

# Management Discussion and Analysis

**Macquarie Group**

Half-year ended 30 September 2018



## **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 2018, 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 2018 and is current as at 2 November 2018.

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## EXPLANATORY NOTES

### COMPARATIVE INFORMATION AND CONVENTIONS

Where necessary, comparative figures have been restated to conform to changes in the current year financial presentation and group structures, except for the adoption of new accounting standards as outlined on page 9.

References to the prior corresponding period (pcp) are to the six months ended 30 September 2017. References to the prior period are to the six months ended 31 March 2018.

References to the current period and current half-year are to the six months ended 30 September 2018.

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 2018, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 2 November 2018 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.

1.1 Executive summary

# 1

# RESULTS OVERVIEW

## RESULTS OVERVIEW

### 1.1 EXECUTIVE SUMMARY

#### 1H19 Net profit contribution<sup>(1)</sup> by Operating Group

##### Annuity-style businesses

##### Capital markets facing businesses

Macquarie Asset Management

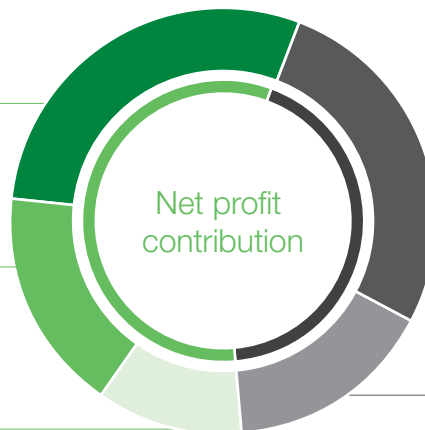
**29%**

Corporate and Asset Finance

**17%**

Banking and Financial Services

**11%**



Commodities and Global Markets

**27%**

Macquarie Capital

**16%**

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

##### Annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the half-year ended 30 September 2018 of \$A1,495 million, down 29% on the prior corresponding period.

#### MACQUARIE ASSET MANAGEMENT

**\$A762m**

↓ **36%** on pcp

- Performance fees down on a strong prior corresponding period
- Decreased investment-related income largely due to gains on reclassification of certain investments in the prior corresponding period
- Higher operating expenses mainly due to business growth, the impact of acquisitions and foreign exchange movements.

Partially offset by:

- Increased base fees primarily driven by higher AUM including favourable foreign exchange movements.

#### CORPORATE AND ASSET FINANCE

**\$A437m**

↓ **29%** on pcp

- Decreased income from early repayments, realisations and investment-related income in the Principal Finance portfolio
- Lower interest income largely as a result of the reduction in the Principal Finance portfolio size
- Asset Finance portfolio broadly in line with the prior corresponding period.

#### BANKING AND FINANCIAL SERVICES

**\$A296m**

↑ **3%** on pcp

- Growth in deposit, Australian loan portfolio and funds on platform average volumes.

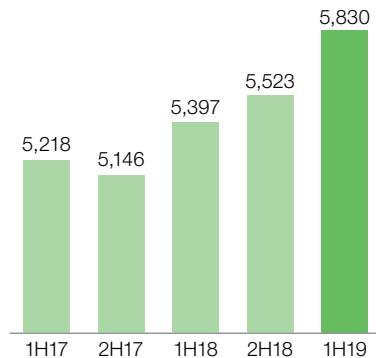
Partially offset by:

- Increased costs associated with investment in technology and headcount in key areas to support business growth
- Platform margin fee compression
- Entire period effect of Australian Government Major Bank Levy relative to the prior corresponding period.

## 1H19 Net operating income

**\$A5,830m**↑ **8% on pcp**

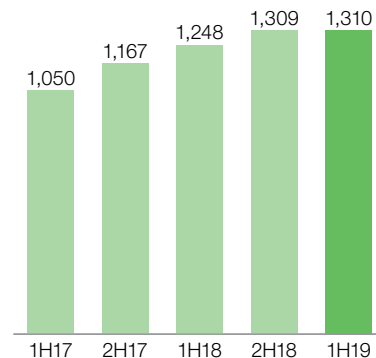
\$A million



## 1H19 Net profit

**\$A1,310m**↑ **5% on pcp**

\$A million



## 1H19 Return on equity

**16.3%**↓ from **16.7%** in pcp

## 1H19 Operating expenses

**\$A4,125m**↑ **12% on pcp****Capital markets facing businesses**

Commodities and Global Markets (CGM) and Macquarie Capital delivered a combined net profit contribution for the half-year ended 30 September 2018 of \$A1,106 million, up 95% on the prior corresponding period.

**COMMODITIES AND GLOBAL MARKETS****\$A700m**↑ **85% on pcp**

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities
- Increased fee and commission income in Asia driven by increased market turnover and client activity, and an increased contribution from equity capital markets fee income from Asia-Pacific.

Partially offset by:

- Reduced opportunities and challenging markets impacting equity trading activities
- Increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increase in investment in technology platforms.

**MACQUARIE CAPITAL****\$A406m**↑ **114% on pcp**

- Increased net income on equity and debt investments due to asset realisations and reclassifications, particularly in green energy and technology
- Higher fee income across mergers and acquisitions, debt capital markets and equity capital markets.

Partially offset by:

- Higher share of losses of associates and joint ventures and other expenses reflecting underlying investing activity including expenditure on green energy and other projects in the development phase
- Higher operating expenses mainly due to additional headcount, unfavourable foreign exchange movements and increased investing activity.

## RESULTS OVERVIEW

CONTINUED

### 1.1 EXECUTIVE SUMMARY CONTINUED

Profit attributable to ordinary equity holders

# \$A1,310m

↑ 5% on prior corresponding period

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Financial performance summary</b>					
Net interest income	998	975	1,011	2	(1)
Fee and commission income	2,661	2,102	2,568	27	4
Net trading income	1,231	1,076	881	14	40
Net operating lease income	461	466	469	(1)	(2)
Share of net profits of associates and joint ventures	7	138	103	(95)	(93)
Other operating income and charges	472	766	365	(38)	29
<b>Net operating income</b>	<b>5,830</b>	<b>5,523</b>	<b>5,397</b>	<b>6</b>	<b>8</b>
Employment expenses	(2,454)	(2,232)	(2,261)	10	9
Brokerage, commission and trading-related expenses	(579)	(408)	(422)	42	37
Occupancy expenses	(207)	(203)	(199)	2	4
Non-salary technology expenses	(331)	(309)	(295)	7	12
Other operating expenses	(554)	(611)	(516)	(9)	7
<b>Total operating expenses</b>	<b>(4,125)</b>	<b>(3,763)</b>	<b>(3,693)</b>	<b>10</b>	<b>12</b>
Operating profit before income tax	1,705	1,760	1,704	(3)	<1
Income tax expense	(374)	(435)	(448)	(14)	(17)
Profit after income tax	1,331	1,325	1,256	<1	6
Profit attributable to non-controlling interests	(21)	(16)	(8)	31	163
<b>Profit attributable to ordinary equity holders of Macquarie Group Limited</b>	<b>1,310</b>	<b>1,309</b>	<b>1,248</b>	<b>&lt;1</b>	<b>5</b>
<b>Key metrics</b>					
Expense to income ratio (%)	70.8	68.1	68.4		
Compensation ratio (%)	39.4	37.9	39.5		
Effective tax rate (%)	22.2	24.9	26.4		
Basic earnings per share (cents per share)	388.3	387.5	370.4		
Diluted earnings per share (cents per share)	383.1	379.9	360.2		
Ordinary dividends per share (cents per share)	215.0	320.0	205.0		
Ordinary dividend payout ratio (%)	55.9	83.1	55.9		
Annualised return on equity (%)	16.3	16.9	16.7		



## 1.1 EXECUTIVE SUMMARY CONTINUED

### Net operating income

Net operating income of \$A5,830 million for the half-year ended 30 September 2018 increased 8% from \$A5,397 million in the prior corresponding period from higher Net interest and trading income, higher Fee and commission income as well as lower Credit and Other impairment charges. Key drivers included:

#### Net interest and trading income

##### HALF-YEAR TO

Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
2,229	2,051	1,892

↑ **18%**  
on prior  
corresponding  
period

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities in CGM
- Growth in deposit and Australian loan portfolio in BFS
- Impact of changes in fair value on economic hedges and higher earnings on capital in Corporate.

Partially offset by:

- Reduced income from early repayments, realisations and the reduction in the Principal Finance portfolio size in CAF.

#### Fee and commission income

##### HALF-YEAR TO

Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
2,661	2,102	2,568

↑ **4%**  
on prior  
corresponding  
period

- Increase in brokerage commission in Futures and Cash equity markets from increased market turnover and client activity in Asia, and an increase in equity capital markets fee income from Asia-Pacific in CGM
- Higher fee income from mergers and acquisitions, debt and equity capital markets in Macquarie Capital
- Following the adoption of AASB 15, \$A141 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues have been reclassified to Operating expenses.

Partially offset by:

- Lower performance fees compared to a strong prior corresponding period in MAM.

#### Net operating lease income

##### HALF-YEAR TO

Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
461	466	469

↓ **2%**  
on prior  
corresponding  
period

- Reduction in underlying Aviation income partially offset by improved income from the Energy and Technology portfolios and favourable foreign exchange movements in CAF.

#### Share of net profits of associates and joint ventures

##### HALF-YEAR TO

Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
7	138	103

↓ **93%**  
on prior  
corresponding  
period

- Losses from associates and joint ventures reflecting underlying investing activity including expenditure on green energy and other projects in the development phase in Macquarie Capital.

Partially offset by:

- An increase in share of net profits from the sale and revaluation of a number of underlying assets within equity accounted investments in MAM.

#### Other operating income and charges

##### HALF-YEAR TO

Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
472	766	365

↑ **29%**  
on prior  
corresponding  
period

- Credit and Other impairment charges down on the prior corresponding period which recognised impairments relating to legacy assets in Corporate and underperforming financing facilities in CGM
- Investment income up primarily due to gains generated across ANZ, Europe and the US from unlisted investments in the green energy and technology sectors in Macquarie Capital, partially offset by the non-recurrence of gains on reclassification of certain investments in MAM and an investment in a toll road in the UK by CAF
- An increase in Other income predominately relating to asset sales in CAF, partially offset by expenditure on green energy projects in the development phase in Macquarie Capital.

## RESULTS OVERVIEW

CONTINUED

### 1.1 EXECUTIVE SUMMARY CONTINUED

#### Operating expenses

Total operating expenses of \$A4,125 million for the half-year ended 30 September 2018 increased 12% from \$A3,693 million in the prior corresponding period. Key drivers included:

##### Employment expenses

HALF-YEAR TO		
Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
2,454	2,232	2,261

↑ **9%**  
on prior  
corresponding  
period

- Higher average headcount across the Consolidated Entity
- Increased share-based payments expense mainly driven by Macquarie's share price movement
- Unfavourable foreign exchange movements.

##### Brokerage, commission and trading-related expenses

HALF-YEAR TO		
Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
579	408	422

↑ **37%**  
on prior  
corresponding  
period

- Following the adoption of AASB 15, \$A141 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

##### Non-salary technology expenses

HALF-YEAR TO		
Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
331	309	295

↑ **12%**  
on prior  
corresponding  
period

- Higher project activity in BFS
- Increased investment in technology platforms in CGM.

##### Occupancy and Other operating expenses

HALF-YEAR TO		
Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
761	814	715

↑ **6%**  
on prior  
corresponding  
period

- Increased business activity in the majority of Operating Groups
- Unfavourable foreign exchange movements.

#### Income tax expense

Income tax expense for the half-year ended 30 September 2018 was \$A374 million, a 17% decrease from \$A448 million in the prior corresponding period. The decrease was mainly due to a reduction in US tax rates and the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 22.2%, down from 26.4% in the prior corresponding period and 24.9% in the prior period.

## 1.1 EXECUTIVE SUMMARY CONTINUED

### Note on adoption of new Australian Accounting Standards

The Consolidated Entity adopted the following standards from 1 April 2018:

- AASB 9 – *Financial Instruments*, which replaced AASB 139 – *Financial Instruments: Recognition and Measurement*; and
- AASB 15 – *Revenue from Contracts with Customers*.

The adoption of AASB 9 resulted in changes to accounting policies for the classification and measurement of financial assets and financial liabilities and the manner in which credit impairments are required to be determined, as well as requirements with respect to hedge accounting. As permitted by the Australian Accounting Standards Board (AASB), the Consolidated Entity has not restated its comparative financial statements and has recorded a transition adjustment to the opening balance sheet, Retained earnings and Other comprehensive income at 1 April 2018 as a result of this adoption. The transition adjustment has reduced the Consolidated Entity's shareholders' equity by approximately \$A128 million after tax and does not have a material impact on the Consolidated Entity's minimum regulatory capital requirements. The transition adjustment relates primarily to the implementation of the impairment requirements, which reduces opening retained earnings by \$A166 million after tax.

The adoption of AASB 15 replaced all current guidance on revenue recognition from contracts with customers. AASB 15 requires identification of discrete performance obligations and the recognition of revenue upon satisfaction of these performance obligations. As a result of the adoption of AASB 15, there was no significant change to the timing and/or amount of revenue recognised as at 31 March 2018 and therefore no opening adjustment to retained earnings is required. However, the Consolidated Entity has changed the presentation of certain fee expenses and recoverable costs, previously presented net of associated revenue within Fee and commission income, to Brokerage, commission and trading-related expenses. This included fee expenses relating to stock borrowing activities of \$A77 million and certain recoverable costs of \$A64 million.

For further information relating to the adoption of these new accounting standards, refer to Note 1 – 'Summary of significant accounting policies' of the Financial Report for the half-year ended 30 September 2018.

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- 2.1 Net interest and trading income
- 2.2 Fee and commission income
- 2.3 Net operating lease income
- 2.4 Share of net profits of associates and joint ventures
- 2.5 Other operating income and charges
- 2.6 Operating expenses
- 2.7 Headcount
- 2.8 Income tax expense

# 2

# FINANCIAL PERFORMANCE ANALYSIS

## FINANCIAL PERFORMANCE ANALYSIS

### 2.1 NET INTEREST AND TRADING INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
Net interest income	998	975	1,011	2	(1)
Net trading income	1,231	1,076	881	14	40
<b>Net interest and trading income</b>	<b>2,229</b>	<b>2,051</b>	<b>1,892</b>	<b>9</b>	<b>18</b>

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 predominately comprising gains and losses relating to trading activities.

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

For businesses that predominately earn income from lending activities (CAF and BFS), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at a Consolidated Entity level, however for segment reporting, derivatives are accounted for on an accruals basis in the Operating Group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the Consolidated Entity level.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, in CAF, 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 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
MAM	(14)	(35)	(17)	(60)	(18)
CAF	200	246	336	(19)	(40)
BFS	634	598	584	6	9
CGM					
Commodities					
Risk management products	457	420	285	9	60
Lending and financing	128	129	108	(1)	19
Inventory management, transport and storage	221	109	42	103	*
Foreign exchange, interest rates and credit	291	225	283	29	3
Equities	163	173	186	(6)	(12)
Macquarie Capital	(45)	(15)	(57)	200	(21)
Corporate	194	201	142	(3)	37
<b>Net interest and trading income</b>	<b>2,229</b>	<b>2,051</b>	<b>1,892</b>	<b>9</b>	<b>18</b>

## 2.1 NET INTEREST AND TRADING INCOME CONTINUED

Net interest and trading income of \$A2,229 million for the half-year ended 30 September 2018 increased 18% from \$A1,892 million in the prior corresponding period.

### MAM

Net interest and trading expense in MAM includes funding costs of financial assets, principal investments and assets associated with acquired businesses, offset by income on specialised retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading expense of \$A14 million for the half-year ended 30 September 2018 decreased 18% from \$A17 million in the prior corresponding period.

### CAF

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets) and Principal Finance equity investments.

Net interest and trading income of \$A200 million for the half-year ended 30 September 2018 decreased 40% from \$A336 million in the prior corresponding period. The decrease was largely a result of reduced income from early repayments, realisations and a reduction in the size of the Principal Finance portfolio.

The loan and finance lease portfolio was \$A23.1 billion at 30 September 2018, a decrease of 5% from \$A24.3 billion at 31 March 2018. The decrease was largely due to Principal Finance and Vehicles portfolios.

### BFS

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

Net interest and trading income of \$A634 million for the half-year ended 30 September 2018 increased 9% from \$A584 million in the prior corresponding period due to a 17% growth in average Australian loan portfolio volumes and a 3% growth in the average BFS deposit balance compared to the prior corresponding period. This was partially offset by a \$A12 million allocation of the Australian Government Major Bank Levy that came into effect from 1 July 2017.

At 30 September 2018 the Australian loan and deposit portfolios included:

- BFS deposits of \$A49.4 billion, up 8% from \$A45.7 billion at 31 March 2018;
- Australian mortgage volumes of \$A36.1 billion, up 10% from \$A32.7 billion at 31 March 2018; and
- business lending volumes of \$A7.8 billion, up 7% from \$A7.3 billion at 31 March 2018.

## FINANCIAL PERFORMANCE ANALYSIS

### CONTINUED

#### 2.1 NET INTEREST AND TRADING INCOME CONTINUED

##### CGM

###### Commodities

###### (i) Risk management products

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

Risk management products income of \$A457 million for the half-year ended 30 September 2018 increased 60% from \$A285 million in the prior corresponding period. The current period included strong results across the commodities platform due to increased client hedging activity and trading opportunities across Global Oil, Gas and Agriculture in comparison with the prior corresponding period associated with volatility and commodity price movements.

###### (ii) Lending and financing

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

Lending and financing income of \$A128 million for the half-year ended 30 September 2018 increased 19% from \$A108 million in the prior corresponding period due to an increased contribution from commodity financing activities in the Americas and Asia-Pacific.

###### (iii) Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is imbalance between the supply and demand for energy. Tolling agreements, 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, transport and storage income of \$A221 million for the half-year ended 30 September 2018 increased significantly from \$A42 million in the prior corresponding period. Significant opportunities arose in the period for the North American Gas and Power business driven by opportunities across regional US centres as a result of supply-demand imbalance, partially offset by the timing of income recognition, which reduced revenue relating to transport agreements and capacity contracts.

###### Foreign exchange, interest rates and credit

Net interest and trading income from foreign exchange, interest rates and credit related activities is 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 \$A291 million for the half-year ended 30 September 2018 increased 3% from \$A283 million in the prior corresponding period. Increased income in the current period was underpinned by continued strong client contributions from foreign exchange structured products in North America and the Asia-Pacific.

###### 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 \$A163 million for the half-year ended 30 September 2018 decreased 12% from \$A186 million in the prior corresponding period reflecting challenging conditions and reduced opportunities, particularly in China and Taiwan.

###### Macquarie Capital

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

Net interest and trading expense of \$A45 million for the half-year ended 30 September 2018 decreased 21% from \$A57 million in the prior corresponding period. This was primarily due to higher interest income from the debt investment portfolio, partially offset by higher funding costs for balance sheet positions reflecting increased activity.

###### Corporate

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

Net interest and trading income of \$A194 million for the half-year ended 30 September 2018 increased 37% from \$A142 million in the prior corresponding period primarily due to the impact of changes in fair value on economic hedges, and higher earnings on capital driven by increased average capital volumes and higher USD and AUD interest rates.



## 2.2 FEE AND COMMISSION INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
Base fees	899	828	804	9	12
Performance fees	282	58	537	*	(47)
Mergers and acquisitions, advisory and underwriting fees	573	462	458	24	25
Brokerage and commissions	406	388	386	5	5
Other fee and commission income	501	366	383	37	31
<b>Total fee and commission income</b>	<b>2,661</b>	<b>2,102</b>	<b>2,568</b>	<b>27</b>	<b>4</b>

Total fee and commission income of \$A2,661 million for the half-year ended 30 September 2018 increased 4% from \$A2,568 million in the prior corresponding period primarily due to higher mergers and acquisitions, advisory and underwriting fees, as well as the favourable impact of the depreciation of the Australian dollar. This was partially offset by lower performance fees compared to a strong prior corresponding period. Following the adoption of AASB 15, an increase in Other fee and commission income of \$A121 million and mergers and acquisitions, advisory and underwriting fees of \$A20 million was recognised, with a corresponding offset in Operating expenses.

### Base and performance fees

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Base fees</b>					
<b>MAM</b>					
MIM	494	468	450	6	10
MIRA	370	325	325	14	14
MSIS	20	20	20	–	–
Total MAM	884	813	795	9	11
<b>Other Operating Groups</b>	<b>15</b>	<b>15</b>	<b>9</b>	<b>–</b>	<b>67</b>
<b>Total base fee income</b>	<b>899</b>	<b>828</b>	<b>804</b>	<b>9</b>	<b>12</b>
<b>Performance fees</b>					
<b>MAM</b>					
MIM	3	21	7	(86)	(57)
MIRA	279	37	530	*	(47)
Total MAM	282	58	537	*	(47)
<b>Total performance fee income</b>	<b>282</b>	<b>58</b>	<b>537</b>	<b>*</b>	<b>(47)</b>

## FINANCIAL PERFORMANCE ANALYSIS

### CONTINUED

#### 2.2 FEE AND COMMISSION INCOME CONTINUED

##### Base fees

Base fees of \$A899 million for the half-year ended 30 September 2018 increased 12% from \$A804 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 \$A884 million for the half-year ended 30 September 2018 increased 11% from \$A795 million in the prior corresponding period. Base fee income benefited from investments made by MIRA-managed funds, increases in AUM driven by foreign exchange impacts and positive market movements as well as contributions from businesses acquired during the period (GLL Real Estate Partners (GLL) and ValueInvest Asset Management S.A. (ValueInvest)). This was partially offset by asset realisations in MIRA-managed funds.

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

##### Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A282 million for the half-year ended 30 September 2018 decreased 47% on a strong prior corresponding period of \$A537 million, which included performance fees from Macquarie European Infrastructure Fund 3 (MEIF3), Atlas Arteria – ALX (formerly known as Macquarie Atlas Roads – MQA), other MIRA-managed funds, Australian managed accounts and co-investors. The half-year ended 30 September 2018 included performance fees from a broad range of funds and co-investors with respect to infrastructure and real estate assets including ALX.

##### Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of \$A573 million for the half-year ended 30 September 2018 increased 25% from \$A458 million in the prior corresponding period.

Fee income from mergers and acquisitions, debt and equity capital markets, were all higher than the prior corresponding period, including fee income from debt capital markets in the US, mergers and acquisitions in Europe and the US, and equity capital markets in Australia. This also reflected favourable foreign exchange movements, partially offset by lower fee income from mergers and acquisitions in Australia.

Following the adoption of AASB 15, \$A20 million of certain recoverable costs previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

##### Brokerage and commissions

Brokerage and commissions income of \$A406 million for the half-year ended 30 September 2018 increased 5% from \$A386 million in the prior corresponding period.

The increase was mainly in Futures and Cash equity markets from increased market turnover and client activity in Asia, and an increase in equity capital markets fee income from Asia-Pacific in CGM.

##### Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits, provision of wealth services in Australia, mortgages, credit cards and business loans. MAM includes distribution service fees, structuring fees, capital protection fees and income from True Index products, while CGM includes lending services and income on structured products.

Other fee and commission income of \$A501 million for the half-year ended 30 September 2018 increased 31% from \$A383 million in the prior corresponding period, primarily in CGM and MAM. Following the adoption of AASB 15, \$A121 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

## 2.3 NET OPERATING LEASE INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
Rental income	1,091	1,001	900	9	21
Depreciation on operating lease assets	(630)	(535)	(431)	18	46
<b>Net operating lease income</b>	<b>461</b>	<b>466</b>	<b>469</b>	<b>(1)</b>	<b>(2)</b>

Net operating lease income, which is predominately earned by CAF, totalled \$A461 million for the half-year ended 30 September 2018, down 2% from \$A469 million in the prior corresponding period due to a reduction in underlying Aviation income partially offset by improved income from the Energy and Technology portfolios and favourable foreign exchange movements.

CAF's operating lease portfolio was \$A10.6 billion at 30 September 2018, broadly in line with \$A10.2 billion at 31 March 2018 with favourable foreign exchange movements and growth in Energy and Technology portfolios offset by depreciation.

## 2.4 SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Share of net profits of associates and joint ventures</b>	<b>7</b>	<b>138</b>	<b>103</b>	<b>(95)</b>	<b>(93)</b>

Share of net profits of associates and joint ventures of \$A7 million for the half-year ended 30 September 2018 decreased from \$A103 million in the prior corresponding period. The decrease was due to a change in the composition and performance of investments in Macquarie Capital's portfolio including expenditure on green energy and other projects in the development phase, partially offset by an increase in the share of net profits from the sale and revaluation of a number of underlying assets within equity accounted investments in MAM.

## FINANCIAL PERFORMANCE ANALYSIS

CONTINUED

### 2.5 OTHER OPERATING INCOME AND CHARGES

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Investment income</b>					
Net gain on equity investments	148	36	157	*	(6)
Net gain on debt investments	13	46	2	(72)	*
Net gain/(loss) on sale of interests in associates and joint ventures	126	241	(17)	(48)	*
Net gain on change of control, joint control or/and significant influence and reclassifications to/from held for sale	198	464	304	(57)	(35)
<b>Total investment income</b>	<b>485</b>	<b>787</b>	<b>446</b>	<b>(38)</b>	<b>9</b>
<b>Credit impairment (charges)/reversal<sup>(1)</sup></b>					
Loan assets	(46)	(8)	(80)	*	(43)
Loans to associates and joint ventures	(8)	(8)	(9)	–	(11)
Other assets	(3)	(35)	(18)	(91)	(83)
Financial investments measured at FVOCI	(5)	–	–	*	*
Undrawn commitments and financial guarantees	8	–	–	*	*
Recovery of exposures previously written off	10	52	26	(81)	(62)
<b>Total credit impairment (charges)/reversal</b>	<b>(44)</b>	<b>1</b>	<b>(81)</b>	<b>*</b>	<b>(46)</b>
<b>Other impairment charges</b>					
Equity investment securities available for sale	–	(15)	(10)	(100)	(100)
Interests in associates and joint ventures	(30)	(178)	(6)	(83)	*
Intangible assets and other non-financial assets	(2)	(32)	(45)	(94)	(96)
<b>Total other impairment charges</b>	<b>(32)</b>	<b>(225)</b>	<b>(61)</b>	<b>(86)</b>	<b>(48)</b>
Other income	63	203	61	(69)	3
<b>Total other operating income and charges</b>	<b>472</b>	<b>766</b>	<b>365</b>	<b>(38)</b>	<b>29</b>

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

## 2.5 OTHER OPERATING INCOME AND CHARGES CONTINUED

Total other operating income and charges of \$A472 million for the half-year ended 30 September 2018, increased 29% from \$A365 million in the prior corresponding period, mainly driven by lower Credit and Other impairment charges in Corporate and CGM and higher investment income primarily in Macquarie Capital, partially offset by a reduction in MAM.

### Investment income

Investment income totalled \$A485 million for the half-year ended 30 September 2018, an increase of 9% from \$A446 million in the prior corresponding period.

Investment income in the current period included income generated across ANZ, Europe and the US from unlisted investments in the green energy and technology sectors in Macquarie Capital, and gains from sale of MIRA's holdings in a number of listed and unlisted investments in MAM.

The prior corresponding period included gains on reclassification of certain investments in MAM and an investment in a toll road in the UK by the CAF Principal Finance business. Macquarie Capital generated income in the US, Europe and ANZ, primarily across unlisted investments in the insurance, green energy and technology sectors.

### Credit impairment charges

Credit impairment charges of \$A44 million for the half-year ended 30 September 2018 decreased 46% from \$A81 million in the prior corresponding period, which included write-downs recognised on underperforming financing facilities in CGM, partly offset by a partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios in CAF.

### Other impairment charges

Other impairment charges totalled \$A32 million for the half-year ended 30 September 2018, a decrease of 48% from \$A61 million in the prior corresponding period and a decrease of 86% on the prior period. The decrease predominately relates to the non-recurrence of impairment charges relating to legacy assets in Corporate in the prior corresponding period. The prior period primarily included the write-down of MIRA's investment in MIC.

### Other income

Other income of \$A63 million for the half-year ended 30 September 2018 increased 3% from \$A61 million in the prior corresponding period. The increase predominately relates to asset sales in Technology and Principal Finance in CAF, partially offset by Macquarie Capital, which included expenditure on green energy projects in the development phase.

## FINANCIAL PERFORMANCE ANALYSIS

CONTINUED

### 2.6 OPERATING EXPENSES

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	(2,033)	(1,890)	(1,908)	8	7
Share-based payments	(247)	(202)	(208)	22	19
(Provision)/reversal for long service leave and annual leave	(17)	1	(14)	*	21
Total compensation expenses	(2,297)	(2,091)	(2,130)	10	8
Other employment expenses including on-costs, staff procurement and staff training	(157)	(141)	(131)	11	20
<b>Total employment expenses</b>	<b>(2,454)</b>	<b>(2,232)</b>	<b>(2,261)</b>	<b>10</b>	<b>9</b>
Brokerage, commission and trading-related expenses	(579)	(408)	(422)	42	37
Occupancy expenses	(207)	(203)	(199)	2	4
Non-salary technology expenses	(331)	(309)	(295)	7	12
Other operating expenses					
Professional fees	(202)	(220)	(191)	(8)	6
Travel and entertainment expenses	(91)	(89)	(74)	2	23
Advertising and communication expenses	(59)	(55)	(59)	7	–
Amortisation of intangible assets	(22)	(20)	(21)	10	5
Auditor's remuneration	(19)	(18)	(17)	6	12
Other expenses	(161)	(209)	(154)	(23)	5
<b>Total other operating expenses</b>	<b>(554)</b>	<b>(611)</b>	<b>(516)</b>	<b>(9)</b>	<b>7</b>
<b>Total operating expenses</b>	<b>(4,125)</b>	<b>(3,763)</b>	<b>(3,693)</b>	<b>10</b>	<b>12</b>

Total operating expenses of \$A4,125 million for the half-year ended 30 September 2018 increased 12% from \$A3,693 million in the prior corresponding period mainly due to higher average headcount across the Consolidated Entity, an increase in business activity and investment in technology projects, the impact of AASB 15 adoption and unfavourable foreign exchange movements in the current period.

Key drivers of the movement included:

- Total employment expenses of \$A2,454 million for the half-year ended 30 September 2018 increased 9% from \$A2,261 million in the prior corresponding period mainly due to higher average headcount across the Consolidated Entity to support business growth and the impact of business acquisitions in the current period, as well as the full period impact of acquisitions completed in the prior year. In addition, share-based payments expense was mainly driven by Macquarie's share price movement, while unfavourable foreign exchange movements also contributed to an increase in total employment expenses
- Brokerage, commission and trading-related expenses of \$A579 million for the half-year ended 30 September 2018 increased 37% from \$A422 million in the prior corresponding period primarily due to the reclassification of \$A141 million of fee expenses relating to stock borrowing activities and certain recoverable costs previously presented net of associated revenues within Fee and commission income in CGM, MAM and Macquarie Capital, following the adoption of AASB 15
- Non-salary technology expenses of \$A331 million for the half-year ended 30 September 2018 increased 12% from \$A295 million in the prior corresponding period mainly due to higher project activity in BFS, as well as an increase in investment in technology platforms in CGM
- Total other operating expenses of \$A554 million for the half-year ended 30 September 2018 increased 7% from \$A516 million in the prior corresponding period mainly due to increased business activity across the Consolidated Entity and the impact of unfavourable foreign exchange movements.

## 2.7 HEADCOUNT

	AS AT			MOVEMENT	
	Sep 18	Mar 18	Sep 17	Mar 18 %	Sep 17 %
<b>Headcount by Operating Group</b>					
MAM	1,795	1,608	1,581	12	14
CAF	1,325	1,312	1,263	1	5
BFS	2,157	2,323	2,077	(7)	4
CGM	2,040	2,053	1,986	(1)	3
Macquarie Capital	1,235	1,192	1,177	4	5
Total headcount – Operating Groups	8,552	8,488	8,084	1	6
Total headcount – Corporate	6,317	5,981	5,882	6	7
<b>Total headcount</b>	<b>14,869</b>	<b>14,469</b>	<b>13,966</b>	<b>3</b>	<b>6</b>
<b>Headcount by region</b>					
Australia <sup>(1)</sup>	6,632	6,677	6,241	(1)	6
International:					
Americas	2,698	2,598	2,586	4	4
Asia	3,602	3,428	3,445	5	5
Europe, Middle East and Africa	1,937	1,766	1,694	10	14
Total headcount – International	8,237	7,792	7,725	6	7
<b>Total headcount</b>	<b>14,869</b>	<b>14,469</b>	<b>13,966</b>	<b>3</b>	<b>6</b>
International headcount ratio (%)	55	54	55		

(1) Includes New Zealand.

Total headcount increased 6% to 14,869 at 30 September 2018 from 13,966 at 30 September 2017 mainly due to business growth across all Operating Groups, and in Corporate to support technology projects and ongoing regulatory compliance.

## FINANCIAL PERFORMANCE ANALYSIS

CONTINUED

### 2.8 INCOME TAX EXPENSE

	HALF-YEAR TO		
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am
Operating profit before income tax	1,705	1,760	1,704
Prima facie tax at 30%	512	528	511
Income tax permanent differences	(138)	(93)	(63)
Income tax expense	374	435	448
<b>Effective tax rate<sup>(1)</sup></b>	<b>22.2%</b>	24.9%	26.4%

(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests reduced operating profit before income tax by \$A21 million for the half-year ended 30 September 2018 (31 March 2018: \$A16 million; 30 September 2017: \$A8 million).

Income tax expense for the half-year ended 30 September 2018 was \$A374 million, a 17% decrease from \$A448 million in the prior corresponding period. The decrease was mainly due to a reduction in US tax rates and the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 22.2%, down from 26.4% in the prior corresponding period and 24.9% in the prior period.



- 3.1 Basis of preparation
- 3.2 MAM
- 3.3 CAF
- 3.4 BFS
- 3.5 CGM
- 3.6 Macquarie Capital
- 3.7 Corporate
- 3.8 International income

# 3

# SEGMENT ANALYSIS

## SEGMENT ANALYSIS

### 3.1 BASIS OF PREPARATION

#### Operating Segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

- **MAM** provides clients with access to a diverse range of capabilities and products, including infrastructure, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions
- **CAF** is a global provider of specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment
- **BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients
- **CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities
- **Macquarie Capital** provides advisory and capital raising services and undertakes global investing activities, offering specialist expertise across infrastructure, energy, real estate, telecommunications and media, technology, consumer, gaming and leisure, business services, resources, industrials, healthcare and financial institutions.

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

Items of income and expense within the Corporate segment include the net impact of managing liquidity for the Consolidated Entity, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on credit and other impairments or valuation of assets, 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 non-controlling interests and holders of loan capital.

All transactions and transfers between segments are generally determined on an arm’s length basis and are included within the relevant categories of income or expense. These transactions eliminate on aggregation/consolidation.

Below is a selection of key policies applied in determining operating segment results.

#### Internal funding arrangements

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

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

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

#### Transactions between Operating Groups

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

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

#### Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (CAF and BFS), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at a Consolidated Entity level; however for segment reporting, derivatives are accounted for on an accruals basis in the Operating Group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the total Consolidated Entity level.

#### Central service groups

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 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) is recognised in the Corporate segment and not allocated to Operating Groups.

### 3.1 BASIS OF PREPARATION CONTINUED

#### Income tax

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

#### Presentation of segment income statements

The income statements in 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 ordinary activities.

## SEGMENT ANALYSIS

CONTINUED

### 3.1 BASIS OF PREPARATION CONTINUED

	MAM \$Am	CAF \$Am	BFS \$Am	Annuity-style businesses \$Am
<b>Half-year ended 30 September 2018</b>				
Net interest and trading (expense)/income	(14)	200	634	820
Fee and commission income/(expense)	1,284	20	237	1,541
Net operating lease income	1	458	–	459
Share of net profits/(losses) of associates and joint ventures	80	2	(1)	81
Other operating income and charges				
Credit and Other impairment charges	(7)	(12)	(9)	(28)
Other operating income and charges	66	86	1	153
Internal management revenue/(charge)	–	4	2	6
Net operating income	1,410	758	864	3,032
Total operating expenses	(647)	(318)	(568)	(1,533)
Operating profit/(loss) before income tax	763	440	296	1,499
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(1)	(3)	–	(4)
<b>Net profit/(loss) contribution</b>	<b>762</b>	<b>437</b>	<b>296</b>	<b>1,495</b>
<b>Half-year ended 31 March 2018</b>				
Net interest and trading (expense)/income	(35)	246	598	809
Fee and commission income/(expense)	961	19	232	1,212
Net operating lease income	–	464	–	464
Share of net profits/(losses) of associates and joint ventures	121	(3)	2	120
Other operating income and charges				
Credit and Other impairment (charges)/reversal	(176)	(16)	(18)	(210)
Other operating income and charges	150	245	10	405
Internal management revenue/(charge)	41	3	–	44
Net operating income	1,062	958	824	2,844
Total operating expenses	(564)	(367)	(550)	(1,481)
Operating profit/(loss) before income tax	498	591	274	1,363
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(2)	(4)	–	(6)
<b>Net profit/(loss) contribution</b>	<b>496</b>	<b>587</b>	<b>274</b>	<b>1,357</b>
<b>Half-year ended 30 September 2017</b>				
Net interest and trading (expense)/income	(17)	336	584	903
Fee and commission income/(expense)	1,446	22	234	1,702
Net operating lease income	3	465	–	468
Share of net profits of associates and joint ventures	42	–	1	43
Other operating income and charges				
Credit and Other impairment (charges)/reversal	(1)	1	(8)	(8)
Other operating income and charges	257	106	8	371
Internal management revenue/(charge)	–	1	3	4
Net operating income	1,730	931	822	3,483
Total operating expenses	(543)	(312)	(536)	(1,391)
Operating profit/(loss) before income tax	1,187	619	286	2,092
Income tax expense	–	–	–	–
Loss/(profit) attributable to non-controlling interests	2	–	–	2
<b>Net profit/(loss) contribution</b>	<b>1,189</b>	<b>619</b>	<b>286</b>	<b>2,094</b>

## Segment analysis

	CGM \$Am	Macquarie Capital \$Am	Capital markets facing businesses \$Am	Corporate \$Am	Total \$Am
	1,260	(45)	1,215	194	2,229
	594	538	1,132	(12)	2,661
	–	–	–	2	461
	10	(84)	(74)	–	7
	(18)	(14)	(32)	(16)	(76)
	13	457	470	(75)	548
	1	15	16	(22)	–
	1,860	867	2,727	71	5,830
	(1,160)	(453)	(1,613)	(979)	(4,125)
	700	414	1,114	(908)	1,705
	–	–	–	(374)	(374)
	–	(8)	(8)	(9)	(21)
	<b>700</b>	<b>406</b>	<b>1,106</b>	<b>(1,291)</b>	<b>1,310</b>
	1,056	(15)	1,041	201	2,051
	457	442	899	(9)	2,102
	–	–	–	2	466
	13	4	17	1	138
	(32)	(40)	(72)	58	(224)
	87	498	585	–	990
	5	20	25	(69)	–
	1,586	909	2,495	184	5,523
	(1,054)	(395)	(1,449)	(833)	(3,763)
	532	514	1,046	(649)	1,760
	–	–	–	(435)	(435)
	–	(4)	(4)	(6)	(16)
	<b>532</b>	<b>510</b>	<b>1,042</b>	<b>(1,090)</b>	<b>1,309</b>
	904	(57)	847	142	1,892
	436	436	872	(6)	2,568
	–	–	–	1	469
	8	52	60	–	103
	(56)	(20)	(76)	(58)	(142)
	22	170	192	(56)	507
	7	1	8	(12)	–
	1,321	582	1,903	11	5,397
	(943)	(390)	(1,333)	(969)	(3,693)
	378	192	570	(958)	1,704
	–	–	–	(448)	(448)
	–	(2)	(2)	(8)	(8)
	<b>378</b>	<b>190</b>	<b>568</b>	<b>(1,414)</b>	<b>1,248</b>

## SEGMENT ANALYSIS

CONTINUED

### 3.2 MAM

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading expense</b>	<b>(14)</b>	(35)	(17)	(60)	(18)
<b>Fee and commission income</b>					
Base fees	884	813	795	9	11
Performance fees	282	58	537	*	(47)
Other fee and commission income	118	90	114	31	4
Total fee and commission income	1,284	961	1,446	34	(11)
<b>Net operating lease income</b>	<b>1</b>	–	3	*	(67)
<b>Share of net profits of associates and joint ventures</b>	<b>80</b>	121	42	(34)	90
<b>Other operating income and charges</b>					
Net income on equity and debt investments	39	123	230	(68)	(83)
Credit and Other impairment charges <sup>(1),(2)</sup>	(7)	(176)	(1)	(96)	*
Other income	27	27	27	–	–
Total other operating income and charges	59	(26)	256	*	(77)
<b>Internal management revenue</b>	<b>–</b>	41	–	(100)	–
<b>Net operating income</b>	<b>1,410</b>	1,062	1,730	33	(18)
<b>Operating expenses</b>					
Employment expenses	(219)	(205)	(188)	7	16
Brokerage, commission and trading-related expenses	(128)	(86)	(123)	49	4
Other operating expenses	(300)	(273)	(232)	10	29
<b>Total operating expenses</b>	<b>(647)</b>	(564)	(543)	15	19
<b>Non-controlling interests<sup>(3)</sup></b>	<b>(1)</b>	(2)	2	(50)	*
<b>Net profit contribution</b>	<b>762</b>	496	1,189	54	(36)
<b>Non-GAAP metrics</b>					
MAM (including MIRA) assets under management (\$Ab)	549.5	495.1	471.9	11	16
MIRA equity under management (\$Ab)	105.8	86.2	79.5	23	33
Headcount	1,795	1,608	1,581	12	14

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

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

Net profit contribution of \$A762 million for the half-year ended 30 September 2018, down 36% from the prior corresponding period:

- Performance fees down on a strong prior corresponding period
- Decreased investment-related income<sup>(4)</sup> largely due to gains on reclassification of certain investments in the prior corresponding period
- Higher operating expenses mainly due to business growth, the impact of acquisitions and foreign exchange movements.

Partially offset by:

- Increased base fees primarily driven by higher AUM including favourable foreign exchange movements.

(4) Investment-related income includes Net income on equity and debt investments and Share of net profits of associates and joint ventures.

## 3.2 MAM CONTINUED

### Base fees

Base fee income of \$A884 million for the half-year ended 30 September 2018 increased 11% from \$A795 million in the prior corresponding period. Base fee income benefited from investments made by MIRA-managed funds, increases in AUM primarily driven by foreign exchange impacts and positive market movements as well as contributions from businesses acquired during the period (GLL and ValueInvest). This was partially offset by asset realisations in MIRA-managed funds.

### Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A282 million for the half-year ended 30 September 2018 decreased 47% on a strong prior corresponding period of \$A537 million which included performance fees from MEIF3, ALX, other MIRA-managed funds, Australian managed accounts and co-investors. The half-year ended 30 September 2018 included performance fees from a broad range of funds and co-investors with respect to infrastructure and real estate assets including ALX.

### Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees, 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 Brokerage, commission and trading-related expenses.

Other fee and commission income of \$A118 million for the half-year ended 30 September 2018 increased 4% from \$A114 million in the prior corresponding period largely due to reclassification of certain fund related expenses which were previously presented net of associated revenues to Operating expenses as a result of adoption of AASB 15. This was partially offset by lower income from MSIS Retail and True Index products.

### Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures of \$A80 million for the half-year ended 30 September 2018 was 90% higher than \$A42 million in the prior corresponding period. The result includes MIRA's share of net profits from the sale and revaluation of a number of underlying assets within equity accounted investments which increased compared to the prior corresponding period. In addition, the current period included equity income from investments which were previously classified as Available for sale in the prior corresponding period.

### Net income on equity and debt investments

Net income on equity and debt investments of \$A39 million for the half-year ended 30 September 2018 was lower than a strong prior corresponding period of \$A230 million which included gains on reclassification of certain investments from Available for sale to Investments in associates. The current period included gains from sale of MIRA's holdings in a number of listed and unlisted investments.

### Credit and Other impairment charges

Credit and Other impairment charges of \$A7 million for the half-year ended 30 September 2018 were slightly higher than \$A1 million in the prior corresponding period. The prior period charge of \$A176 million included the write-down of MIRA's investment in MIC.

### Other income

Other income of \$A27 million for the half-year ended 30 September 2018 was in line with the prior corresponding period. The current period income primarily relates to consolidated investments which were previously classified as Held for sale. The prior corresponding period included income from MSIS Retail.

### Operating expenses

Total operating expenses of \$A647 million for the half-year ended 30 September 2018 increased 19% from \$A543 million in the prior corresponding period. The current period included higher expenses which were mainly driven by business growth during the period, the impact of the acquisitions of GLL and ValueInvest, foreign exchange movements and expenses which were previously presented net of associated revenues in Other fee and commission income prior to the adoption of AASB 15.

## SEGMENT ANALYSIS

### CONTINUED

#### 3.3 CAF

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading income</b>	<b>200</b>	246	336	(19)	(40)
<b>Fee and commission income</b>	<b>20</b>	19	22	5	(9)
<b>Net operating lease income</b>	<b>458</b>	464	465	(1)	(2)
<b>Share of net profits/(losses) of associates and joint ventures</b>	<b>2</b>	(3)	–	*	*
<b>Other operating income and charges</b>					
Gain on disposal of operating lease assets	<b>16</b>	21	6	(24)	167
Net income on equity and debt investments	<b>3</b>	122	66	(98)	(95)
Credit and Other impairment (charges)/reversal <sup>(1),(2)</sup>	<b>(12)</b>	(16)	1	(25)	*
Other income	<b>67</b>	102	34	(34)	97
Total other operating income and charges	<b>74</b>	229	107	(68)	(31)
<b>Internal management revenue</b>	<b>4</b>	3	1	33	300
<b>Net operating income</b>	<b>758</b>	958	931	(21)	(19)
<b>Operating expenses</b>					
Employment expenses	<b>(136)</b>	(141)	(132)	(4)	3
Brokerage, commission and trading-related expenses	<b>(4)</b>	(6)	(3)	(33)	33
Other operating expenses	<b>(178)</b>	(220)	(177)	(19)	1
<b>Total operating expenses</b>	<b>(318)</b>	(367)	(312)	(13)	2
<b>Non-controlling interests<sup>(3)</sup></b>	<b>(3)</b>	(4)	–	(25)	*
<b>Net profit contribution</b>	<b>437</b>	587	619	(26)	(29)
<b>Non-GAAP metrics</b>					
Loan and finance lease portfolio <sup>(4)</sup> (\$Ab)	<b>23.1</b>	24.3	25.6	(5)	(10)
Operating lease portfolio (\$Ab)	<b>10.6</b>	10.2	9.9	4	7
Headcount	<b>1,325</b>	1,312	1,263	1	5

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

(3) '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.

(4) Includes equity portfolio of \$A0.4 billion (March 2018: \$A0.4 billion; September 2017: \$A0.4 billion).

Net profit contribution of \$A437 million for the half-year ended 30 September 2018, down 29% on the prior corresponding period:

- Decreased income from early repayments, realisations and investment-related income<sup>(5)</sup> in the Principal Finance portfolio
- Lower interest income largely as a result of the reduction in the Principal Finance portfolio size
- Asset Finance portfolio broadly in line with the prior corresponding period.

(5) Investment-related income refers to Net income on equity and debt investments.



### 3.3 CAF CONTINUED

#### Net interest and trading income

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets) and Principal Finance equity investments.

Net interest and trading income of \$A200 million for the half-year ended 30 September 2018 decreased 40% from \$A336 million in the prior corresponding period. The decrease was largely a result of reduced income from early repayments, realisations and a reduction in the size of the Principal Finance portfolio.

The loan and finance lease portfolio was \$A23.1 billion at 30 September 2018, a decrease of 5% from \$A24.3 billion at 31 March 2018. The decrease was largely due to Principal Finance and Vehicles portfolios.

#### Net operating lease income

Net operating lease income of \$A458 million for the half-year ended 30 September 2018 decreased 2% from \$A465 million in the prior corresponding period. The decrease was driven by a reduction in underlying Aviation income, partially offset by improved income from the Energy and Technology portfolios and favourable foreign exchange movements.

The operating lease portfolio was \$A10.6 billion at 30 September 2018, broadly in line with \$A10.2 billion at 31 March 2018 with favourable foreign exchange movements and growth in Energy and Technology portfolios offset by depreciation.

#### Gain on disposal of operating lease assets

The Gain on disposal of operating lease assets of \$A16 million for the half-year ended 30 September 2018 predominately related to gains recognised on the sale of mining equipment.

#### Net income on equity and debt investments

The Net income on equity and debt investments of \$A66 million in the prior corresponding period primarily related to a gain on reclassification following an increase in ownership of a toll road in the UK by the Principal Finance business. The prior period result of \$A122 million primarily related to a gains generated from Principal Finance investments in Europe and the US and the sale of the US commercial vehicles financing business.

#### Credit and Other impairment (charges)/reversal

Credit and Other impairment reversal of \$A1 million in the prior corresponding period was primarily driven by a partial reversal of collective provisions, driven by net loan repayments and the improved credit performance of underlying portfolios.

#### Other income

Other income of \$A67 million for the half-year ended 30 September 2018 increased from \$A34 million in the prior corresponding period. The increase was primarily due to asset sales in Technology and Principal Finance.

#### Operating expenses

Total operating expenses of \$A318 million for the half-year ended 30 September 2018 were broadly in line with the \$A312 million in the prior corresponding period.

## SEGMENT ANALYSIS

### CONTINUED

#### 3.4 BFS

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading income</b>	<b>634</b>	598	584	6	9
<b>Fee and commission income</b>					
Wealth management fee income	168	168	168	–	–
Banking fee income	69	64	66	8	5
Total fee and commission income	237	232	234	2	1
<b>Share of net (losses)/profits of associates and joint ventures</b>	<b>(1)</b>	2	1	*	*
<b>Other operating income and charges</b>					
Credit impairment charges <sup>(1)</sup>	(9)	(10)	(8)	(10)	13
Other impairment charges <sup>(2)</sup>	–	(8)	–	(100)	–
Other income	1	10	8	(90)	(88)
Total other operating income and charges	(8)	(8)	–	–	*
<b>Internal management revenue</b>	<b>2</b>	–	3	*	(33)
<b>Net operating income</b>	<b>864</b>	824	822	5	5
<b>Operating expenses</b>					
Employment expenses	(172)	(173)	(158)	(1)	9
Brokerage, commission and trading-related expenses	(107)	(107)	(104)	–	3
Technology expenses <sup>(3)</sup>	(155)	(143)	(136)	8	14
Other operating expenses	(134)	(127)	(138)	6	(3)
<b>Total operating expenses</b>	<b>(568)</b>	(550)	(536)	3	6
<b>Net profit contribution</b>	<b>296</b>	274	286	8	3
<b>Non-GAAP metrics</b>					
Funds on platform <sup>(4)</sup> (\$Ab)	88.1	82.5	78.9	7	12
Australian loan portfolio <sup>(5)</sup> (\$Ab)	44.5	40.6	37.6	10	18
BFS deposits <sup>(6)</sup> (\$Ab)	49.4	45.7	46.4	8	6
Headcount	2,157	2,323	2,077	(7)	4

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

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

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

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

(6) BFS Deposits excludes corporate/wholesale deposits.

Net profit contribution of \$A296 million for the half-year ended 30 September 2018, up 3% from the prior corresponding period:

– Growth in deposit, Australian loan portfolio and funds on platform average volumes.

Partially offset by:

– Increased costs associated with investment in technology and headcount in key areas to support business growth

– Platform margin fee compression

– Entire period effect of Australian Government Major Bank Levy relative to the prior corresponding period.

### 3.4 BFS CONTINUED

#### Net interest and trading income

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

Net interest and trading income of \$A634 million for the half-year ended 30 September 2018 increased 9% from \$A584 million in the prior corresponding period due to a 17% growth in average Australian loan portfolio volumes and a 3% growth in the average BFS deposit balance compared to the prior corresponding period. This was partially offset by a \$A12 million allocation of the Australian Government Major Bank Levy that came into effect from 1 July 2017.

At 30 September 2018 the Australian loan and deposit portfolios included:

- BFS deposits of \$A49.4 billion, up 8% from \$A45.7 billion at 31 March 2018;
- Australian mortgage volumes of \$A36.1 billion, up 10% from \$A32.7 billion at 31 March 2018; and
- business lending volumes of \$A7.8 billion, up 7% from \$A7.3 billion at 31 March 2018.

#### Wealth management fee income

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

Funds on platform closed at \$A88.1 billion at 30 September 2018, an increase of 7% from \$A82.5 billion at 31 March 2018 largely due to net positive client inflows and market movements.

Wealth management fee income of \$A168 million for the half-year ended 30 September 2018 was in line with the prior corresponding period as higher average funds on platform were offset by platform margin fee compression. Advice fee income remained broadly in line.

#### Banking fee income

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

Banking fee income of \$A69 million for the half-year ended 30 September 2018 increased 5% from \$A66 million in the prior corresponding period largely due to increased lending and payment transaction volumes.

#### Credit impairment charges

Credit impairment charges of \$A9 million for the half-year ended 30 September 2018 increased 13% from \$A8 million in the prior corresponding period, which included higher business lending provisions on a small number of loans.

#### Other income

Other income of \$A1 million for the half-year ended 30 September 2018 decreased from \$A8 million in the prior corresponding period which included income from transitional services provided in relation to the sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

#### Operating expenses

Total operating expenses of \$A568 million for the half-year ended 30 September 2018 increased 6% from \$A536 million in the prior corresponding period.

Employment expenses of \$A172 million for the half-year ended 30 September 2018 increased 9% from \$A158 million in the prior corresponding period driven by higher headcount in key areas to support business growth.

Brokerage, commission and trading-related expenses of \$A107 million for the half-year ended 30 September 2018 increased 3% from \$A104 million in the prior corresponding period largely due to an increase in payment transaction and insurance premium funding volumes.

Technology expenses of \$A155 million for the half-year ended 30 September 2018 increased 14% from \$A136 million in the prior corresponding period due to higher project activity.

Other operating expenses of \$A134 million for the half-year ended 30 September 2018 decreased 3% from \$A138 million in the prior corresponding period driven by lower professional fees and occupancy costs.

## SEGMENT ANALYSIS

CONTINUED

### 3.5 CGM

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading income</b>					
Commodities					
Risk management products	457	420	285	9	60
Lending and financing	128	129	108	(1)	19
Inventory management, transport and storage	221	109	42	103	*
Total commodities	806	658	435	22	85
Foreign exchange, interest rates and credit	291	225	283	29	3
Equities	163	173	186	(6)	(12)
Net interest and trading income	1,260	1,056	904	19	39
<b>Fee and commission income</b>					
Brokerage and commissions	367	345	341	6	8
Other fee and commission income	227	112	95	103	139
Total fee and commission income	594	457	436	30	36
<b>Share of net profits of associates and joint ventures</b>	10	13	8	(23)	25
<b>Other operating income and charges</b>					
Net income on equity and debt investments	6	84	13	(93)	(54)
Credit and Other impairment charges <sup>(1),(2)</sup>	(18)	(32)	(56)	(44)	(68)
Other income	7	3	9	133	(22)
Total other operating income and charges	(5)	55	(34)	*	(85)
<b>Internal management revenue</b>	1	5	7	(80)	(86)
<b>Net operating income</b>	1,860	1,586	1,321	17	41
<b>Operating expenses</b>					
Employment expenses	(309)	(320)	(278)	(3)	11
Brokerage, commission and trading-related expenses	(318)	(208)	(190)	53	67
Other operating expenses	(533)	(526)	(475)	1	12
<b>Total operating expenses</b>	(1,160)	(1,054)	(943)	10	23
<b>Net profit contribution</b>	700	532	378	32	85
<b>Non-GAAP metrics</b>					
Headcount	2,040	2,053	1,986	(1)	3

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

Net profit contribution of \$A700 million for the half-year ended 30 September 2018, up 85% from the prior corresponding period:

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities
- Increased fee and commission income in Asia driven by increased market turnover and client activity, and an increased contribution from equity capital markets fee income from Asia-Pacific.

Partially offset by:

- Reduced opportunities and challenging markets impacting equity trading activities
- Increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increase in investment in technology platforms.

### 3.5 CGM CONTINUED

#### 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 \$A457 million for the half-year ended 30 September 2018 increased 60% from \$A285 million in the prior corresponding period. The current period included strong results across the commodities platform due to increased client hedging activity and trading opportunities across Global Oil, Gas and Agriculture in comparison with the prior corresponding period associated with volatility and commodity price movements.

##### (ii) Lending and financing

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

Lending and financing income of \$A128 million for the half-year ended 30 September 2018 increased 19% from \$A108 million in the prior corresponding period due to an increased contribution from commodity financing activities in the Americas and Asia-Pacific.

##### (iii) Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is imbalance between the supply and demand for energy. Tolling agreements, 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, transport and storage income of \$A221 million for the half-year ended 30 September 2018 increased significantly from \$A42 million in the prior corresponding period. Significant opportunities arose in the period for the North American Gas and Power business driven by opportunities across regional US centres as a result of supply-demand imbalance, partially offset by the timing of income recognition, which reduced revenue relating to transport agreements and capacity contracts.

#### 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 is 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 \$A291 million for the half-year ended 30 September 2018 increased 3% from \$A283 million in the prior corresponding period. Increased income in the current period was underpinned by continued strong client contributions from foreign exchange structured products in North America and the Asia-Pacific.

#### 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 \$A163 million for the half-year ended 30 September 2018 decreased 12% from \$A186 million in the prior corresponding period reflecting challenging conditions and reduced opportunities, particularly in China and Taiwan.

#### Fee and commission income

Fee and commission income of \$A594 million for the half-year ended 30 September 2018 increased 36% from \$A436 million in the prior corresponding period.

The increase includes a \$A77 million reclassification relating to stock borrowing expenses following the adoption of AASB 15, which were previously presented net of associated revenues. These stock borrowing expenses have been reclassified to Brokerage, commission and trading-related expenses within Operating expenses.

In addition, there was an increase in brokerage commission in Futures and Cash equity markets from increased market turnover and client activity in Asia, and an increase in equity capital markets fee income from Asia-Pacific.

#### Net income on equity and debt investments

Net income on equity and debt investments of \$A6 million for the half-year ended 30 September 2018 decreased 54% from \$A13 million in the prior corresponding period and \$A84 million on the prior period. Income in the prior period was primarily due to gains on sale from a number of investments in energy and related sectors.

#### Credit and Other impairment charges

Credit and Other impairment charges of \$A18 million for the half-year ended 30 September 2018 decreased 68% from \$A56 million in the prior corresponding period, which recognised write-downs on underperforming financing facilities and impairment charges related to certain commodity positions.

#### Operating expenses

Total operating expenses of \$A1,160 million for the half-year ended 30 September 2018 increased 23% from \$A943 million in the prior corresponding period.

Employment expenses of \$A309 million for the half-year ended 30 September 2018 increased 11% from \$A278 million in the prior corresponding period mainly due to higher average headcount which included the full period impact of acquisitions completed in the prior year.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of \$A318 million for the half-year ended 30 September 2018 increased 67% from \$A190 million in the prior corresponding period mainly due to changes in accounting classification following the adoption of AASB 15 which has resulted in \$A77 million stock borrowing expenses being reclassified from Fee and commission income. An additional increase was driven by higher client activity.

Other operating expenses of \$A533 million for the half-year ended 30 September 2018 increased 12% from \$A475 million in the prior corresponding period, reflecting impact of prior year acquisitions and an increase in investment in technology platforms.

## SEGMENT ANALYSIS

### CONTINUED

### 3.6 MACQUARIE CAPITAL

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading expense</b>	<b>(45)</b>	(15)	(57)	200	(21)
<b>Fee and commission income</b>	<b>538</b>	442	436	22	23
<b>Share of net (losses)/profits of associates and joint ventures</b>	<b>(84)</b>	4	52	*	*
<b>Other operating income and charges</b>					
Net income on equity and debt investments	<b>476</b>	493	131	(3)	263
Credit and Other impairment charges <sup>(1),(2)</sup>	<b>(14)</b>	(40)	(20)	(65)	(30)
Other (expenses)/income	<b>(19)</b>	5	39	*	*
Total other operating income and charges	<b>443</b>	458	150	(3)	195
<b>Internal management revenue</b>	<b>15</b>	20	1	(25)	*
<b>Net operating income</b>	<b>867</b>	909	582	(5)	49
<b>Operating expenses</b>					
Employment expenses	<b>(195)</b>	(174)	(172)	12	13
Brokerage, commission and trading-related expenses	<b>(22)</b>	(1)	(3)	*	*
Other operating expenses	<b>(236)</b>	(220)	(215)	7	10
<b>Total operating expenses</b>	<b>(453)</b>	(395)	(390)	15	16
<b>Non-controlling interests<sup>(3)</sup></b>	<b>(8)</b>	(4)	(2)	100	300
<b>Net profit contribution</b>	<b>406</b>	510	190	(20)	114
<b>Non-GAAP metrics</b>					
Headcount	<b>1,235</b>	1,192	1,177	4	5

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

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

Net profit contribution of \$A406 million for the half-year ended 30 September 2018, up 114% from the prior corresponding period:

- Increased net income on equity and debt investments due to asset realisations and reclassifications, particularly in green energy and technology
- Higher fee income across mergers and acquisitions, debt capital markets and equity capital markets.

Partially offset by:

- Higher share of losses of associates and joint ventures and other expenses reflecting underlying investing activity including expenditure on green energy and other projects in the development phase
- Higher operating expenses mainly due to additional headcount, unfavourable foreign exchange movements and increased investing activity.

### 3.6 MACQUARIE CAPITAL CONTINUED

#### Net interest and trading expense

Net interest and trading 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 expense of \$A45 million for the half-year ended 30 September 2018 decreased 21% from \$A57 million in the prior corresponding period. This was primarily due to higher interest income from the debt investment portfolio, partially offset by higher funding costs for balance sheet positions reflecting increased activity.

#### Fee and commission income

Fee income includes fees from mergers and acquisitions, debt and equity capital markets.

Fee and commission income of \$A538 million for the half-year ended 30 September 2018 increased 23% from \$A436 million in the prior corresponding period.

Fee income from mergers and acquisitions, debt capital markets and equity capital markets were all higher than the prior corresponding period, including fee income from debt capital markets in the US, mergers and acquisitions in Europe and the US, and equity capital markets in Australia. This also reflected favourable foreign exchange movements, partially offset by lower fee income from mergers and acquisitions in Australia.

Following the adoption of AASB 15, \$A20 million of certain recoverable costs previously presented net of associated revenues have been reclassified to Operating expenses.

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

Share of net losses of associates and joint ventures was \$A84 million for the half-year ended 30 September 2018 compared to a profit of \$A52 million in the prior corresponding period.

The movement reflected a change in the composition and performance of investments in the portfolio including expenditure on green energy and other projects in the development phase.

#### Net income on equity and debt investments

Net income on equity and debt investments of \$A476 million for the half-year ended 30 September 2018 increased significantly from \$A131 million in the prior corresponding period.

Income was primarily generated across ANZ, Europe and the US from unlisted investments in the green energy and technology sectors. The income generated in the prior corresponding period was in the US, Europe and ANZ, primarily across unlisted investments in the insurance, green energy and technology sectors.

#### Credit and Other impairment charges

Credit and Other impairment charges of \$A14 million for the half-year ended 30 September 2018 decreased 30% from \$A20 million in the prior corresponding period.

The charge recognised in the current period primarily related to a small number of underperforming investments, offset by a net reversal of expected credit losses due to loan sales and repayments. The charge recognised in the prior corresponding period primarily related to a net increase in the collective allowance for credit losses.

#### Other (expenses)/income

Other expenses of \$A19 million for the half-year ended 30 September 2018 comprised expenditure on green energy projects in the development phase.

#### Operating expenses

Total operating expenses of \$A453 million for the half-year ended 30 September 2018 increased 16% from \$A390 million in the prior corresponding period. This increase reflected additional headcount, unfavourable foreign exchange movements and increased investing activity.

In addition, following the adoption of AASB 15, \$A20 million of certain recoverable costs previously presented net of associated revenues have been reclassified from Fee and commission income.

## SEGMENT ANALYSIS

CONTINUED

### 3.7 CORPORATE

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Net interest and trading income</b>	<b>194</b>	201	142	(3)	37
<b>Fee and commission expense</b>	<b>(12)</b>	(9)	(6)	33	100
<b>Net operating lease income</b>	<b>2</b>	2	1	–	100
<b>Share of net profits of associates and joint ventures</b>	<b>–</b>	1	–	(100)	–
<b>Other operating income and charges</b>					
Net income on equity and debt investments	(51)	4	6	*	*
Credit and Other impairment (charges)/reversal <sup>(1),(2)</sup>	(16)	58	(58)	*	(72)
Other income and charges	(24)	(4)	(62)	*	(61)
Total other operating income and charges	(91)	58	(114)	*	(20)
<b>Internal management charge</b>	<b>(22)</b>	(69)	(12)	(68)	83
<b>Net operating income</b>	<b>71</b>	184	11	(61)	*
<b>Operating expenses</b>					
Employment expenses	(1,422)	(1,219)	(1,332)	17	7
Brokerage, commission and trading-related expenses	–	1	(1)	(100)	(100)
Other operating expenses	443	385	364	15	22
<b>Total operating expenses</b>	<b>(979)</b>	(833)	(969)	18	1
Income tax expense	(374)	(435)	(448)	(14)	(17)
Macquarie Income Securities	(7)	(7)	(7)	–	–
Non-controlling interests <sup>(3)</sup>	(2)	1	(1)	*	100
<b>Net loss contribution</b>	<b>(1,291)</b>	(1,090)	(1,414)	18	(9)
<b>Non-GAAP metrics</b>					
Headcount	6,317	5,981	5,882	6	7

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

(3) '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.

The Corporate segment comprises head office and central service groups, including Group Treasury, certain legacy investments, assets and businesses that are no longer core for strategic reasons and costs that are not allocated to Operating Groups, including performance-related profit share and share-based payments expense, and income tax expense.



### 3.7 CORPORATE CONTINUED

#### Net interest and trading income

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

Net interest and trading income of \$A194 million for the half-year ended 30 September 2018 increased 37% from \$A142 million in the prior corresponding period primarily due to the impact of changes in fair value on economic hedges, and higher earnings on capital driven by increased average capital volumes and higher USD and AUD interest rates.

#### Net income on equity and debt investments

Net income on equity and debt investments was a loss of \$A51 million for the half-year ended 30 September 2018, compared to net gain of \$A6 million in the prior corresponding period. The loss in the current period was due to Group consolidation adjustments recognised in a prior period, now being realised in the Operating Groups.

#### Credit and Other impairment (charges)/reversal

Credit and Other impairment charges of \$A16 million for the half-year ended 30 September 2018 decreased from \$A58 million in the prior corresponding period as a result of non-recurring impairments of legacy assets. The current period included impairment charges recognised on certain associates.

#### Other income and charges

The charges of \$A24 million for the half-year ended 30 September 2018 decreased 61% from charges of \$A62 million in the prior corresponding period as a result of the non-recurrence of certain inter-segment elimination and other charges.

#### Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Consolidated Entity's central service groups including COG, FMG, RMG, Legal and Governance, and Central Executive, as well as performance-related profit share and share-based payments expense for the Consolidated Entity and the impact of fair value adjustments to Directors' Profit Share liabilities.

Employment expenses of \$A1,422 million for the half-year ended 30 September 2018 increased 7% from \$A1,332 million in the prior corresponding period, following an increase in Macquarie's share price, changes in vesting related assumptions and higher average headcount in central service groups.

#### 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 \$A443 million for the half-year ended 30 September 2018 increased 22% from \$A364 million in the prior corresponding period, which primarily reflected the recovery of a higher cost base of central service groups as a result of a higher average headcount.

## SEGMENT ANALYSIS

CONTINUED

### 3.8 INTERNATIONAL INCOME

#### International income by region

	HALF-YEAR TO			MOVEMENT	
	Sep 18 \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
Americas	1,777	1,469	1,353	21	31
Asia	532	681	548	(22)	(3)
Europe, Middle East and Africa	1,545	1,475	1,601	5	(3)
<b>Total international income</b>	<b>3,854</b>	<b>3,625</b>	<b>3,502</b>	<b>6</b>	<b>10</b>
Australia <sup>(1)</sup>	1,883	1,645	1,872	14	1
Total income (excluding earnings on capital and other corporate items)	5,737	5,270	5,374	9	7
Earnings on capital and other corporate items	93	253	23	(63)	*
<b>Net operating income (as reported)</b>	<b>5,830</b>	<b>5,523</b>	<b>5,397</b>	<b>6</b>	<b>8</b>
International income (excluding earnings on capital and other corporate items) ratio (%)	67	69	65		

(1) Includes New Zealand.

#### International income by Operating Group and region

	HALF-YEAR TO SEP 18						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia <sup>(1)</sup> \$Am	Total Income <sup>(2)</sup> \$Am	Total International %
MAM	656	132	421	1,209	201	1,410	86
CAF	146	10	356	512	242	754	68
BFS	–	–	–	–	862	862	–
CGM	576	458	447	1,481	378	1,859	80
Macquarie Capital	399	(68)	321	652	200	852	77
<b>Total</b>	<b>1,777</b>	<b>532</b>	<b>1,545</b>	<b>3,854</b>	<b>1,883</b>	<b>5,737</b>	<b>67</b>

(1) Includes New Zealand.

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

Total international income was \$A3,854 million for the half-year ended 30 September 2018, an increase of 10% from \$A3,502 million in the prior corresponding period. Total international income represented approximately 67% of total income (excluding earnings on capital and other corporate items), in line with the prior corresponding period.

Income from the Americas of \$A1,777 million for the half-year ended 30 September 2018 increased 31% from \$A1,353 million in the prior corresponding period. The increase was mainly in CGM as significant opportunities arose in the period for the North American Gas and Power business as a result of supply-demand imbalance, partially offset by the timing of income recognition relating to transport agreements and capacity contracts. In addition, Macquarie Capital generated higher fee income from debt capital markets and mergers and acquisitions, and income on equity and debt investments in the technology sector.

In Asia, income of \$A532 million for the half-year ended 30 September 2018 decreased 3% from \$A548 million in the prior corresponding period. The decrease was primarily in Macquarie Capital due to the share of losses of associates and joint ventures, which reflected a change in the composition and performance of investments in the portfolio including expenditure on green energy projects in the development phase and impairment charges on a small number of underperforming investments. This was partially offset by higher base fees in MAM due to investments made by MIRA-managed funds, and brokerage and commission income in CGM from increased market turnover and client activity.

Income from Europe, Middle East and Africa of \$A1,545 million for the half-year ended 30 September 2018 decreased 3% from \$A1,601 million in the prior corresponding period. The decrease was primarily driven by lower performance fees from MEIF3 in MAM, and non-recurrence of a gain on reclassification in CAF following an increase in ownership of a toll road in the UK in the prior corresponding period. This was partially offset by higher income in CGM due to increased contribution across the commodities platform, and income on equity and debt investments in the green energy and technology sectors and fee income from mergers and acquisitions in Macquarie Capital.

In Australia, income of \$A1,883 million for the half-year ended 30 September 2018 increased 1% from \$A1,872 million in the prior corresponding period mainly due to an increase in equity capital markets fee income in CGM, interest income in BFS from growth in the deposit and Australian loan portfolios and income on equity and debt investments in the technology and green energy sectors in Macquarie Capital. The increase was partially offset by lower performance fees and MSIS Retail income in MAM and lower fee income from mergers and acquisitions in Macquarie Capital.

- 4.1 Statement of financial position
- 4.2 Loan assets
- 4.3 Equity investments

# 4

# BALANCE SHEET

## BALANCE SHEET

### 4.1 STATEMENT OF FINANCIAL POSITION

	AS AT			MOVEMENT	
	Sep 18 <sup>(1)</sup> \$Am	Mar 18 \$Am	Sep 17 \$Am	Mar 18 %	Sep 17 %
<b>Assets</b>					
Receivables from financial institutions	37,462	38,559	40,345	(3)	(7)
Trading assets	20,158	15,341	18,596	31	8
Derivative assets	18,115	12,937	12,360	40	47
Other assets	28,104	26,695	26,049	5	8
Financial investments	6,633	7,160	5,761	(7)	15
Loan assets	76,953	73,509	70,387	5	9
Property, plant and equipment	11,361	11,426	10,960	(1)	4
Interests in associates and joint ventures	4,143	4,055	3,622	2	14
Intangible assets	1,894	993	991	91	91
Deferred tax assets	775	650	689	19	12
<b>Total assets</b>	<b>205,598</b>	<b>191,325</b>	<b>189,760</b>	<b>7</b>	<b>8</b>
<b>Liabilities</b>					
Trading liabilities	7,197	8,061	7,451	(11)	(3)
Derivative liabilities	18,205	11,925	10,717	53	70
Deposits	52,620	48,395	49,330	9	7
Other liabilities	31,817	28,306	26,687	12	19
Payables to financial institutions	20,252	14,390	17,799	41	14
Debt issued	51,665	55,927	54,551	(8)	(5)
Deferred tax liabilities	800	749	746	7	7
<b>Total liabilities excluding loan capital</b>	<b>182,556</b>	<b>167,753</b>	<b>167,281</b>	<b>9</b>	<b>9</b>
<b>Loan capital</b>	<b>5,883</b>	<b>5,392</b>	<b>5,380</b>	<b>9</b>	<b>9</b>
<b>Total liabilities</b>	<b>188,439</b>	<b>173,145</b>	<b>172,661</b>	<b>9</b>	<b>9</b>
<b>Net assets</b>	<b>17,159</b>	<b>18,180</b>	<b>17,099</b>	<b>(6)</b>	<b>&lt;1</b>
<b>Equity</b>					
Contributed equity	6,144	6,243	6,188	(2)	(1)
Reserves	1,567	1,297	999	21	57
Retained earnings	8,849	8,817	8,170	<1	8
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited</b>	<b>16,560</b>	<b>16,357</b>	<b>15,357</b>	<b>1</b>	<b>8</b>
Non-controlling interests	599	1,823	1,742	(67)	(66)
<b>Total equity</b>	<b>17,159</b>	<b>18,180</b>	<b>17,099</b>	<b>(6)</b>	<b>&lt;1</b>

(1) September 2018 financial results reflect the adoption of AASB 9. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods, however prior corresponding periods have been reclassified to conform to current period presentation. For further information relating to the adoption of AASB 9, refer to Note 1 – 'Summary of significant accounting policies' of the Financial Report.

#### 4.1 STATEMENT OF FINANCIAL POSITION CONTINUED

The Consolidated Entity's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2018.

##### Assets

Total assets of \$A205.6 billion at 30 September 2018 increased 7% from \$A191.3 billion at 31 March 2018 mainly due to an increase in Derivative assets, Trading assets, Loan assets, Other assets and Intangible assets. These increases were partially offset by decreases in Receivables from financial institutions and Financial investments.

- Derivative assets of \$A18.1 billion at 30 September 2018 increased 40% from \$A12.9 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Trading assets of \$A20.2 billion at 30 September 2018 increased 31% from \$A15.3 billion at 31 March 2018 mainly due to an increase in long equity positions
- Loan assets of \$A77.0 billion at 30 September 2018 increased 5% from \$A73.5 billion at 31 March 2018 mainly due to net new loans written in BFS including \$A3.4 billion for Australian mortgages and \$A0.5 billion for Business Banking. The current period also included additional loans in US debt capital markets in Macquarie Capital. This was partially offset by a 5% decrease in CAF's loan and finance lease portfolio to \$A23.1 billion at 30 September 2018 from \$A24.3 billion at 31 March 2018 primarily due to repayments in Principal Finance and Vehicles portfolios
- Other assets of \$A28.1 billion at 30 September 2018 increased 5% from \$A26.7 billion at 31 March 2018 mainly due to an increase in unsettled trade balances in CGM and held for sale assets in Macquarie Capital, partially offset by a reduction in held for sale investments in MAM including the sale of an investment in a UK gas distribution network
- Intangible assets of \$A1.9 billion at 30 September 2018 increased 91% from \$A1.0 billion at 31 March 2018 mainly due to goodwill and management rights related to acquisitions in MAM, as well as intangibles related to an acquisition in Macquarie Capital
- Receivables from financial institutions of \$A37.5 billion at 30 September 2018 decreased 3% from \$A38.6 billion at 31 March 2018 mainly due to a decrease in stock borrowing and reverse repurchase trades in CGM driven by short-term funding opportunities and client flow, partially offset by Treasury's funding and liquidity management activities during the half-year ended 30 September 2018
- Financial investments of \$A6.6 billion at 30 September 2018 decreased 7% from \$A7.2 billion at 31 March 2018 mainly due to the disposal of investments as part of Treasury's liquidity management activities.

##### Liabilities

Total liabilities of \$A188.4 billion at 30 September 2018 increased 9% from \$A173.1 billion at 31 March 2018 mainly driven by an increase in Derivative liabilities, Payables to financial institutions, Deposits, Other liabilities and Loan capital. These increases were partially offset by a decrease in Debt issued and Trading liabilities.

- Derivative liabilities of \$A18.2 billion at 30 September 2018 increased 53% from \$A11.9 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Payables to financial institutions of \$A20.3 billion at 30 September 2018 increased 41% from \$A14.4 billion at 31 March 2018 mainly due to debt restructuring for Macquarie Air Finance in CAF and Treasury's funding management activities
- Deposits of \$A52.6 billion at 30 September 2018 increased 9% from \$A48.4 billion at 31 March 2018 mainly due to increased volumes across the retail and business deposit portfolios
- Other liabilities of \$A31.8 billion at 30 September 2018 increased 12% from \$A28.3 billion at 31 March 2018 mainly due to an increase in unsettled trade balances and call margin money in CGM
- Loan capital of \$A5.9 billion at 30 September 2018 increased 9% from \$A5.4 billion at 31 March 2018 mainly due to issuance of MCN3 (net of redemption of MCN) during the current period
- Debt issued of \$A51.7 billion at 30 September 2018 decreased 8% from \$A55.9 billion at 31 March 2018, mainly driven by Treasury's funding and liquidity management activities (including repayment of short-term debt), as well as repayments in CAF leasing facilities
- Trading liabilities of \$A7.2 billion at 30 September 2018 decreased 11% from \$A8.1 billion at 31 March 2018 mainly due to a decrease in short listed equity positions.

##### Equity

Total equity decreased 6% to \$A17.2 billion at 30 September 2018 from \$A18.2 billion at 31 March 2018.

The decrease was mainly due to the de-recognition of a Non-controlling interest in a UK gas distribution network following sale of this investment in the current period. This was partially offset by an increase in the Foreign currency translation reserve primarily driven by the depreciation of the Australian Dollar against the United States Dollar since 31 March 2018.

**BALANCE SHEET**

CONTINUED

**4.2 LOAN ASSETS**

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

	AS AT			MOVEMENT	
	Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
<b>Loan assets per the statement of financial position</b>	<b>77.0</b>	73.5	70.4	5	9
Operating lease assets	10.6	10.2	9.9	4	7
Other reclassifications <sup>(1)</sup>	0.5	0.6	1.2	(17)	(58)
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers <sup>(2)</sup>	(7.5)	(9.0)	(11.4)	(17)	(34)
<b>Total loan assets including operating lease assets per the funded balance sheet<sup>(3)</sup></b>	<b>80.6</b>	75.3	70.1	7	15

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

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

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

## 4.2 LOAN ASSETS CONTINUED

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

	Notes	AS AT			MOVEMENT	
		Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
CAF						
Asset Finance:	1					
Finance lease assets		15.1	14.9	13.6	1	11
Operating lease assets		10.6	10.2	9.9	4	7
Total Asset Finance		25.7	25.1	23.5	2	9
Principal Finance	2	4.0	4.8	5.7	(17)	(30)
<b>Total CAF</b>		<b>29.7</b>	<b>29.9</b>	<b>29.2</b>	<b>(1)</b>	<b>2</b>
BFS						
Retail Mortgages	3	32.7	28.7	25.4	14	29
Business banking	4	8.4	7.9	7.7	6	9
<b>Total BFS</b>		<b>41.1</b>	<b>36.6</b>	<b>33.1</b>	<b>12</b>	<b>24</b>
CGM						
Resources and commodities	5	3.3	3.1	2.6	6	27
Other	6	2.5	2.4	2.3	4	9
<b>Total CGM</b>		<b>5.8</b>	<b>5.5</b>	<b>4.9</b>	<b>5</b>	<b>18</b>
MAM						
Structured investments	7	2.8	2.7	2.2	4	27
Macquarie Capital						
Corporate and other lending	8	1.2	0.6	0.7	100	71
<b>Total</b>		<b>80.6</b>	<b>75.3</b>	<b>70.1</b>	<b>7</b>	<b>15</b>

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

## BALANCE SHEET

CONTINUED

### 4.2 LOAN ASSETS CONTINUED

#### Explanatory notes concerning asset security of funded loan asset portfolio

##### 1. Asset Finance

Secured by underlying financed assets.

##### 2. Principal Finance

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

##### 3. Retail Mortgages

Secured by Australian residential property.

##### 4. Business banking

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

##### 5. Resources and commodities

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

##### 6. CGM Other

Predominately relates to recourse loans to financial institutions, as well as financing for real estate and other sectors.

##### 7. Structured investments

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

##### 8. Corporate and other lending

Includes diversified secured corporate lending.



### 4.3 EQUITY INVESTMENTS

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

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

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

- Investments in Macquarie-managed funds; and
- Other investments which are not investments in Macquarie-managed funds.

#### Equity investments reconciliation

	AS AT			MOVEMENT	
	Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
<b>Equity investments</b>					
<b>Statement of financial position</b>					
Equity investments at fair value <sup>(1)</sup>	1.2	1.4	1.6	(14)	(25)
Interests in associates and joint ventures	4.1	4.1	3.6	–	14
Held for sale equity investments within other assets	1.2	3.0	4.1	(60)	(71)
<b>Total equity investments per statement of financial position</b>	<b>6.5</b>	<b>8.5</b>	<b>9.3</b>	<b>(24)</b>	<b>(30)</b>
<b>Adjustment for funded balance sheet</b>					
Equity hedge positions <sup>(2)</sup>	(0.1)	(0.3)	(0.2)	(67)	(50)
Non-controlling interests <sup>(3)</sup>	(0.1)	(1.4)	(1.4)	(93)	(93)
<b>Total funded equity investments</b>	<b>6.3</b>	<b>6.8</b>	<b>7.7</b>	<b>(7)</b>	<b>(18)</b>
<b>Adjustments for equity investments analysis</b>					
Available for sale and associates' reserves <sup>(4)</sup>	–	–	(0.1)	–	(100)
<b>Total adjusted equity investments<sup>(5)</sup></b>	<b>6.3</b>	<b>6.8</b>	<b>7.6</b>	<b>(7)</b>	<b>(17)</b>

(1) Effective 1 April 2018, following the adoption AASB 9, the Consolidated Entity has elected to measure all equity instruments at FVTPL, which were earlier measured at FVOCI. Equity investments at fair value includes equity investments available for sale in the prior corresponding period and prior period.

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

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

(4) Available for sale reserve on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.

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

**BALANCE SHEET**

CONTINUED

**4.3 EQUITY INVESTMENTS CONTINUED****Equity investments by category**

	AS AT			MOVEMENT	
	Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
<b>Macquarie-managed funds</b>					
Listed MIRA managed funds	0.9	0.5	1.0	80	(10)
Unlisted MIRA managed funds	1.0	1.0	0.9	–	11
Other Macquarie-managed funds	0.4	0.4	0.5	–	(20)
<b>Total Macquarie-managed funds</b>	<b>2.3</b>	<b>1.9</b>	<b>2.4</b>	<b>21</b>	<b>(4)</b>
<b>Other investments</b>					
Investments acquired to seed new MIRA products and mandates	0.1	0.8	1.4	(88)	(93)
Transport, industrial and infrastructure	0.7	0.6	0.6	17	17
Telecommunications, information technology, media and entertainment	0.6	0.7	0.7	(14)	(14)
Green energy	1.2	1.4	1.0	(14)	20
Conventional energy, resources and commodities	0.6	0.6	1.0	–	(40)
Real estate investment, property and funds management	0.3	0.3	0.1	–	200
Finance, wealth management and exchanges	0.5	0.5	0.4	–	25
<b>Total other investments</b>	<b>4.0</b>	<b>4.9</b>	<b>5.2</b>	<b>(18)</b>	<b>(23)</b>
<b>Total equity investments</b>	<b>6.3</b>	<b>6.8</b>	<b>7.6</b>	<b>(7)</b>	<b>(17)</b>

- 5.1 Liquidity risk governance and management framework
- 5.2 Management of liquidity risk
- 5.3 Funded balance sheet
- 5.4 Funding profile for Macquarie
- 5.5 Funding profile for the Bank Group
- 5.6 Funding profile for the Non-Bank Group
- 5.7 Explanatory notes concerning funding sources and funded assets

# 5

## FUNDING AND LIQUIDITY

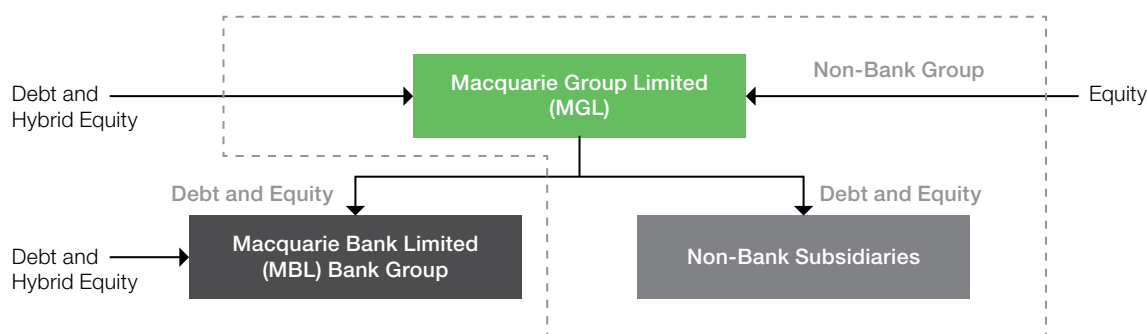
## FUNDING AND LIQUIDITY

### 5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK

#### Governance and oversight

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

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



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

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

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

#### Liquidity policy and risk appetite

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

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

Macquarie's liquidity risk appetite is set 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 predominately 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.

## 5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK CONTINUED

### 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; and
- 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; and
- the MGL and MBL Boards and Senior Management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

### Liquidity contingency plan

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

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

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

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

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

### Funding strategy

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

## FUNDING AND LIQUIDITY

### CONTINUED

## 5.2 MANAGEMENT OF LIQUIDITY RISK

### Scenario analysis

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

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios
- determining Macquarie's minimum level of cash and liquid assets
- determining the appropriate minimum tenor of funding for Macquarie's assets; 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 conservative assumptions 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 new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

### Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. Certain other business units also hold cash and liquid assets as part of their operations. Macquarie had \$A23.5 billion cash and liquid assets as at 30 September 2018 (31 March 2018: \$A25.4 billion), of which \$A21.4 billion was held by Macquarie Bank (31 March 2018: \$A23.6 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.

## 5.2 MANAGEMENT OF LIQUIDITY RISK CONTINUED

Credit ratings<sup>(1)</sup> at 30 September are detailed below.

	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 <sup>(2)</sup>	A-1	A	Negative	A-2	BBB	Stable
Fitch Ratings	F-1	A	Stable	F-2	A-	Stable

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

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

### 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 as of 1 January 2018, the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie. As an APRA authorised and regulated Non-Operating Holding Company, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements. Separate quantitative requirements are imposed internally by the ALCO and the Board.

### Liquidity coverage ratio

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

Macquarie Bank's 3-month average LCR to 30 September 2018 was 159% (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

NSFR is a 12-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. The NSFR became a regulatory requirement on 1 January 2018. Macquarie Bank's NSFR at 30 September 2018 was 110%. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

## FUNDING AND LIQUIDITY

### CONTINUED

#### 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 2018. 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 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab
Total assets per Macquarie's statement of financial position		205.6	191.3	189.8
Accounting deductions:				
Self-funded trading assets	1	(18.2)	(16.7)	(20.1)
Derivative revaluation accounting gross-ups	2	(18.0)	(11.8)	(10.4)
Segregated funds	3	(10.5)	(9.8)	(9.0)
Outstanding trade settlement balances	4	(9.3)	(7.0)	(7.5)
Short-term working capital assets	5	(7.5)	(6.8)	(6.2)
Non-controlling interests	6	(0.2)	(1.4)	(1.4)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	7	(7.5)	(9.0)	(11.3)
<b>Net funded assets</b>		<b>134.4</b>	<b>128.8</b>	<b>123.9</b>

#### Explanatory notes concerning net funded assets

##### 1. Self-funded trading assets

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

##### 2. Derivative revaluation accounting gross-ups

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

##### 3. Segregated funds

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

##### 4. Outstanding trade settlement balances

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

##### 5. Short-term working capital assets

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

##### 6. Non-controlling interests

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

##### 7. Securitised assets and other non-recourse funding

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



## 5.4 FUNDING PROFILE FOR MACQUARIE

### Funded balance sheet

	Notes	AS AT		
		Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab
<b>Funding sources</b>				
Wholesale issued paper:	1			
Certificates of deposit		0.8	0.6	0.8
Commercial paper		5.9	8.4	11.6
Net trade creditors	2	1.4	2.3	2.0
Structured notes	3	2.2	2.5	2.6
Secured funding	4	6.2	4.9	4.5
Bonds	5	34.8	34.7	27.5
Other loans	6	1.0	1.2	0.5
Syndicated loan facilities	7	7.0	4.0	3.9
Customer deposits	8	52.3	48.1	49.4
Loan capital	9	5.9	5.4	5.4
Equity and hybrids	10	16.9	16.7	15.7
<b>Total</b>		<b>134.4</b>	<b>128.8</b>	<b>123.9</b>
<b>Funded assets</b>				
Cash and liquid assets	11	23.5	25.4	24.6
Self-securitisation	12	17.2	15.5	16.7
Net trading assets	13	19.3	17.9	18.1
Loan assets including operating lease assets less than one year	14	15.2	14.4	13.8
Loan assets including operating lease assets greater than one year	14	48.2	45.4	39.6
Debt investment securities	15	1.8	1.7	1.7
Co-investment in Macquarie-managed funds and other equity investments	16	6.3	6.8	7.7
Property, plant and equipment and intangibles		2.9	1.7	1.7
<b>Total</b>		<b>134.4</b>	<b>128.8</b>	<b>123.9</b>

See section 5.7 for notes 1–16.

## FUNDING AND LIQUIDITY

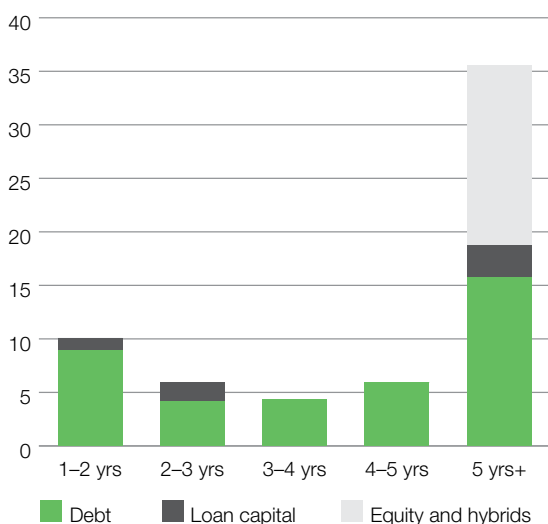
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### 5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

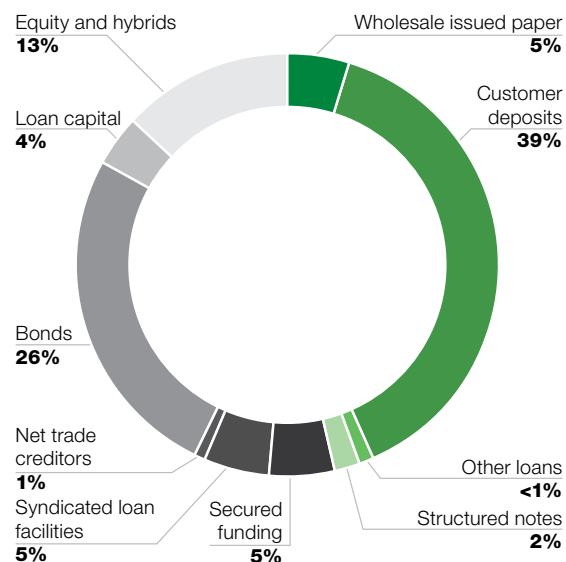
#### Term funding profile

##### Detail of drawn funding maturing beyond one year

\$A billion



##### Diversity of funding sources



AS AT SEP 18

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes <sup>(1)</sup>	–	–	0.1	0.1	1.6	1.8
Secured funding	0.4	1.1	0.3	0.5	2.5	4.8
Bonds	7.3	3.1	1.4	1.7	11.6	25.1
Other loans	0.3	–	–	–	–	0.3
Syndicated loan facilities	0.9	–	2.5	3.6	–	7.0
<b>Total debt</b>	<b>8.9</b>	<b>4.2</b>	<b>4.3</b>	<b>5.9</b>	<b>15.7</b>	<b>39.0</b>
Loan capital <sup>(2)</sup>	1.2	1.7	–	–	3.0	5.9
Equity and hybrids	–	–	–	–	16.9	16.9
<b>Total funding sources drawn</b>	<b>10.1</b>	<b>5.9</b>	<b>4.3</b>	<b>5.9</b>	<b>35.6</b>	<b>61.8</b>
Undrawn	0.3	1.2	1.7	0.4	–	3.6
<b>Total funding sources drawn and undrawn</b>	<b>10.4</b>	<b>7.1</b>	<b>6.0</b>	<b>6.3</b>	<b>35.6</b>	<b>65.4</b>

(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.

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

At 30 September 2018, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity, which is a permanent source of funding, and securitisations) was 4.6 years at 30 September 2018.

As at 30 September 2018, customer deposits represented \$A52.3 billion, or 39% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A6.7 billion, or 5% of total funding, and other debt maturing within 12 months and net trade creditors represented \$A13.6 billion, or 10% of total funding.

## 5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

### 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 2018, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2018 and 30 September 2018:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured funding	Term securitisation and other secured finance	–	0.7	0.7
Issued paper	Senior and subordinated	0.5	–	0.5
Loan facilities	MGL loan facilities	–	3.7	3.7
Loan capital	Subordinated notes	–	1.0	1.0
<b>Total</b>		<b>0.5</b>	<b>5.4</b>	<b>5.9</b>

Macquarie has continued to develop its major funding markets and products during the half-year ended 30 September 2018.

From 1 April 2018 and 30 September 2018, Macquarie raised \$A5.9 billion of term funding including:

- \$A0.5 billion of term wholesale issued paper comprising of private placements and structured notes
- \$A3.7 billion of MGL loan facilities comprised wholly of a new MGL GBP Facility of which \$A0.9 billion was green financing
- \$A1.0 billion of MCN 3 issuance; and
- \$A0.7 billion refinance of Secured trade finance facility.

## FUNDING AND LIQUIDITY

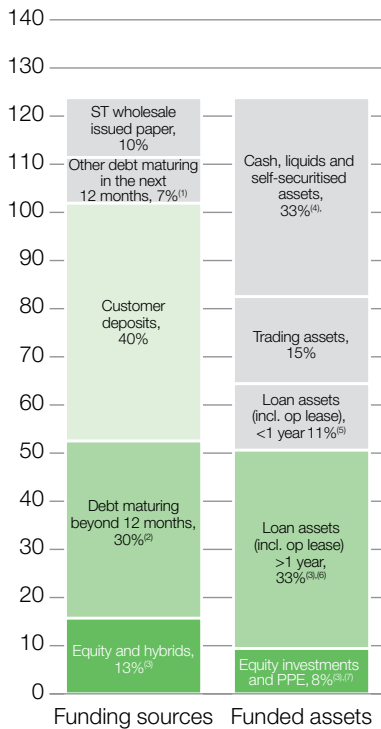
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#### 5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

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

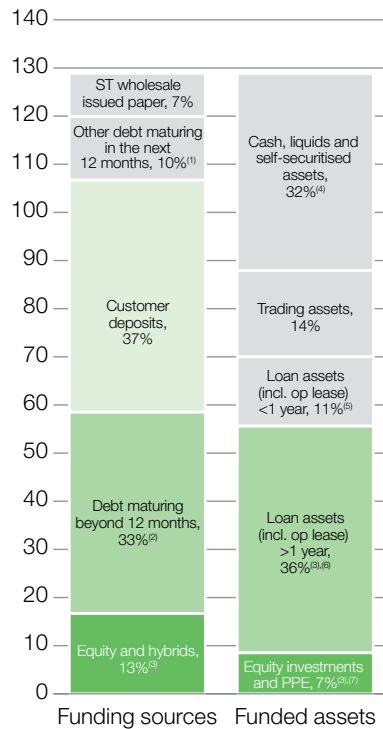
30 September 2017

\$A billion



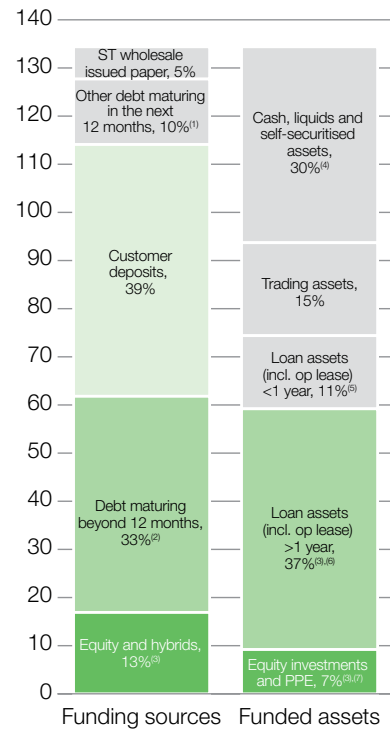
31 March 2018

\$A billion



30 September 2018

\$A billion



(1) 'Other debt maturing in the next 12 months' includes Structured Notes, Secured Funding, Bonds, Other Loans, Loan Capital maturing within the next 12 months and Net Trade Creditors.

(2) 'Debt maturing beyond 12 months' includes Loan Capital not maturing within the next 12 months.

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

(4) 'Cash, liquids and self-securitized assets' includes self-securitisation of repo eligible Australian assets originated by Macquarie.

(5) 'Loan Assets (incl. op lease) < 1 year' includes Net Trade Debtors.

(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 equity investments.

## 5.5 FUNDING PROFILE FOR THE BANK GROUP

### Funded balance sheet

	Notes	AS AT		
		Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab
<b>Funding sources</b>				
Wholesale issued paper:	1			
Certificates of deposit		0.8	0.6	0.8
Commercial paper		5.9	8.4	11.6
Net trade creditors	2	1.4	1.1	1.2
Structured notes	3	2.0	2.1	2.1
Secured funding	4	5.9	4.4	4.0
Bonds	5	20.0	20.7	20.9
Other loans	6	0.9	1.1	0.4
Syndicated loan facilities	7	1.2	0.8	0.7
Customer deposits	8	52.3	48.1	49.4
Loan capital	9	4.4	4.3	4.2
Equity and hybrids	10	13.0	13.1	12.6
<b>Total</b>		<b>107.8</b>	104.7	107.9
<b>Funded assets</b>				
Cash and liquid assets	11	21.4	23.6	22.8
Self-securitisation	12	17.2	15.5	16.7
Net trading assets	13	18.8	17.1	17.4
Loan assets including operating lease assets less than one year	14	15.0	14.1	13.3
Loan assets including operating lease assets greater than one year	14	46.8	44.7	39.0
Debt investment securities	15	1.3	1.3	1.4
Non-Bank Group deposit with MBL		(14.1)	(12.9)	(4.2)
Co-investment in Macquarie-managed funds and other equity investments	16	0.8	0.8	0.8
Property, plant and equipment and intangibles		0.6	0.5	0.7
<b>Total</b>		<b>107.8</b>	104.7	107.9

See section 5.7 for notes 1–16.

## FUNDING AND LIQUIDITY

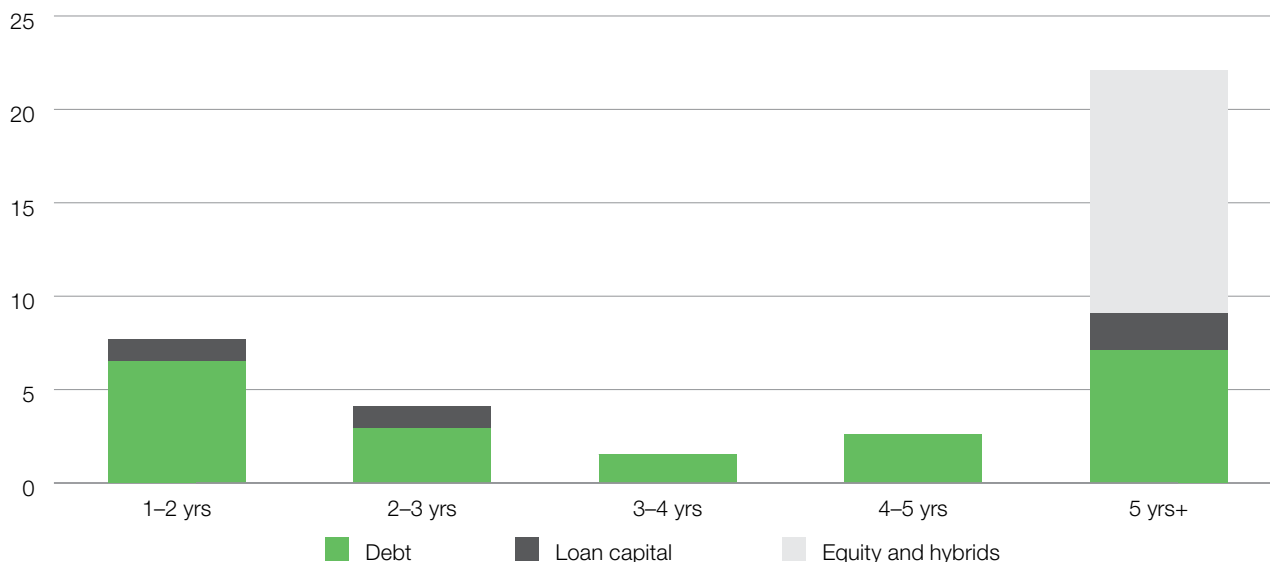
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### 5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

#### Term funding profile

##### Detail of drawn term funding maturing beyond one year

\$A billion



AS AT SEP 18

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes <sup>(1)</sup>	–	–	0.1	0.1	1.6	1.8
Secured funding	0.4	1.1	0.3	0.5	2.5	4.8
Bonds	5.8	1.8	1.1	0.8	3.0	12.5
Other loans	0.3	–	–	–	–	0.3
Syndicated loan facilities	–	–	–	1.2	–	1.2
<b>Total debt</b>	<b>6.5</b>	<b>2.9</b>	<b>1.5</b>	<b>2.6</b>	<b>7.1</b>	<b>20.6</b>
Loan capital <sup>(2)</sup>	1.2	1.2	–	–	2.0	4.4
Equity and hybrids	–	–	–	–	13.0	13.0
<b>Total funding sources drawn</b>	<b>7.7</b>	<b>4.1</b>	<b>1.5</b>	<b>2.6</b>	<b>22.1</b>	<b>38.0</b>
Undrawn	–	–	–	0.2	–	0.2
<b>Total funding sources drawn and undrawn</b>	<b>7.7</b>	<b>4.1</b>	<b>1.5</b>	<b>2.8</b>	<b>22.1</b>	<b>38.2</b>

(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.

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity, which is a permanent source of funding, and securitisations) was 4.1 years at 30 September 2018.

As at 30 September 2018, customer deposits represented \$A52.3 billion, or 49% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A6.7 billion, or 6% of total funding, and other debt maturing within 12 months and net trade creditors represented \$A10.8 billion, or 10% of total funding.

## 5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

The key tools used for accessing wholesale debt funding markets 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 \$US7.9 billion debt securities outstanding at 30 September 2018
- \$US15 billion Commercial Paper Program under which \$US4.2 billion of debt securities were outstanding at 30 September 2018
- \$US20 billion US Rule 144A/Regulation S Medium Term Note Program under which \$US9.0 billion of issuances were outstanding at 30 September 2018
- \$US5 billion Structured Note Program under which \$US1.5 billion of funding from structured notes was outstanding at 30 September 2018
- \$A5 billion Covered Bond Programme under which \$A0.8 billion of debt securities were outstanding at 30 September 2018; and
- \$US3.9 billion Macquarie Air Finance Term Loan under which \$US3.7 billion was drawn as at 30 September 2018.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. At 30 September 2018, Macquarie Bank had \$A0.8 billion of these securities outstanding.

At 30 September 2018, Macquarie Bank had internally securitised \$A17.2 billion of its own assets.

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

### Deposit strategy

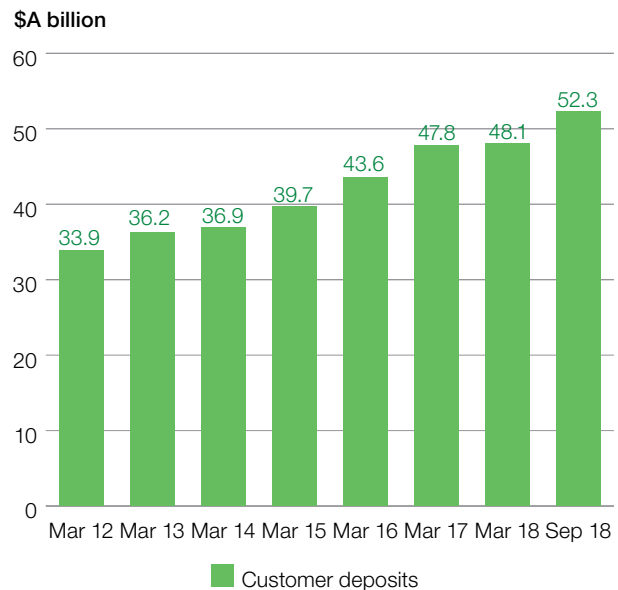
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's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

In particular, MBL has focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits.

The majority of MBL's depositors continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at \$A250,000 per account holder.

The chart below illustrates the customer deposit growth since 31 March 2012.

### Deposit trend



## FUNDING AND LIQUIDITY

CONTINUED

### 5.6 FUNDING PROFILE FOR THE NON-BANK GROUP

#### Funded balance sheet

	Notes	AS AT		
		Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab
<b>Funding sources</b>				
Net trade creditors	2	–	1.2	0.8
Structured notes	3	0.2	0.4	0.5
Secured funding	4	0.3	0.5	0.5
Bonds	5	14.8	14.0	6.6
Other loans	6	0.1	0.1	0.1
Syndicated loan facilities	7	5.8	3.2	3.2
Loan capital	9	1.5	1.1	1.2
Equity	10	3.9	3.6	3.1
<b>Total</b>		<b>26.6</b>	<b>24.1</b>	<b>16.0</b>
<b>Funded assets</b>				
Cash and liquid assets	11	2.1	1.8	1.8
Non-Bank Group deposit with MBL		14.1	12.9	4.2
Net trading assets	13	0.5	0.8	0.7
Loan assets less than one year	14	0.2	0.3	0.6
Loan assets greater than one year	14	1.4	0.7	0.5
Debt investment securities	15	0.5	0.4	0.3
Co-investment in Macquarie-managed funds and other equity investments	16	5.5	6.0	6.9
Property, plant and equipment and intangibles		2.3	1.2	1.0
<b>Total</b>		<b>26.6</b>	<b>24.1</b>	<b>16.0</b>

See section 5.7 for notes 2–16.

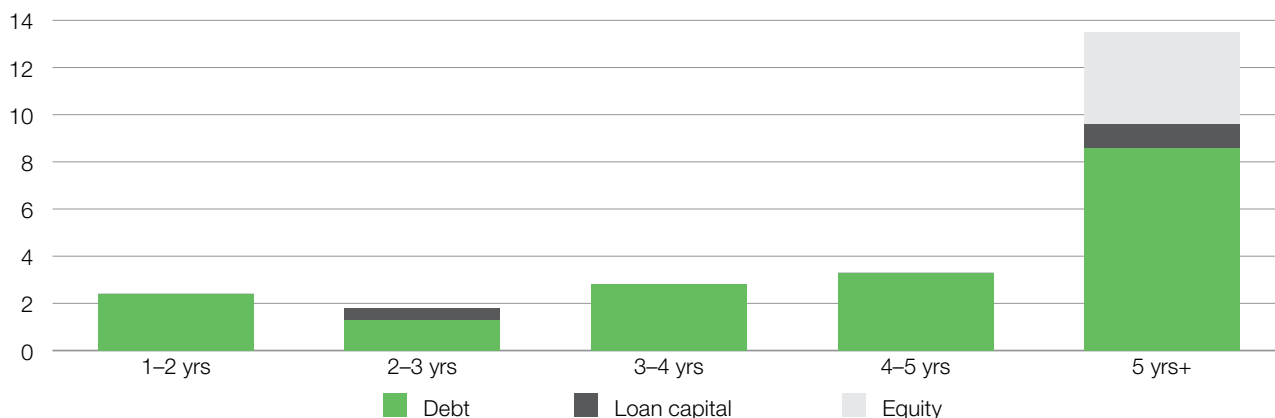


## 5.6 FUNDING PROFILE FOR THE NON-BANK GROUP CONTINUED

### Term funding profile

#### Detail of drawn term funding maturing beyond one year

\$A billion



AS AT SEP 18

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Bonds	1.5	1.3	0.3	0.9	8.6	12.6
Syndicated loan facilities	0.9	–	2.5	2.4	–	5.8
<b>Total debt</b>	<b>2.4</b>	<b>1.3</b>	<b>2.8</b>	<b>3.3</b>	<b>8.6</b>	<b>18.4</b>
Loan capital <sup>(1)</sup>	–	0.5	–	–	1.0	1.5
Equity	–	–	–	–	3.9	3.9
<b>Total funding sources drawn</b>	<b>2.4</b>	<b>1.8</b>	<b>2.8</b>	<b>3.3</b>	<b>13.5</b>	<b>23.8</b>
Undrawn	0.3	1.2	1.7	0.2	–	3.4
<b>Total funding sources drawn and undrawn</b>	<b>2.7</b>	<b>3.0</b>	<b>4.5</b>	<b>3.5</b>	<b>13.5</b>	<b>27.2</b>

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

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 5.2 years at 30 September 2018.

As at 30 September 2018, other debt maturing within 12 months and net trade creditors represented \$A2.8 billion, or 11% of total funding.

The key tools used for debt funding of MGL, which primarily funds the activities of the Non-Bank Group, include:

- \$US20 billion US Rule 144A/Regulation S Medium Term Note Program, of which \$US7.6 billion was outstanding at 30 September 2018
- \$US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had \$US1.7 billion debt securities outstanding at 30 September 2018
- \$US3.7 billion Syndicated Loan Facilities of which \$US2.5 billion was drawn at 30 September 2018
- \$US0.5 billion Secured Trade Finance Facility of which \$US0.1 billion was drawn at 30 September 2018; and
- £2.1 billion Sterling Facility under which £1.4 billion was outstanding at 30 September 2018.

## FUNDING AND LIQUIDITY

### CONTINUED

#### 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. Loan capital

Long-term subordinated debt, MACS, MCN 2 & 3 and BCN.

##### 10. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include MIS.

##### 11. Cash and liquid assets

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

##### 12. Self-securitisation

This represents Australian assets which have been internally securitised and is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

##### 13. Net trading assets

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

##### 14. Loan assets including operating lease assets

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

See section 4.2 for further information.

##### 15. Debt investment securities

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

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

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

- 6.1 Overview
- 6.2 Bank Group capital
- 6.3 Non-Bank Group capital

# 6

# CAPITAL

## CAPITAL

### 6.1 OVERVIEW

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

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

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

Eligible regulatory capital of Macquarie consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2018 include the Macquarie Income Securities (MIS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes 2 (MCN2) and Macquarie Group Capital Notes 3 (MCN3).

Macquarie has entered into Restructure Deeds to transfer CAF's Principal Finance and Transportation Finance businesses from the Bank Group to the Non-Bank Group with an effective date proposed to be 10 December 2018. APRA has approved the return of up to \$A2.04 billion in capital by MBL to the Consolidated Entity in relation to this internal restructure, and a meeting of MBL shareholders (which includes holders of MIS) will be held to approve this proposal.

Capital disclosures in this section include Harmonised Basel III<sup>(1)</sup> and APRA Basel III<sup>(2)</sup>. 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).

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

## 6.1 OVERVIEW CONTINUED

### Macquarie Basel III regulatory capital surplus calculation

	AS AT SEP 18		AS AT MAR 18		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	14,298	14,298	14,254	14,254	<1	<1
Non-Bank Group eligible capital	5,524	5,524	4,826	4,826	14	14
<b>Eligible capital</b>	<b>19,822</b>	<b>19,822</b>	19,080	19,080	4	4
Macquarie capital requirement:						
<b>Bank Group capital requirement</b>						
Risk-Weighted Assets (RWA) <sup>(1)</sup>	91,927	95,818	88,452	91,564	4	5
Capital required to cover RWA at 8.5% <sup>(2),(3)</sup>	7,814	8,145	7,519	7,783	4	5
Tier 1 deductions	679	2,665	725	2,534	(6)	5
<b>Total Bank Group capital requirement</b>	<b>8,493</b>	<b>10,810</b>	8,244	10,317	3	5
<b>Total Non-Bank Group capital requirement</b>	<b>5,583</b>	<b>5,583</b>	4,544	4,544	23	23
<b>Total Macquarie capital requirement (at 8.5%<sup>(2),(3)</sup> of the Bank Group RWA)</b>	<b>14,076</b>	<b>16,393</b>	12,788	14,861	10	10
<b>Macquarie regulatory capital surplus (at 8.5%<sup>(2),(3)</sup> of Bank Group RWA)</b>	<b>5,746</b>	<b>3,429</b>	6,292	4,219	(9)	(19)

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (30 September 2018: \$A182 million; 31 March 2018: \$A166 million).

(2) Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is required by APRA from January 2016 and by BIS from January 2019.

(3) Based on materiality, the countercyclical capital buffer (CCyB) of ~6bps has not been included. The individual CCyB varies by jurisdiction and Macquarie's CCyB is calculated as the weighted average of Macquarie's Bank Group exposures in different jurisdictions. In June 2018 the CCyB in the United Kingdom increased from 0.0% to 0.5% increasing Macquarie's CCyB to ~6bps.

## CAPITAL

### CONTINUED

#### 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 requires 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 2018 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

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

## 6.2 BANK GROUP CAPITAL CONTINUED

### Bank Group Basel III Tier 1 Capital

	AS AT SEP 18		AS AT MAR 18		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
<b>Common Equity Tier 1 capital</b>						
Paid-up ordinary share capital	9,545	9,545	9,537	9,537	<1	<1
Retained earnings	2,341	2,341	2,647	2,647	(12)	(12)
Reserves	758	758	478	478	59	59
<b>Gross Common Equity Tier 1 capital</b>	<b>12,644</b>	<b>12,644</b>	12,662	12,662	(<1)	(<1)
<b>Regulatory adjustments to Common Equity Tier 1 capital:</b>						
Goodwill	41	41	40	40	3	3
Deferred tax assets	74	198	65	142	14	39
Net other fair value adjustments	32	32	12	12	167	167
Intangible component of investments in subsidiaries and other entities	59	59	63	63	(6)	(6)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	429	–	397	–	8
Shortfall in provisions for credit losses	346	376	401	428	(14)	(12)
Equity exposures	–	1,279	–	1,201	–	6
Other Common Equity Tier 1 capital deductions	127	251	144	251	(12)	–
Total Common Equity Tier 1 capital deductions	679	2,665	725	2,534	(6)	5
<b>Net Common Equity Tier 1 capital</b>	<b>11,965</b>	<b>9,979</b>	11,937	10,128	<1	(1)
<b>Additional Tier 1 Capital</b>						
Additional Tier 1 capital instruments	1,654	1,654	1,592	1,592	4	4
<b>Gross Additional Tier 1 capital</b>	<b>1,654</b>	<b>1,654</b>	1,592	1,592	4	4
Deduction from Additional Tier 1 capital	–	–	–	–	–	–
<b>Net Additional Tier 1 capital</b>	<b>1,654</b>	<b>1,654</b>	1,592	1,592	4	4
<b>Total Net Tier 1 capital</b>	<b>13,619</b>	<b>11,633</b>	13,529	11,720	1	(1)

## CAPITAL

### CONTINUED

## 6.2 BANK GROUP CAPITAL CONTINUED

### Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 18		AS AT MAR 18		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
<b>Credit risk</b>						
Subject to IRB approach:						
Corporate	26,313	26,313	27,136	27,136	(3)	(3)
SME Corporate	3,315	3,315	3,234	3,234	3	3
Sovereign	186	186	182	182	2	2
Bank	1,538	1,538	1,576	1,576	(2)	(2)
Residential mortgage	5,648	13,160	5,678	12,654	(1)	4
Other retail	4,307	4,307	4,466	4,466	(4)	(4)
Retail SME	3,487	3,497	3,093	3,101	13	13
<b>Total RWA subject to IRB approach</b>	<b>44,794</b>	<b>52,316</b>	<b>45,365</b>	<b>52,349</b>	<b>(1)</b>	<b>(&lt;1)</b>
<b>Specialised lending exposures subject to slotting criteria<sup>(1)</sup></b>	<b>5,827</b>	<b>5,827</b>	<b>5,392</b>	<b>5,392</b>	<b>8</b>	<b>8</b>
Subject to Standardised approach:						
Corporate	747	747	701	701	7	7
Residential mortgage	1,598	1,598	1,630	1,630	(2)	(2)
Other Retail	3,131	3,131	3,771	3,771	(17)	(17)
<b>Total RWA subject to Standardised approach</b>	<b>5,476</b>	<b>5,476</b>	<b>6,102</b>	<b>6,102</b>	<b>(10)</b>	<b>(10)</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>755</b>	<b>755</b>	<b>609</b>	<b>609</b>	<b>24</b>	<b>24</b>
<b>Credit Valuation Adjustment RWA</b>	<b>4,002</b>	<b>4,002</b>	<b>3,712</b>	<b>3,712</b>	<b>8</b>	<b>8</b>
<b>Exposures to Central Counterparties RWA</b>	<b>1,014</b>	<b>1,541</b>	<b>842</b>	<b>1,274</b>	<b>20</b>	<b>21</b>
<b>RWA for Other Assets</b>	<b>9,593</b>	<b>8,852</b>	<b>8,892</b>	<b>8,276</b>	<b>8</b>	<b>7</b>
<b>Total Credit risk RWA</b>	<b>71,461</b>	<b>78,769</b>	<b>70,914</b>	<b>77,714</b>	<b>1</b>	<b>1</b>
<b>Equity risk exposures RWA</b>	<b>4,605</b>	<b>–</b>	<b>4,441</b>	<b>–</b>	<b>4</b>	<b>–</b>
<b>Market risk RWA</b>	<b>5,886</b>	<b>5,886</b>	<b>3,303</b>	<b>3,303</b>	<b>78</b>	<b>78</b>
<b>Operational risk RWA</b>	<b>10,157</b>	<b>10,157</b>	<b>9,960</b>	<b>9,960</b>	<b>2</b>	<b>2</b>
<b>Interest rate risk in banking book RWA</b>	<b>–</b>	<b>1,188</b>	<b>–</b>	<b>753</b>	<b>–</b>	<b>58</b>
<b>Total Bank Group RWA</b>	<b>92,109</b>	<b>96,000</b>	<b>88,618</b>	<b>91,730</b>	<b>4</b>	<b>5</b>
<b>Capital ratios</b>						
Bank Group Common Equity Tier 1 capital ratio (%)	13.0	10.4	13.5	11.0		
Bank Group Tier 1 capital ratio (%)	14.8	12.1	15.3	12.8		

(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 <sup>(1)</sup>	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 <sup>(2)</sup> Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 50%
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 and 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.

## CAPITAL

### CONTINUED

### 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 18		
	Assets \$Ab	Capital requirement \$Am	Equivalent risk weight
<b>Funded assets</b>			
Cash and liquid assets	2.1	38	22%
Loan assets <sup>(1)</sup>	1.6	194	151%
Debt investment securities	0.5	130	325%
Co-investments in Macquarie-managed funds and other equity investments	5.1	2,509	616%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.4		
Property, plant and equipment and intangibles	2.3	914	497%
Non-Bank Group deposit with MBL	14.1		
Net trading assets	0.5		
<b>Total funded assets</b>	<b>26.6</b>	<b>3,785</b>	
<b>Self-funded and non-recourse assets</b>			
Self-funded trading assets	0.5		
Outstanding trade settlement balances	4.9		
Derivative revaluation accounting gross ups	0.2		
Short-term working capital assets	3.5		
Non-controlling interests	0.2		
<b>Total self-funded and non-recourse assets</b>	<b>9.3</b>		
<b>Total Non-Bank Group assets</b>	<b>35.9</b>		
Off balance sheet exposures, operational, market and other risks and diversification offset <sup>(2)</sup>		1,798	
<b>Non-Bank Group capital requirement</b>		<b>5,583</b>	

(1) Includes leases.

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

7.1 Assets under Management

7.2 Equity under Management

# 7

# FUNDS MANAGEMENT

## FUNDS MANAGEMENT

### 7.1 ASSETS UNDER MANAGEMENT

	AS AT			MOVEMENT	
	Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
<b>Assets under Management by type</b>					
MIM					
Fixed Income	208.0	197.7	194.4	5	7
Equities	143.5	123.5	118.6	16	21
Alternatives and Multi-asset	12.1	12.3	12.2	(2)	(1)
Total MIM	363.6	333.5	325.2	9	12
MIRA					
Infrastructure	160.2	146.9	133.9	9	20
Agriculture	2.0	2.0	1.7	–	18
Real Estate	16.7	6.3	5.8	165	188
Total MIRA	178.9	155.2	141.4	15	27
MSIS	7.0	6.4	5.3	9	32
Total MAM	549.5	495.1	471.9	11	16
Other Operating Groups	1.5	1.6	1.7	(6)	(12)
<b>Total Assets under Management</b>	<b>551.0</b>	<b>496.7</b>	<b>473.6</b>	<b>11</b>	<b>16</b>
<b>Assets under Management by region</b>					
Americas	283.5	255.1	249.3	11	14
Europe, Middle East and Africa	112.1	92.0	88.9	22	26
Australia	100.2	97.9	89.8	2	12
Asia	55.2	51.7	45.6	7	21
<b>Total Assets under Management</b>	<b>551.0</b>	<b>496.7</b>	<b>473.6</b>	<b>11</b>	<b>16</b>

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

AUM of \$A551.0 billion at 30 September 2018 increased 11% from \$A496.7 billion at 31 March 2018. The increase in AUM during the current period was attributable to investments made by MIRA-managed funds (see section 7.2 Equity under Management for further details), increases in AUM primarily driven by foreign exchange impacts and positive market movements as well as contributions from businesses acquired during the period (GLL and ValueInvest).

## 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 <sup>(1)</sup> .

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

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 <sup>(1),(2)</sup>		MOVEMENT		
	Sep 18 \$Ab	Mar 18 \$Ab	Sep 17 \$Ab	Mar 18 %	Sep 17 %
<b>Equity under Management by type</b>					
Listed equity	15.5	12.9	16.1	20	(4)
Unlisted equity	90.3	73.3	63.4	23	42
<b>Total EUM</b>	<b>105.8</b>	<b>86.2</b>	<b>79.5</b>	<b>23</b>	<b>33</b>
<b>Equity under Management by region<sup>(3)</sup></b>					
Australia	12.7	11.6	10.0	9	27
Europe, Middle East and Africa	47.5	33.5	30.9	42	54
Americas	24.6	21.5	24.9	14	(1)
Asia	21.0	19.6	13.7	7	53
<b>Total EUM</b>	<b>105.8</b>	<b>86.2</b>	<b>79.5</b>	<b>23</b>	<b>33</b>

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

(2) 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.

(3) By location of fund management team.

EUM of \$A105.8 billion at 30 September 2018 increased 23% from \$A86.2 billion at 31 March 2018. The increase was primarily due to the acquisition of GLL, equity raised for unlisted infrastructure funds and co-investments, foreign exchange impacts, and favourable share price movements. These were partially offset by equity returned by unlisted infrastructure funds due to divestment of underlying assets.

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# 8

# GLOSSARY

## GLOSSARY

### 8.1 GLOSSARY

<b>1H18</b>	The half-year ended 30 September 2017.
<b>1H19</b>	The half-year ended 30 September 2018.
<b>AASB</b>	Australian Accounting Standards Board.
<b>ABS</b>	Asset Backed Securities.
<b>ADI</b>	Authorised Deposit-taking Institution.
<b>Additional Tier 1 Capital</b>	<p>A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics:</p> <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds</li> <li>– are freely available to absorb losses</li> <li>– rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer, and</li> <li>– provide for fully discretionary capital distributions.</li> </ul>
<b>Additional Tier 1 Deductions</b>	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 – <i>Capital Adequacy: Measurement of Capital</i> .
<b>ALCO</b>	The Asset and Liability Committee.
<b>AMA</b>	Advanced Measurement Approach (for determining operational risk).
<b>ANZ</b>	Australia and New Zealand.
<b>APRA</b>	Australian Prudential Regulation Authority.
<b>Asset Finance</b>	Global provider of specialist finance and asset management solutions, with global expertise in aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail, and mining equipment, within CAF.
<b>Assets under Management (AUM)</b>	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 to reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
<b>Assets under Management by region</b>	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.
<b>Associates</b>	<p>Associates are entities over which Macquarie has significant influence, but not control.</p> <p>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.</p>
<b>Bank Group</b>	MBL and its subsidiaries.
<b>Bank Group Capital</b>	Level 2 regulatory group capital.
<b>Banking Group</b>	The Banking Group comprises BFS, CAF, and some activities of CGM and MAM.
<b>Basel III IRB Formula</b>	A formula to calculate RWA, as defined in Prudential Standard APS 113 – <i>Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i> .
<b>BCN</b>	<p>On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
<b>BBSW</b>	Bank Bill Swap Rate.
<b>BFS</b>	Banking and Financial Services.



<b>BFS deposits</b>	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.
<b>BIS</b>	Bank for International Settlements.
<b>CAF</b>	Corporate and Asset Finance.
<b>CCB</b>	Capital Conservation Buffer.
<b>Central Service Groups</b>	The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
<b>CGM</b>	Commodities and Global Markets.
<b>CLF</b>	Committed Liquidity Facility.
<b>CMA</b>	Cash Management Account.
<b>Collective allowance for credit losses</b>	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
<b>Common Equity Tier 1 Capital</b>	<p>A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics:</p> <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds</li> <li>– are freely available to absorb losses</li> <li>– do not impose any unavoidable servicing charge against earnings, and</li> <li>– rank behind the claims of depositors and other creditors in the event of winding up.</li> </ul> <p>Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.</p>
<b>Common Equity Tier 1 Capital Ratio</b>	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
<b>Common Equity Tier 1 Deductions</b>	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 – <i>Capital Adequacy: Measurement of Capital</i> .
<b>Compensation ratio</b>	The ratio of Compensation Expense to Net Operating Income.
<b>Consolidated Entity</b>	Macquarie Group Limited and its subsidiaries.
<b>Directors' Profit Share (DPS)</b>	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.
<b>Earnings on capital and certain corporate income items</b>	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.
<b>Earnings per share</b>	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 – <i>Earnings Per Share</i> .
<b>ECAM</b>	Economic Capital Adequacy Model.
<b>Effective tax rate</b>	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.
<b>Equity under Management (EUM)</b>	Refer definition in section 7.2.
<b>Expense/Income ratio</b>	Total operating expenses expressed as a percentage of net operating income.
<b>Financial Report</b>	Macquarie Group Limited Interim Financial Report.
<b>FIRB</b>	Foundation Internal Ratings Based Approach (for determining credit risk).
<b>FVOCI</b>	Fair value through other comprehensive income.

## GLOSSARY

### CONTINUED

<b>FVTPL</b>	Fair value through profit or loss.
<b>Headcount</b>	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.
<b>HQLA</b>	High-quality liquid assets.
<b>International income</b>	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.
<b>LGD</b>	Loss given default is defined as the economic loss which arises upon default of the obligor.
<b>Macquarie, the Consolidated Entity</b>	Macquarie Group Limited and its subsidiaries.
<b>Macquarie Bank</b>	MBL and its subsidiaries.
<b>Macquarie Income Securities (MIS)</b>	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million \$A100 face value MIS on issue.
<b>MACS</b>	<p>On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions.</p> <p>Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 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).</p>
<b>MAM</b>	Macquarie Asset Management.
<b>MBL</b>	Macquarie Bank Limited ABN 46 008 583 542.
<b>MCN</b>	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of \$A100 each. MCN were subordinated, non-cumulative, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. MCN were redeemed on 7 June 2018.
<b>MCN2</b>	<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>
<b>MCN3</b>	<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>

<b>MEREP</b>	Macquarie Group Employee Retained Equity Plan.
<b>MFHPL</b>	Macquarie Financial Holdings Pty Limited.
<b>MGL, the Company</b>	Macquarie Group Limited ABN 94 122 169 279.
<b>MIM</b>	Macquarie Investment Management.
<b>MIRA</b>	Macquarie Infrastructure and Real Assets.
<b>MSIS</b>	Macquarie Specialised Investment Solutions.
<b>Net loan losses</b>	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.
<b>Net tangible assets per ordinary share</b>	(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.
<b>Net Trading Income</b>	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.
<b>Non-Bank Group</b>	MGL, MFHPL and its subsidiaries.
<b>Non-Banking Group</b>	The Non-Banking Group comprises Macquarie Capital and some business activities of MAM and CGM that use certain offshore regulated entities of the Non-Banking Group.
<b>Non-GAAP metrics</b>	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
<b>Operating Groups</b>	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital.
<b>Principal Finance</b>	Principal Finance is a division of CAF and provides flexible primary financing solutions and engages in secondary market investing across the capital structure. Operating globally in both corporate and real estate sectors, the team has experience across a variety of industry groups including real estate, infrastructure, telecommunications, media, entertainment and technology, leisure and healthcare.
<b>RBA</b>	Reserve Bank of Australia.
<b>Return on equity</b>	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.
<b>Risk-weighted assets (RWA)</b>	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
<b>RMBS</b>	Residential Mortgage-Backed Securities.
<b>SPEs</b>	Special purpose entities.
<b>Subordinated debt</b>	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.
<b>SYD distribution</b>	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
<b>Tier 1 Capital</b>	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
<b>Tier 1 Capital Deductions</b>	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
<b>Tier 1 Capital Ratio</b>	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
<b>True Index products</b>	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.
<b>UK</b>	The United Kingdom.
<b>US</b>	The United States of America.

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# 9

# TEN YEAR HISTORY

## TEN YEAR HISTORY

### 9.1 TEN YEAR HISTORY

	YEAR ENDED 31 MARCH									FIRST HALF
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Financial performance (\$Am)</b>										
Net operating income	6,638	7,665	6,963	6,657	8,132	9,262	10,158	10,364	10,920	<b>5,830</b>
Total operating expenses	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	(6,740)	(7,143)	(7,260)	(7,456)	<b>(4,125)</b>
Operating profit before income tax	1,294	1,271	1,049	1,405	2,106	2,522	3,015	3,104	3,464	<b>1,705</b>
Income tax expense	(201)	(282)	(287)	(533)	(827)	(899)	(927)	(868)	(883)	<b>(374)</b>
Profit after income tax	1,093	989	762	872	1,279	1,623	2,088	2,236	2,581	<b>1,331</b>
Profit attributable to non-controlling interests	(43)	(33)	(32)	(21)	(14)	(19)	(25)	(19)	(24)	<b>(21)</b>
Profit after income tax attributable to ordinary equity holders	1,050	956	730	851	1,265	1,604	2,063	2,217	2,557	<b>1,310</b>
<b>Statement of financial position (\$Am)</b>										
Total assets	145,940	157,568	153,626	144,748	153,904	187,976	196,755	182,877	191,325	<b>205,598</b>
Total liabilities	(134,171)	(145,636)	(141,894)	(132,793)	(141,990)	(173,580)	(181,091)	(165,607)	(173,145)	<b>(188,439)</b>
Net assets	11,769	11,932	11,732	11,955	11,914	14,396	15,664	17,270	18,180	<b>17,159</b>
Total loan assets	41,415	42,923	41,930	47,449	49,965	67,663	72,393	69,288	73,509	<b>76,953</b>
Impaired loan assets (net of provisions)	551	340	357	368	365	594	418	547	351	<b>326</b>
<b>Share information</b>										
Dividends per share (cents per share)										
Interim	86	86	65	75	100	130	160	190	205	<b>215</b>
Final	100	100	75	125	160	200	240	280	320	<b>n/a</b>
Special <sup>(1)</sup>	-	-	-	-	116	-	-	-	-	<b>-</b>
Total	186	186	140	200	376	330	400	470	525	<b>215</b>
Basic earnings per share (cents per share)	320.2	282.5	210.1	251.2	383.6	502.3	619.2	657.6	758.2	<b>388.3</b>
Share price at reporting date (\$A)	47.25	36.60	29.08	37.15	57.93	76.67	66.09	90.20	102.90	<b>126.04</b>
Ordinary share capital (million shares)	344.2	346.8	348.6	339.5	321.1	333.5	340.3	340.4	340.4	<b>340.4</b>
Market capitalisation at reporting date (fully paid ordinary shares) (\$Am)	16,263	12,693	10,137	12,613	18,601	25,569	22,491	30,700	35,024	<b>42,902</b>
Net tangible assets per ordinary share (\$A)	28.40	28.91	28.12	29.94	31.71	38.19	41.23	42.74	45.12	<b>43.07</b>
<b>Ratios</b>										
Return on average ordinary shareholders' funds (%)	10.1	8.8	6.8	7.8	11.1	14.0	14.7	15.2	16.8	<b>16.3</b>
Ordinary dividend payout ratio (%)	60.4	67.3	66.4	79.0	66.8	67.6	65.7	72.0	69.8	<b>55.9</b>
Expense/income ratio (%)	80.5	83.4	84.9	78.9	74.1	72.8	70.3	70.1	68.3	<b>70.8</b>
Net loan losses/loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.8	0.4	0.5	0.4	0.4	0.7	1.0	0.5	0.3	<b>0.1</b>
<b>Assets under Management (\$Ab)</b>										
	325.7	309.8	326.9	347.4	426.9	486.3	478.6	481.7	496.7	<b>551.0</b>
<b>Staff numbers</b>										
	14,657	15,556	14,202	13,663	13,913	14,085	14,372	13,597	14,469	<b>14,869</b>

(1) The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD distribution in January 2014. The total distribution including return of capital was 373 cents per share.

## **CONTACT DETAILS**

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