

(4) Does not include undrawn accessible TFF Allowances.

(5) Including drawn TFF, excluding equity which is a permanent source of funding, and securitisations.

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 \$US8.5 billion debt securities outstanding as at 30 September 2020
- \$US15 billion Commercial Paper Program under which \$US4 billion of debt securities were outstanding as at 30 September 2020
- \$US20 billion US Rule 144A/Regulation S Medium-Term Note Program under which \$US7.1 billion of issuances were outstanding as at 30 September 2020
- \$US1 billion Secured Trade Finance Facility⁽¹⁾ of which \$US0.8 billion was drawn as at 30 September 2020
- \$US5 billion Structured Note Program under which \$US0.9 billion of funding from structured notes was outstanding as at 30 September 2020
- \$A5 billion Covered Bond Programme under which \$A0.8 billion of debt securities were outstanding as at 30 September 2020; and
- Access to the RBA Term Funding Facility of which \$A1.7 billion was drawn as at 30 September 2020.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 30 September 2020, Macquarie Bank had \$A0.4 billion of these securities outstanding.

As at 30 September 2020, Macquarie Bank had internally securitised \$A23.1 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

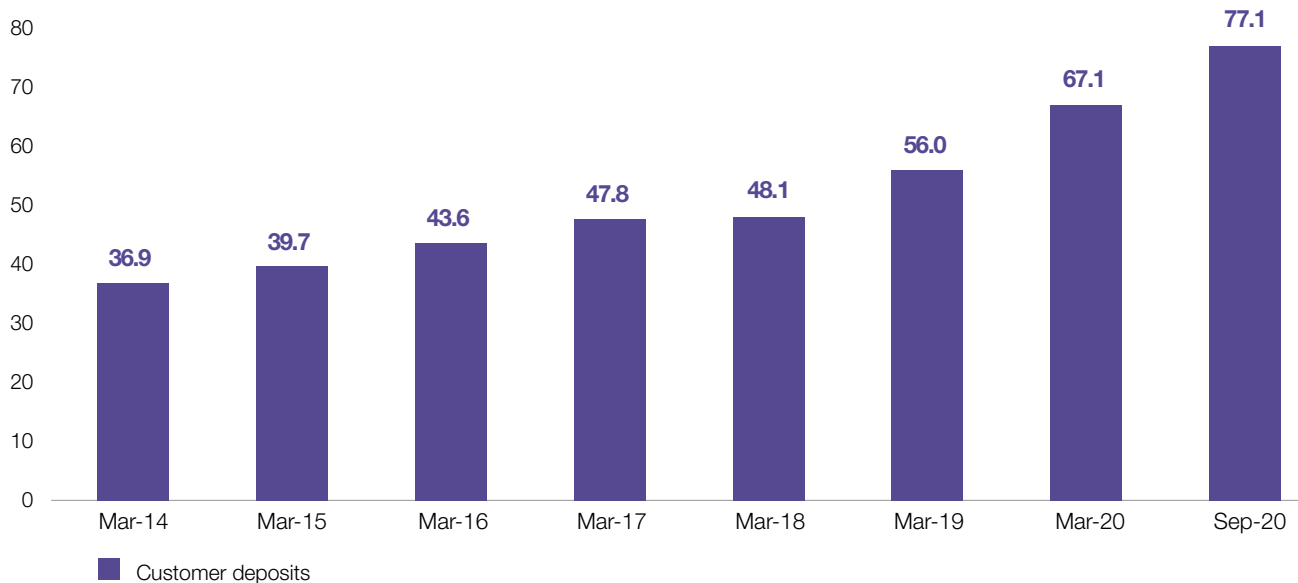
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's 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. MBL is covered by the Financial Claims Scheme (FCS), an Australian Government scheme that provides protection to depositors up to a limit of \$A250,000 per account holder per ADI.

The chart below illustrates the customer deposit growth since 31 March 2014.

Deposit trend

\$A billion



(1) \$US1.0 billion Secured Trade Finance Facility can be at either the MBL or MGL level but is currently drawn out of MBL.

5.6 Funding Profile for the Non-Bank Group

Funded balance sheet

		AS AT		
	Notes	Sep 20 \$Ab	Mar 20 \$Ab	Sep 19 \$Ab
Funding sources				
Net trade creditors/(debtors)	2	0.3	0.9	(0.5)
Structured notes	3	0.6	0.1	0.4
Secured funding	4	0.5	0.6	1.1
Bonds	5	14.4	16.5	15.9
Other loans	6	0.1	0.3	0.5
Syndicated loan facilities	7	7.3	10.1	8.7
Equity and hybrids	10	9.0	9.6	10.1
Total		32.2	38.1	36.2
Funded assets				
Cash and liquid assets	11	5.5	5.3	1.8
Non-Bank Group deposit with MBL		9.9	12.2	14.2
Net trading assets	13	1.2	1.2	2.1
Loan assets including operating lease assets less than one year	14	0.6	1.2	0.9
Loan assets including operating lease assets greater than one year	14	6.2	7.9	5.7
Debt investment securities	15	0.4	0.2	0.6
Co-investment in Macquarie-managed funds and other equity investments	16	5.9	7.0	8.0
Property, plant and equipment and intangibles		2.5	3.1	2.9
Total		32.2	38.1	36.2

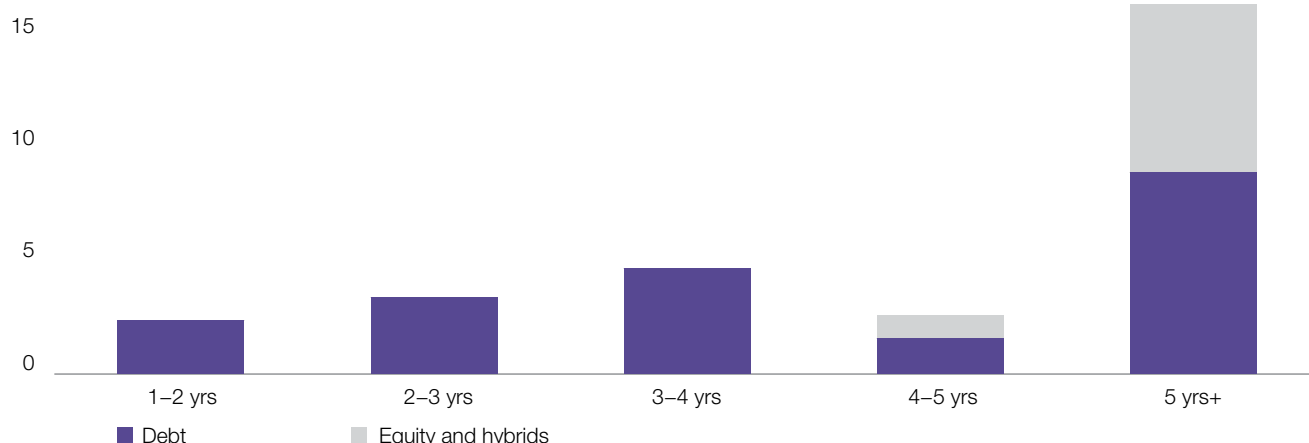
See section 5.7 for Notes 2–16.

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion

20



	AS AT SEP 20					
	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	–	–	0.4	0.1	0.1	0.6
Secured funding	0.1	–	–	–	–	0.1
Bonds	0.4	0.8	4.3	0.7	6.8	13.0
Other Loans	–	–	–	–	0.1	0.1
Syndicated loan facilities	1.9	2.6	–	0.8	2.0	7.3
Total debt	2.4	3.4	4.7	1.6	9.0	21.1
Equity and hybrids ⁽²⁾	–	–	–	1.0	7.5	8.5
Total funding sources drawn	2.4	3.4	4.7	2.6	16.5	29.6
Undrawn	2.1	–	–	0.4	–	2.5
Total funding sources drawn and undrawn	4.5	3.4	4.7	3.0	16.5	32.1

The weighted average term to maturity of term funding maturing beyond one year⁽³⁾ was 5.4 years as at 30 September 2020.

As at 30 September 2020, other debt funding maturing within 12 months⁽⁴⁾ and net trade creditors represented \$A2.6 billion or 8% 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 \$US5.9 billion was outstanding as at 30 September 2020
- \$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 \$US2.3 billion debt securities outstanding as at 30 September 2020
- \$A9.6 billion⁽⁵⁾ of Syndicated Loan Facilities of which \$A7.3 billion⁽⁵⁾ was drawn as at 30 September 2020
- \$US0.5 billion Secured Trade Finance Facility of which \$US0.3 billion was drawn as at 30 September 2020
- \$US2.1 billion of Muni-gas Prepayment funding outstanding as at 30 September 2020; and
- \$US5 billion Structured Note Program under which \$US0.4 billion of funding from structured notes was outstanding as at 30 September 2020.

(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) Excluding equity which is a permanent source of funding.

(4) Includes hybrids maturing in the next 12 months.

(5) Values are Australian dollar equivalents as at 30 September 2020.

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 at 30 September 2020 include MACS, BCN2 and MCN 2, 3 and 4.

11. Cash and liquid assets

Cash and liquid assets are held as cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or as assets eligible as collateral in the RBA's facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA).

12. Self-securitisation

This represents Australian assets which have been internally securitised by Macquarie. A portion of these assets can be utilised as collateral in the RBA's CLF and TFF.

13. Net trading assets

The net trading asset balance consists of financial markets, commodities and equity trading assets including the net derivative position, any trading related receivables or payables and margin or collateral balances.

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 can 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 include equity investments at fair value, interests in associates and joint ventures and other equity investments.

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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 2020 include the Bank Capital Notes 2 (BCN2), 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 20		AS AT MAR 20		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	15,535	15,535	15,163	15,163	2	2
Non-Bank Group eligible capital	9,075	9,075	9,589	9,589	(5)	(5)
Eligible capital	24,610	24,610	24,752	24,752	(1)	(1)
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA) ⁽¹⁾	80,342	87,821	87,996	94,976	(9)	(8)
Capital required to cover RWA at 8.5% ⁽²⁾	6,829	7,465	7,480	8,073	(9)	(8)
Tier 1 deductions	184	1,836	659	2,195	(72)	(16)
Total Bank Group capital requirement	7,013	9,301	8,139	10,268	(14)	(9)
Total Non-Bank Group capital requirement	5,928	5,928	7,431	7,431	(20)	(20)
Total Macquarie capital requirement (at 8.5%^{(2),(3)} of the Bank Group RWA)	12,941	15,229	15,570	17,699	(17)	(14)
Macquarie regulatory capital surplus (at 8.5%^{(2),(3)} of Bank Group RWA)	11,669	9,381	9,182	7,053	27	33

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA internal to Macquarie are eliminated (30 September 2020: \$A946 million; 31 March 2020: \$A642 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 less than 1bps 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.

6.2 Bank Group Capital

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.

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 2020 consists of MACS and BCN2. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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 fifth 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).

BCN2 were issued by MBL in June 2020 and are quoted on the Australian Securities Exchange. The BCN2 pay discretionary, quarterly floating rate cash distributions equal to three month BBSW plus 4.70% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 21 December 2028; 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).

MIS were repaid on 15 April 2020, followed by a redemption on 16 April 2020. MIS were 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 were paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment was subject to certain conditions including profitability of the Bank. MIS were included in Additional Tier 1 capital under Basel III transitional rules.

Bank Group Basel III Tier 1 Capital

	AS AT SEP 20		AS AT MAR 20		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	8,501	8,501	8,508	8,508	(<1)	(<1)
Retained earnings	4,923	4,923	4,350	4,350	13	13
Reserves	423	423	990	990	(57)	(57)
Gross Common Equity Tier 1 capital	13,847	13,847	13,848	13,848	(<1)	(<1)
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	41	41	47	47	(13)	(13)
Deferred tax assets	32	527	69	489	(54)	8
Net other fair value adjustments	(172)	(172)	(12)	(12)	*	*
Intangible component of investments in subsidiaries and other entities	36	36	53	53	(32)	(32)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	458	–	441	–	4
Shortfall in provisions for credit losses	40	80	278	317	(86)	(75)
Equity exposures	–	613	–	588	–	4
Capitalised software	62	62	69	69	(10)	(10)
Other Common Equity Tier 1 capital deductions	145	191	155	203	(6)	(6)
Total Common Equity Tier 1 capital deductions	184	1,836	659	2,195	(72)	(16)
Net Common Equity Tier 1 capital	13,663	12,011	13,189	11,653	4	3
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	1,688	1,688	1,315	1,315	28	28
Gross Additional Tier 1 capital	1,688	1,688	1,315	1,315	28	28
Deduction from Additional Tier 1 capital	–	–	–	–	–	–
Net Additional Tier 1 capital	1,688	1,688	1,315	1,315	28	28
Total Net Tier 1 capital	15,351	13,699	14,504	12,968	6	6

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6.2 Bank Group Capital

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Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 20		AS AT MAR 20		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	23,603	23,603	29,246	29,246	(19)	(19)
SME Corporate	4,383	4,383	3,581	3,581	22	22
Sovereign	491	491	382	382	29	29
Bank	1,349	1,349	1,499	1,499	(10)	(10)
Residential mortgage	7,977	19,030	7,416	17,757	8	7
Other retail	3,725	3,725	4,220	4,220	(12)	(12)
Retail SME	3,134	3,143	3,508	3,515	(11)	(11)
Total RWA subject to IRB approach	44,662	55,724	49,852	60,200	(10)	(7)
Specialised lending exposures subject to slotting criteria⁽¹⁾	6,114	6,114	6,545	6,545	(7)	(7)
Subject to Standardised approach:						
Corporate	225	225	262	262	(14)	(14)
Residential mortgage	705	705	740	740	(5)	(5)
Other Retail	1,463	1,463	1,928	1,928	(24)	(24)
Total RWA subject to Standardised approach	2,393	2,393	2,930	2,930	(18)	(18)
Credit risk RWA for securitisation exposures	705	705	758	758	(7)	(7)
Credit Valuation Adjustment RWA	6,033	6,033	7,635	7,635	(21)	(21)
Exposures to Central Counterparties RWA	752	752	835	835	(10)	(10)
RWA for Other Assets	3,940	2,245	3,580	2,089	10	7
Total Credit risk RWA	64,599	73,966	72,135	80,992	(10)	(9)
Equity risk exposures RWA	1,888	–	1,877	–	1	–
Market risk RWA	4,280	4,280	3,971	3,971	8	8
Operational risk RWA	10,521	10,521	10,655	10,655	(1)	(1)
Interest rate risk in banking book RWA	–	–	–	–	–	–
Total Bank Group RWA	81,288	88,767	88,638	95,618	(8)	(7)
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	16.8	13.5	14.9	12.2		
Bank Group Tier 1 capital ratio (%)	18.9	15.4	16.4	13.6		

(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 84% 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, 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 20		
	Assets \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	5.5	84	19%
Loan assets ⁽¹⁾	6.8	659	121%
Debt investment securities	0.4	35	108%
Co-investments in Macquarie-managed funds and other equity investments	5.4	2,850	660%
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	2.5	896	448%
Non-Bank Group deposit with MBL	9.9		
Net trading assets	1.2		
Total funded assets	32.2	4,524	
Self-funded and non-recourse assets			
Self-funded trading assets	0.9		
Outstanding trade settlement balances	3.2		
Derivative revaluation accounting gross ups	0.3		
Short-term working capital assets	8.8		
Assets funded non-recourse	3.3		
Non-controlling interests	0.3		
Total self-funded and non-recourse assets	16.8		
Total Non-Bank Group assets	49.0		
Equity commitments		633	
Off balance sheet exposures, operational, market and other risks and diversification offset ⁽²⁾		771	
Non-Bank Group capital requirement		5,928	

(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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7.1 Assets Under Management

	AS AT		MOVEMENT		
	Sep 20 \$Ab	Mar 20 ⁽¹⁾ \$Ab	Sep 19 \$Ab	Mar 20 %	Sep 19 %
Assets under Management by type					
MIM					
Fixed Income	201.0	235.7	200.1	(15)	<1
Equities	140.0	137.0	150.5	2	(7)
Alternatives and Multi-asset	9.9	9.9	10.5	–	(6)
Total MIM	350.9	382.6	361.1	(8)	(3)
MIRA					
Infrastructure Equity	162.0	168.4	158.3	(4)	2
Infrastructure Debt	11.4	11.7	8.9	(3)	28
Real Estate	25.2	29.1	29.5	(13)	(15)
Agriculture	2.7	2.8	2.6	(4)	4
Transport Finance	2.7	3.1	1.6	(13)	69
Total MIRA	204.0	215.1	200.9	(5)	2
Total MAM	554.9	597.7	562.0	(7)	(1)
Other Operating Groups	1.4	1.2	1.4	17	–
Total Assets under Management	556.3	598.9	563.4	(7)	(1)
Assets under Management by region					
Americas	277.2	293.0	270.5	(5)	2
Europe, Middle East and Africa	115.5	122.2	122.1	(5)	(5)
Australia	125.2	116.4	109.7	8	14
Asia	38.4	67.3	61.1	(43)	(37)
Total Assets under Management	556.3	598.9	563.4	(7)	(1)

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 reflects Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.

AUM of \$A556.3 billion as at 30 September 2020 decreased 7% from \$A598.9 billion as at 31 March 2020. The decrease in AUM during the period was largely due to unfavourable impacts from foreign exchange and a reduction in contractual insurance assets. These were partially offset by MIM market movements and investments made by MIRA-managed funds (see section 7.2 *Equity under Management* for further details).

(1) AUM as at 31 March 2020 has been restated to reflect an immaterial misstatement in total MAM AUM reported on 08 May 2020.

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 20 \$Ab	Mar 20 \$Ab	Sep 19 \$Ab	Mar 20 %	Sep 19 %
Equity under Management by type					
Listed equity	9.2	9.7	11.6	(5)	(21)
Unlisted equity	130.6	139.6	122.8	(6)	6
Total EUM	139.8	149.3	134.4	(6)	4
Equity under Management by region⁽⁴⁾					
Australia	14.3	14.4	13.1	(1)	9
Europe, Middle East and Africa	77.3	86.3	75.0	(10)	3
Americas	25.9	24.0	22.2	8	17
Asia	22.3	24.6	24.1	(9)	(7)
Total EUM	139.8	149.3	134.4	(6)	4

EUM of \$A139.8 billion as at 30 September 2020 decreased by 6% from \$A149.3 billion as at 31 March 2020. The decrease was primarily driven by foreign exchange movements. This was partially offset by equity raised for unlisted funds and co-investments.

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

(2) Excludes equity invested by Macquarie Group in 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.

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8.1 Glossary

Defined term	Definition
1H20	The half year ended 30 September 2019.
2H20	The half year ended 31 March 2020.
1H21	The half year ended 30 September 2020.
1Q21	The three months ended 30 June 2020.
2Q21	The three months ended 30 September 2020.
A	
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.
B	
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises of BFS, certain activities of CGM and certain activities of the Equities business in Macquarie Capital.
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> .
BCBS	Basel Committee on Banking Supervision.

Defined term	Definition
BCN2	On 2 June 2020, MBL issued 6.4 million Macquarie Bank Capital Notes 2 (BCN2) at a face value of \$A100 each. BCN2 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining 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).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.
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.
C	
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	Reserve Bank of Australia Committed Liquidity Facility.
CMA	Cash Management Account.
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.
D	
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.
E	
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.

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Defined term	Definition
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.
ECL	Expected Credit Losses as defined and measured in terms of AASB 9: <i>Financial Instruments</i> .
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.
F	
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.
H	
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.
I	
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.
L	
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
M	
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie Bank	MBL and its subsidiaries.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) were perpetual, subordinated instruments that had no conversion rights to ordinary shares and discretionary distributions paid quarterly. They are treated as equity in the statement of financial position. MIS were repaid on 15 April 2020.
MACS	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. 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 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).
MAM	Macquarie Asset Management.
MAMHPL	Macquarie Asset Management Holdings Pty Ltd.
MBL	Macquarie Bank Limited ABN 46 008 583 542.

Defined term	Definition
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>
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.
N	
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, and MAMHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital (excluding certain activities of the Equities business), MAM and some business activities of CGM that use certain offshore regulated entities.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.
O	
Operating Groups	The Operating Groups consist of MAM, BFS, CGM and Macquarie Capital.
R	
RBA	Reserve Bank of Australia.

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Defined term	Definition
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.
S	
Specialised and Asset Finance (SAF)	SAF is a global provider of specialist finance and asset management solutions across: Technology, Media and Telecoms; Energy, Renewables and Sustainability; Fund Finance; Resources; Structured Lending; and Shipping and 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.
T	
TFF	Reserve Bank of Australia Term Funding Facility.
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.
U	
UK	The United Kingdom.
US	The United States of America.

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	FIRST HALF	YEAR ENDED 31 MARCH ⁽¹⁾								
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Income statement (\$Am)										
Net operating income	5,519	12,325	12,754	10,920	10,364	10,158	9,262	8,132	6,657	6,963
Total operating expenses	(4,266)	(8,871)	(8,887)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)
Operating profit before income tax	1,253	3,454	3,867	3,464	3,104	3,015	2,522	2,106	1,405	1,049
Income tax expense	(275)	(728)	(879)	(883)	(868)	(927)	(899)	(827)	(533)	(287)
Profit after income tax	978	2,726	2,988	2,581	2,236	2,088	1,623	1,279	872	762
Loss/(profit) attributable to non-controlling interests	7	5	(6)	(24)	(19)	(25)	(19)	(14)	(21)	(32)
Profit attributable to ordinary equity holders of Macquarie Group Limited	985	2,731	2,982	2,557	2,217	2,063	1,604	1,265	851	730
Statement of financial position (\$Am)										
Total assets	230,735	255,802	197,757	191,325	182,877	196,755	187,976	153,904	144,748	153,626
Total liabilities	(209,946)	(234,018)	(179,393)	(173,145)	(165,607)	(181,091)	(173,580)	(141,990)	(132,793)	(141,894)
Net assets	20,789	21,784	18,364	18,180	17,270	15,664	14,396	11,914	11,955	11,732
Total loan assets	93,414	94,117	77,811	73,509	69,288	72,393	67,663	49,965	47,449	41,930
Impaired loan assets (net of provisions) ⁽²⁾	1,666	1,528	1,674	351	547	418	594	365	368	357
Share information										
Dividends per share (cents per share)										
Interim	135	250	215	205	190	160	130	100	75	65
Final	n/a	180	360	320	280	240	200	160	125	75
Special ⁽³⁾	–	–	–	–	–	–	–	116	–	–
Total	135	430	575	525	470	400	330	376	200	140
Basic earnings per share (cents per share)	276.7	791.0	883.3	758.2	657.6	619.2	502.3	383.6	251.2	210.1
Share price at reporting date (\$A)	119.57	85.75	129.42	102.90	90.20	66.09	76.67	57.93	37.15	29.08
Ordinary shares (million shares)	361.5	354.4	340.4	340.4	340.4	340.3	333.5	321.1	339.5	348.6
Market capitalisation as at reporting date (fully paid ordinary shares) (\$Am)	43,225	30,388	44,052	35,024	30,700	22,491	25,569	18,601	12,613	10,137
Net tangible assets per ordinary share (\$A)	48.94	50.21	46.21	45.12	42.74	41.23	38.19	31.71	29.94	28.12
Ratios										
Return on average ordinary shareholders' funds (%)	9.5	14.5	18.0	16.8	15.2	14.7	14.0	11.1	7.8	6.8
Dividend payout ratio (%)	49.5	55.8	65.6	69.8	72.0	65.7	67.6	66.8	79.0	66.4
Expense/income ratio (%)	77.3	72.0	69.7	68.3	70.1	70.3	72.8	74.1	78.9	84.9
Net loan loss as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.4	0.8	0.4	0.3	0.5	1.0	0.7	0.4	0.4	0.5
Assets under Management (\$Ab)										
	556.3	598.9	551.3	496.7	481.7	478.6	486.3	426.9	347.4	326.9
Staff numbers										
	16,356	15,849	15,602	14,810	13,925	14,660	14,373	14,180	13,905	14,519

(1) Results are prepared on the accounting standard application in that year and may not be necessarily comparable.

(2) Represents net exposure in credit impaired loan assets as per Australian Accounting Standards since 31 March 2019. For financial years ended 31 March 2012–2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.

(3) 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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