Management Discussion and Analysis

Macquarie Bank Limited

September 2018

MACQUARIE BANK LIMITED ACN 008 583 542

NOTICE TO READERS

The purpose of this report is to provide information supplementary to the Macquarie Bank Limited Disclosure Report (U.S. Version) for the half-year ended 30 September 2018 and the Financial Report within the Macquarie Bank Limited Interim Financial Report (the Financial Report) for the half-year ended 30 September 2018, including further detail in relation to key elements of Macquarie Bank Limited and its subsidiaries' (Macquarie Bank, 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, reconciliation to the statutory information is provided.

DATE OF THIS REPORT

This report has been prepared for the half-year ended 30 September 2018 and is current as at 02 November 2018.

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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, except for the adoption of new accounting standards as outlined on page 8.

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

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

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

INDEPENDENT AUDITOR'S REVIEW REPORT

This document should be read in conjunction with the Financial Report for the half-year ended 30 September 2018, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Bank Limited dated 02 November 2018 was unqualified.

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

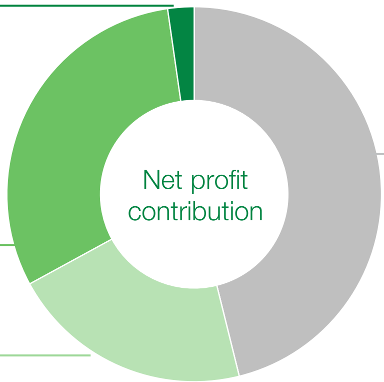
1.1 Executive summary

RESULT OVERVIEW

1

1.1 EXECUTIVE SUMMARY

1H19 Net profit contribution[1] by Operating Group



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

Annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the half-year ended 30 September 2018 of $A759 million, down 22% on the prior corresponding period.

MACQUARIE ASSET MANAGEMENT

$A32m

↓54% on pcp

– Release of accruals relating to legacy business activities in prior corresponding period
– Lower contribution from MSIS Retail
– Base fees broadly in line.

CORPORATE AND ASSET FINANCE

$A432m

↓30% on pcp

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

BANKING AND FINANCIAL SERVICES

$A295m

↑4% on pcp

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

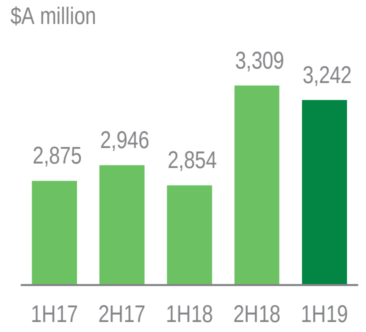
Partially offset by:

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

1H19 Net operating income

$A3,242m

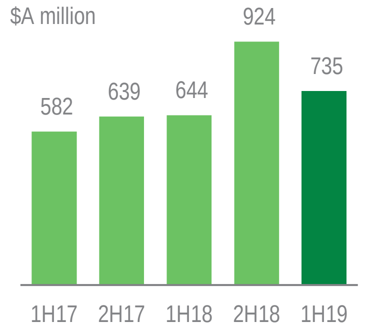
↑14% on pcp



1H19 Net profit

$A735m

↑14% on pcp



1H19 Operating expenses

$A2,176m

↑9% on pcp

Capital markets facing businesses

Commodities and Global Markets (CGM) delivered a net profit contribution for the half-year ended 30 September 2018 of $A650 million, up 104% on the prior corresponding period.

COMMODITIES AND GLOBAL MARKETS

$A650m

↑104% on pcp

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities
- Increased fee and commission income in Asia driven by increased market turnover and client activity.

Partially offset by:

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

1.1 EXECUTIVE SUMMARY CONTINUED

Profit attributable to ordinary equity holders

$A735m

14% on prior corresponding period

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	Mar 18 %	Sep 17 %
Financial performance summary					
Net interest income	**1,084**	986	1,032	*10*	*5*
Fee and commission income	**573**	441	449	*30*	*28*
Net trading income	**1,143**	1,076	805	*6*	*42*
Net operating lease income	**460**	468	469	*(2)*	*(2)*
Share of net profits of associates and joint ventures	**11**	13	9	*(15)*	*22*
Other operating income and charges	**(29)**	325	90	*	*
Net operating income	**3,242**	3,309	2,854	*(2)*	*14*
Employment expenses	**(766)**	(722)	(765)	*6*	*<1*
Brokerage, commission and trading-related expenses	**(392)**	(303)	(316)	*29*	*24*
Occupancy expenses	**(58)**	(69)	(55)	*(16)*	*5*
Non-salary technology expenses	**(83)**	(68)	(65)	*22*	*28*
Other operating expenses	**(877)**	(849)	(798)	*3*	*10*
Total operating expenses	**(2,176)**	(2,011)	(1,999)	*8*	*9*
Operating profit before income tax	**1,066**	1,298	855	*(18)*	*25*
Income tax expense	**(320)**	(363)	(207)	*(12)*	*55*
Profit after income tax	**746**	935	648	*(20)*	*15*
(Profit)/loss attributable to non-controlling interests	**(4)**	(4)	3	–	*
Profit attributable to equity holders of Macquarie Bank Limited	**742**	931	651	*(20)*	*14*
Distribution paid or provided for on Macquarie Income Securities	**(7)**	(7)	(7)	–	–
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**735**	924	644	*(20)*	*14*
Key metrics					
Expense to income ratio (%)	**67.1**	60.8	70.0		
Effective tax rate (%)	**30.1**	28.1	24.1		

1.1 EXECUTIVE SUMMARY CONTINUED

Net operating income

Net operating income of $A3,242 million for the half-year ended 30 September 2018 increased 14% from $A2,854 million in the prior corresponding period, driven by higher Net interest and trading income as well as Fee and commission income. This was partially offset by lower Other operating income and charges. Key drivers included:

Net interest and trading income

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
2,227	2,062	1,837

↑21% on prior corresponding period

- Increased contribution across the commodities platform driven by client activity and improved trading opportunities in CGM
- Growth in deposit and Australian loan portfolio in BFS
- Higher earnings on capital and lower costs of holding long-term liquidity in Corporate, as well as the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting in terms of AASB 9.

Partially offset by:

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

Net operating lease income

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
460	468	469

↓2% on prior corresponding period

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

Other operating income and charges

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
(29)	325	90

↓ significantly on prior corresponding period

- Lower Investment income mainly due to a gain on reclassification of an investment in a toll road in the UK by CAF, recognised in the prior corresponding period
- Lower Other income driven by Treasury's funding management activities, which included a structural change in funding between the Bank and Non-Bank Groups in Corporate, and the non-recurrence of accrual releases relating to legacy business activities in MAM in the prior corresponding period. This was partially offset by asset sales in CAF in the current period
- Lower charges for Credit and Other impairments with the prior corresponding period recognising write-downs on underperforming financing facilities in CGM, partly offset by a partial reversal of collective provisions, driven by net loan repayments and the improved credit performance of underlying portfolios in CAF.

Fee and commission income

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
573	441	449

↑28% on prior corresponding period

- Following the adoption of AASB 15, the presentation of $A113 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
- Increase in brokerage commission in Futures and Cash equity markets from increased market turnover and client activity in Asia in CGM.

Partially offset by:

- Lower fee income from MSIS Retail business in MAM.

Share of net profits of associates and joint ventures

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
11	13	9

↑22% on prior corresponding period

- Increase reflecting performance of underlying investments.

1.1 EXECUTIVE SUMMARY CONTINUED

Operating expenses

Total operating expenses of $A2,176 million for the half-year ended 30 September 2018 increased 9% from $A1,999 million in the prior corresponding period. Key drivers included:

Employment expenses

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
766	722	765

– in line with prior corresponding period

– Higher average headcount across all Operating Groups
– Unfavourable foreign exchange movements.

Offset by:

– Lower performance-related profit share expense allocation from the Non-Bank Group to the Bank Group.

Brokerage, commission and trading-related expenses

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
392	303	316

↑24% on prior corresponding period

– Following the adoption of AASB 15, the presentation of $A77 million of fee expenses relating to stock borrowing activities previously presented net of associated revenues have been reclassified to Brokerage, commission and trading-related expenses.

Partially offset by:

– Lower brokerage and commission expense from MSIS Retail.

Non-salary technology expenses

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
83	68	65

↑28% on prior corresponding period

– Higher project activity in BFS.

Occupancy and Other operating expenses

HALF-YEAR TO		
Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
935	918	853

↑10% on prior corresponding period

– Increased recoveries for support services received by the Bank Group due to higher business activity
– Following the adoption of AASB 15, the presentation of $A36 million of recoverable costs previously presented net of associated revenues have been reclassified to Other operating expenses.

Income tax expense

Income tax expense for the half-year ended 30 September 2018 was $A320 million, a 55% increase from $A207 million in the prior corresponding period. The increase was mainly due the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 30.1%, up from 24.1% in the prior corresponding period and 28.1% in the prior period.

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 $A140 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 $A141 million after tax.

The adoption of AASB 15 replaced all current guidance on revenue recognition from contracts with customers. AASB 15 requires identification of discrete performance obligations and the recognition of revenue upon satisfaction of these performance obligations. As a result of the adoption of AASB 15, there was no significant change to the timing and/or amount of revenue recognised as at 31 March 2018 and therefore no opening adjustment to retained earnings is required. However, the Consolidated Entity has changed the presentation of certain fee expenses and recoverable costs, previously presented net of associated revenue within Fee and commission income, to Brokerage, commission and trading-related expenses. This included fee expenses relating to stock borrowing activities of $A77 million and certain recoverable costs of $A36 million.

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

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

FINANCIAL PERFORMANCE ANALYSIS

2

2.1 NET INTEREST AND TRADING INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Net interest income	**1,084**	986	1,032	*10*	*5*
Net trading income	**1,143**	1,076	805	*6*	*42*
Net interest and trading income	**2,227**	2,062	1,837	*8*	*21*

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

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

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

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

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
MAM	**59**	48	60	*23*	*(2)*
CAF	**192**	239	330	*(20)*	*(42)*
BFS	**634**	598	584	*6*	*9*
CGM					
Commodities	**780**	685	388	*14*	*101*
Foreign exchange, interest rates and credit	**275**	233	270	*18*	*2*
Equities	**119**	134	164	*(11)*	*(27)*
Corporate	**168**	125	41	*34*	*
Net interest and trading income	**2,227**	2,062	1,837	*8*	*21*

2.1 NET INTEREST AND TRADING INCOME CONTINUED

Net interest and trading income of $A2,227 million for the half-year ended 30 September 2018 increased 21% from $A1,837 million in the prior corresponding period.

MAM

Net interest and trading income in MAM includes income on specialised retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of $A59 million for the half-year ended 30 September 2018 decreased 2% from $A60 million in the prior corresponding period.

CAF

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

Net interest and trading income of $A192 million for the half-year ended 30 September 2018 decreased 42% from $A330 million in the prior corresponding period. The decrease was largely a result of reduced income from early repayments, realisations and a reduction in the size of the Principal Finance portfolio.

The loan and finance lease portfolio was $A22.9 billion at 30 September 2018, a decrease of 5% from $A24.1 billion at 31 March 2018. The decrease was largely due to Principal Finance and Vehicles portfolios.

BFS

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

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

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

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

2.1 NET INTEREST AND TRADING INCOME CONTINUED

CGM

Commodities

Net interest and trading income from commodity related activities is generated from the provision of hedging and risk management services and loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is imbalance between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Net interest and trading income from commodities $A780 million for the half-year ended 30 September 2018 increased 101% from $A388 million in the prior corresponding period. The current period included strong results across the commodities platform due to increased client hedging activity and trading opportunities across Global Oil, Gas and Agriculture in comparison with the prior corresponding period associated with volatility and commodity price movements. Commodities also saw an increase in Lending and Financing income due to an increased contribution from commodity financing activities in the Americas and Asia-Pacific.

Significant opportunities arose in the period for the North American Gas and Power business driven by opportunities across regional US centres as a result of supply-demand imbalance, partially offset by the timing of income recognition, which reduced revenue relating to transport agreements and capacity contracts.

Foreign exchange, interest rates and credit

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A275 million for the half-year ended 30 September 2018 increased 2% from $A270 million in the prior corresponding period. Increased income in the current period was underpinned by continued strong client contributions from foreign exchange structured products in North America and the Asia-Pacific.

Equities

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

Equities net interest and trading income of $A119 million for the half-year ended 30 September 2018 decreased 27% from $A164 million in the prior corresponding period reflecting challenging conditions and reduced opportunities, particularly in China and Taiwan.

Corporate

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

Net interest and trading income of $A168 million for the half-year ended 30 September 2018 increased substantially from $A41 million in the prior corresponding period primarily due to higher earnings on capital driven by increased average capital volumes and higher USD and AUD interest rates, lower costs of holding long-term liquidity, and the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting in terms of AASB 9.

2.2 FEE AND COMMISSION INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Brokerage and commissions	**206**	185	184	*11*	*12*
Other fee and commission income	**367**	256	265	*43*	*38*
Total fee and commission income	**573**	441	449	*30*	*28*

Total fee and commission income of $A573 million for the half-year ended 30 September 2018 increased 28% from $A449 million in the prior corresponding period.

Brokerage and commissions

Brokerage and commissions income of $A206 million for the half-year ended 30 September 2018 increased 12% from $A184 million in the prior corresponding period.

The increase was mainly in Futures and Cash equity markets from increased market turnover and client activity in Asia in CGM.

Other fee and commission income

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

Other fee and commission income of $A367 million for the half-year ended 30 September 2018 increased 38% from $A265 million in the prior corresponding period, primarily in CGM and Corporate. Following the adoption of AASB 15, the presentation of $A113 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. This was partially offset by lower fee income from MSIS Retail business in MAM.

2.3 NET OPERATING LEASE INCOME

	HALF-YEAR TO			*MOVEMENT*	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Rental income	**1,100**	1,013	909	*9*	*21*
Depreciation on operating lease assets	**(640)**	(545)	(440)	*17*	*45*
Net operating lease income	**460**	468	469	*(2)*	*(2)*

Net operating lease income, which is predominately earned by CAF, totalled $A460 million for the half-year ended 30 September 2018, down 2% from $A469 million in the prior corresponding period due to a reduction in underlying Aviation income partially offset by improved income from the Energy and Technology portfolios and favourable foreign exchange movements.

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

2.4 SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

	HALF-YEAR TO			*MOVEMENT*	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Share of net profits of associates and joint ventures	**11**	13	9	*(15)*	*22*

Share of net profits of associates and joint ventures of $A11 million for the half-year ended 30 September 2018 increased 22% from $A9 million in the prior corresponding period reflecting performance of underlying investments.

2.5 OTHER OPERATING INCOME AND CHARGES

	HALF-YEAR TO			*MOVEMENT*	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Investment income					
Net gain on equity investments	**25**	22	13	*14*	*92*
Net gain on debt investments	**1**	46	2	*(98)*	*(50)*
Net gain on sale of interests in associates and joint ventures	**–**	26	1	*(100)*	*(100)*
Net gain on change of control, joint control or/and significant influence and reclassifications to/from held for sale	**3**	101	67	*(97)*	*(96)*
Total investment income	**29**	195	83	*(85)*	*(65)*
Credit impairment (charges)/reversal[(1)]					
Loan assets	**(55)**	(20)	(65)	*175*	*(15)*
Other assets	**(1)**	(7)	(1)	*(86)*	–
Undrawn commitments and financial guarantees	**2**	–	–	*	*
Recovery of exposures previously written off	**10**	48	26	*(79)*	*(62)*
Total credit impairment (charges)/reversal	**(44)**	21	(40)	*	*10*
Other impairment charges					
Equity investment securities available for sale	**–**	(10)	(6)	*(100)*	*(100)*
Interests in associates and joint ventures	**–**	(3)	(5)	*(100)*	*(100)*
Intangible assets and other non-financial assets	**(2)**	(10)	(16)	*(80)*	*(88)*
Total other impairment charges	**(2)**	(23)	(27)	*(91)*	*(93)*
Other income and charges	**(12)**	132	74	*	*
Total other operating income and charges	**(29)**	325	90	*	*

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

2.5 OTHER OPERATING INCOME AND CHARGES CONTINUED

Total other operating charges were $A29 million for the half-year ended 30 September 2018, compared to an income of $A90 million in the prior corresponding period. The decrease was mainly driven by lower Investment income in CAF, Other income in Corporate and MAM and lower Credit and Other impairment charges in CGM.

Investment income

Investment income totalled $A29 million for the half-year ended 30 September 2018, a decrease of 65% from $A83 million in the prior corresponding period, which included a gain on reclassification of an investment in a toll road in the UK by the CAF Principal Finance business.

Credit impairment charges

Credit impairment charges of $A44 million for the half-year ended 30 September 2018 increased 10% from $A40 million in the prior corresponding period, which included partial reversal of collective provisions, driven by net loan repayments and the improved credit performance of underlying portfolios in CAF, partially offset by write-downs recognised on underperforming financing facilities in CGM.

Other impairment charges

Other impairment charges totalled $A2 million for the half-year ended 30 September 2018, a decrease of 93% from $A27 million in the prior corresponding period. The decrease predominately relates to the non-recurrence of impairment charges relating to certain commodity positions in CGM in the prior corresponding period.

Other income and charges

Other charges were $A12 million for the half-year ended 30 September 2018, compared to an income of $A74 million in the prior corresponding period. This was primarily driven by Treasury's funding management activities, which included a structural change in funding between the Bank and Non-Bank Groups in Corporate, and the non-recurrence of accrual releases relating to legacy business activities in MAM in the prior corresponding period. This was partially offset by asset sales in Technology and Principal Finance in CAF in the current period.

2.6 OPERATING EXPENSES

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	Mar 18 %	Sep 17 %
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	**(673)**	(654)	(677)	*3*	*(1)*
Share-based payments	**(90)**	(68)	(84)	*32*	*7*
Provision for long service leave and annual leave	**(3)**	-	(4)	*	*(25)*
Total employment expenses	**(766)**	(722)	(765)	*6*	*<1*
Brokerage, commission and trading-related expenses	**(392)**	(303)	(316)	*29*	*24*
Occupancy expenses	**(58)**	(69)	(55)	*(16)*	*5*
Non-salary technology expenses	**(83)**	(68)	(65)	*22*	*28*
Other operating expenses					
Professional fees	**(74)**	(100)	(89)	*(26)*	*(17)*
Travel and entertainment expenses	**(28)**	(28)	(26)	-	*8*
Advertising and communication expenses	**(17)**	(14)	(20)	*21*	*(15)*
Amortisation of intangible assets	**(10)**	(11)	(10)	*(9)*	-
Auditor's remuneration	**(12)**	(11)	(11)	*9*	*9*
Other expenses	**(736)**	(685)	(642)	*7*	*15*
Total other operating expenses	**(877)**	(849)	(798)	*3*	*10*
Total operating expenses	**(2,176)**	(2,011)	(1,999)	*8*	*9*

Total operating expenses of $A2,176 million for the half-year ended 30 September 2018 increased 9% from $A1,999 million in the prior corresponding period mainly due to higher average headcount across all Operating Groups, an increase in business activity and investment in technology projects, the impact of AASB 15 adoption and unfavourable foreign exchange movements in the current period.

Key drivers of the movement included:

- Total employment expenses of $A766 million for the half-year ended 30 September 2018 was broadly in line with the prior corresponding period driven by higher average headcount across all Operating Groups to support business growth, and unfavourable foreign exchange movements, offset by lower performance-related profit share expense allocation from the Non-Bank Group to the Bank Group.
- Brokerage, commission and trading-related expenses of $A392 million for the half-year ended 30 September 2018 increased 24% from $A316 million in the prior corresponding period primarily due to the reclassification of $A77 million of fee expenses relating to stock borrowing activities previously presented net of associated revenues within Fee and commission income in CGM, following the adoption of AASB 15. This was partially offset by lower brokerage and commission expense from MSIS Retail.
- Non-salary technology expenses of $A83 million for the half-year ended 30 September 2018 increased 28% from $A65 million in the prior corresponding period mainly due to higher project activity in BFS.
- Total other operating expenses of $A877 million for the half-year ended 30 September 2018 increased 10% from $A798 million in the prior corresponding period mainly due to increased recoveries for support services received by the Bank Group due to higher business activity and the reclassification of $A36 million of recoverable costs previously presented net of associated revenues within Fee and commission income in Corporate, following the adoption of AASB 15.

2.7 HEADCOUNT

	AS AT			MOVEMENT	
	Sep 18	Mar 18	Sep 17	*Mar 18 %*	*Sep 17 %*
Headcount by Operating Group					
MAM	**132**	125	123	*6*	*7*
CAF	**1,319**	1,306	1,259	*1*	*5*
BFS	**2,156**	2,321	2,075	*(7)*	*4*
CGM	**928**	930	936	*(<1)*	*(1)*
Total headcount – Operating Groups	**4,535**	4,682	4,393	*(3)*	*3*
Total headcount – Discontinued Operations(1)	**42**	57	68	*(26)*	*(38)*
Total headcount – Corporate	**23**	25	26	*(8)*	*(12)*
Total headcount	**4,600**	4,764	4,487	*(3)*	*3*
Headcount by region					
Australia(2)	**3,348**	3,505	3,215	*(4)*	*4*
International:					
Americas	**483**	493	503	*(2)*	*(4)*
Asia	**300**	298	304	*<1*	*(1)*
Europe, Middle East and Africa	**469**	468	465	*<1*	*<1*
Total headcount – International	**1,252**	1,259	1,272	*(<1)*	*(2)*
Total headcount	**4,600**	4,764	4,487	*(3)*	*3*
International headcount ratio (%)	**27**	26	28		

(1) Headcount relating to the Macquarie Investment Management business within MAM relates to the business sold to Macquarie Financial Holdings Pty Limited and its subsidiaries on 15 April 2015. The employees, who are in the Asia region, are yet to be transferred to Macquarie Financial Holdings Pty Limited, however their employment related costs are reflected in Macquarie Financial Holdings Pty Limited and its subsidiaries.
(2) Includes New Zealand.

Total headcount increased 3% to 4,600 at 30 September 2018 from 4,487 at 30 September 2017 mainly due to business growth across all Operating Groups.

2.8 INCOME TAX EXPENSE

	HALF-YEAR TO		
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am
Operating profit before income tax	**1,066**	1,298	855
Prima facie tax @ 30%	**320**	389	257
Income tax permanent differences	**–**	(26)	(50)
Income tax expense	**320**	363	207
Effective tax rate[1]	**30.1%**	28.1%	24.1%

(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 $A4 million for the half-year ended 30 September 2018 (31 March 2018: $A4 million; 30 September 2017: increased operating profit before income tax by $A3 million).

Income tax expense for the half-year ended 30 September 2018 was $A320 million, a 55% increase from $A207 million in the prior corresponding period. The increase was mainly due the geographic composition and nature of earnings.

The effective tax rate for the half-year ended 30 September 2018 was 30.1%, up from 24.1% in the prior corresponding period and 28.1% in the prior period.

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3.1 Basis of preparation
3.2 MAM
3.3 CAF
3.4 BFS
3.5 CGM
3.6 Corporate

SEGMENT ANALYSIS

3

3.1 BASIS OF PREPARATION

Operating Segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into four Operating Groups and a Corporate segment. 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** offers a range of investment solutions for its fiduciary clients within the infrastructure debt sector. In addition, MAM provides financing solutions for ship owners, hedge funds, private equity and private credit funds as well as real estate funds along with a market leading capability in arranging and underwriting Export Credit Agency backed debt facilities
- **CAF** is a global provider of specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment
- **BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients
- **CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

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

Items of income and expense within the Corporate segment include the net impact of managing liquidity for the Consolidated Entity, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on credit and other impairments or valuation of assets, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central service groups

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

Performance-related profit share and share-based payments expense

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

3.1 BASIS OF PREPARATION CONTINUED

Income tax

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

Presentation of segment income statements

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

3.1 BASIS OF PREPARATION CONTINUED

	MAM $Am	CAF $Am	BFS $Am	Annuity-Style Businesses $Am
Half-year ended 30 September 2018				
Net interest and trading income	59	192	634	**885**
Fee and commission income/(expense)	19	22	235	**276**
Net operating lease income	1	458	–	**459**
Share of net profits/(losses) of associates and joint ventures	–	2	(1)	**1**
Other operating income and charges				
Credit and other impairment charges	(1)	(13)	(9)	**(23)**
Other operating income and charges	5	87	1	**93**
Internal management revenue/(charge)	–	4	2	**6**
Net operating income	83	752	862	**1,697**
Total operating expenses	(51)	(317)	(567)	**(935)**
Operating profit/(loss) before income tax	32	435	295	**762**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	32	435	295	**762**
Profit attributable to non-controlling interests	–	(3)	–	**(3)**
Profit/(loss) attributable to equity holders	32	432	295	**759**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) contribution	**32**	**432**	**295**	**759**
Half-year ended 31 March 2018				
Net interest and trading income	48	239	598	**885**
Fee and commission income/(expense)	22	20	230	**272**
Net operating lease income	2	464	–	**466**
Share of net (losses)/profits of associates and joint ventures	–	(3)	3	**–**
Other operating income and charges				
Credit and other impairment (charges)/reversal	(1)	(16)	(18)	**(35)**
Other operating income and charges	58	246	7	**311**
Internal management revenue/(charge)	8	3	–	**11**
Net operating income	137	953	820	**1,910**
Total operating expenses	(64)	(366)	(547)	**(977)**
Operating profit/(loss) before income tax	73	587	273	**933**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	73	587	273	**933**
Profit attributable to non-controlling interests	–	(4)	–	**(4)**
Profit/(loss) attributable to equity holders	73	583	273	**929**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) contribution	**73**	**583**	**273**	**929**
Half-year ended 30 September 2017				
Net interest and trading income	60	330	584	**974**
Fee and commission income/(expense)	43	23	233	**299**
Net operating lease income	1	465	–	**466**
Share of net profits of associates and joint ventures	–	–	–	**–**
Other operating income and charges				
Credit and other impairment reversal/(charges)	1	1	(8)	**(6)**
Other operating income and charges	48	105	6	**159**
Internal management revenue/(charge)	–	1	3	**4**
Net operating income/(charge)	153	925	818	**1,896**
Total operating expenses	(83)	(310)	(534)	**(927)**
Operating profit/(loss) before income tax	70	615	284	**969**
Income tax expense	–	–	–	**–**
Profit/(loss) after income tax	70	615	284	**969**
Loss attributable to non-controlling interests	–	–	–	**–**
Profit/(loss) attributable to equity holders	70	615	284	**969**
Distributions paid or provided for on MIS	–	–	–	**–**
Net profit/(loss) contribution	**70**	**615**	**284**	**969**

CGM $Am	Capital Markets Facing Businesses $Am	Corporate $Am	Total $Am
1,174	**1,174**	168	**2,227**
305	**305**	(8)	**573**
–	**–**	1	**460**
10	**10**	–	**11**
(19)	**(19)**	(4)	**(46)**
1	**1**	(77)	**17**
2	**2**	(8)	**–**
1,473	**1,473**	72	**3,242**
(823)	**(823)**	(418)	**(2,176)**
650	**650**	(346)	**1,066**
–	**–**	(320)	**(320)**
650	**650**	(666)	**746**
–	**–**	(1)	**(4)**
650	**650**	(667)	**742**
–	**–**	(7)	**(7)**
650	**650**	(674)	**735**
1,052	**1,052**	125	**2,062**
208	**208**	(39)	**441**
–	**–**	2	**468**
14	**14**	(1)	**13**
(34)	**(34)**	67	**(2)**
30	**30**	(14)	**327**
(1)	**(1)**	(10)	**–**
1,269	**1,269**	130	**3,309**
(722)	**(722)**	(312)	**(2,011)**
547	**547**	(182)	**1,298**
–	**–**	(363)	**(363)**
547	**547**	(545)	**935**
–	**–**	–	**(4)**
547	**547**	(545)	**931**
–	**–**	(7)	**(7)**
547	**547**	(552)	**924**
822	**822**	41	**1,837**
182	**182**	(32)	**449**
–	**–**	3	**469**
8	**8**	1	**9**
(56)	**(56)**	(5)	**(67)**
15	**15**	(17)	**157**
5	**5**	(9)	**–**
976	**976**	(18)	**2,854**
(657)	**(657)**	(415)	**(1,999)**
319	**319**	(433)	**855**
–	**–**	(207)	**(207)**
319	**319**	(640)	**648**
–	**–**	3	**3**
319	**319**	(637)	**651**
–	**–**	(7)	**(7)**
319	**319**	(644)	**644**

3.2 MAM

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Net interest and trading income	**59**	48	60	*23*	*(2)*
Fee and commission income					
Base fees	**20**	20	20	–	–
Other fee and commission (expense)/income	**(1)**	2	23	*	*
Total fee and commission income	**19**	22	43	*(14)*	*(56)*
Net operating lease income	**1**	2	1	*(50)*	–
Other operating income and charges					
Net income on equity and debt investments	**4**	46	6	*(91)*	*(33)*
Credit impairment (charges)/reversal[1]	**(1)**	(1)	1	–	*
Other income	**1**	12	42	*(92)*	*(98)*
Total other operating income and charges	**4**	57	49	*(93)*	*(92)*
Internal management revenue	**–**	8	–	*(100)*	–
Net operating income	**83**	137	153	*(39)*	*(46)*
Operating expenses					
Employment expenses	**(18)**	(18)	(16)	–	*13*
Brokerage, commission and trading-related expenses	**(1)**	(12)	(40)	*(92)*	*(98)*
Other operating expenses	**(32)**	(34)	(27)	*(6)*	*19*
Total operating expenses	**(51)**	(64)	(83)	*(20)*	*(39)*
Net profit contribution	**32**	73	70	*(56)*	*(54)*
Non-GAAP metrics					
MAM assets under management ($Ab)	**7.0**	6.4	5.3	*9*	*32*
Headcount	**132**	125	123	*6*	*7*

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

Net profit contribution of $A32 million for the half-year ended 30 September 2018, down 54% from the prior corresponding period:
– Release of accruals relating to legacy business activities in prior corresponding period
– Lower contribution from MSIS Retail
– Base fees broadly in line.

3.2 MAM CONTINUED

Net interest and trading income

Net interest and trading income in MAM includes income on specialised retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of $A59 million for the half-year ended 30 September 2018 decreased 2% from $A60 million in the prior corresponding period.

Base fees

Base fee income of $A20 million for the half-year ended 30 September 2018 was in line with the prior corresponding period.

Other fee and commission (expense)/income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and brokerage and commission income. Distribution service fees and brokerage and commission income are offset by associated expenses that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses.

Other fee and commission expense of $A1 million for the half-year ended 30 September 2018, compared to an income of $A23 million in the prior corresponding period. The prior corresponding period included income from MSIS Retail.

Other operating income and charges

Total other operating income and charges of $A4 million for the half-year ended 30 September 2018 decreased 92% from $A49 million in the prior corresponding period. The prior corresponding period included the release of a provision related to legacy businesses and income from MSIS Retail.

Operating expenses

Total operating expenses of $A51 million for the half-year ended 30 September 2018 decreased 39% from $A83 million in the prior corresponding period. The prior corresponding period included brokerage and commission expense in MSIS Retail.

3.3 CAF

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Net interest and trading income	**192**	239	330	*(20)*	*(42)*
Fee and commission income	**22**	20	23	*10*	*(4)*
Net operating lease income	**458**	464	465	*(1)*	*(2)*
Share of net profits/(losses) of associates and joint ventures	**2**	(3)	–	*	*
Other operating income and charges					
Gain on disposal of operating lease assets	**16**	21	6	*(24)*	*167*
Net income on equity and debt investments	**3**	122	66	*(98)*	*(95)*
Credit and Other impairment (charges)/reversal[(1),(2)]	**(13)**	(16)	1	*(19)*	*
Other income	**68**	103	33	*(34)*	*106*
Total other operating income and charges	**74**	230	106	*(68)*	*(30)*
Internal management revenue	**4**	3	1	*33*	*300*
Net operating income	**752**	953	925	*(21)*	*(19)*
Operating expenses					
Employment expenses	**(136)**	(142)	(131)	*(4)*	*4*
Brokerage, commission and trading-related expenses	**(4)**	(6)	(3)	*(33)*	*33*
Other operating expenses	**(177)**	(218)	(176)	*(19)*	*1*
Total operating expenses	**(317)**	(366)	(310)	*(13)*	*2*
Non-controlling interests[(3)]	**(3)**	(4)	–	*(25)*	*
Net profit contribution	**432**	583	615	*(26)*	*(30)*
Non-GAAP metrics					
Loan and finance lease portfolio[(4)] ($Ab)	**22.9**	24.1	25.4	*(5)*	*(10)*
Operating lease portfolio ($Ab)	**10.6**	10.2	9.9	*4*	*7*
Headcount	**1,319**	1,306	1,259	*1*	*5*

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.
(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.
(3) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.
(4) Includes equity portfolio of $A0.4 billion (March 2018: $A0.4 billion; September 2017: $A0.4 billion).

Net profit contribution of $A432 million for the half-year ended 30 September 2018, down 30% on the prior corresponding period:
- Decreased income from early repayments, realisations and investment-related income[(5)] in the Principal Finance portfolio
- Lower interest income largely as a result of the reduction in the Principal Finance portfolio size
- Asset Finance portfolio broadly in line with the prior corresponding period.

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

3.3 CAF CONTINUED

Net interest and trading income

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

Net interest and trading income of $A192 million for the half-year ended 30 September 2018 decreased 42% from $A330 million in the prior corresponding period. The decrease was largely a result of reduced income from early repayments, realisations and a reduction in the size of the Principal Finance portfolio.

The loan and finance lease portfolio was $A22.9 billion at 30 September 2018, a decrease of 5% from $A24.1 billion at 31 March 2018. The decrease was largely due to Principal Finance and Vehicles portfolios.

Net operating lease income

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

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

Gain on disposal of operating lease assets

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

Net income on equity and debt investments

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

Credit and Other impairment (charges)/reversal

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

Other income

Other income of $A68 million for the half-year ended 30 September 2018 increased from $A33 million in the prior corresponding period. The increase was primarily due to asset sales in Technology and Principal Finance.

Operating expenses

Total operating expenses of $A317 million for the half-year ended 30 September 2018 were broadly in line with the $A310 million in the prior corresponding period.

3.4 BFS

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	Mar 18 %	Sep 17 %
Net interest and trading income	**634**	598	584	*6*	*9*
Fee and commission income					
Wealth management fee income	**166**	166	167	–	*(1)*
Banking fee income	**69**	64	66	*8*	*5*
Total fee and commission income	**235**	230	233	*2*	*1*
Share of net (losses)/profits of associates and joint ventures	**(1)**	3	–	*	*
Other operating income and charges					
Credit impairment charges(1)	**(9)**	(10)	(8)	*(10)*	*13*
Other impairment charges(2)	**–**	(8)	–	*(100)*	–
Other income	**1**	7	6	*(86)*	*(83)*
Total other operating income and charges	**(8)**	(11)	(2)	*(27)*	*300*
Internal management revenue	**2**	–	3	*	*(33)*
Net operating income	**862**	820	818	*5*	*5*
Operating expenses					
Employment expenses	**(172)**	(173)	(158)	*(1)*	*9*
Brokerage, commission and trading-related expenses	**(107)**	(107)	(104)	–	*3*
Technology expenses(3)	**(155)**	(143)	(135)	*8*	*15*
Other operating expenses	**(133)**	(124)	(137)	*7*	*(3)*
Total operating expenses	**(567)**	(547)	(534)	*4*	*6*
Net profit contribution	**295**	273	284	*8*	*4*
Non-GAAP metrics					
Funds on platform(4) ($Ab)	**88.1**	82.5	78.9	*7*	*12*
Australian loan portfolio(5) ($Ab)	**44.5**	40.6	37.6	*10*	*18*
BFS deposits(6) ($Ab)	**49.4**	45.7	46.4	*8*	*6*
Headcount	**2,156**	2,321	2,075	*(7)*	*4*

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.
(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.
(3) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
(4) Funds on Platform includes Macquarie Wrap and Vision.
(5) The Australian loan portfolio comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.
(6) BFS Deposits excludes corporate/wholesale deposits.

Net profit contribution of $A295 million for the half-year ended 30 September 2018, up 4% from the prior corresponding period:
– Growth in deposit, Australian loan portfolio and funds on platform average volumes.
Partially offset by:
– Increased costs associated with investment in technology and headcount in key areas to support business growth
– Platform margin fee compression
– Entire period effect of Australian Government Major Bank Levy relative to the prior corresponding period.

3.4 BFS CONTINUED

Net interest and trading income

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

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

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

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

Wealth management fee income

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

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

Wealth management fee income of $A166 million for the half-year ended 30 September 2018 was broadly in line with the prior corresponding period as higher average funds on platform were offset by platform margin fee compression. Advice fee income remained broadly in line.

Banking fee income

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

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

Credit impairment charges

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

Other income

Other income of $A1 million for the half-year ended 30 September 2018 decreased from $A6 million in the prior corresponding period which included income from transitional services provided in relation to the sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

Operating expenses

Total operating expenses of $A567 million for the half-year ended 30 September 2018 increased 6% from $A534 million in the prior corresponding period.

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

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

Technology expenses of $A155 million for the half-year ended 30 September 2018 increased 15% from $A135 million in the prior corresponding period due to higher project activity.

Other operating expenses of $A133 million for the half-year ended 30 September 2018 decreased 3% from $A137 million in the prior corresponding period driven by lower professional fees and occupancy costs

3.5 CGM

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	Mar 18 %	Sep 17 %
Net interest and trading income					
Commodities	**780**	685	388	*14*	*101*
Foreign exchange, interest rates and credit	**275**	233	270	*18*	*2*
Equities	**119**	134	164	*(11)*	*(27)*
Net interest and trading income	**1,174**	1,052	822	*12*	*43*
Fee and commission income					
Brokerage and commissions	**169**	146	142	*16*	*19*
Other fee and commission income	**136**	62	40	*119*	*240*
Total fee and commission income	**305**	208	182	*47*	*68*
Share of net profits of associates and joint ventures	**10**	14	8	*(29)*	*25*
Other operating income and charges					
Net income on equity and debt investments	**(4)**	25	13	*	*
Credit and Other impairment charges[(1),(2)]	**(19)**	(34)	(56)	*(44)*	*(66)*
Other income	**5**	5	2	–	*150*
Total other operating income and charges	**(18)**	(4)	(41)	*	*(56)*
Internal management revenue/(charge)	**2**	(1)	5	*	*(60)*
Net operating income	**1,473**	1,269	976	*16*	*51*
Operating expenses					
Employment expenses	**(152)**	(155)	(140)	*(2)*	*9*
Brokerage, commission and trading-related expenses	**(281)**	(178)	(169)	*58*	*66*
Other operating expenses	**(390)**	(389)	(348)	*<1*	*12*
Total operating expenses	**(823)**	(722)	(657)	*14*	*25*
Net profit contribution	**650**	547	319	*19*	*104*
Non-GAAP metrics					
Headcount	**928**	930	936	*(<1)*	*(1)*

(1) The change in expected credit losses relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for the prior corresponding period and prior period remain in accordance with AASB 139 and have not been restated.
(2) Other impairment charges includes the impairment on interests in associates and joint ventures, intangible assets and other non-financial assets in the current period. The prior corresponding period and prior period also included the impairments on equity investment securities available for sale.

Net profit contribution of $A650 million for the half-year ended 30 September 2018, up 104% from the prior corresponding period:
- Increased contribution across the commodities platform driven by client activity and improved trading opportunities
- Increased fee and commission income in Asia driven by increased market turnover and client activity.

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

3.5 CGM CONTINUED

Commodities net interest and trading income

Net interest and trading income from commodity related activities is generated from the provision of hedging and risk management services and loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is imbalance between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Net interest and trading income from commodities $A780 million for the half-year ended 30 September 2018 increased 101% from $A388 million in the prior corresponding period. The current period included strong results across the commodities platform due to increased client hedging activity and trading opportunities across Global Oil, Gas and Agriculture in comparison with the prior corresponding period associated with volatility and commodity price movements. Commodities also saw an increase in Lending and Financing income due to an increased contribution from commodity financing activities in the Americas and Asia-Pacific.

Significant opportunities arose in the period for the North American Gas and Power business driven by opportunities across regional US centres as a result of supply-demand imbalance, partially offset by the timing of income recognition, which reduced revenue relating to transport agreements and capacity contracts.

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

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A275 million for the half-year ended 30 September 2018 increased 2% from $A270 million in the prior corresponding period. Increased income in the current period was underpinned by continued strong client contributions from foreign exchange structured products in North America and the Asia-Pacific.

Equities net interest and trading income

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

Equities net interest and trading income of $A119 million for the half-year ended 30 September 2018 decreased 27% from $A164 million in the prior corresponding period reflecting challenging conditions and reduced opportunities, particularly in China and Taiwan.

Fee and commission income

Fee and commission income of $A305 million for the half-year ended 30 September 2018 increased 68% from $A182 million in the prior corresponding period.

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

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

Net income on equity and debt investments

Net income on equity and debt investments was a loss of $A4 million for the half-year ended 30 September 2018, compared to an income of $A13 million in the prior corresponding period and $A25 million in the prior period. The current period was impacted by fair value movements on specific positions in commodity related sectors. Income in the prior corresponding period and prior period was primarily due to gains on sale from a number of investments in energy and related sectors.

Credit and Other impairment charges

Credit and Other impairment charges of $A19 million for the half-year ended 30 September 2018 decreased 66% from $A56 million in the prior corresponding period, which recognised write-downs on underperforming financing facilities and impairment charges related to certain commodity positions.

Operating expenses

Total operating expenses of $A823 million for the half-year ended 30 September 2018 increased 25% from $A657 million in the prior corresponding period.

Employment expenses of $A152 million for the half-year ended 30 September 2018 increased 9% from $A140 million in the prior corresponding period due to higher average headcount which included the full period impact of acquisitions completed in the prior year.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of $A281 million for the half-year ended 30 September 2018 increased 66% from $A169 million in the prior corresponding period mainly due to changes in accounting classification following the adoption of AASB 15 which has resulted in $A77 million stock borrowing expenses being reclassified from Fee and commission income. An additional increase was driven by higher client activity.

Other operating expenses of $A390 million for the half-year ended 30 September 2018 increased 12% from $A348 million in the prior corresponding period, reflecting impact of prior year acquisitions and an increase in investment in technology platforms.

3.6 CORPORATE

	HALF-YEAR TO			MOVEMENT	
	Sep 18 $Am	Mar 18 $Am	Sep 17 $Am	*Mar 18 %*	*Sep 17 %*
Net interest and trading income	**168**	125	41	*34*	*
Fee and commission expense	**(8)**	(39)	(32)	*(79)*	*(75)*
Net operating lease income	**1**	2	3	*(50)*	*(67)*
Share of net (losses)/profits of associates and joint ventures	**–**	(1)	1	*(100)*	*(100)*
Other operating income and charges					
Net income on equity and debt investments	**–**	–	(4)	–	*(100)*
Credit and Other impairment charges[(1), (2)]	**(4)**	67	(5)	*	*(20)*
Other income and charges	**(77)**	(14)	(13)	*	*
Total other operating income and charges	**(81)**	53	(22)	*	*268*
Internal management charge	**(8)**	(10)	(9)	*(20)*	*(11)*
Net operating income	**72**	130	(18)	*(45)*	*
Operating expenses					
Employment expenses	**(289)**	(233)	(320)	*24*	*(10)*
Brokerage, commission and trading-related expenses	**–**	1	(1)	*(100)*	*(100)*
Other operating expenses	**(129)**	(80)	(94)	*61*	*37*
Total operating expenses	**(418)**	(312)	(415)	*34*	*1*
Income tax expense	**(320)**	(363)	(207)	*(12)*	*55*
Macquarie Income Securities	**(7)**	(7)	(7)	–	–
Non-controlling interests[(3)]	**(1)**	–	3	*	*
Net loss contribution	**(674)**	(552)	(644)	*22*	*5*
Non-GAAP metrics					
Headcount	**23**	25	26	*(8)*	*(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 corresponding period and prior period remain in accordance with AASB 139 and have not been restated.

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

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

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

3.6 CORPORATE CONTINUED

Net interest and trading income

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

Net interest and trading income of $A168 million for the half-year ended 30 September 2018 increased substantially from $A41 million in the prior corresponding period primarily due to higher earnings on capital driven by increased average capital volumes and higher USD and AUD interest rates, lower costs of holding long-term liquidity, and the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting in terms of AASB 9.

Fee and commission expense

Fee and commission expense in the Corporate segment primarily comprises internal transactions between Corporate and other segments within the Bank Group, and transactions between the Bank and Non-Bank Groups.

Fee and commission expense of $A8 million for the half-year ended 30 September 2018 decreased from $A32 million in the prior corresponding period. Following the adoption of AASB 15, the presentation of $A36 million of certain recoverable costs previously presented net of associated revenues have been reclassified to Other operating expenses.

Other income and charges

Other charges of $A77 million for the half-year ended 30 September 2018 increased from $A13 million in the prior corresponding period. This was primarily due to Treasury's funding management activities, which included a structural change in funding between the Bank and Non-Bank Groups.

Employment expenses

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

Employment expenses of $A289 million for the half-year ended 30 September 2018 decreased 10% from $A320 million in the prior corresponding period. This was primarily due to lower profit share expense allocation from the Non-Bank Group to the Bank Group.

Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central service groups, and certain transactions between the Bank and Non-Bank Groups. The recovery of central service groups costs (including employment-related costs) from the Operating Groups is recognised in Fee and commission expense.

Other operating expenses of $A129 million for the half-year ended 30 September 2018 increased 37% from $A94 million in the prior corresponding period. This is primarily driven by the reclassification of $A36 million of certain recoverable costs previously presented net of associated revenues reclassified from Fee and commission expense, following the adoption of AASB 15.

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4.1 Statement of financial position
4.2 Loan assets
4.3 Equity investments

BALANCE SHEET

4

4.1 STATEMENT OF FINANCIAL POSITION

	AS AT			MOVEMENT	
	Sep 18[1] $Am	Mar 18 $Am	Sep 17 $Am	Mar 18 %	Sep 17 %
Assets					
Receivables from financial institutions	**34,941**	36,629	38,360	*(5)*	*(9)*
Trading assets	**19,514**	14,894	18,179	*31*	*7*
Derivative assets	**17,901**	12,695	12,161	*41*	*47*
Other assets	**18,486**	17,437	16,228	*6*	*14*
Financial Investments	**5,160**	5,733	4,323	*(10)*	*19*
Loan assets	**75,365**	72,289	69,218	*4*	*9*
Due from related body corporate entities	**1,414**	1,383	1,075	*2*	*32*
Property, plant and equipment	**10,917**	11,074	10,673	*(1)*	*2*
Interests in associates and joint ventures	**752**	727	579	*3*	*30*
Intangible assets	**198**	214	242	*(7)*	*(18)*
Deferred tax assets	**231**	143	179	*62*	*29*
Total assets	**184,879**	173,218	171,217	*7*	*8*
Liabilities					
Trading liabilities	**7,019**	7,938	7,209	*(12)*	*(3)*
Derivative liabilities	**18,046**	11,788	10,663	*53*	*69*
Deposits	**52,576**	48,371	49,316	*9*	*7*
Other liabilities	**23,699**	21,056	20,148	*13*	*18*
Payables to financial institutions	**13,688**	10,603	14,075	*29*	*(3)*
Due to related body corporate entities	**15,243**	13,993	5,101	*9*	*199*
Debt issued	**36,703**	41,524	47,437	*(12)*	*(23)*
Deferred tax liabilities	**492**	586	461	*(16)*	*7*
Total liabilities excluding loan capital	**167,466**	155,859	154,410	*7*	*8*
Loan capital	**4,366**	4,256	4,246	*3*	*3*
Total liabilities	**171,832**	160,115	158,656	*7*	*8*
Net assets	**13,047**	13,103	12,561	*(<1)*	*4*
Equity					
Contributed equity	**9,937**	9,928	9,915	*<1*	*<1*
Reserves	**757**	477	312	*59*	*143*
Retained earnings	**2,345**	2,686	2,329	*(13)*	*1*
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**13,039**	13,091	12,556	*(<1)*	*4*
Non-controlling interests	**8**	12	5	*(33)*	*60*
Total equity	**13,047**	13,103	12,561	*(<1)*	*4*

(1) September 2018 financial results reflect the adoption of AASB 9. As permitted by AASB 9, the Consolidated Entity has not restated previously reported financial periods, however prior corresponding periods have been reclassified to conform to current period presentation.

4.1 STATEMENT OF FINANCIAL POSITION CONTINUED

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

Assets

Total assets of $A184.9 billion at 30 September 2018 increased 7% from $A173.2 billion at 31 March 2018 mainly due to an increase in Derivative assets, Trading assets, Loan assets and Other assets. These increases were partially offset by decreases in Receivables from financial institutions and Financial investments.

- Derivative assets of $A17.9 billion at 30 September 2018 increased 41% from $A12.7 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Trading assets of $A19.5 billion at 30 September 2018 increased 31% from $A14.9 billion at 31 March 2018 mainly due to an increase in long equity positions
- Loan assets of $A75.4 billion at 30 September 2018 increased 4% from $A72.3 billion at 31 March 2018 mainly due to net new loans written in BFS including $A3.4 billion for Australian mortgages and $A0.5 billion for Business Banking. This was partially offset by a decrease of 5% in CAF's loan and finance lease portfolio to $A22.9 billion at 30 September 2018 from $A24.1 billion at 31 March 2018 primarily due to repayments in Principal Finance and Vehicles portfolios
- Other assets of $A18.5 billion at 30 September 2018 increased 6% from $A17.4 billion at 31 March 2018 mainly due to an increase in unsettled trade balances in CGM
- Receivables from financial institutions of $A34.9 billion at 30 September 2018 decreased 5% from $A36.6 billion at 31 March 2018 mainly due to a decrease in stock borrowing and reverse repurchase trades in CGM driven by short term funding opportunities and client flow, partially offset by Treasury's funding and liquidity management activities during the half-year ended 30 September 2018
- Financial investments of $A5.2 billion at 30 September 2018 decreased 10% from $A5.7 billion at 31 March 2018 mainly due to the disposal of investments held as part of Treasury's liquidity management activities.

Liabilities

Total liabilities of $A171.8 billion at 30 September 2018 increased 7% from $A160.1 billion at 31 March 2018 mainly driven by an increase in Derivative liabilities, Deposits, Payables to financial institutions and Other liabilities. These increases were partially offset by a decrease in Debt issued and Trading liabilities.

- Derivative liabilities of $A18.0 billion at 30 September 2018 increased 53% from $A11.8 billion at 31 March 2018 mainly due to price movements in underlying physical commodities, particularly energy related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Payables to financial institutions of $A13.7 billion at 30 September 2018 increased 29% from $A10.6 billion at 31 March 2018 mainly due to debt restructuring for Macquarie Air Finance in CAF
- Deposits of $A52.6 billion at 30 September 2018 increased 9% from $A48.4 billion at 31 March 2018 mainly due to increased volumes across the retail and business deposit portfolios
- Other liabilities of $A23.7 billion at 30 September 2018 increased 13% from $A21.1 billion at 31 March 2018 mainly due to an increase in unsettled trade balances and call margin money in CGM
- Debt issued of $A36.7 billion at 30 September 2018 decreased 12% from $A41.5 billion at 31 March 2018, mainly driven by Treasury's funding and liquidity management activities (including repayment of short term debt), as well as repayments in CAF leasing facilities
- Trading liabilities of $A7.0 billion at 30 September 2018 decreased 12% from $A7.9 billion at 31 March 2018 mainly due to a decrease in short listed equity positions.

Equity

Total equity of $A13.0 billion at 30 September 2018 decreased from $A13.1 billion at 31 March 2018 due to the payment of the FY2018 final dividend and the impact on opening retained earnings on the adoption of AASB 9. This was partially offset by retained earnings generated for the half-year ended 30 September 2018.

4.2 LOAN ASSETS

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

	AS AT			*MOVEMENT*	
	Sep 18 $Ab	Mar 18 $Ab	Sep 17 $Ab	*Mar 18 %*	*Sep 17 %*
Loan assets per the statement of financial position	**75.4**	72.3	69.2	*4*	*9*
Operating lease assets	**10.6**	10.2	9.9	*4*	*7*
Other reclassifications[1]	**0.5**	0.8	1.3	*(38)*	*(62)*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[2]	**(7.5)**	(9.0)	(11.4)	*(17)*	*(34)*
Total loan assets including operating lease assets per the funded balance sheet[3]	**79.0**	74.3	69.0	*6*	*14*

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

4.2 LOAN ASSETS CONTINUED

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

		AS AT			MOVEMENT	
	Notes	Sep 18 $Ab	Mar 18 $Ab	Sep 17 $Ab	*Mar 18 %*	*Sep 17 %*
CAF						
Asset Finance:	1					
Finance lease assets		**14.9**	14.7	13.4	*1*	*11*
Operating lease assets		**10.6**	10.2	9.9	*4*	*7*
Total Asset Finance		**25.5**	24.9	23.3	*2*	*9*
Principal Finance	2	**4.0**	4.8	5.7	*(17)*	*(30)*
Total CAF		**29.5**	29.7	29.0	*(1)*	*2*
BFS						
Retail Mortgages	3	**32.7**	28.7	25.4	*14*	*29*
Business banking	4	**8.4**	7.9	7.7	*6*	*9*
Total BFS		**41.1**	36.6	33.1	*12*	*24*
CGM						
Resources and commodities	5	**3.3**	3.1	2.6	*6*	*27*
Other	6	**2.5**	2.3	2.1	*9*	*19*
Total CGM		**5.8**	5.4	4.7	*7*	*23*
MAM						
Structured investments	7	**2.6**	2.6	2.2	–	*18*
Total		**79.0**	74.3	69.0	*6*	*14*

(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

Secured by underlying financed assets.

2. Principal Finance

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

3. Retail Mortgages

Secured by Australian residential property.

4. Business banking

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

5. Resources and commodities

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

6. CGM Other

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

7. Structured investments

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

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.

Equity investments reconciliation

	AS AT			MOVEMENT	
	Sep 18 $Ab	Mar 18 $Ab	Sep 17 $Ab	*Mar 18 %*	*Sep 17 %*
Equity investments					
Statement of financial position					
Equity investments at fair value[1]	**0.3**	0.4	0.5	*(25)*	*(40)*
Interests in associates and joint ventures	**0.7**	0.7	0.6	–	*17*
Total equity investments per statement of financial position	**1.0**	1.1	1.1	*(9)*	*(9)*
Adjustment for funded balance sheet					
Equity hedge positions[2]	**(0.2)**	(0.3)	(0.3)	*(33)*	*(33)*
Total funded equity investments	**0.8**	0.8	0.8	–	–
Adjustments for equity investments analysis					
Available for sale and associates' reserves[3]	**–**	–	(0.1)	–	*(100)*
Total adjusted equity investments[4]	**0.8**	0.8	0.7	–	*14*

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

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

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

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

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5.1 Liquidity risk governance and management framework
5.2 Management of liquidity risk
5.3 Funded balance sheet
5.4 Funding profile
5.5 Explanatory notes concerning funding sources and funded assets

FUNDING AND LIQUIDITY

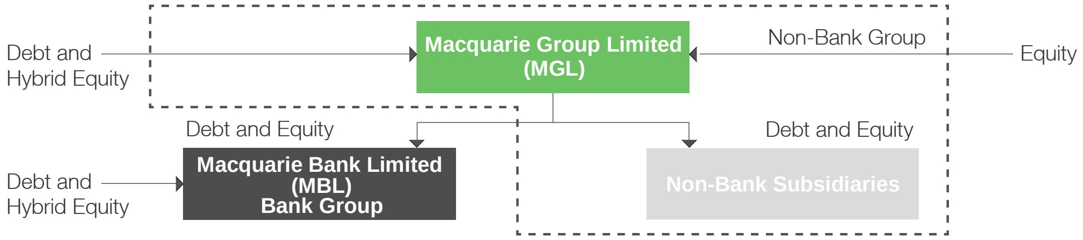
5

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK

Governance and oversight

Macquarie Group'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 Group'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 Group'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 Group, 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 Group 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 Group 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 Group's strategic objectives.

Macquarie Group's liquidity risk appetite is set to ensure that Macquarie Group 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 Group's franchise businesses.

MBL is an Authorised Deposit-taking Institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK CONTINUED

Liquidity risk tolerance and principles

Macquarie Group'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 Group are subject to constraints where required.

Liquidity management principles

- Macquarie Group 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 Group'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 Group'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 Group.

In addition, Macquarie Group monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie Group'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 Group 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 Group prepares a funding strategy on an annual basis and monitors progress against the strategy throughout the year. The funding strategy aims to maintain Macquarie Group'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 Group'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 Group 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 Group's minimum level of cash and liquid assets
– determining the appropriate minimum tenor of funding for Macquarie Group's assets; and
– determining the overall capacity for future asset growth.

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

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

Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie Group's liquidity requirements are broadly matched by currency. Certain other business units also hold cash and liquid assets as part of their operations. The Bank Group had $A21.4 billion cash and liquid assets as at 30 September 2018 (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 Group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

5.2 MANAGEMENT OF LIQUIDITY RISK CONTINUED

Credit ratings[1] at 30 September are detailed below.

	MACQUARIE BANK LIMITED		
	Short-term rating	Long-term rating	Outlook
Moody's Investors Service	P-1	A2	Stable
Standard and Poor's[2]	A-1	A	Negative
Fitch Ratings	F-1	A	Stable

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.
(2) Standard and Poor's does not place outlook statements on short-term ratings.

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR) and as of 1 January 2018, the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie Group. Separate quantitative requirements are imposed internally by the ALCO and the Board.

Liquidity coverage ratio

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

Macquarie Bank's 3-month average LCR to 30 September 2018 was 159% (average based on daily observations).

Net stable funding ratio

NSFR is a 12-month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than twelve months. The NSFR became a regulatory requirement on 1 January 2018. Macquarie Bank's NSFR at 30 September 2018 was 110%.

5.3 FUNDED BALANCE SHEET

The Bank Group'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 the Bank Group.

The table below reconciles the reported assets of the Bank Group to the net funded assets as at 30 September 2018.

		AS AT		
	Notes	Sep 18 $Ab	Mar 18 $Ab	Sep 17 $Ab
Total assets per the Bank Group's statement of financial position		**184.9**	173.2	171.2
Accounting deductions:				
Self-funded trading assets	1	**(17.7)**	(16.6)	(19.8)
Derivative revaluation accounting gross-ups	2	**(17.8)**	(11.7)	(10.4)
Segregated funds	3	**(10.5)**	(9.8)	(9.0)
Outstanding trade settlement balances	4	**(4.4)**	(2.9)	(4.3)
Short-term working capital assets	5	**(4.0)**	(4.5)	(3.5)
Intercompany gross-ups		**(15.2)**	(14.0)	(5.0)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	6	**(7.5)**	(9.0)	(11.3)
Net funded assets		**107.8**	104.7	107.9

Explanatory notes concerning net funded assets

1. Self-funded trading assets

The Bank Group 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, the Bank Group 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

The Bank Group'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 the Bank Group provides products such as investment-linked policy contracts or where the Bank Group 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 the Bank Group 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 the Bank Group is owed on other trades (receivables).

5. Short-term working capital assets

As with the outstanding trade settlement balances above, the Bank Group 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. Securitised assets and other non-recourse funding

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

5.4 FUNDING PROFILE

Funded balance sheet

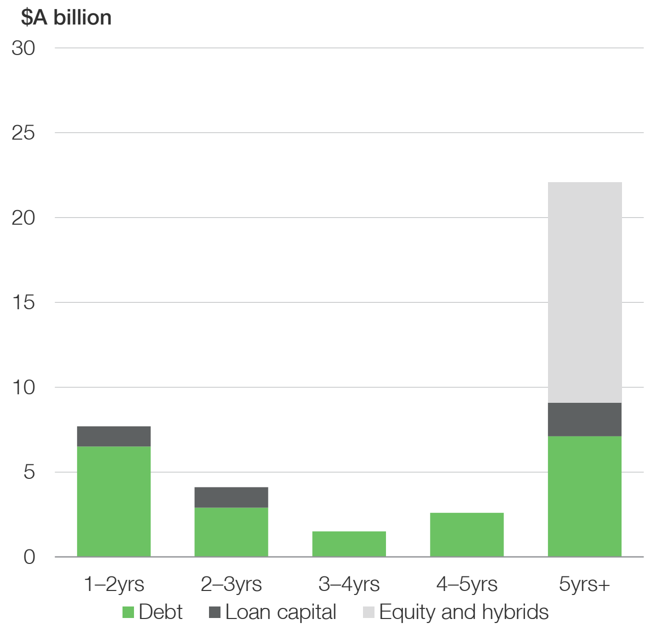
	Notes	AS AT Sep 18 $Ab	Mar 18 $Ab	Sep 17 $Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		**0.8**	0.6	0.8
Commercial paper		**5.9**	8.4	11.6
Net trade creditors	2	**1.4**	1.1	1.2
Structured notes	3	**2.0**	2.1	2.1
Secured funding	4	**5.9**	4.4	4.0
Bonds	5	**20.0**	20.7	20.9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

See Section 5.5 for notes 1–16.

5.4 FUNDING PROFILE CONTINUED

Term funding profile

Detail of drawn term funding maturing beyond one year



	AS AT SEP 18					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[(1)]	–	–	0.1	0.1	1.6	**1.8**
Secured funding	0.4	1.1	0.3	0.5	2.5	**4.8**
Bonds	5.8	1.8	1.1	0.8	3.0	**12.5**
Other loans	0.3	–	–	–	–	**0.3**
Syndicated loan facilities	–	–	–	1.2	–	**1.2**
Total debt	**6.5**	**2.9**	**1.5**	**2.6**	**7.1**	**20.6**
Loan capital[(2)]	1.2	1.2	–	–	2.0	**4.4**
Equity and hybrids	–	–	–	–	13.0	**13.0**
Total funding sources drawn	**7.7**	**4.1**	**1.5**	**2.6**	**22.1**	**38.0**
Undrawn	–	–	–	0.2	–	**0.2**
Total funding sources drawn and undrawn	**7.7**	**4.1**	**1.5**	**2.8**	**22.1**	**38.2**

(1) Structured notes are profiled using a behavioural maturity profile.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

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

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

5.4 FUNDING PROFILE CONTINUED

Term funding initiatives

The Bank Group 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, the Bank Group has continued to raise term wholesale funding across various products and currencies.

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

		Bank Group $Ab
Issued paper	Senior and subordinated	0.5
Total		**0.5**

From 1 April 2018 to 30 September 2018, the Bank Group raised $A0.5 billion of term wholesale funding comprising of private placements and structured notes.

5.4 FUNDING PROFILE CONTINUED

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US7.9 billion debt securities outstanding at 30 September 2018
- $US15 billion Commercial Paper Program under which $US4.2 billion of debt securities were outstanding at 30 September 2018
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US9.0 billion of issuances were outstanding at 30 September 2018
- $US5 billion Structured Note Program under which $US1.5 billion of funding from structured notes was outstanding at 30 September 2018
- $A5 billion Covered Bond Programme under which $A0.8 billion of debt securities were outstanding at 30 September 2018; and
- $US3.9 billion Macquarie Air Finance Term Loan under which $US3.7 billion was drawn as at 30 September 2018.

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

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

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

Deposit strategy

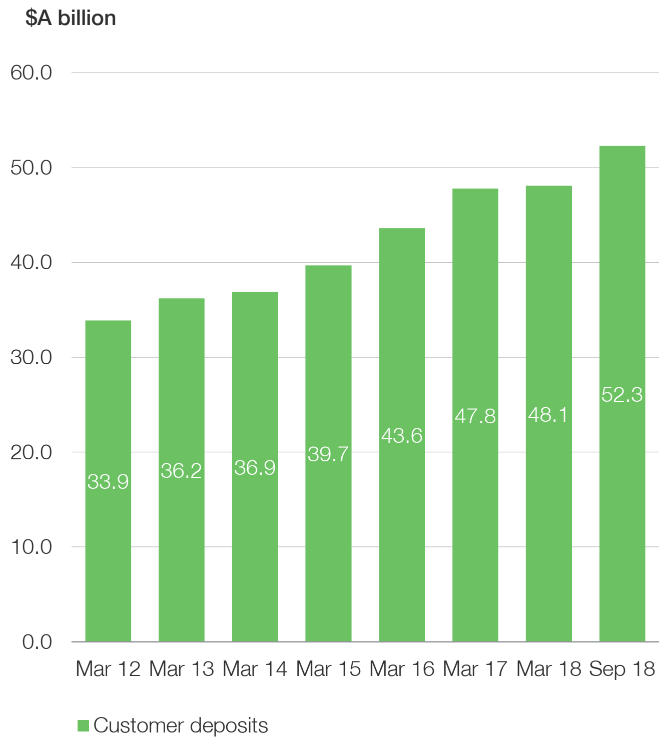
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie Group's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

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

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

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

Deposit trend



5.5 EXPLANATORY NOTES CONCERNING FUNDING SOURCES AND FUNDED ASSETS

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Loan capital

Long-term subordinated debt, MACS and BCN.

10. Equity and hybrids

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

11. Cash and liquid assets

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

12. Self-securitisation

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

13. Net trading assets

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

14. Loan assets including operating lease assets

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

See section 4.2 for further information.

15. Debt investment securities

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

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

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

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6.1 Overview
6.2 Bank Group capital

6

CAPITAL

6.1 OVERVIEW

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

Macquarie Group'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 Group's ECAM. Transactions internal to Macquarie Group are eliminated.

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

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

Capital disclosures in this section include Harmonised Basel III(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 Group'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 Group's website.

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).
(2) APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

6.2 BANK GROUP CAPITAL

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2018 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

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

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

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Tier 1 Capital

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

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Risk-Weighted Assets (RWA)

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

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

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7.1 Glossary

7

GLOSSARY

7.1 GLOSSARY

1H18	The half-year ended 30 September 2017.
1H19	The half-year ended 30 September 2018.
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.
Asset Finance	Global provider of specialist finance and asset management solutions, with global expertise in aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail, and mining equipment, within CAF.
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 to 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 Bank 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 Bank'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, CAF, and some activities of CGM and MAM.
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).

7.1 GLOSSARY CONTINUED

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 Bank 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 Bank's Operating Groups, income from the investment of Macquarie Bank's capital, and certain items of operating income not attributed to Macquarie Bank's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie Bank'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 definition in section 7.2.

7.1 GLOSSARY CONTINUED

Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
Financial Report	Macquarie Bank Limited Interim Financial Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
Headcount	Headcount represents Macquarie Bank's active permanent and variable workforce, and includes Macquarie Bank employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie Bank'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 Bank, the Consolidated Entity	Macquarie Bank Limited and its subsidiaries.
Macquarie Group	MGL 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).

7.1 GLOSSARY CONTINUED

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 and some business activities of MAM 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 either not required or defined under Australian Accounting Standards.
Operating Groups	The Operating Groups consist of MAM, CAF, BFS and CGM.
Principal Finance	Principal Finance is a division of CAF and provides flexible primary financing solutions and engages in secondary market investing across the capital structure. Operating globally in both corporate and real estate sectors, the team has experience across a variety of industry groups including real estate, infrastructure, telecommunications, media, entertainment and technology, leisure and healthcare.
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 Bank for which agreements between Macquarie Bank 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 Bank. Subordinated debt is classified as liabilities in the Macquarie Bank 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 Bank and conversely, any out-performance is retained by Macquarie Bank.
UK	The United Kingdom.
US	The United States of America.