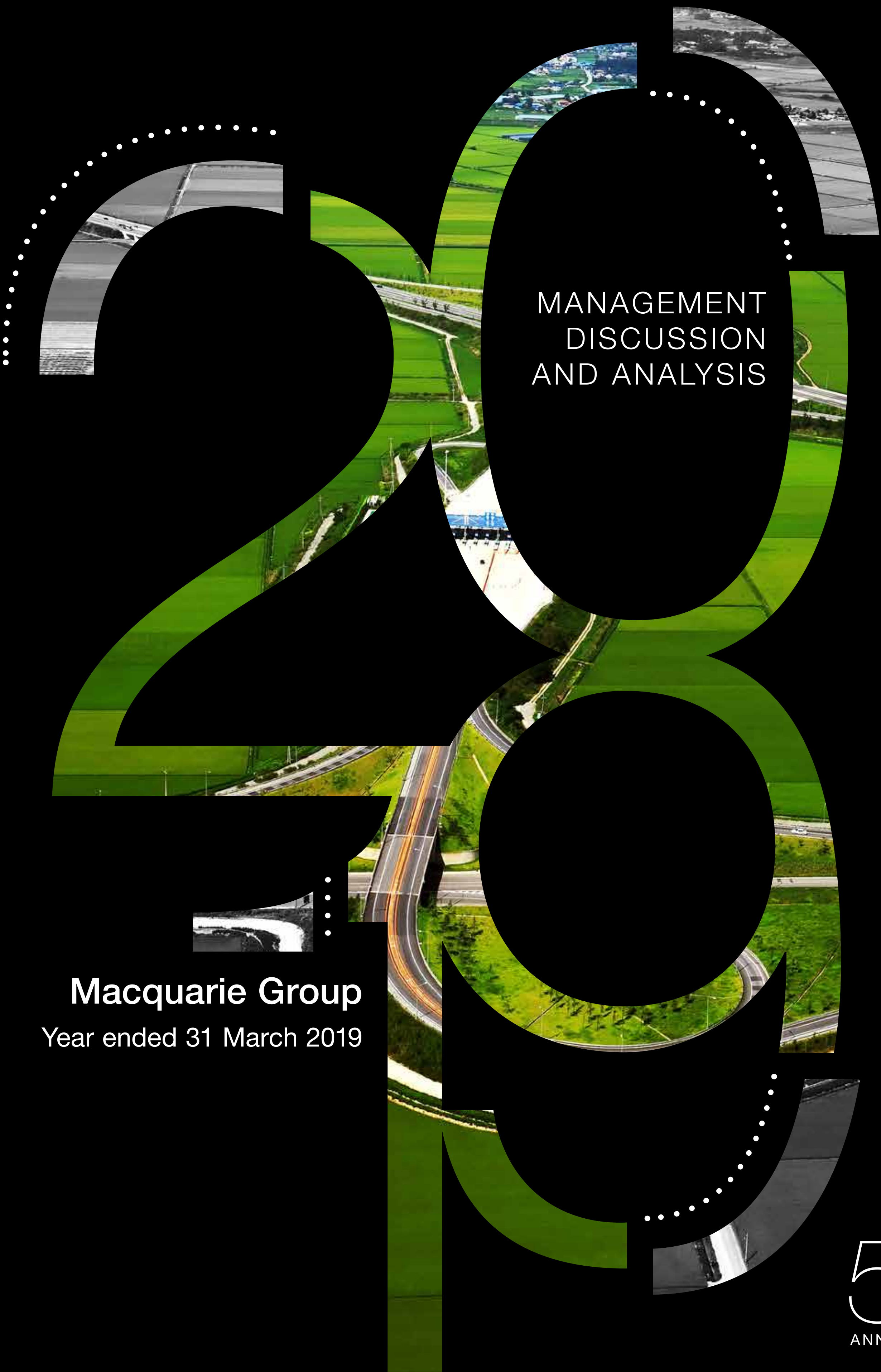
MACQUARIE



MANAGEMENT DISCUSSION AND ANALYSIS

Macquarie Group

Year ended 31 March 2019

50TH ANNIVERSARY

Notice to readers

The purpose of this report is to provide information supplementary to the Financial Report within the Macquarie Group Annual Report (the Financial Report) for the year ended 31 March 2019, including further detail in relation to key elements of Macquarie Group Limited and its subsidiaries' (Macquarie, the Consolidated Entity) financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

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

Date of this report

This report has been prepared for the year ended 31 March 2019 and is current as at 3 May 2019.

Cover image

Macquarie's MKIF fund is the majority owner of the Cheonan-Nonsan Expressway, an 81.0km, dual two-lane toll expressway that connects the northwestern and southwestern provinces of South Korea. It has two major tunnels, 44 bridges and seven interchanges. Macquarie is the largest foreign asset manager in South Korea with 36 assets across the infrastructure, renewables and waste management sectors.

01
RESULT OVERVIEW

02
FINANCIAL PERFORMANCE ANALYSIS

03
SEGMENT ANALYSIS

04
BALANCE SHEET

05
FUNDING AND LIQUIDITY

06
CAPITAL

07
FUNDS MANAGEMENT

08
GLOSSARY

Explanatory notes

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2018.

References to the first half are to the six months ended 30 September 2018.

References to the second half are to the six months ended 31 March 2019.

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

Independent auditor's report

This document should be read in conjunction with the Financial Report for the year ended 31 March 2019, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Group Limited dated 3 May 2019 was unqualified.

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

01

Result overview

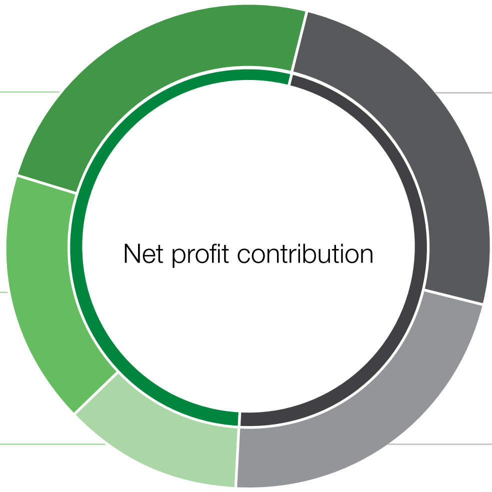
Cheonan-Nonsan Expressway, South Korea

Macquarie's MKIF fund is the majority owner of the Cheonan-Nonsan Expressway, an 81.0km, dual two-lane toll expressway that connects the northwestern and southwestern provinces of South Korea. It has two major tunnels, 44 bridges and seven interchanges. Macquarie is the largest foreign asset manager in South Korea with 36 assets across the infrastructure, renewables and waste management sectors.

1.1 Executive summary

Continued

FY2019 net profit contribution[1] by Operating Group



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 year ended 31 March 2019 of $A3,287 million, down 4% on the prior year.

Macquarie Asset Management

$A1,503m

↓ 4% on prior year

- Decreased investment-related income largely due to gains on reclassification of certain investments in the prior year
- Higher operating expenses mainly driven by acquisitions, foreign exchange movements and investment in MIM's operating platform.

Partially offset by:

- Increased base fees primarily driven by investments made by MIRA-managed funds, favourable foreign exchange movements, and contributions from businesses acquired during the year
- Increased performance fee income from MIRA-managed funds and co-investors
- Lower impairment charges.

Corporate and Asset Finance

$A1,028m

↓ 10% on prior year

- reduced provisions and impairments in the prior year
- higher Asset Finance portfolio income more than offset by one-off investment-related income in the prior year and legacy lending transaction-related expenses
- higher investment-related income in Principal Finance, offset by lower interest income from the Principal Finance loan portfolio.

Banking and Financial Services

$A756m

↑ 3% on prior year

- Growth in Australian mortgage, business banking loan, deposit and funds on platform average volumes.

Partially offset by:

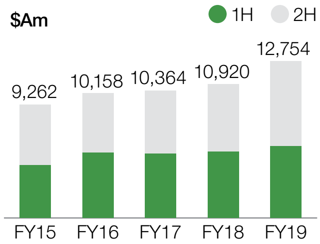
- Lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- Increased costs associated with investment in technology to support business growth
- Full year impact of the Australian Government Major Bank Levy relative to the prior year.

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

FY2019 NET OPERATING INCOME

$A12,754m

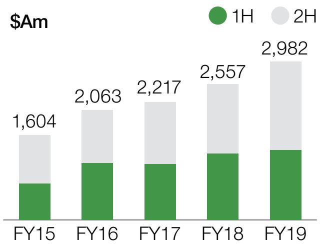
↑ 17% on prior year



FY2019 NET PROFIT

$A2,982m

↑ 17% on prior year



FY2019 RETURN ON EQUITY

18.0%

↑ from 16.8% in the prior year

FY2019 OPERATING EXPENSES

$A8,887m

↑ 19% on prior year

MARKETS-FACING BUSINESSES

Commodities and Global Markets (CGM) and Macquarie Capital delivered a combined net profit contribution for the year ended 31 March 2019 of $A2,858 million, up 76% on the prior year.

Commodities and Global Markets

$A1,505m

↑ 65% on prior year

- Strong results across the commodities platform driven by client hedging activity
- Significant opportunities in North American Gas and Power due to supply-demand imbalances across regional US centres
- Increased contribution from client structured foreign exchange deals across all regions.

Partially offset by:

- Increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and an increased investment in technology platforms
- Challenging conditions impacting equity trading activities, particularly in specific Asian retail markets
- Higher impairment charges due to write-downs recognised on underperforming financing facilities and a small number of specific commodity equity positions.

Macquarie Capital

$A1,353m

↑ 89% on prior year

- Higher net income on equity and debt investments due to asset realisations in ANZ, Europe and the US, particularly in the technology, green energy and conventional energy sectors
- Increased Fee and commission income across ANZ, Europe and the US.

Partially offset by:

- Higher Credit and Other impairment charges due to a small number of underperforming investments
- Higher Share of losses of associates and joint ventures reflecting a change in the composition and performance of investments in the portfolio including increased expenditure on green energy and other projects in the development phase
- Higher operating expenses reflecting additional headcount, increased investing activity and foreign exchange movements.

Operating Groups update

In the second half, certain businesses were reorganised between Operating Groups to better align businesses with a shared focus on particular customer segments and geographies:

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

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

1.1 Executive summary

Continued

Profit attributable to ordinary equity holders

$A2,982m

↑ 17% on prior year

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Financial performance summary						
Net interest income	**762**	998	*(24)*	**1,760**	1,986	*(11)*
Fee and commission income	**2,865**	2,661	*8*	**5,526**	4,670	*18*
Net trading income	**1,560**	1,231	*27*	**2,791**	1,957	*43*
Net operating lease income	**489**	461	*6*	**950**	935	*2*
Share of net (losses)/profits of associates and joint ventures	**(63)**	7	*	**(56)**	241	*
Credit and Other impairment charges	**(476)**	(76)	*	**(552)**	(366)	*51*
Other operating income and charges	**1,787**	548	*226*	**2,335**	1,497	*56*
Net operating income	**6,924**	5,830	*19*	**12,754**	10,920	*17*
Employment expenses	**(2,763)**	(2,454)	*13*	**(5,217)**	(4,493)	*16*
Brokerage, commission and trading-related expenses	**(561)**	(579)	*(3)*	**(1,140)**	(830)	*37*
Occupancy expenses	**(234)**	(207)	*13*	**(441)**	(402)	*10*
Non-salary technology expenses	**(353)**	(331)	*7*	**(684)**	(604)	*13*
Other operating expenses	**(851)**	(554)	*54*	**(1,405)**	(1,127)	*25*
Total operating expenses	**(4,762)**	(4,125)	*15*	**(8,887)**	(7,456)	*19*
Operating profit before income tax	**2,162**	1,705	*27*	**3,867**	3,464	*12*
Income tax expense	**(505)**	(374)	*35*	**(879)**	(883)	*(<1)*
Profit after income tax	**1,657**	1,331	*24*	**2,988**	2,581	*16*
Loss/(profit) attributable to non-controlling interests	**15**	(21)	*	**(6)**	(24)	*(75)*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**1,672**	1,310	*28*	**2,982**	2,557	*17*
Key metrics						
Expense to income ratio (%)	**68.8**	70.8		**69.7**	68.3	
Compensation ratio (%)	**37.5**	39.4		**38.3**	38.7	
Effective tax rate (%)	**23.2**	22.2		**22.8**	25.7	
Basic earnings per share (cents per share)	**494.5**	388.3		**883.3**	758.2	
Diluted earnings per share (cents per share)	**483.9**	383.1		**868.1**	743.5	
Dividend per ordinary share (cents per share)	**360.0**	215.0		**575.0**	525.0	
Dividend payout ratio (%)	**73.3**	55.7		**65.6**	69.8	
Annualised return on equity (%)	**19.5**	16.3		**18.0**	16.8	

Net operating income

Net operating income of $A12,754 million for the year ended 31 March 2019 increased 17% from $A10,920 million in the prior year. Increases across Fee and commission income, Other operating income and charges, and Net interest and trading income were partially offset by higher Credit and Other impairment charges, and lower Share of net profits of associates and joint ventures.

Net interest and trading income

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
4,551	3,943

↑ 15% on prior year

- Increased contributions across the commodities platform driven by client hedging activity and significant opportunities in North American Gas and Power due to supply-demand imbalances across regional US centres in CGM
- Growth in average Australian loan and lease portfolio and deposit volumes in BFS.

Partially offset by:

- Lower interest income largely from the Principal Finance loan portfolio in CAF
- Challenging conditions impacting equity trading activities in CGM, particularly in specific Asian retail markets.

Fee and commission income

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
5,526	4,670

↑ 18% on prior year

- Increased performance fees from MIRA-managed funds, managed accounts and co-investment mandates
- Increased base fees primarily driven by investments made by MIRA-managed funds, favourable foreign exchange movements, and contributions from businesses acquired during the year in MAM
- Following the adoption of AASB 15, $A262 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.

Net operating lease income

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
950	935

↑ 2% on prior year

- Improved income from the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by a reduction in underlying Aviation income in CAF.

Credit and Other impairment charges

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
(552)	(366)

↑ 51% on prior year

- Higher impairment charges recognised across most operating segments.

Partially offset by:

- The write-down of MAM's investment in Macquarie Infrastructure Corporation (MIC) in the prior year.

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

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
(56)	241

↓ significantly on prior year

- Losses from associates and joint ventures reflecting a change in the composition and performance of investments in the portfolio including increased expenditure on green energy and other projects in the development phase in Macquarie Capital
- A decrease in share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM.

Other operating income and charges

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
2,335	1,497

↑ 56% on prior year

- Higher income from asset realisations in Macquarie Capital
- Gain on sale of Energetics by the Principal Finance business in CAF.

1.1 Executive summary

Continued

Operating expenses

Total operating expenses of $A8,887 million for the year ended 31 March 2019 increased 19% from $A7,456 million in the prior year with increases across all expense categories.

Employment expenses

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
5,217	4,493

↑ 16% on prior year

- Higher performance-related profit share and share-based payments expense, driven by the improved overall performance of the Operating Groups
- Higher average headcount across the Consolidated Entity
- Unfavourable foreign exchange movements.

Brokerage, commission and trading-related expenses

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
1,140	830

↑ 37% on prior year

- Following the adoption of AASB 15, $A262 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

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
684	604

↑ 13% on prior year

- Higher technology expenses to support business growth across the Consolidated Entity
- Unfavourable foreign exchange movements.

Occupancy and Other operating expenses

FULL YEAR TO	
31 Mar 19 $Am	31 Mar 18 $Am
1,846	1,529

↑ 21% on prior year

- Increased business activity across most of the Operating Groups
- The recognition of certain legacy-related expenses
- Increase in Occupancy expenses mainly due to costs associated with the additional premises taken in the current year
- Unfavourable foreign exchange movements.

Income tax expense

Income tax expense for the year ended 31 March 2019 was $A879 million, compared to $A883 million in the prior year. The effective tax rate for the year ended 31 March 2019 was 22.8%, down from 25.7% in the prior year.

The change in tax expense was driven by increased benefit from permanent tax differences, mainly offset by higher profit before tax. The reduced effective tax rate was mainly driven by a reduction in the US tax rates and the geographic composition and nature of earnings.

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 prior 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 $A143 million and certain recoverable costs of $A119 million.

For further information relating to the adoption of these new accounting standards, refer to Note 1 *Summary of significant accounting policies* of the Macquarie Group Financial Report for the year ended 31 March 2019.

02

Financial performance analysis

Shelley Street, Sydney

Australian consumers have continually sought advancements in the delivery of banking and financial services. From introducing the first Cash Management Trust in 1980 to launching Australia's first open banking platform, Macquarie has a long history of introducing innovative products to the Australian market, improving competition and increasing efficiencies for customers.

Photo by Eric Sierins

2.1 Net interest and trading income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Net interest income	**762**	998	*(24)*	**1,760**	1,986	*(11)*
Net trading income	**1,560**	1,231	*27*	**2,791**	1,957	*43*
Net interest and trading income	**2,322**	2,229	*4*	**4,551**	3,943	*15*

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 measured at fair value. This volatility is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of CAF and BFS with changes in fair value recognised within Corporate, managed via the application of hedge accounting.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, CAF's 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			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
MAM	**(104)**	(81)	*28*	**(185)**	(168)	*10*
CAF	**(24)**	60	*	**36**	289	*(88)*
BFS	**844**	834	*1*	**1,678**	1,584	*6*
CGM						
Commodities						
Risk management products	**621**	457	*36*	**1,078**	705	*53*
Lending and financing	**122**	128	*(5)*	**250**	237	*5*
Inventory management and trading	**434**	221	*96*	**655**	151	*
Foreign exchange, interest rates and credit	**273**	291	*(6)*	**564**	508	*11*
Equities	**79**	163	*(52)*	**242**	359	*(33)*
Macquarie Capital	**(44)**	(38)	*16*	**(82)**	(65)	*26*
Corporate	**121**	194	*(38)*	**315**	343	*(8)*
Net interest and trading income	**2,322**	2,229	*4*	**4,551**	3,943	*15*

Net interest and trading income of $A4,551 million for the year ended 31 March 2019 increased 15% from $A3,943 million in the prior year.

MAM

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

Net interest and trading expense of $A185 million for the year ended 31 March 2019 increased 10% from $A168 million in the prior year, driven by increased investments and receivables.

CAF

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

Net interest and trading income of $A36 million for the year ended 31 March 2019 decreased 88% from $A289 million in the prior year. The decrease was largely due to reduced interest income in the Principal Finance loan portfolio.

The loan and finance lease portfolio was $A10.1 billion as at 31 March 2019, a decrease of 8% from $A11.0 billion as at 31 March 2018. The decrease was largely due to the reduction in the Principal Finance portfolio, partially offset by growth in the shipping portfolio.

BFS

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

Net interest and trading income of $A1,678 million for the year ended 31 March 2019 increased 6% from $A1,584 million in the prior year due to a 7% growth in the average BFS deposit balance and a 9% growth in average Australian loan and lease portfolio volumes. This was partially offset by an additional $A10 million allocation of the Australian Government Major Bank Levy incurred for 12 months versus nine months in the prior year (effective 1 July 2017).

As at 31 March 2019 the Australian loan, leasing and deposit portfolios included:

- BFS deposits of $A53.4 billion, up 17% from $A45.7 billion as at 31 March 2018;
- Australian mortgage volumes of $A38.5 billion, up 18% from $A32.7 billion as at 31 March 2018;
- Australian vehicle finance volumes of $A15.2 billion, down 5% from $A16.0 billion as at 31 March 2018; and
- business banking loan volumes of $A8.2 billion, up 12% from $A7.3 billion as at 31 March 2018.

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 $A1,078 million for the year ended 31 March 2019 increased 53% from $A705 million in the prior year. The current year included strong results across the commodities platform due to increased client hedging activity in energy markets including North American Gas and Power, Global Oil, and EMEA Gas and Power in comparison with the prior year as a result of increased volatility and commodity price movements. Contributions from Agriculture, Metals and Mining results were broadly in line with results recorded in the prior year.

(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 $A250 million for the year ended 31 March 2019 increased 5% from $A237 million in the prior year due to an increased contribution from commodity lending activities in the Americas and ANZ.

(iii) Inventory management and trading

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

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

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

Inventory management and trading income of $A655 million for the year ended 31 March 2019 increased significantly from $A151 million in the prior year. During the year, significant opportunities arose for North American Gas and Power driven by supply-demand imbalances across regional US centres, partially offset by the timing of income recognition, which reduced revenue relating to transport and storage agreements. CGM results also reflect an increased contribution in comparison to the prior year from physical and financial oil trading activities in Europe and North America.

Foreign exchange, interest rates and credit

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A564 million for the year ended 31 March 2019 increased 11% from $A508 million in the prior year. Increased income in the current year was driven by growth in client contributions from foreign exchange structured products across all regions.

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 $A242 million for the year ended 31 March 2019 decreased 33% from $A359 million in the prior year reflecting challenging conditions, particularly in Asia due to reduced demand for retail products in specific markets.

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 investment portfolios.

Net interest and trading expense of $A82 million for the year ended 31 March 2019 increased 26% from $A65 million in the prior year. This was primarily due to higher funding costs for balance sheet positions reflecting increased activity, partially offset by higher interest income from the debt investment portfolio.

Corporate

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

Net interest and trading income of $A315 million for the year ended 31 March 2019 decreased 8% from $A343 million in the prior year.

2.2 Fee and commission income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Base fees	**916**	899	*2*	**1,815**	1,632	*11*
Performance fees	**577**	282	*105*	**859**	595	*44*
Mergers and acquisitions, advisory and underwriting fees	**433**	573	*(24)*	**1,006**	920	*9*
Brokerage and commissions	**398**	406	*(2)*	**804**	774	*4*
Other fee and commission income	**541**	501	*8*	**1,042**	749	*39*
Total fee and commission income	**2,865**	2,661	*8*	**5,526**	4,670	*18*

Total fee and commission income of $A5,526 million for the year ended 31 March 2019 increased 18% from $A4,670 million in the prior year primarily due to higher performance fees from a broad range of funds, managed accounts and co-investors in MAM, an increase in base fees from investments made by MIRA-managed funds and contributions from businesses acquired during the year, as well as favourable foreign exchange movements. Following the adoption of AASB 15, increases in Other fee and commission income of $A225 million and Mergers and acquisitions, advisory and underwriting fees of $A37 million were recognised, with a corresponding offset in operating expenses.

Base and performance fees

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Base fees						
MAM						
MIM	**482**	494	*(2)*	**976**	918	*6*
MIRA	**392**	370	*6*	**762**	650	*17*
Total MAM	**874**	864	*1*	**1,738**	1,568	*11*
Other Operating Groups	**42**	35	*20*	**77**	64	*20*
Total base fee income	**916**	899	*2*	**1,815**	1,632	*11*
Performance fees						
MAM						
MIM	**3**	3	*–*	**6**	28	*(79)*
MIRA	**480**	279	*72*	**759**	567	*34*
Total MAM	**483**	282	*71*	**765**	595	*29*
Other Operating Groups	**94**	–	*	**94**	–	*
Total performance fee income	**577**	282	*105*	**859**	595	*44*

2.2 Fee and commission income

Continued

Base fees

Base fees of $A1,815 million for the year ended 31 March 2019 increased 11% from $A1,632 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM, where base fees of $A1,738 million for the year ended 31 March 2019 increased 11% from $A1,568 million in the prior year. Base fee income benefited from investments made by MIRA-managed funds and favourable foreign exchange movements, as well as contributions from businesses acquired during the current year (GLL Real Estate Partners (GLL) and ValueInvest Asset Management S.A. (ValueInvest)). This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

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

Performance fees

Performance fees of $A859 million for the year ended 31 March 2019 increased 44% from $A595 million in the prior year.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, included fees from a broad range of funds including Macquarie European Infrastructure Fund 1 and 3 (MEIF1 and MEIF3), Atlas Arteria – ALX (formerly known as Macquarie Atlas Roads – MQA), Macquarie Infrastructure Partners (MIP1), Macquarie Global Infrastructure Fund II (GIFII) and Korea Macquarie Growth Fund (KMGF), managed accounts and co-investment mandates. The prior year included performance fees from MEIF3, ALX and other managed funds, managed accounts and listed equities.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of $A1,006 million for the year ended 31 March 2019 increased 9% from $A920 million in the prior year.

Fee income from mergers and acquisitions was higher across Europe, the US and ANZ, while income from equity capital markets increased in ANZ.

The increase in fee and commission income also reflected the impact of the adoption of AASB 15 and foreign exchange movements. Following the adoption of AASB 15, $A37 million of certain recoverable costs previously presented net of associated revenues have been reclassified to Operating expenses.

Brokerage and commissions

Brokerage and commissions income of $A804 million for the year ended 31 March 2019 increased 4% from $A774 million in the prior year.

The increase was driven by client activity in the Asia-Pacific Cash Equities business and in the Americas Futures business in CGM.

Other fee and commission income

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

Other fee and commission income of $A1,042 million for the year ended 31 March 2019 increased 39% from $A749 million in the prior year, primarily in CGM and MAM. Following the adoption of AASB 15, $A225 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. In addition, there was an increase in risk premia fees earned on index products in CGM.

2.3 Net operating lease income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Rental income	**1,199**	1,091	*10*	**2,290**	1,901	*20*
Depreciation on operating lease assets	**(710)**	(630)	*13*	**(1,340)**	(966)	*39*
Net operating lease income	**489**	461	*6*	**950**	935	*2*

Net operating lease income, which is predominately earned by CAF, totalled $A950 million for the year ended 31 March 2019, up 2% from $A935 million in the prior year, driven by increased income from the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by a reduction in underlying Aviation income.

CAF's operating lease portfolio was $A11.2 billion as at 31 March 2019, an increase of 10% from $A10.2 billion as at 31 March 2018 driven by the acquisition of rotorcraft assets during the year, growth in the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by depreciation.

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

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Share of net (losses)/profits of associates and joint ventures	**(63)**	7	*	**(56)**	241	*

Share of net losses of associates and joint ventures was $A56 million for the year ended 31 March 2019 compared to profits of $A241 million in the prior year. The movement reflected a change in the composition and performance of investments in Macquarie Capital's portfolio including increased expenditure on green energy and other projects in the development phase, and a decrease in share of net profits from the sale of a number of underlying assets within equity accounted investments in MAM.

2.5 Other operating income and charges

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Credit impairment (charges)/reversal[(1)]						
Loan assets	**(127)**	(46)	*176*	**(173)**	(88)	*97*
Loans to associates and joint ventures	**(81)**	(8)	*	**(89)**	(17)	*
Other assets	**(36)**	(3)	*	**(39)**	(53)	*(26)*
Financial investments	**(30)**	(5)	*	**(35)**	–	*
Undrawn commitments and financial guarantees	**(6)**	8	*	**2**	–	*
Recovery of exposures previously written off	**4**	10	*(60)*	**14**	78	*(82)*
Total credit impairment (charges)/reversal	**(276)**	(44)	*	**(320)**	(80)	*300*
Other impairment charges						
Equity investment securities available for sale	**–**	–	–	**–**	(25)	*(100)*
Interests in associates and joint ventures	**(177)**	(30)	*	**(207)**	(184)	*13*
Intangible assets and other non-financial assets	**(23)**	(2)	*	**(25)**	(77)	*(68)*
Total other impairment charges	**(200)**	(32)	*	**(232)**	(286)	*(19)*
Total credit and other impairment (charges)/reversal	**(476)**	(76)	*	**(552)**	(366)	*51*
Investment income						
Net gain on equity investments	**13**	148	*(91)*	**161**	193	*(17)*
Net gain on debt investments	**4**	13	*(69)*	**17**	48	*(65)*
Net gain on interests in associates and joint ventures	**971**	126	*	**1,097**	224	*
Net gain on sale of businesses and subsidiaries held for sale	**601**	23	*	**624**	211	*196*
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	**28**	175	*(84)*	**203**	557	*(64)*
Total investment income	**1,617**	485	*233*	**2,102**	1,233	*70*
Other income	**170**	63	*170*	**233**	264	*(12)*
Total other operating income and charges	**1,787**	548	*226*	**2,335**	1,497	*56*

(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 year remain in accordance with AASB 139 and have not been restated.

Total credit and other impairment charges of $A552 million for the year ended 31 March 2019, increased 51% from $A366 million in the prior year. Higher impairment charges were recognised across most operating segments.

Credit impairment (charges)/reversal

Credit impairment charges of $A320 million for the year ended 31 March 2019 increased significantly from $A80 million in the prior year and were recognised across most operating segments. The increase was driven by higher impairment charges across Loan assets, Loans to associates and joint ventures and lower Recovery of exposures previously written off.

Other impairment charges

Other impairment charges totalled $A232 million for the year ended 31 March 2019, a decrease of 19% from $A286 million in the prior year. The decrease predominately relates to the write-down of MAM's investment in MIC in the prior year. This was partially offset by impairment charges recognised on a small number of underperforming investments in Macquarie Capital and CGM.

Total other operating income and charges of $A2,335 million for the year ended 31 March 2019, increased 56% from $A1,497 million in the prior year, mainly driven by higher investment income in Macquarie Capital and CAF.

Investment income

Investment income totalled $A2,102 million for the year ended 31 March 2019, an increase of 70% from $A1,233 million in the prior year.

Investment income in the current year included income from asset realisations in the technology, green energy and conventional energy sectors in Macquarie Capital and the gain on sale of Energetics by the Principal Finance business in CAF.

The prior year included income generated across all regions primarily from unlisted investments in the green energy, conventional energy and infrastructure sectors in Macquarie Capital, gains on reclassification of certain investments in MAM and CAF, the sale of the US commercial vehicles financing business and income from the sell down of infrastructure debt in CAF.

Other income

Other income of $A233 million for the year ended 31 March 2019 decreased 12% from $A264 million in the prior year due to the sale of CAF's Principal Finance assets in the US.

2.6 Operating expenses

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Employment expenses						
Salary and related costs including commissions, superannuation and performance-related profit share	**(2,324)**	(2,033)	*14*	**(4,357)**	(3,798)	*15*
Share based payments	**(275)**	(247)	*11*	**(522)**	(410)	*27*
Reversal/(provision) for long service leave and annual leave	**5**	(17)	*	**(12)**	(13)	*(8)*
Total compensation expenses	**(2,594)**	(2,297)	*13*	**(4,891)**	(4,221)	*16*
Other employment expenses including on-costs, staff procurement and staff training	**(169)**	(157)	*8*	**(326)**	(272)	*20*
Total employment expenses	**(2,763)**	(2,454)	*13*	**(5,217)**	(4,493)	*16*
Brokerage, commission and trading-related expenses	**(561)**	(579)	*(3)*	**(1,140)**	(830)	*37*
Occupancy expenses	**(234)**	(207)	*13*	**(441)**	(402)	*10*
Non-Salary technology expenses	**(353)**	(331)	*7*	**(684)**	(604)	*13*
Other operating expenses						
Professional fees	**(276)**	(202)	*37*	**(478)**	(411)	*16*
Travel and entertainment expenses	**(95)**	(91)	*4*	**(186)**	(163)	*14*
Advertising and communication expenses	**(60)**	(59)	*2*	**(119)**	(114)	*4*
Amortisation of intangibles assets	**(25)**	(22)	*14*	**(47)**	(41)	*15*
Auditor’s remuneration	**(19)**	(19)	–	**(38)**	(35)	*9*
Other expenses	**(376)**	(161)	*134*	**(537)**	(363)	*48*
Total other operating expenses	**(851)**	(554)	*54*	**(1,405)**	(1,127)	*25*
Total operating expenses	**(4,762)**	(4,125)	*15*	**(8,887)**	(7,456)	*19*

Total operating expenses of $A8,887 million for the year ended 31 March 2019 increased 19% from $A7,456 million in the prior year mainly due to increased performance-related profit share and share-based payments expense, 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.

Key drivers of the movement included:

- Total employment expenses of $A5,217 million for the year ended 31 March 2019 increased 16% from $A4,493 million in the prior year mainly due to higher performance-related profit share and share-based payments expense driven by the improved overall performance of the Operating Groups, higher average headcount across the Consolidated Entity to support business growth and the impact of business acquisitions in the current year. The impact of unfavourable foreign exchange movements also contributed to an increase in total employment expenses
- Brokerage, commission and trading-related expenses of $A1,140 million for the year ended 31 March 2019 increased 37% from $A830 million in the prior year primarily due to the reclassification of $A262 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
- Occupancy expenses of $A441 million for the year ended 31 March 2019 increased 10% from $A402 million in the prior year mainly due to costs associated with additional premises taken in the current year and the impact of unfavourable foreign exchange movements
- Non-Salary technology expenses of $A684 million for the year ended 31 March 2019 increased 13% from $A604 million in the prior year to support business growth across the Consolidated Entity, including increased expenditure on projects and infrastructure, as well as unfavourable foreign exchange movements
- Total other operating expenses of $A1,405 million for the year ended 31 March 2019 increased 25% from $A1,127 million in the prior year due to increased business activity across most of the Operating Groups, unfavourable foreign exchange movements and the recognition of certain legacy-related expenses in the current year.

2.7 Headcount

	AS AT			MOVEMENT	
	Mar 19	Sep 18	Mar 18	*Sep 18 %*	*Mar 18 %*
Headcount by Operating Group[1]					
MAM	**1,702**	1,732	1,559	*(2)*	*9*
CAF	**862**	799	795	*8*	*8*
BFS	**2,772**	2,950	3,100	*(6)*	*(11)*
CGM	**2,305**	2,244	2,261	*3*	*2*
Macquarie Capital	**1,379**	1,245	1,114	*11*	*24*
Total headcount – Operating Groups	**9,020**	8,970	8,829	*1*	*2*
Total headcount – Corporate	**6,695**	6,317	5,981	*6*	*12*
Total headcount	**15,715**	15,287	14,810	*3*	*6*
Headcount by region					
Australia[2]	**6,673**	6,643	6,677	*<1*	*(<1)*
International:					
Americas	**2,889**	2,755	2,656	*5*	*9*
Asia	**3,746**	3,670	3,434	*2*	*9*
Europe, Middle East and Africa	**2,407**	2,219	2,043	*8*	*18*
Total headcount – International	**9,042**	8,644	8,133	*5*	*11*
Total headcount	**15,715**	15,287	14,810	*3*	*6*
International headcount ratio (%)	**58**	57	55		

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

Total headcount increased 6% to 15,715 as at 31 March 2019 from 14,810 as at 31 March 2018 mainly due to business growth in Macquarie Capital, MAM and CGM, and in central service groups to support business growth, technology projects and ongoing regulatory compliance. This was partially offset by a reduction in BFS mainly due to a restructure in the Wealth Management business.

2.8 Income tax expense

	FULL-YEAR TO	
	Mar 19 $Am	Mar 18 $Am
Operating profit before income tax	**3,867**	3,464
Prima facie tax @ 30%	**1,160**	1,039
Income tax permanent differences	**(281)**	(156)
Income tax expense	**879**	883
Effective tax rate[(1)]	**22.8%**	25.7%

(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 $A6 million for the year ended 31 March 2019 (31 March 2018: $A24 million).

Income tax expense for the year ended 31 March 2019 was $A879 million, compared to $A883 million in the prior year. The effective tax rate for the year ended 31 March 2019 was 22.8%, down from 25.7% in the prior year.

The change in tax expense was driven by increased benefit from permanent tax differences, mainly offset by higher profit before tax. The reduced effective tax rate was mainly driven by a reduction in the US tax rates and the geographic composition and nature of earnings.

03

Segment Analysis

Rhyl Flats Offshore Wind Park, UK

Located off the coast of North Wales, Rhyl Flats is a 90 MW offshore wind farm that generates enough electricity to power an average of 70,000 homes each year. Macquarie has been active in wind power for over a decade, managing, advising and investing in projects from development to operation across four continents. As a world leading financial investor in offshore wind, we've invested in projects from the North Sea to the East China Sea.

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 investment solutions to clients across a range of capabilities, including infrastructure, real estate, agriculture, equities, fixed income, private credit, liquid alternatives and multi-asset solutions
- **CAF** consists of an Asset Finance business and a Principal Finance business. Asset Finance delivers a range of tailored finance solutions globally across a variety of industries and asset classes. Principal Finance provides flexible primary financing solutions and engages in secondary market investing, across the capital structure. It operates globally in the corporate, transportation and real estate sectors
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities
- **Macquarie Capital** has global capability in advisory and capital raising services. It provides clients with specialist expertise, innovative advice and flexible capital solutions across a range of products and sectors including infrastructure, green and conventional energy. It invests alongside partners and clients, utilising balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases.

In the second half, certain businesses were reorganised between Operating Groups to better align businesses with a shared focus on particular customer segments and geographies:

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

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

The Corporate segment, which is not considered an Operating Group, comprises head office and central service groups including Group Treasury, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions for which hedge accounting has been achieved as well as accounting volatility for other economically hedged positions for which hedge accounting is not able to be achieved. Other items of income and expenses include 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 Macquarie Income Securities (MIS).

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

Internal funding arrangements

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

Generally, Operating Groups may only source funding directly from external sources where the funding is secured by the 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 segments

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

Internal transactions are recognised in each of the relevant categories of income and expense and eliminated on aggregation/consolidation 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 measured at fair value. This volatility is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of CAF and BFS with changes in fair value recognised within Corporate, managed via the application of hedge accounting.

Central service groups

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

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central service groups include 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.

Income tax

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

Presentation of segment income statements

The income statements 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 the Consolidated Entity's ordinary activities.

3.1 Basis of preparation

Continued

	MAM $Am	CAF $Am	BFS $Am	**Annuity-style businesses $Am**
Full-year ended 31 March 2019				
Net interest and trading (expense)/income	(185)	36	1,678	**1,529**
Fee and commission income/(expense)	2,787	97	476	**3,360**
Net operating lease income	–	947	–	**947**
Share of net profits/(losses) of associates and joint ventures	115	5	8	**128**
Other operating income and charges				
Credit and Other impairments charges	(86)	(26)	(82)	**(194)**
Other operating income and charges	146	495	21	**662**
Internal management revenue/(charge)	67	77	2	**146**
Net operating income	2,844	1,631	2,103	**6,578**
Total operating expenses	(1,339)	(600)	(1,347)	**(3,286)**
Operating profit/(loss) before income tax	1,505	1,031	756	**3,292**
Income tax expense	–	–	–	**–**
(Profit)/loss attributable to non-controlling interests	(2)	(3)	–	**(5)**
Net profit/(loss) contribution	**1,503**	**1,028**	**756**	**3,287**
Full-year ended 31 March 2018				
Net interest and trading (expense)/income	(168)	289	1,584	**1,705**
Fee and commission income/(expense)	2,375	80	492	**2,947**
Net operating lease income	–	932	–	**932**
Share of net profits/(losses) of associates and joint ventures	171	(3)	3	**171**
Other operating income and charges				
Credit and Other impairments (charges)/reversal	(181)	34	(75)	**(222)**
Other operating income and charges	332	427	19	**778**
Internal management revenue/(charge)	33	11	3	**47**
Net operating income	2,562	1,770	2,026	**6,358**
Total operating expenses	(1,003)	(626)	(1,289)	**(2,918)**
Operating profit/(loss) before income tax	1,559	1,144	737	**3,440**
Income tax expense	–	–	–	**–**
Profit attributable to non-controlling interests	(1)	(4)	–	**(5)**
Net profit/(loss) contribution	**1,558**	**1,140**	**737**	**3,435**

CGM $Am	Macquarie Capital $Am	Markets-facing businesses $Am	Corporate $Am	Total $Am
2,789	(82)	**2,707**	315	**4,551**
1,160	1,031	**2,191**	(25)	**5,526**
–	–	**–**	3	**950**
20	(197)	**(177)**	(7)	**(56)**
(151)	(182)	**(333)**	(25)	**(552)**
73	1,659	**1,732**	(59)	**2,335**
(8)	8	**–**	(146)	**–**
3,883	2,237	**6,120**	56	**12,754**
(2,378)	(898)	**(3,276)**	(2,325)	**(8,887)**
1,505	1,339	**2,844**	(2,269)	**3,867**
–	–	**–**	(879)	**(879)**
–	14	**14**	(15)	**(6)**
1,505	**1,353**	**2,858**	**(3,163)**	**2,982**
1,960	(65)	**1,895**	343	**3,943**
893	845	**1,738**	(15)	**4,670**
–	–	**–**	3	**935**
21	48	**69**	1	**241**
(88)	(56)	**(144)**	–	**(366)**
109	666	**775**	(56)	**1,497**
12	22	**34**	(81)	**–**
2,907	1,460	**4,367**	195	**10,920**
(1,997)	(739)	**(2,736)**	(1,802)	**(7,456)**
910	721	**1,631**	(1,607)	**3,464**
–	–	**–**	(883)	**(883)**
–	(5)	**(5)**	(14)	**(24)**
910	**716**	**1,626**	**(2,504)**	**2,557**

3.2 MAM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	Movement %	Mar 19 $Am	Mar 18 $Am	Movement %
Net interest and trading expense	**(104)**	(81)	*28*	**(185)**	(168)	*10*
Fee and commission income						
Base fees	**874**	864	*1*	**1,738**	1,568	*11*
Performance fees	**483**	282	*71*	**765**	595	*29*
Other fee and commission income	**155**	129	*20*	**284**	212	*34*
Total fee and commission income	**1,512**	1,275	*19*	**2,787**	2,375	*17*
Net operating lease income	**–**	–	–	**–**	–	–
Share of net profits of associates and joint ventures	**28**	87	*(68)*	**115**	171	*(33)*
Other operating income and charges						
Net income on equity and debt investments	**45**	34	*32*	**79**	306	*(74)*
Credit and Other impairment charges[(1),(2)]	**(70)**	(16)	*	**(86)**	(181)	*(52)*
Other income	**41**	26	*58*	**67**	26	*158*
Total other operating income and charges	**16**	44	*(64)*	**60**	151	*(60)*
Internal management revenue	**67**	–	*	**67**	33	*103*
Net operating income	**1,519**	1,325	*15*	**2,844**	2,562	*11*
Operating expenses						
Employment expenses	**(261)**	(212)	*23*	**(473)**	(381)	*24*
Brokerage, commission and trading-related expenses	**(118)**	(129)	*(9)*	**(247)**	(157)	*57*
Other operating expenses	**(333)**	(286)	*16*	**(619)**	(465)	*33*
Total operating expenses	**(712)**	(627)	*14*	**(1,339)**	(1,003)	*33*
Non-controlling interests[(3)]	**(1)**	(1)	–	**(2)**	(1)	*100*
Net profit contribution	**806**	697	*16*	**1,503**	1,558	*(4)*
Non-GAAP metrics						
MAM (including MIRA) assets under management ($Ab)[(4)]	**542.7**	542.5	*<1*	**542.7**	488.7	*11*
MIRA equity under management ($Ab)	**116.9**	105.8	*10*	**116.9**	86.2	*36*
Headcount	**1,702**	1,732	*(2)*	**1,702**	1,559	*9*

(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 year 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 year. The prior year also included the impairments on equity investment securities that were classified under AASB 139 as 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) AUM at September 2018 and March 2018 has been restated for MSIS, which was transferred to CAF.

Net profit contribution of $A1,503 million for the year ended 31 March 2019, down 4% from the prior year:
- decreased investment-related income[(5)] largely due to gains on reclassification of certain investments in the prior year
- higher operating expenses mainly driven by acquisitions, foreign exchange movements and investment in MIM's operating platform.

Partially offset by:
- increased base fees primarily driven by investments made by MIRA-managed funds, favourable foreign exchange movements, and contributions from businesses acquired during the year
- increased performance fee income from MIRA-managed funds and co-investors
- lower impairment charges.

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

Net interest and trading expense

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

Net interest and trading expense of $A185 million for the year ended 31 March 2019 increased 10% from $A168 million in the prior year, driven by increased investments and receivables.

Base fees

Base fee income of $A1,738 million for the year ended 31 March 2019 increased 11% from $A1,568 million in the prior year. Base fee income benefited from investments made by MIRA-managed funds and favourable foreign exchange movements, as well as contributions from businesses acquired during the year (GLL and ValueInvest). This was partially offset by asset realisations in MIRA-managed funds and net flows in MIM.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A765 million for the year ended 31 March 2019 increased 29% from $A595 million in the prior year. The year ended 31 March 2019 included performance fees from a broad range of funds including MEIF1, MEIF3, ALX, MIP1, GIFII and KMGF, managed accounts and co-investors. The prior year included performance fees from MEIF3, ALX and other managed funds, managed accounts and listed equities.

Other fee and commission income

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

Other fee and commission income of $A284 million for the year ended 31 March 2019 increased 34% from $A212 million in the prior year largely due to the reclassification of certain fund related expenses which were previously presented net of associated revenues to Operating expenses as a result of the adoption of AASB 15.

Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures of $A115 million for the year ended 31 March 2019 decreased 33% from $A171 million in the prior year, due to a decrease in the share of net profits from the sale of a number of underlying assets within equity accounted investments.

Net income on equity and debt investments

Net income on equity and debt investments of $A79 million for the year ended 31 March 2019 decreased 74% from a strong prior year of $A306 million which included gains on the reclassification of certain investments from Available for sale to Investments in associates. The current year included gains from the sale of MIRA's holdings in a number of investments.

Credit and Other impairment charges

Credit and Other impairment charges of $A86 million for the year ended 31 March 2019 decreased 52% from $A181 million in the prior year, due to the write-down of MIRA's investment in MIC in the prior year.

Other income

Other income of $A67 million for the year ended 31 March 2019 increased significantly from $A26 million in the prior year. The current year income primarily relates to investments which were previously classified as held for sale.

Operating expenses

Total operating expenses of $A1,339 million for the year ended 31 March 2019 increased 33% from $A1,003 million in the prior year. The increase was largely due to the impact of the reclassification of certain fund related expenses which were previously presented net of associated revenues in Other fee and commission income as a result of the adoption of AASB 15, acquisitions of GLL and ValueInvest, foreign exchange movements and investment in MIM's operating platform.

3.3 CAF

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	Movement %	Mar 19 $Am	Mar 18 $Am	Movement %
Net interest and trading (expense)/income	**(24)**	60	*	**36**	289	(88)
Fee and commission income	**63**	34	85	**97**	80	21
Net operating lease income	**488**	459	6	**947**	932	2
Share of net profits/(losses) of associates and joint ventures	**3**	2	50	**5**	(3)	*
Other operating income and charges						
Gain on disposal of operating lease assets	**54**	16	238	**70**	27	159
Net income on equity and debt investments	**341**	7	*	**348**	235	48
Credit and Other impairment (charges)/reversal(1),(2)	**(32)**	6	*	**(26)**	34	*
Other income	**9**	68	(87)	**77**	165	(53)
Total other operating income and charges	**372**	97	284	**469**	461	2
Internal management revenue	**73**	4	*	**77**	11	*
Net operating income	**975**	656	49	**1,631**	1,770	(8)
Operating expenses						
Employment expenses	**(117)**	(109)	7	**(226)**	(217)	4
Brokerage, commission and trading-related expenses	**(57)**	(3)	*	**(60)**	(58)	3
Other operating expenses	**(162)**	(152)	7	**(314)**	(351)	(11)
Total operating expenses	**(336)**	(264)	27	**(600)**	(626)	(4)
Non-controlling interests(3)	**–**	(3)	(100)	**(3)**	(4)	(25)
Net profit contribution	**639**	389	64	**1,028**	1,140	(10)
Non-GAAP metrics						
Loan and finance lease portfolio(4) ($Ab)	**10.1**	10.2	(1)	**10.1**	11.0	(8)
Operating lease portfolio ($Ab)	**11.2**	10.6	6	**11.2**	10.2	10
Headcount	**862**	799	8	**862**	795	8

(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 year 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 year. The prior year also included the impairments on equity investment securities that were classified under AASB 139 as 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 $A0.7 billion (FY18: $A0.4 billion).

Net profit contribution of $A1,028 million for the year ended 31 March 2019, down 10% on the prior year:

- reduced provisions and impairments in the prior year
- higher Asset Finance portfolio income more than offset by one-off investment-related income(5) in the prior year and legacy lending transaction-related expenses
- higher investment-related income(5) in Principal Finance, offset by lower interest income from the Principal Finance loan portfolio.

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

Net interest and trading (expense)/income

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease portfolios (including ship finance, equipment financing and private funding) 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 $A36 million for the year ended 31 March 2019 decreased 88% from $A289 million in the prior year. The decrease was largely a result of reduced interest income in the Principal Finance loan portfolio.

The loan and finance lease portfolio was $A10.1 billion as at 31 March 2019, a decrease of 8% from $A11.0 billion as at 31 March 2018. The decrease was largely due to the reduction in the Principal Finance portfolio, partially offset by growth in the shipping portfolio.

Fee and commission income

Fee and commission income of $A97 million for the year ended 31 March 2019 was up 21% from $A80 million in the prior year largely driven by growth in the Technology portfolio.

Net operating lease income

Net operating lease income of $A947 million for the year ended 31 March 2019 was up 2% from $A932 million in the prior year driven by increased income from the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by a reduction in underlying Aviation income.

The operating lease portfolio was $A11.2 billion as at 31 March 2019, an increase of 10% from $A10.2 billion as at 31 March 2018 driven by the acquisition of rotorcraft assets during the year, growth in the Energy and Technology portfolios and favourable foreign exchange movements, partially offset by depreciation.

Gain on disposal of operating lease assets

The gain on disposal of operating lease assets of $A70 million for the year ended 31 March 2019 predominately related to gains recognised on the sale of aircraft, rail assets and mining equipment.

Net income on equity and debt investments

Net income on equity and debt investments of $A348 million for the year ended 31 March 2019 primarily related to the gain on sale of Energetics by the Principal Finance business.

Net income on equity and debt investments of $A235 million in the prior year 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 sale of the US commercial vehicles financing business and income from the sell down of infrastructure debt.

Credit and Other impairment (charges)/reversal

Credit and Other impairment charges of $A26 million for the year ended 31 March 2019 was primarily due to portfolio growth in Technology and Energy. Credit and Other impairment reversal of $A34 million in the prior year 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 $A77 million for the year ended 31 March 2019 decreased from $A165 million in the prior year driven by the sale of Principal Finance assets in the US.

Operating expenses

Total operating expenses of $A600 million for the year ended 31 March 2019 decreased 4% from the $A626 million in the prior year primarily driven by the sale of Energetics by the Principal Finance business in the current year and the US commercial vehicles financing business in the prior year.

3.4 BFS

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Net interest and trading income	**844**	834	*1*	**1,678**	1,584	*6*
Fee and commission income						
Wealth management fee income	**147**	168	*(13)*	**315**	336	*(6)*
Banking and leasing fee income	**85**	76	*12*	**161**	156	*3*
Total fee and commission income	**232**	244	*(5)*	**476**	492	*(3)*
Share of net profits/(losses) of associates and joint ventures	**9**	(1)	*	**8**	3	*167*
Other operating income and charges						
Credit impairment charges[(1)]	**(39)**	(28)	*39*	**(67)**	(67)	–
Other impairment charges[(2)]	**(15)**	–	*	**(15)**	(8)	*88*
Other income	**21**	–	*	**21**	19	*11*
Total other operating income and charges	**(33)**	(28)	*18*	**(61)**	(56)	*9*
Internal management revenue	**–**	2	*(100)*	**2**	3	*(33)*
Net operating income	**1,052**	1,051	*<1*	**2,103**	2,026	*4*
Operating expenses						
Employment expenses	**(202)**	(219)	*(8)*	**(421)**	(423)	*(<1)*
Brokerage, commission and trading-related expenses	**(108)**	(108)	–	**(216)**	(213)	*1*
Technology expenses[(3)]	**(181)**	(182)	*(1)*	**(363)**	(325)	*12*
Other operating expenses	**(183)**	(164)	*12*	**(347)**	(328)	*6*
Total operating expenses	**(674)**	(673)	*<1*	**(1,347)**	(1,289)	*4*
Net profit contribution	**378**	378	–	**756**	737	*3*
Non-GAAP metrics						
Funds on platform[(4)] ($Ab)	**86.0**	88.1	*(2)*	**86.0**	82.5	*4*
Australian loan and lease portfolio[(5)] ($Ab)	**62.5**	60.0	*4*	**62.5**	56.6	*10*
BFS deposits[(6)] ($Ab)	**53.4**	49.4	*8*	**53.4**	45.7	*17*
Headcount	**2,772**	2,950	*(6)*	**2,772**	3,100	*(11)*

(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 year 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 year. The prior year also included the impairments on equity investment securities that were classified under AASB 139 as 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 and lease portfolio comprises residential mortgages, loans to Australian businesses, vehicle finance, insurance premium funding and credit cards.
(6) BFS deposits excludes corporate/wholesale deposits.

Net profit contribution of $A756 million for the year ended 31 March 2019, up 3% from the prior year:
- growth in Australian mortgage, business banking loan, deposit and funds on platform average volumes

Partially offset by:
- lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- increased costs associated with investment in technology to support business growth
- full year impact of the Australian Government Major Bank Levy relative to the prior year.

Net interest and trading income

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

Net interest and trading income of $A1,678 million for the year ended 31 March 2019 increased 6% from $A1,584 million in the prior year due to a 7% growth in the average BFS deposit balance and a 9% growth in average Australian loan and lease portfolio volumes. This was partially offset by an additional $A10 million allocation of the Australian Government Major Bank Levy incurred for 12 months versus nine months in the prior year (effective 1 July 2017).

As at 31 March 2019 the Australian loan, leasing and deposit portfolios included:

- BFS deposits of $A53.4 billion, up 17% from $A45.7 billion as at 31 March 2018;
- Australian mortgage volumes of $A38.5 billion, up 18% from $A32.7 billion as at 31 March 2018;
- Australian vehicle finance volumes of $A15.2 billion, down 5% from $A16.0 billion as at 31 March 2018; and
- business banking loan volumes of $A8.2 billion, up 12% from $A7.3 billion as 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 $A86.0 billion as at 31 March 2019, an increase of 4% from $A82.5 billion as at 31 March 2018 largely due to net positive client inflows and market movements.

Wealth management fee income of $A315 million for the year ended 31 March 2019 decreased 6% from the prior year due to lower brokerage income as the wealth advice business focused on the high net worth segment.

Banking and leasing fee income

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

Banking and leasing fee income of $A161 million for the year ended 31 March 2019 increased 3% from $A156 million in the prior year largely due to increased lending and payment transaction volumes.

Credit impairment charges

Credit impairment charges of $A67 million for the year ended 31 March 2019 were in line with the prior year.

Other impairment charges

Other impairment charges of $A15 million for the year ended 31 March 2019 increased 88% from $A8 million in the prior year due to higher impairments taken on equity investments.

Other income

Other income of $A21 million for the year ended 31 March 2019 increased 11% from $A19 million in the prior year and includes equity investment dividends and revaluations.

Operating expenses

Total operating expenses of $A1,347 million for the year ended 31 March 2019 increased 4% from $A1,289 million in the prior year.

Employment expenses of $A421 million for the year ended 31 March 2019 were broadly in line with the prior year driven by lower sales commissions, partially offset by 2% higher average headcount.

Brokerage, commission and trading-related expenses of $A216 million for the year ended 31 March 2019 increased 1% from $A213 million in the prior year largely due to an increase in payment transaction and insurance premium funding volumes.

Technology expenses of $A363 million for the year ended 31 March 2019 increased 12% from $A325 million in the prior year due to higher development activity.

Other operating expenses of $A347 million for the year ended 31 March 2019 increased 6% from $A328 million in the prior year driven by higher professional fees and increased risk and regulatory costs.

3.5 CGM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Net interest and trading income						
Commodities						
Risk management products	**621**	457	*36*	**1,078**	705	*53*
Lending and financing	**122**	128	*(5)*	**250**	237	*5*
Inventory management and trading	**434**	221	*96*	**655**	151	*
Total commodities	**1,177**	806	*46*	**1,983**	1,093	*81*
Foreign exchange, interest rates and credit	**273**	291	*(6)*	**564**	508	*11*
Equities	**79**	163	*(52)*	**242**	359	*(33)*
Net interest and trading income	**1,529**	1,260	*21*	**2,789**	1,960	*42*
Fee and commission income						
Brokerage and commissions	**364**	367	*(1)*	**731**	686	*7*
Other fee and commission income	**202**	227	*(11)*	**429**	207	*107*
Total fee and commission income	**566**	594	*(5)*	**1,160**	893	*30*
Share of net profits of associates and joint ventures	**10**	10	–	**20**	21	*(5)*
Other operating income and charges						
Net income on equity and debt investments	**57**	6	*	**63**	97	*(35)*
Credit and Other impairment charges[(1),(2)]	**(133)**	(18)	*	**(151)**	(88)	*72*
Other income	**3**	7	*(57)*	**10**	12	*(17)*
Total other operating income and charges	**(73)**	(5)	*	**(78)**	21	*
Internal management (charge)/revenue	**(9)**	1	*	**(8)**	12	*
Net operating income	**2,023**	1,860	*9*	**3,883**	2,907	*34*
Operating expenses						
Employment expenses	**(361)**	(309)	*17*	**(670)**	(598)	*12*
Brokerage, commission and trading-related expenses	**(259)**	(318)	*(19)*	**(577)**	(398)	*45*
Other operating expenses	**(598)**	(533)	*12*	**(1,131)**	(1,001)	*13*
Total operating expenses	**(1,218)**	(1,160)	*5*	**(2,378)**	(1,997)	*19*
Net profit contribution	**805**	700	*15*	**1,505**	910	*65*
Non-GAAP metrics						
Headcount	**2,305**	2,244	*3*	**2,305**	2,261	*2*

(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 year 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 year. The prior year also included the impairments on equity investment securities that were classified under AASB 139 as available for sale.

Net profit contribution of $A1,505 million for the year ended 31 March 2019, up 65% from the prior year:
- strong results across the commodities platform driven by client hedging activity
- significant opportunities in North American Gas and Power due to supply-demand imbalances across regional US centres
- increased contribution from client structured foreign exchange deals across all regions.

Partially offset by:
- increased operating expenses reflecting increased client activity, the impact of acquisitions completed in the prior year, and increased investment in technology platforms
- challenging conditions impacting equity trading activities, particularly in specific Asian retail markets
- higher credit and other impairment charges due to write-downs recognised on underperforming financing facilities and a small number of specific commodity equity positions.

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 $A1,078 million for the year ended 31 March 2019 increased 53% from $A705 million in the prior year. The current year included strong results across the commodities platform due to increased client hedging activity in energy markets including North American Gas and Power, Global Oil, and EMEA Gas and Power in comparison with the prior year as a result of increased volatility and commodity price movements. Contributions from Agriculture, Metals and Mining results were broadly in line with results recorded in the prior year.

(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 $A250 million for the year ended 31 March 2019 increased 5% from $A237 million in the prior year due to an increased contribution from commodity lending activities in the Americas and ANZ.

(iii) Inventory management and trading

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

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

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

Inventory management and trading income of $A655 million for the year ended 31 March 2019 increased significantly from $A151 million in the prior year. During the year, significant opportunities arose for North American Gas and Power driven by supply-demand imbalances across regional US centres, partially offset by the timing of income recognition, which reduced revenue relating to transport and storage agreements. CGM results also reflect an increased contribution in comparison to the prior year from physical and financial oil trading activities in Europe and North America.

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

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A564 million for the year ended 31 March 2019 increased 11% from $A508 million in the prior year. Increased income in the current year was driven by growth in client contributions from foreign exchange structured products across all regions.

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 $A242 million for the year ended 31 March 2019 decreased 33% from $A359 million in the prior year reflecting challenging conditions, particularly in Asia due to reduced demand for retail products in specific markets.

Fee and commission income

Fee and commission income of $A1,160 million for the year ended 31 March 2019 increased 30% from $A893 million in the prior year.

The increase includes a $A143 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 risk premia fees earned on index products and increases in brokerage driven by client activity in the Asia-Pacific Cash Equities business and in the Americas Futures business.

Net income on equity and debt investments

Net income on equity and debt investments of $A63 million for the year ended 31 March 2019 decreased 35% from $A97 million in the prior year. The current year reflects the gain on sale of a number of investments in the commodities sector.

Credit and Other impairment charges

Credit and Other impairment charges of $A151 million for the year ended 31 March 2019 increased 72% from $A88 million in the prior year, due to increased write-downs on underperforming financing facilities and impairment charges related to a small number of specific commodity equity positions.

Operating expenses

Total operating expenses of $A2,378 million for the year ended 31 March 2019 increased 19% from $A1,997 million in the prior year.

Employment expenses of $A670 million for the year ended 31 March 2019 increased 12% from $A598 million in the prior year mainly due to higher average headcount which included the full year 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 $A577 million for the year ended 31 March 2019 increased 45% from $A398 million in the prior year mainly due to changes in accounting classification following the adoption of AASB 15 which has resulted in $A143 million stock borrowing expenses being reclassified from Fee and commission income. An additional increase was driven by higher client activity.

Other operating expenses of $A1,131 million for the year ended 31 March 2019 increased 13% from $A1,001 million in the prior year, reflecting the impact of prior year acquisitions and an increased investment in technology platforms.

3.6 Macquarie Capital

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Net interest and trading expense	**(44)**	(38)	*16*	**(82)**	(65)	*26*
Fee and commission income	**505**	526	*(4)*	**1,031**	845	*22*
Share of net (losses)/profits of associates and joint ventures	**(106)**	(91)	*16*	**(197)**	48	*
Other operating income and charges						
Net income on equity and debt investments	**1,154**	477	*142*	**1,631**	625	*161*
Credit and Other impairment charges(1),(2)	**(178)**	(4)	*	**(182)**	(56)	*225*
Other income/(expenses)	**46**	(18)	*	**28**	41	*(32)*
Total other operating income and charges	**1,022**	455	*125*	**1,477**	610	*142*
Internal management (charge)/revenue	**(7)**	15	*	**8**	22	*(64)*
Net operating income	**1,370**	867	*58*	**2,237**	1,460	*53*
Operating expenses						
Employment expenses	**(225)**	(183)	*23*	**(408)**	(323)	*26*
Brokerage, commission and trading-related expenses	**(18)**	(21)	*(14)*	**(39)**	(4)	*
Other operating expenses	**(233)**	(218)	*7*	**(451)**	(412)	*9*
Total operating expenses	**(476)**	(422)	*13*	**(898)**	(739)	*22*
Non-controlling interests(3)	**22**	(8)	*	**14**	(5)	*
Net profit contribution	**916**	437	*110*	**1,353**	716	*89*
Non-GAAP metrics						
Headcount	**1,379**	1,245	*11*	**1,379**	1,114	*24*

(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 year 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 year. The prior year also included the impairments on equity investment securities that were classified under AASB 139 as 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 $A1,353 million for the year ended 31 March 2019, up 89% from the prior year:
- Higher net income on equity and debt investments due to asset realisations in ANZ, Europe and the US, particularly in the technology, green energy and conventional energy sectors
- Increased fee and commission income across ANZ, Europe and the US

Partially offset by:
- Higher Credit and Other impairment charges due to a small number of underperforming investments
- Higher share of losses of associates and joint ventures reflecting a change in the composition and performance of investments in the portfolio including increased expenditure on green energy and other projects in the development phase
- Higher operating expenses reflecting additional headcount, increased investing activity and foreign exchange movements

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 $A82 million for the year ended 31 March 2019 increased 26% from $A65 million in the prior year. This was primarily due to higher funding costs for balance sheet positions reflecting increased activity, partially offset by higher interest income from the debt investment portfolio.

Fee and commission income

Fee and commission income of $A1,031 million for the year ended 31 March 2019 increased 22% from $A845 million in the prior year.

Fee income from mergers and acquisitions and other fee income was higher across ANZ, Europe and the US, while income from equity capital markets increased in ANZ.

The increase in Fee and commission income also reflected the adoption of AASB 15 and foreign exchange movements. Following the adoption of AASB 15, $A37 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 $A197 million for the year ended 31 March 2019 compared to profits of $A48 million in the prior year.

The movement reflected a change in the composition and performance of investments in the portfolio including increased 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 $A1,631 million for the year ended 31 March 2019 increased significantly from $A625 million in the prior year.

The increase in income was due to asset realisations in ANZ, Europe and the US, particularly in the technology, green energy and conventional energy sectors. The income in the prior year was generated across all regions primarily from unlisted investments in the green energy, conventional energy and infrastructure sectors.

Credit and Other impairment charges

Credit and Other impairment charges of $A182 million for the year ended 31 March 2019 increased significantly from $A56 million in the prior year.

The impairment charge primarily related to a small number of underperforming investments.

Other income/(expenses)

Other income of $A28 million for the year ended 31 March 2019 decreased 32% from $A41 million in the prior year. The income in the current year comprised of income from investments and cost reimbursements, partially offset by expenditure on green energy projects in the development phase. Other income in the prior year comprised of income from investing activities.

Operating expenses

Total operating expenses of $A898 million for the year ended 31 March 2019 increased 22% from $A739 million in the prior year due to an increase in headcount, increased investing activity, the adoption of AASB 15 and foreign exchange movements. Following the adoption of AASB 15, $A37 million of certain recoverable costs previously presented net of associated revenues have been reclassified from Fee and commission income.

3.7 Corporate

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Net interest and trading income	**121**	194	*(38)*	**315**	343	*(8)*
Fee and commission expense	**(13)**	(12)	*8*	**(25)**	(15)	*67*
Net operating lease income	**1**	2	*(50)*	**3**	3	–
Share of net (losses)/profits of associates and joint ventures	**(7)**	–	*	**(7)**	1	*
Other operating income and charges						
Net income/(loss) on equity and debt investments	**4**	(51)	*	**(47)**	10	*
Credit and Other impairment charges[1],[2]	**(9)**	(16)	*(44)*	**(25)**	–	*
Other income and charges	**12**	(24)	*	**(12)**	(66)	*(82)*
Total other operating income and charges	**7**	(91)	*	**(84)**	(56)	*50*
Internal management charge	**(124)**	(22)	*	**(146)**	(81)	*80*
Net operating income and charges	**(15)**	71	*	**56**	195	*(71)*
Operating expenses						
Employment expenses	**(1,597)**	(1,422)	*12*	**(3,019)**	(2,551)	*18*
Brokerage, commission and trading-related expenses	**–**	–	–	**–**	–	–
Other operating expenses	**251**	443	*(43)*	**694**	749	*(7)*
Total operating expenses	**(1,346)**	(979)	*37*	**(2,325)**	(1,802)	*29*
Income tax expense	**(505)**	(374)	*35*	**(879)**	(883)	*(<1)*
Macquarie Income Securities	**(8)**	(7)	*14*	**(15)**	(14)	*7*
Non-controlling interests[3]	**2**	(2)	*	**–**	–	–
Net loss contribution	**(1,872)**	(1,291)	*45*	**(3,163)**	(2,504)	*26*
Non-GAAP metrics						
Headcount	**6,695**	6,317	*6*	**6,695**	5,981	*12*

(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 year 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 year. The prior year also included the impairments on investment securities (equity) that were classified under AASB 139 as 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, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group. The Corporate segment also includes costs that are not allocated to the Operating Groups, including performance-related profit share and share-based payments expense, income tax expense and the net result of managing Macquarie's liquidity and funding requirements.

Net interest and trading income

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

Net interest and trading income of $A315 million for the year ended 31 March 2019 decreased 8% from $A343 million in the prior year.

Net income on equity and debt investments

Net income on equity and debt investments was a loss of $A47 million for the year ended 31 March 2019, compared to a net gain of $A10 million recognised in the prior year. The loss in the current year was due to Group consolidation adjustments recognised in a prior period, now being realised in the Operating Groups.

Credit and other impairment charges

Credit and other impairment charges were $A25 million for the year ended 31 March 2019, compared to $nil in the prior year. The current year includes impairment charges recognised on certain loans and investments.

Other income and charges

The charge of $A12 million for the year ended 31 March 2019 decreased significantly from $A66 million in the prior year, primarily driven by a net decrease in inter-segment transactions.

Employment expenses

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

Employment expenses of $A3,019 million for the year ended 31 March 2019 increased 18% from $A2,551 million in the prior year as a result of higher performance-related profit share and share-based payment driven by the improved overall performance of the Operating Groups, changes in vesting assumptions on share-based payments 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 $A694 million for the year ended 31 March 2019 decreased 7% from $A749 million in the prior year, which primarily reflects the recognition of certain legacy-related expenses in the current year, partially offset by increased recovery of a higher central service groups' cost base driven by higher average headcount.

3.8 International income

International income by region

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 19 $Am	Sep 18 $Am	*Movement %*	**Mar 19 $Am**	Mar 18 $Am	*Movement %*
Americas	**1,930**	1,777	*9*	**3,707**	2,822	*31*
Asia	**606**	532	*14*	**1,138**	1,229	*(7)*
Europe, Middle East and Africa	**1,927**	1,545	*25*	**3,472**	3,076	*13*
Total international income	**4,463**	3,854	*16*	**8,317**	7,127	*17*
Australia(1)	**2,352**	1,883	*25*	**4,235**	3,517	*20*
Total income (excluding earnings on capital and other corporate items)	**6,815**	5,737	*19*	**12,552**	10,644	*18*
Earnings on capital and other corporate items	**109**	93	*17*	**202**	276	*(27)*
Net operating income (as reported)	**6,924**	5,830	*19*	**12,754**	10,920	*17*
International income (excluding earnings on capital and other corporate items) ratio (%)	**65**	67		**66**	67	

(1) Includes New Zealand.

International income by Operating Group and region

	FULL-YEAR TO MAR 19						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	**Total International $Am**	Australia(1) $Am	**Total Income(2) $Am**	**Total International %**
MAM	1,377	248	752	**2,377**	400	**2,777**	**86**
CAF	241	19	1,140	**1,400**	154	**1,554**	**90**
BFS	1	–	–	**1**	2,100	**2,101**	**–**
CGM	1,528	821	885	**3,234**	657	**3,891**	**83**
Macquarie Capital	560	50	695	**1,305**	924	**2,229**	**59**
Total	**3,707**	**1,138**	**3,472**	**8,317**	**4,235**	**12,552**	**66**

(1) Includes New Zealand.
(2) Total income reflects net operating income excluding internal management revenue/(charge).

Total international income was $A8,317 million for the year ended 31 March 2019, an increase of 17% from $7,127 million in the prior year. Total international income represented 66% of total income (excluding earnings on capital and other corporate items), in line with the prior year.

Income from the Americas of $A3,707 million for the year ended 31 March 2019 increased 31% from $A2,822 million in the prior year. The increase was mainly in CGM as significant opportunities arose in the North American Gas and Power business driven by supply-demand imbalances, partially offset by the timing of income recognition relating to transport and storage agreements. In addition, MAM generated higher base and performance fees.

In Asia, income of $A1,138 million for the year ended 31 March 2019 decreased 7% from $A1,229 million in the prior year. 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 higher Credit and Other impairment charges due to a small number of underperforming investments. In addition, Equities income in CGM decreased reflecting challenging conditions due to reduced demand for retail products in specific markets. This was partially offset by higher base and performance fees in MAM.

Income from Europe, Middle East and Africa of $A3,472 million for the year ended 31 March 2019 increased 13% from $A3,076 million in the prior year. The increase was primarily driven by a strong result across the commodities platform in CGM, income from asset realisations mainly in the green energy sector in Macquarie Capital, and the gain on sale of Energetics by the Principal Finance business in CAF. The increase was partially offset by the non-recurrence of a gain on reclassification and income from the sell down of infrastructure debt in the prior year in CAF and lower performance fees from MEIF3 in MAM.

In Australia, income of $A4,235 million for the year ended 31 March 2019 increased 20% from $A3,517 million in the prior year, primarily driven by income from asset realisations in the technology, conventional energy and green energy sectors in Macquarie Capital and an increase in interest income in BFS from growth in average deposit and Australian loan and lease portfolio volumes.

04 Balance sheet

Macquarie's holey dollar

The symbol of Macquarie, the holey dollar was Australia's first official currency and earliest example of financial innovation. More than two hundred years since its creation by Governor Lachlan Macquarie, the holey dollar remains a relevant symbol of financial innovation and, within the Macquarie business, inspires our best efforts to deliver new ideas and products for our clients.

4.1 Statement of financial position

	AS AT			MOVEMENT	
	Mar 19[1] $Am	Sep 18[1] $Am	Mar 18 $Am	*Sep 18 %*	*Mar 18 %*
Assets					
Cash and bank balances	**9,787**	9,625	9,722	*2*	*1*
Cash collateral on securities borrowed and reverse repurchase agreements	**29,348**	27,837	28,837	*5*	*2*
Trading assets	**18,670**	20,158	15,341	*(7)*	*22*
Margin money and settlement assets	**19,111**	20,065	18,198	*(5)*	*5*
Derivative assets	**14,457**	18,115	12,937	*(20)*	*12*
Financial investments	**7,161**	6,633	7,160	*8*	*–*
Held for sale assets	**9,023**	2,153	3,341	***	*170*
Other assets	**5,169**	5,886	5,156	*(12)*	*<1*
Loan assets	**78,474**	76,953	73,509	*2*	*7*
Property, plant and equipment	**4,701**	11,361	11,426	*(59)*	*(59)*
Interests in associates and joint ventures	**4,219**	4,143	4,055	*2*	*4*
Intangible assets	**2,031**	1,894	993	*7*	*105*
Deferred tax assets	**1,031**	775	650	*33*	*59*
Total assets	**203,182**	205,598	191,325	*(1)*	*6*
Liabilities					
Cash collateral on securities lent and repurchase agreements	**4,838**	6,916	5,383	*(30)*	*(10)*
Trading liabilities	**8,108**	7,197	8,061	*13*	*1*
Margin money and settlement liabilities	**22,576**	25,070	20,878	*(10)*	*8*
Derivative liabilities	**12,666**	18,205	11,925	*(30)*	*6*
Deposits	**56,191**	52,620	48,395	*7*	*16*
Held for sale liabilities	**6,809**	504	523	***	***
Other liabilities	**6,736**	6,243	6,905	*8*	*(2)*
Bank borrowings	**9,318**	13,336	9,007	*(30)*	*3*
Debt issued	**50,188**	51,665	55,927	*(3)*	*(10)*
Deferred tax liabilities	**425**	800	749	*(47)*	*(43)*
Total liabilities excluding loan capital	**177,855**	182,556	167,753	*(3)*	*6*
Loan capital	**6,963**	5,883	5,392	*18*	*29*
Total liabilities	**184,818**	188,439	173,145	*(2)*	*7*
Net assets	**18,364**	17,159	18,180	*7*	*1*
Equity					
Contributed equity	**6,181**	6,144	6,243	*1*	*(1)*
Reserves	**1,773**	1,567	1,297	*13*	*37*
Retained earnings	**9,807**	8,849	8,817	*11*	*11*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**17,761**	16,560	16,357	*7*	*9*
Non-controlling interests	**603**	599	1,823	*1*	*(67)*
Total equity	**18,364**	17,159	18,180	*7*	*1*

(1) March 2019 and September 2018 financial results and financial position reflect the adoption of AASB 9. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial years, however the prior year has been reclassified to conform to current year presentation. For further information relating to the adoption of AASB 9, refer to Note 1 *Summary of significant accounting policies* of the Macquarie Group Financial Report.

The Consolidated Entity's statement of financial position has mainly been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2019.

Assets

Total assets of $A203.2 billion as at 31 March 2019 increased 6% from $A191.3 billion as at 31 March 2018 mainly due to an increase in Held for sale assets, Loan assets, Trading assets, Derivative assets, Intangible assets and Margin money and settlement assets. These increases were partially offset by a decrease in Property, plant and equipment.

- Held for sale assets of $A9.0 billion as at 31 March 2019 increased significantly from $A3.3 billion as at 31 March 2018 primarily due to the reclassification of assets for CAF's Aviation business as held for sale from Property, plant and equipment. This was partially offset by a reduction in held for sale investments in MAM due to the sale of an investment in a UK gas distribution network
- Loan assets of $A78.5 billion as at 31 March 2019 increased 7% from $A73.5 billion as at 31 March 2018 mainly due to net new loans written in BFS for Australian mortgages and business banking loans. This was partially offset by net repayments in Principal Finance in CAF and vehicle finance products in BFS
- Trading assets of $A18.7 billion as at 31 March 2019 increased 22% from $A15.3 billion as at 31 March 2018 mainly due to an increase in long equity positions, partially offset by the sale of government bonds in CGM
- Derivative assets of $A14.5 billion as at 31 March 2019 increased 12% from $A12.9 billion as at 31 March 2018 mainly due to mark to market movements and an increase in client trade volumes in energy products in CGM
- Intangible assets of $A2.0 billion as at 31 March 2019 increased significantly from $A1.0 billion as at 31 March 2018 mainly due to acquisitions in Macquarie Capital and MAM
- Margin money and settlement assets of $A19.1 billion as at 31 March 2019 increased 5% from $A18.2 billion as at 31 March 2018 mainly due to an increase in margins placed with financial institutions and settlement balances in CGM
- Property, plant and equipment of $A4.7 billion as at 31 March 2019 decreased 59% from $A11.4 billion as at 31 March 2018 mainly due to the reclassification of assets for CAF's Aviation business as Held for sale assets.

Liabilities

Total liabilities of $A184.8 billion as at 31 March 2019 increased 7% from $A173.1 billion as at 31 March 2018 mainly driven by an increase in Deposits, Held for sale liabilities, Margin money and settlement liabilities, Loan capital, Derivative liabilities and Bank borrowings. These increases were partially offset by a decrease in Debt issued.

- Deposits of $A56.2 billion as at 31 March 2019 increased 16% from $A48.4 billion as at 31 March 2018 mainly due to an increase in business and retail deposits
- Held for sale liabilities of $A6.8 billion as at 31 March 2019 increased significantly from $A0.5 billion as at 31 March 2018 primarily due to the reclassification of liabilities for CAF's Aviation business as held for sale mainly from Bank borrowings
- Margin money and settlement liabilities of $A22.6 billion as at 31 March 2019 increased 8% from $A20.9 billion as at 31 March 2018 mainly due to an increase in call margin placed by financial institutions and outstanding commodity trade settlements in CGM
- Loan capital of $A7.0 billion increased 29% from $A5.4 billion mainly due to the net issuance of Macquarie Capital Notes during the year
- Derivative liabilities of $A12.7 billion as at 31 March 2019 increased 6% from $A11.9 billion as at 31 March 2018 mainly due to mark to market movements and an increase in client trade volumes in energy products in CGM
- Bank borrowings of $A9.3 billion as at 31 March 2019 increased 3% from $A9.0 billion as at 31 March 2018 mainly due to Treasury's funding and liquidity management activities, mainly offset by the reclassification of liabilities for CAF's Aviation business as Held for sale liabilities
- Debt issued of $A50.2 billion as at 31 March 2019 decreased 10% from $A55.9 billion as at 31 March 2018, mainly driven by Treasury's funding and liquidity management activities (including repayment of long term and short term debt), as well as repayments in BFS' securitisations.

Equity

Total equity increased 1% to $A18.4 billion as at 31 March 2019 from $A18.2 billion as at 31 March 2018.

The increase is due to Retained earnings generated for the year ended 31 March 2019 (net of dividends paid) and an increase in the Foreign currency translation reserve primarily driven by the depreciation of the Australian Dollar against the US Dollar since 31 March 2018. This has been partially offset by the de-recognition of a Non-controlling interest in a UK gas distribution network following sale of this investment in the current year.

4.2 Loan assets

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

	AS AT			MOVEMENT	
	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	*Sep 18 %*	*Mar 18 %*
Loan assets per the statement of financial position	**78.5**	77.0	73.5	*2*	*7*
Operating lease assets	**11.2**	10.6	10.2	*6*	*10*
Other reclassifications(1)	**0.5**	0.5	0.6	–	*(17)*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers(2)	**(7.2)**	(7.5)	(9.0)	*(4)*	*(20)*
Total loan assets including operating lease assets per the funded balance sheet(3)	**83.0**	80.6	75.3	*3*	*10*

(1) Reclassification between loan assets and other funded balance sheet categories.
(2) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPE).
(3) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

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

		AS AT			MOVEMENT	
	Notes	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	Sep 18 %	Mar 18 %
CAF						
Asset Finance:	1	**7.9**	7.6	7.5	*4*	*5*
Finance lease assets and loans		**5.6**	5.4	5.5	*4*	*2*
Operating lease assets		**2.3**	2.2	2.0	*5*	*15*
Principal Finance:		**12.6**	12.8	13.5	*(2)*	*(7)*
Loans	2	**3.7**	4.4	5.3	*(16)*	*(30)*
Operating lease assets	3	**8.9**	8.4	8.2	*6*	*9*
Total CAF		**20.5**	20.4	21.0	*<1*	*(2)*
BFS						
Retail mortgages	4	**35.6**	32.7	28.7	*9*	*24*
Vehicle finance	5	**11.5**	12.0	11.6	*(4)*	*(1)*
Business banking	6	**8.7**	8.4	7.9	*4*	*10*
Total BFS		**55.8**	53.1	48.2	*5*	*16*
CGM						
Resources and commodities	7	**3.3**	3.3	3.1	–	*6*
Other	8	**2.5**	2.5	2.4	–	*4*
Total CGM		**5.8**	5.8	5.5	–	*5*
MAM						
Structured investments	9	**0.2**	0.1	–	*100*	*
Macquarie Capital						
Corporate and other lending	10	**0.7**	1.2	0.6	*(42)*	*17*
Total		**83.0**	80.6	75.3	*3*	*10*

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

4.2 Loan assets

Continued

Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

Predominantly secured by underlying financed assets.

2. Principal Finance Loans

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. Principal Finance Operating lease assets

Secured by underlying financed assets including transportation assets.

4. Retail mortgages

Secured by Australian residential property.

5. Vehicle finance

Secured by Australian motor vehicles.

6. Business banking

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

7. Resources and commodities

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

8. CGM Other

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

9. 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.

10. Corporate and other lending

Includes diversified secured corporate lending.

4.3 Equity investments

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

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

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

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

Equity investments reconciliation

	AS AT			MOVEMENT	
	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	*Sep 18 %*	*Mar 18 %*
Equity investments					
Statement of financial position					
Equity investments at fair value[1]	**1.3**	1.2	1.4	*8*	*(7)*
Interests in associates and joint ventures	**4.2**	4.1	4.1	*2*	*2*
Other assets – Held for sale associates	**0.6**	1.2	3.0	*(50)*	*(80)*
Total equity investments per statement of financial position	**6.1**	6.5	8.5	*(6)*	*(28)*
Adjustment for funded balance sheet					
Equity hedge positions[2]	**(0.1)**	(0.1)	(0.3)	–	*(67)*
Non-controlling interests[3]	**(0.1)**	(0.1)	(1.4)	–	*(93)*
Total funded equity investments	**5.9**	6.3	6.8	*(6)*	*(13)*

(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 year.
(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 except investment in associates. 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.

4.3 Equity investments

Continued

Equity investments by category

	AS AT			MOVEMENT	
	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	*Sep 18 %*	*Mar 18 %*
Macquarie-managed funds					
Listed MIRA managed funds	**0.9**	0.9	0.5	–	*80*
Unlisted MIRA managed funds	**1.0**	1.0	1.0	–	–
Other Macquarie-managed funds	**0.3**	0.4	0.4	*(25)*	*(25)*
Total Macquarie-managed funds	**2.2**	2.3	1.9	*(4)*	*16*
Other investments					
Investments acquired to seed new MIRA products and mandates	**–**	0.1	0.8	*(100)*	*(100)*
Transport, industrial and infrastructure	**0.6**	0.7	0.6	*(14)*	–
Telecommunications, information technology, media and entertainment	**0.5**	0.6	0.7	*(17)*	*(29)*
Green energy	**1.0**	1.2	1.4	*(17)*	*(29)*
Conventional energy, resources and commodities	**0.4**	0.6	0.6	*(33)*	*(33)*
Real estate investment, property and funds management	**0.7**	0.3	0.3	*133*	*133*
Finance, wealth management and exchanges	**0.5**	0.5	0.5	–	–
Total other investments	**3.7**	4.0	4.9	*(8)*	*(24)*
Total equity investments	**5.9**	6.3	6.8	*(6)*	*(13)*

05

Funding and liquidity

Paraway Pastoral, Australia

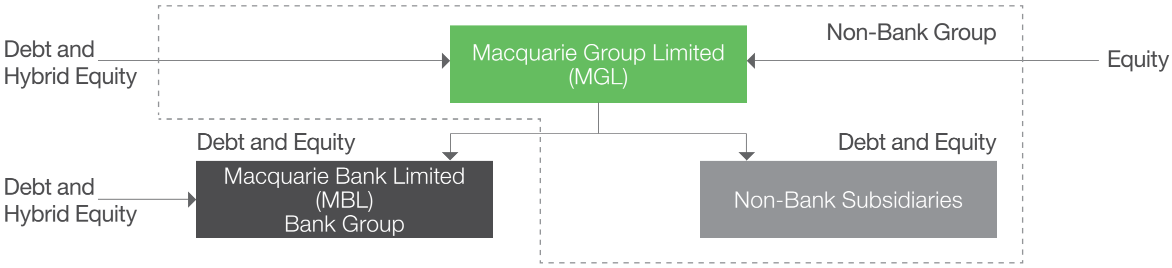
Paraway Pastoral Company (Paraway) is part of a MIRA-managed agricultural portfolio, which has been owning and operating large-scale sheep and cattle enterprises across Australia since 2007. As one of Australia's largest pastoral land owners and operators, Paraway currently owns 4.4 million hectares with the capacity to run over 200,000 cattle and 240,000 sheep.

5.1 Liquidity risk governance and management framework

Governance and oversight

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

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



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

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

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

Liquidity policy and risk appetite

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

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

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

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

Liquidity risk tolerance and principles

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

Risk tolerances

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

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 assumptions Macquarie intends to be conservative are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

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

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity which are intended 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 $A26.3 billion cash and liquid assets as at 31 March 2019 (31 March 2018: $A25.4 billion), of which $A24.3 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.

Credit ratings[1] as at 31 March 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[2]	A-1	A	Developing	A-2	BBB	Positive
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 (APS210) 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 31 March 2019 was 154% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net stable funding ratio

The NSFR is a 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 as at 31 March 2019 was 113%. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

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 31 March 2019. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

		AS AT	
	Notes	Mar 19 $Ab	Mar 18 $Ab
Total assets per Macquarie's statement of financial position		**203.2**	191.3
Accounting deductions:			
Self-funded trading assets	1	**(16.6)**	(16.7)
Derivative revaluation accounting gross-ups	2	**(12.5)**	(11.8)
Segregated funds	3	**(10.0)**	(9.8)
Outstanding trade settlement balances	4	**(7.4)**	(7.0)
Short-term working capital assets	5	**(8.8)**	(6.8)
Non-controlling interests	6	**(0.2)**	(1.4)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	7	**(7.2)**	(9.0)
Net funded assets		**140.5**	128.8

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 Mar 19 $Ab	Mar 18 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**1.0**	0.6
Commercial paper		**6.3**	8.4
Net trade creditors	2	**2.1**	2.3
Structured notes	3	**2.5**	2.5
Secured funding	4	**5.8**	4.9
Bonds	5	**32.2**	34.7
Other loans	6	**1.2**	1.2
Syndicated loan facilities	7	**8.3**	4.0
Customer deposits	8	**56.0**	48.1
Subordinated debt	9	**3.0**	2.8
Equity and hybrids	10	**22.1**	19.3
Total		**140.5**	128.8
Funded assets			
Cash and liquid assets	11	**26.3**	25.4
Self-securitisation	12	**21.1**	15.5
Net trading assets	13	**20.6**	17.9
Loan assets including operating lease assets less than one year	14	**14.3**	14.4
Loan assets including operating lease assets greater than one year	14	**47.6**	45.4
Debt investment securities	15	**1.7**	1.7
Co-investment in Macquarie-managed funds and other equity investments	16	**5.9**	6.8
Property, plant and equipment and intangibles		**3.0**	1.7
Total		**140.5**	128.8

See section 5.7 for notes 1–16.

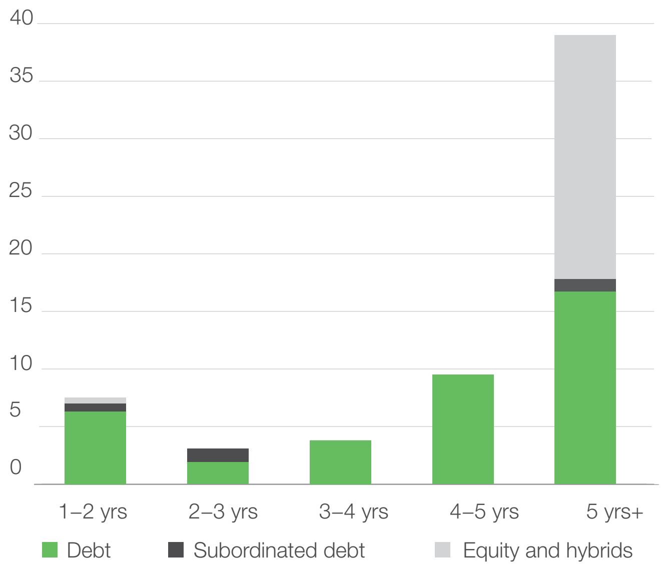
5.4 Funding profile for Macquarie

Continued

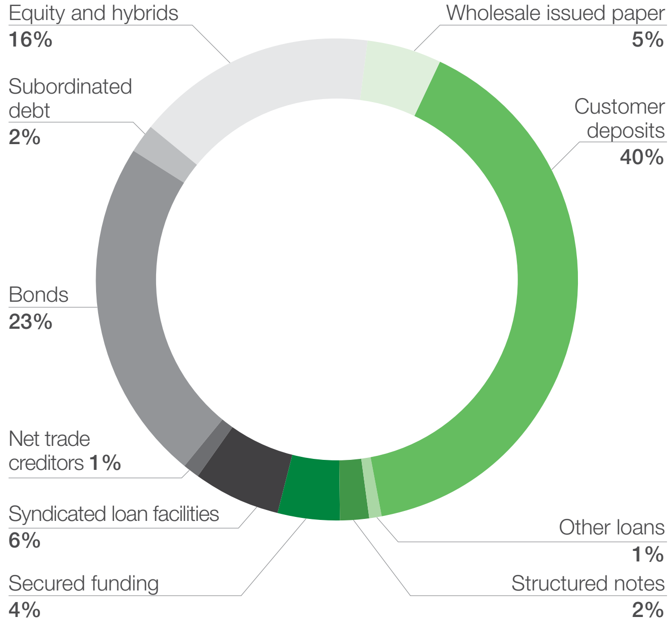
Term funding profile

Detail of drawn funding maturing beyond one year

$A billion



Diversity of funding sources



	AS AT MAR 19					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	–	–	0.1	0.1	1.8	**2.0**
Secured funding	1.2	0.3	0.3	0.5	2.5	**4.8**
Bonds	4.8	1.5	1.5	5.1	9.6	**22.5**
Other loans	0.3	0.1	0.1	–	0.1	**0.6**
Syndicated loan facilities	–	–	1.8	3.8	2.7	**8.3**
Total debt	**6.3**	**1.9**	**3.8**	**9.5**	**16.7**	**38.2**
Subordinated debt[2]	0.7	1.2	–	–	1.1	**3.0**
Equity and hybrids[2]	0.5	–	–	–	21.2	**21.7**
Total funding sources drawn	**7.5**	**3.1**	**3.8**	**9.5**	**39.0**	**62.9**
Undrawn	0.3	1.2	1.7	0.2	–	**3.4**
Total funding sources drawn and undrawn	**7.8**	**4.3**	**5.5**	**9.7**	**39.0**	**66.3**

(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. As at 31 March 2019, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 5.6 years as at 31 March 2019[3].

As at 31 March 2019, customer deposits represented $A56.0 billion, or 40% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A7.3 billion, or 5% of total funding, and other debt funding maturing within 12 months and net trade creditors represented $A14.3 billion, or 10% of total funding.

(3) Macquarie Income Securities of $A0.4 billion are excluded as they do not have a maturity date.

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2018, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2018 and 31 March 2019:

		Bank Group $Ab	Non-Bank Group $Ab	**Total $Ab**
Secured funding	– Term securitisation and other secured finance	1.2	0.7	**1.9**
Issued paper	– Senior and subordinated	0.5	2.5	**3.0**
Loan facilities	– Syndicated loan facilities	–	6.5	**6.5**
Hybrids	– Hybrid instruments	–	1.9	**1.9**
Total		**1.7**	**11.6**	**13.3**

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2019.

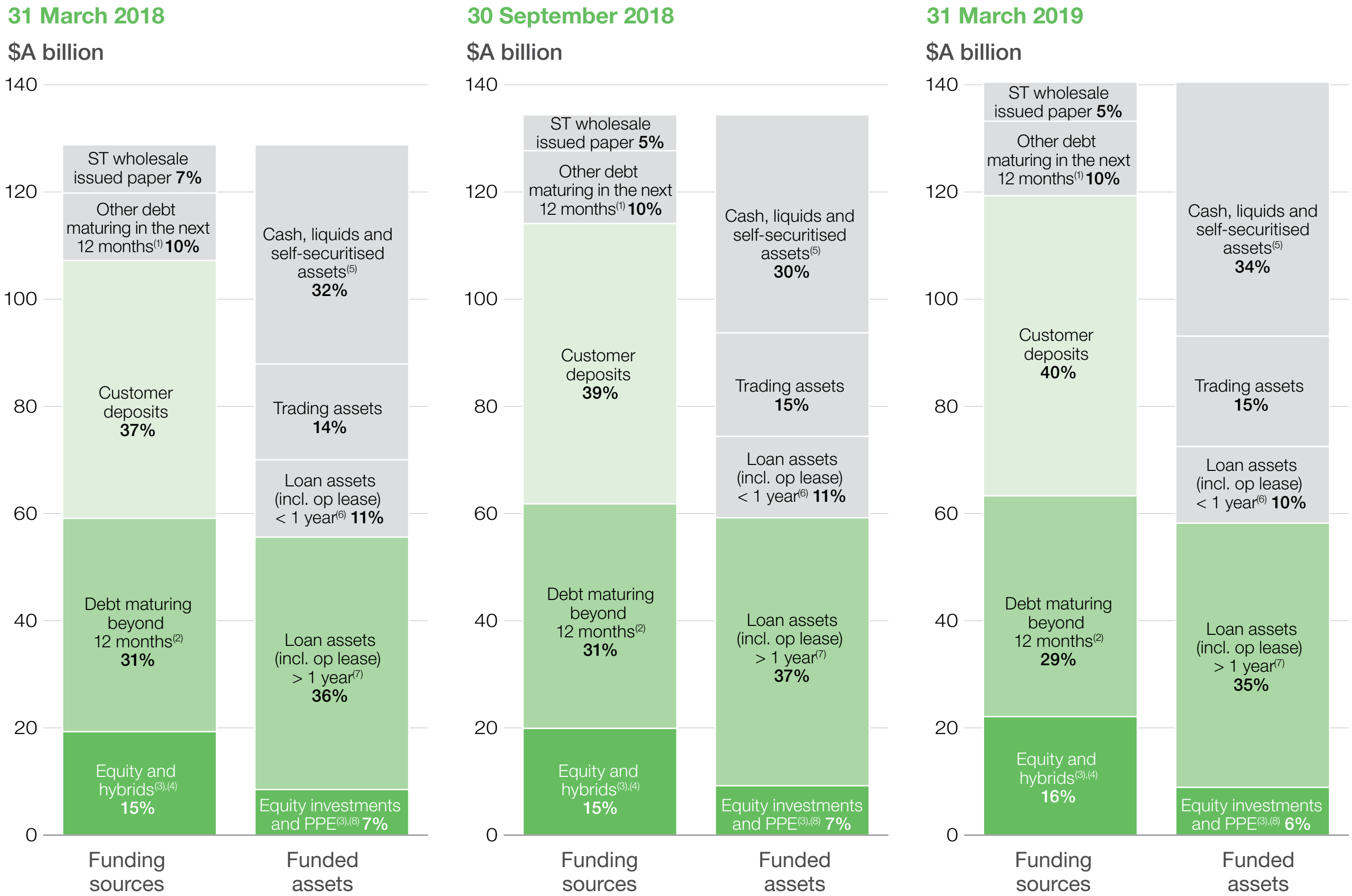
From 1 April 2018 to 31 March 2019, Macquarie raised $A13.3 billion of term funding including:

- $A3.0 billion of term wholesale issued paper comprising of $A2.2 billion of senior unsecured debt issuance, $A0.6 billion of private placements and $A0.2 billion of structured notes
- $A6.5 billion of Syndicated loan facilities comprised of the GBP, EUR and USD facilities
- $A1.2 billion of Securitisations including $A1.0 billion of SMART auto ABS issuance and $A0.2 billion of PUMA RMBS refinance
- $A1.9 billion of Macquarie Capital Notes issuance; and
- $A0.7 billion refinance of Secured trade finance facility.

5.4 Funding profile for Macquarie

Continued

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



(1) 'Other debt maturing in the next 12 months includes Structured notes, Secured funding, Bonds, Other loans, Subordinated debt maturing within the next 12 months and Net trade creditors.
(2) 'Debt maturing beyond 12 months' includes Subordinated debt not maturing within the next 12 months.
(3) Non-controlling interests is netted down in 'Equity and hybrids', 'Equity investments and PPE' and 'Loan assets (incl. op lease) > 1 year'.
(4) Hybrid instruments include MIS, MACS, MCN 2, 3 & 4 and BCN.
(5) 'Cash, liquids and self-securitised assets' includes self-securitisation of repo eligible Australian assets originated by Macquarie.
(6) 'Loan assets (incl. op lease) < 1 year' includes Net trade debtors.
(7) 'Loan assets (incl. op lease) > 1 year' includes Debt investment securities.
(8) 'Equity investments and PPE' includes Macquarie's co-investments in Macquarie-managed funds and equity investments.

5.5 Funding profile for the Bank Group

Funded balance sheet

	Notes	AS AT Mar 19 $Ab	Mar 18 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**1.0**	0.6
Commercial paper		**6.3**	8.4
Net trade creditors	2	**1.1**	1.1
Structured notes	3	**2.2**	2.1
Secured funding	4	**1.4**	4.4
Bonds	5	**16.1**	20.7
Other loans	6	**0.7**	1.1
Syndicated loan facilities	7	**–**	0.8
Customer deposits	8	**56.0**	48.1
Subordinated debt	9	**3.0**	2.8
Equity and hybrids	10	**12.8**	14.6
Total		**100.6**	104.7
Funded assets			
Cash and liquid assets	11	**24.3**	23.6
Self-securitisation	12	**21.1**	15.5
Net trading assets	13	**19.6**	17.1
Loan assets including operating lease assets less than one year	14	**13.0**	14.1
Loan assets including operating lease assets greater than one year	14	**35.3**	44.7
Debt investment securities	15	**1.1**	1.3
Non-Bank Group deposit with MBL		**(14.8)**	(12.9)
Co-investment in Macquarie-managed funds and other equity investments	16	**0.4**	0.8
Property, plant and equipment and intangibles		**0.6**	0.5
Total		**100.6**	104.7

See section 5.7 for notes 1–16.

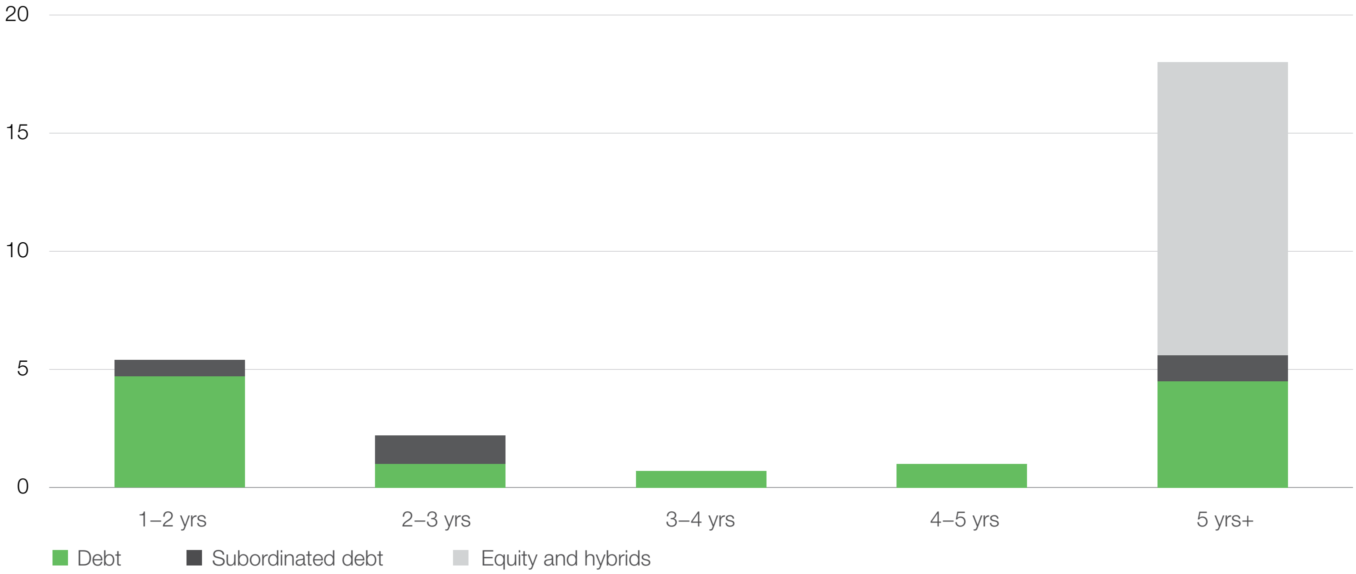
5.5 Funding profile for the Bank Group

Continued

Term funding profile

Detail of drawn funding maturing beyond one year

$A billion



	AS AT MAR 19					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	**Total $Ab**
Structured notes[1]	–	–	0.1	0.1	1.8	**2.0**
Secured funding	0.8	–	–	0.2	–	**1.0**
Bonds	3.6	1.0	0.6	0.7	2.7	**8.6**
Other loans	0.3	–	–	–	–	**0.3**
Total debt	**4.7**	**1.0**	**0.7**	**1.0**	**4.5**	**11.9**
Subordinated debt[2]	0.7	1.2	–	–	1.1	**3.0**
Equity and hybrids[2]	–	–	–	–	12.4	**12.4**
Total funding sources drawn	**5.4**	**2.2**	**0.7**	**1.0**	**18.0**	**27.3**
Undrawn	–	–	–	–	–	**–**
Total funding sources drawn and undrawn	**5.4**	**2.2**	**0.7**	**1.0**	**18.0**	**27.3**

(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 4.5 years as at 31 March 2019[3].

As at 31 March 2019, customer deposits represented $A56.0 billion, or 56% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A7.3 billion, or 7% of total funding, and other debt funding maturing within 12 months and net trade creditors represented $A10.0 billion, or 10% of total funding.

(3) Macquarie Income Securities of $A0.4 billion are excluded as they do not have a maturity date.

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US6.7 billion debt securities outstanding as at 31 March 2019;
- $US15 billion Commercial Paper Program under which $US4.2 billion of debt securities were outstanding as at 31 March 2019;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US7.3 billion of issuances were outstanding as at 31 March 2019;
- $US5 billion Structured Note Program under which $US1.6 billion of funding from structured notes was outstanding as at 31 March 2019;
- $A5 billion Covered Bond Programme under which $A0.8 billion of debt securities were outstanding as at 31 March 2019.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 31 March 2019, Macquarie Bank had $A1.0 billion of these securities outstanding.

As at 31 March 2019, Macquarie Bank had internally securitised $A21.1 billion of its own Australian assets (predominantly mortgages and motor vehicles).

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

Deposit strategy

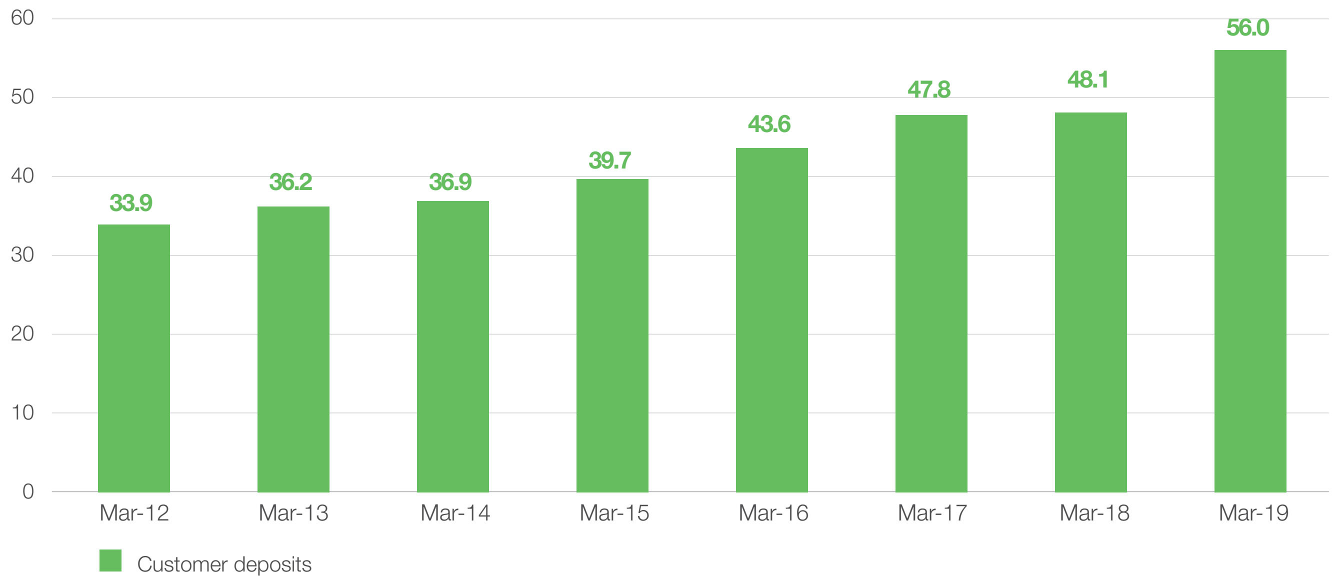
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's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

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

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

Deposit trend

$A billion



5.6 Funding profile for the Non-Bank Group

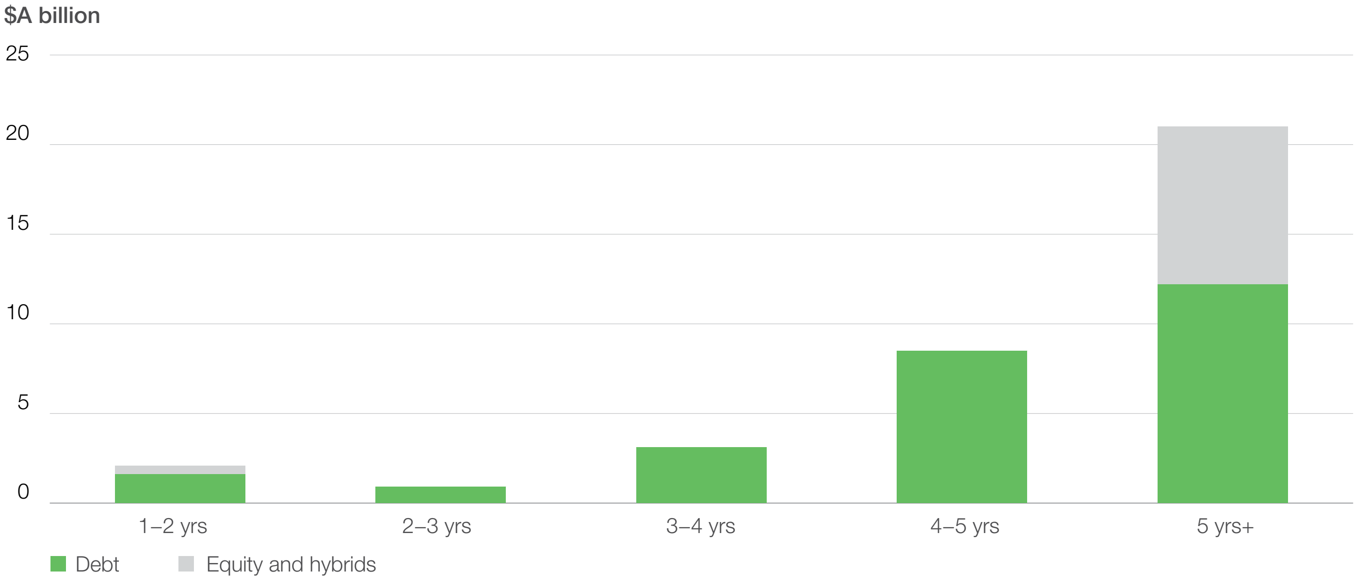
Funded balance sheet

	Notes	AS AT Mar 19 $Ab	AS AT Mar 18 $Ab
Funding sources			
Net trade creditors	2	**1.0**	1.2
Structured notes	3	**0.3**	0.4
Secured funding	4	**4.4**	0.5
Bonds	5	**16.1**	14.0
Other loans	6	**0.5**	0.1
Syndicated loan facilities	7	**8.3**	3.2
Equity and hybrids	10	**9.3**	4.7
Total		**39.9**	24.1
Funded assets			
Cash and liquid assets	11	**2.0**	1.8
Non-Bank Group deposit with MBL		**14.8**	12.9
Net trading assets	13	**1.0**	0.8
Loan assets less than one year	14	**1.3**	0.3
Loan assets greater than one year	14	**12.3**	0.7
Debt investment securities	15	**0.6**	0.4
Co-investment in Macquarie-managed funds and other equity investments	16	**5.5**	6.0
Property, plant and equipment and intangibles		**2.4**	1.2
Total		**39.9**	24.1

See section 5.7 for notes 2–16.

Term funding profile

Detail of drawn funding maturing beyond one year



	AS AT MAR 19					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	Total $Ab
Secured funding	0.4	0.3	0.3	0.3	2.5	**3.8**
Bonds	1.2	0.5	0.9	4.4	6.9	**13.9**
Other loans	–	0.1	0.1	–	0.1	**0.3**
Syndicated loan facilities	–	–	1.8	3.8	2.7	**8.3**
Total debt	**1.6**	**0.9**	**3.1**	**8.5**	**12.2**	**26.3**
Equity and hybrids[1]	0.5	–	–	–	8.8	**9.3**
Total funding sources drawn	**2.1**	**0.9**	**3.1**	**8.5**	**21.0**	**35.6**
Undrawn	0.3	1.2	1.7	0.2	–	**3.4**
Total funding sources drawn and undrawn	**2.4**	**2.1**	**4.8**	**8.7**	**21.0**	**39.0**

(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 6.2 years as at 31 March 2019.

As at 31 March 2019, other debt funding maturing within 12 months and net trade creditors represented $A4.3 billion, or 11% of total funding.

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

- $US20 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US7.4 billion was outstanding as at 31 March 2019
- $US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had $US1.8 billion debt securities outstanding as at 31 March 2019
- $A10.1 billion[2] of Syndicated Loan Facilities of which $A7.2 billion[2],[3] was drawn as at 31 March 2019
- $US0.5 billion Secured Trade Finance Facility of which $US0.2 billion was drawn as at 31 March 2019
- $US2.1 billion of Muni-gas Prepayment funding outstanding as at 31 March 2019; and
- $US5 billion Structured Note Program under which $US20 million of funding from structured notes was outstanding as at 31 March 2019.

(2) Values are AUD equivalents as at 31 March 2019.
(3) Does not include the Macquarie Air Finance Term Loan.

5.7 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Subordinated debt

Long term subordinated debt.

10. Equity and hybrids

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

11. Cash and liquid assets

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

12. Self-securitisation

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

13. Net trading assets

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

14. Loan assets including operating lease assets

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

See section 4.2 for further information.

15. Debt investment securities

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

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

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

06

Capital

Macquarie Bank

The 'I Bank with Macquarie' campaign uses real Macquarie customers like Shani to illustrate how we are making banking more seamless and intuitive. From young families to business owners and established professionals, we proudly showcase real customer stories in our public campaigns.

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 31 March 2019 include the Macquarie Income Securities (MIS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes 2 (MCN2), Macquarie Group Capital Notes 3 (MCN3) and Macquarie Group Capital Notes 4 (MCN4).

Effective 10 December 2018, CAF's Principal Finance and Transportation Finance businesses have been transferred from the Bank Group to the Non-Bank Group. The March 2019 results include the impact of this transaction.

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

Pillar 3

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

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).

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

Macquarie Basel III regulatory capital surplus calculation

	AS AT MAR 19		AS AT SEP 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	**12,500**	**12,500**	14,298	14,298	*(13)*	*(13)*
Non-Bank Group eligible capital	**9,358**	**9,358**	5,524	5,524	*69*	*69*
Eligible capital	**21,858**	**21,858**	19,822	19,822	*10*	*10*
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[1]	**72,011**	**77,182**	91,927	95,818	*(22)*	*(19)*
Capital required to cover RWA at 8.5%[2]	**6,121**	**6,560**	7,814	8,145	*(22)*	*(19)*
Tier 1 deductions	**538**	**2,035**	679	2,665	*(21)*	*(24)*
Total Bank Group capital requirement	**6,659**	**8,595**	8,493	10,810	*(22)*	*(20)*
Total Non-Bank Group capital requirement	**7,153**	**7,153**	5,583	5,583	*28*	*28*
Total Macquarie capital requirement (at 8.5%[2],[3] of the Bank Group RWA)	**13,812**	**15,748**	14,076	16,393	*(2)*	*(4)*
Macquarie regulatory capital surplus (at 8.5%[2],[3] of Bank Group RWA)	**8,046**	**6,110**	5,746	3,429	*40*	*78*

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (31 March 2019: $A335 million; 30 September 2018: $A182 million).

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

(3) Based on materiality, the countercyclical capital buffer (CCyB) of ~10bps has not been included. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions. In Nov 2018 the CCyB in the United Kingdom increased from 0.5% to 1.0% increasing the Bank Group's CCyB to ~10bps.

6.1 Overview

Continued

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

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

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 31 March 2019 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

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

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

6.2 Bank Group capital

Bank Group Basel III Tier 1 Capital

	AS AT MAR 19		AS AT SEP 18		*MOVEMENT*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Common Equity Tier 1 capital						
Paid-up ordinary share capital	**7,507**	**7,507**	9,545	9,545	*(21)*	*(21)*
Retained earnings	**2,852**	**2,852**	2,341	2,341	*22*	*22*
Reserves	**515**	**515**	758	758	*(32)*	*(32)*
Gross Common Equity Tier 1 capital	**10,874**	**10,874**	12,644	12,644	*(14)*	*(14)*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**42**	**42**	41	41	*2*	*2*
Deferred tax assets	**85**	**420**	74	198	*15*	*112*
Net other fair value adjustments	**(61)**	**(61)**	32	32	*	*
Intangible component of investments in subsidiaries and other entities	**50**	**50**	59	59	*(15)*	*(15)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**411**	–	429	–	*(4)*
Shortfall in provisions for credit losses	**237**	**269**	346	376	*(32)*	*(28)*
Equity exposures	**–**	**678**	–	1,279	–	*(47)*
Other Common Equity Tier 1 capital deductions	**185**	**226**	127	251	*46*	*(10)*
Total Common Equity Tier 1 capital deductions	**538**	**2,035**	679	2,665	*(21)*	*(24)*
Net Common Equity Tier 1 capital	**10,336**	**8,839**	11,965	9,979	*(14)*	*(11)*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**1,626**	**1,626**	1,654	1,654	*(2)*	*(2)*
Gross Additional Tier 1 capital	**1,626**	**1,626**	1,654	1,654	*(2)*	*(2)*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	–	–
Net Additional Tier 1 capital	**1,626**	**1,626**	1,654	1,654	*(2)*	*(2)*
Total Net Tier 1 capital	**11,962**	**10,465**	13,619	11,633	*(12)*	*(10)*

6.2 Bank Group capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT MAR 19		AS AT SEP 18		*MOVEMENT*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Credit risk						
Subject to IRB approach:						
Corporate[1]	**19,860**	**19,860**	26,457	26,457	*(25)*	*(25)*
SME Corporate	**3,573**	**3,573**	3,315	3,315	*8*	*8*
Sovereign	**211**	**211**	186	186	*13*	*13*
Bank[1]	**1,424**	**1,424**	1,394	1,394	*2*	*2*
Residential mortgage	**5,918**	**13,890**	5,648	13,160	*5*	*6*
Other retail	**4,375**	**4,375**	4,307	4,307	*2*	*2*
Retail SME	**3,688**	**3,695**	3,487	3,497	*6*	*6*
Total RWA subject to IRB approach	**39,049**	**47,028**	44,794	52,316	*(13)*	*(10)*
Specialised lending exposures subject to slotting criteria[2]	**3,847**	**3,847**	5,827	5,827	*(34)*	*(34)*
Subject to Standardised approach:						
Corporate	**333**	**333**	747	747	*(55)*	*(55)*
Residential mortgage	**762**	**762**	1,598	1,598	*(52)*	*(52)*
Other Retail	**2,673**	**2,673**	3,131	3,131	*(15)*	*(15)*
Total RWA subject to Standardised approach	**3,768**	**3,768**	5,476	5,476	*(31)*	*(31)*
Credit risk RWA for securitisation exposures	**875**	**875**	755	755	*16*	*16*
Credit Valuation Adjustment RWA	**3,093**	**3,093**	4,002	4,002	*(23)*	*(23)*
Exposures to Central Counterparties RWA	**1,011**	**1,644**	1,014	1,541	*(<1)*	*7*
RWA for Other Assets	**3,019**	**1,769**	9,593	8,852	*(69)*	*(80)*
Total Credit risk RWA	**54,662**	**62,024**	71,461	78,769	*(24)*	*(21)*
Equity risk exposures RWA	**2,191**	**–**	4,605	–	*(52)*	–
Market risk RWA	**5,382**	**5,382**	5,886	5,886	*(9)*	*(9)*
Operational risk RWA	**10,111**	**10,111**	10,157	10,157	*(<1)*	*(<1)*
Interest rate risk in banking book RWA	**–**	**–**	–	1,188	–	*(100)*
Total Bank Group RWA	**72,346**	**77,517**	92,109	96,000	*(21)*	*(19)*
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	**14.3**	**11.4**	13.0	10.4		
Bank Group Tier 1 capital ratio (%)	**16.5**	**13.5**	14.8	12.1		

(1) Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of Sep 18.
(2) Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

6.3 Non-Bank Group capital

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

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

(1) The ECAM also covers non-traded interest rate risk and the risk on assets held as part of business operations, including: fixed assets, goodwill, intangible assets, capitalised expenses.
(2) Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

6.3 Non-Bank Group capital

Continued

Non-Bank Group capital requirement

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

	AS AT MAR 19		
	Assets $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	2.0	34	21%
Loan assets[1]	13.6	1,689	155%
Debt investment securities	0.6	96	200%
Co-investments in Macquarie-managed funds and other equity investments	5.1	2,473	606%
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	2.4	930	485%
Non-Bank Group deposit with MBL	14.8		
Net trading assets	1.0		
Total funded assets	**39.9**	**5,222**	
Self-funded and non-recourse assets			
Self-funded trading assets	1.0		
Outstanding trade settlement balances	4.3		
Derivative revaluation accounting gross ups	0.1		
Short-term working capital assets	6.6		
Non-controlling interests	0.2		
Total self-funded and non-recourse assets	**12.2**		
Total Non-Bank Group assets	**52.1**		
Off balance sheet exposures, operational, market and other risks and diversification offset[2]		1,931	
Non-Bank Group capital requirement		**7,153**	

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

07

Funds management

Reducing e-waste

Macquarie is working with mobile operators globally to develop programs that encourage refurbishing and reusing mobile devices. Over 400,000 devices have been given a second life through our programs.

7.1 Assets under Management

	AS AT			MOVEMENT	
	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	*Sep 18 %*	*Mar 18 %*
Assets under Management by type					
MIM					
Fixed Income	**209.2**	208.0	197.7	*1*	*6*
Equities	**141.5**	143.5	123.5	*(1)*	*15*
Alternatives and Multi-asset	**10.3**	12.1	12.3	*(15)*	*(16)*
Total MIM	**361.0**	363.6	333.5	*(1)*	*8*
MIRA					
Infrastructure	**152.6**	160.2	146.9	*(5)*	*4*
Agriculture	**2.3**	2.0	2.0	*15*	*15*
Real Estate(1)	**26.8**	16.7	6.3	*60*	*
Total MIRA	**181.7**	178.9	155.2	*2*	*17*
Total MAM	**542.7**	542.5	488.7	*<1*	*11*
Other Operating Groups(2)	**8.6**	8.5	8.0	*1*	*8*
Total Assets under Management	**551.3**	551.0	496.7	*<1*	*11*
Assets under Management by region					
Americas	**275.5**	283.5	255.1	*(3)*	*8*
Europe, Middle East and Africa	**107.5**	112.1	92.0	*(4)*	*17*
Australia	**108.1**	100.2	97.9	*8*	*10*
Asia	**60.2**	55.2	51.7	*9*	*16*
Total Assets under Management	**551.3**	551.0	496.7	*<1*	*11*

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 $A551.3 billion as at 31 March 2019 increased 11% from $A496.7 billion as at 31 March 2018. The increase in AUM during the year was largely due to investments made by MIRA-managed funds, foreign exchange impacts, contributions from businesses acquired during the current year (GLL and ValueInvest) and market movements. These were partially offset by asset realisations made by MIRA-managed funds (see section 7.2 Equity under Management for further details) and net flows in MIM.

(1) Mar 19 includes AUM for Macquarie Real Estate Investments.
(2) Mar 19 includes AUM for the infrastructure debt business (MIDIS) which forms part of MSIS in CAF. MIDIS will move into MAM on receipt of required approvals.

7.2 Equity under Management

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

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

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

Equity under Management by type and region

	AS AT(2),(3)			MOVEMENT	
	Mar 19 $Ab	Sep 18 $Ab	Mar 18 $Ab	*Sep 18 %*	*Mar 18 %*
Equity under Management by type					
Listed equity	**10.8**	15.5	12.9	*(30)*	*(16)*
Unlisted equity	**106.1**	90.3	73.3	*17*	*45*
Total EUM	**116.9**	105.8	86.2	*10*	*36*
Equity under Management by region(4)					
Australia	**14.2**	12.7	11.6	*12*	*22*
Europe, Middle East and Africa	**56.0**	47.5	33.5	*18*	*67*
Americas	**23.4**	24.6	21.5	*(5)*	*9*
Asia	**23.3**	21.0	19.6	*11*	*19*
Total EUM	**116.9**	105.8	86.2	*10*	*36*

EUM of $A116.9 billion as at 31 March 2019 increased 36% from $A86.2 billion as at 31 March 2018. The increase was primarily due to new equity raised, the acquisition of GLL, the merger with Macquarie Capital's global real estate business and the addition of The Infrastructure Fund mandate (TIF). These were partially offset by equity returned or no longer managed by funds and co-investment due to divestment of underlying assets and the internalisation of ALX.

(1) Managed businesses includes third party equity invested in MIRA-managed businesses where management arrangements exist with Macquarie.
(2) Excludes equity invested by Macquarie directly into businesses managed by MIRA.
(3) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.
(4) By location of fund management team.

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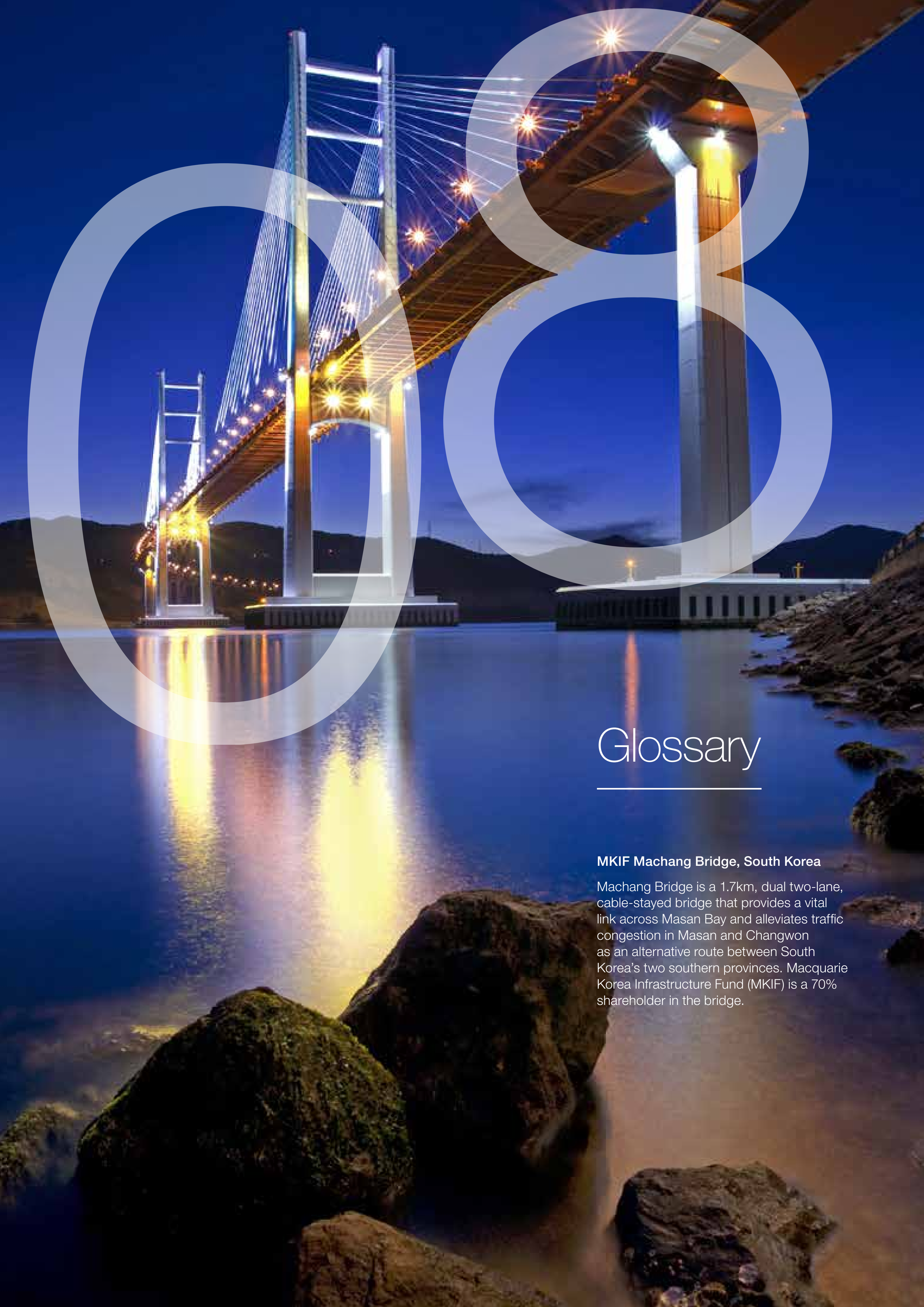

08 Glossary

MKIF Machang Bridge, South Korea

Machang Bridge is a 1.7km, dual two-lane, cable-stayed bridge that provides a vital link across Masan Bay and alleviates traffic congestion in Masan and Changwon as an alternative route between South Korea's two southern provinces. Macquarie Korea Infrastructure Fund (MKIF) is a 70% shareholder in the bridge.

8.1 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 *Capital Adequacy: Measurement of Capital*.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale (HFS) associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises BFS and some activities of CAF and CGM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.
BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
BIS	Bank for International Settlements.
CAF	Corporate and Asset Finance.

CCB	Capital Conservation Buffer.
Central Service Groups	The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 *Capital Adequacy: Measurement of Capital*.
Compensation ratio	The ratio of Compensation expense to Net operating income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 *Earnings Per Share*.
ECAM	Economic Capital Adequacy Model.
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer to definition in section 7.2.
Expense/Income ratio	Total operating expenses expressed as a percentage of Net operating income.
Financial Report	The Financial Report within the Macquarie Group Annual Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FY2018	The year ended 31 March 2018.
FY2019	The year ended 31 March 2019.
FVOCI	Fair value through other comprehensive income.
FVTPL	Fair value through profit or loss.

8.1 Glossary

Continued

Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High-quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie Bank	MBL and its subsidiaries.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million $A100 face value MIS on issue.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of 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).
MAM	Macquarie Asset Management.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MCN	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of $A100 each. MCN were subordinated, non-cumulative, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. MCN were redeemed on 7 June 2018.
MCN2	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. 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).
MCN3	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. 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).
MCN4	On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of $A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
MIM	Macquarie Investment Management.
MIRA	Macquarie Infrastructure and Real Assets.
MSIS	Macquarie Specialised Investment Solutions.
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital, MAM, and some business activities of CAF and CGM that use certain offshore regulated entities of the Non-Banking Group.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital.
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of FVOCI, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
UK	The United Kingdom.
US	The United States of America.

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