MACQUARIE GROUP MANAGEMENT DISCUSSION AND ANALYSIS

Year ended 31 March 2020

MACQUARIE GROUP LIMITED ACN 122 169 279

Notice to readers

The purpose of this report is to provide information supplementary to the Financial Report within the Macquarie Group Annual Report (the Financial Report) for the year ended 31 March 2020, including further detail in relation to key elements of Macquarie Group Limited and its subsidiaries' (Macquarie, the Consolidated Entity) financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

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

Date of this report

This report has been prepared for the year ended 31 March 2020 and is current as at 8 May 2020.

Cover image

Incheon Grand Bridge is a 12.3 kilometre, dual three-lane tolled bridge connecting Incheon International Airport to the new Songdo International Business District in Incheon City. The bridge, which is Korea's longest, is operated by a Macquarie-managed fund.

2020

Explanatory notes

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2019.

References to the first half are to the six months ended 30 September 2019.

References to the second half are to the six months ended 31 March 2020.

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

Independent auditor's report

This document should be read in conjunction with the Financial Report for the year ended 31 March 2020, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Group Limited dated 8 May 2020 was unqualified.

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

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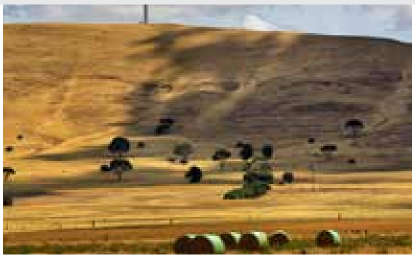
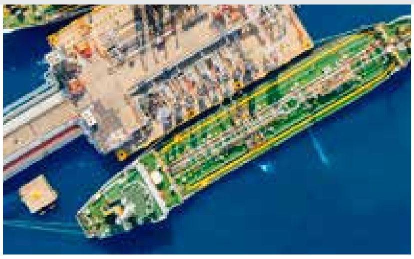
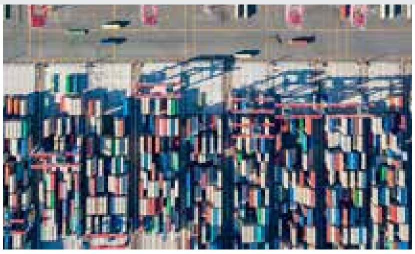


Segment Analysis



Balance Sheet

Funding and Liquidity



Glossary

Result Overview

BARD Offshore 1, Germany

BARD Offshore 1 is a 400 MW offshore wind farm located in the North Sea. Acquired by a Macquarie-managed fund in December 2019, the project has capacity to power approximately 463,000 households each year with clean electricity.

FY2020 net profit

$A2,731m

↓ 8% on prior year

FY2020 return on equity

14.5%

↓ from 18.0% in prior year

FY2020 operating expenses

$A8,871m

— In line with prior year

FY2020 net operating income

$A12,325m

↓ 3% on prior year

FY2020 net profit contribution[1] by activity

Annuity-style activities

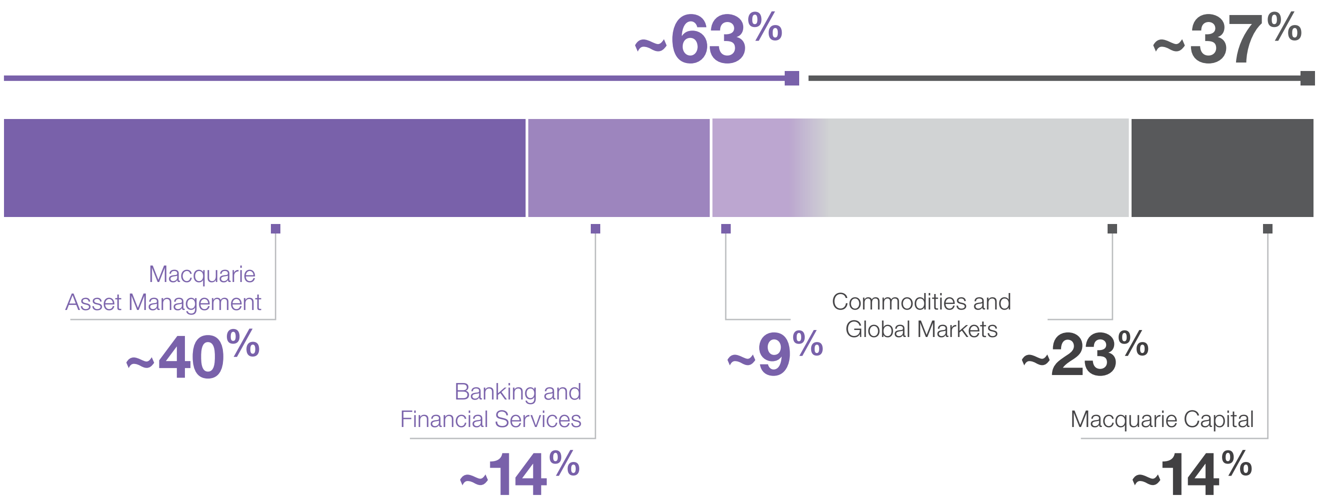
$A3,439m

↑ 13% on prior year

Markets-facing activities

$A2,009m

↓ 35% on prior year



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

1.1 Executive Summary

Continued

Non-Banking Group

Macquarie Asset Management (MAM)

$A2,177m

↑ 16% on prior year

- Increased Investment-related income includes gains on sale of investments, higher equity accounted income from the sale of a number of underlying assets and income from the Macquarie AirFinance joint venture during the year
- Increased base fees primarily driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from assets acquired during the year related to the mutual fund management business of Foresters Investment Management Company Inc. (Foresters).

Partially offset by:

- decreased net operating lease income driven by the sale of Macquarie AirFinance to a joint venture during the first half
- increased credit and other impairments recognised due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including an impairment charge on Macquarie Infrastructure Corporation (MIC)
- higher operating expenses mainly driven by foreign exchange movements and the impact of new business acquired during the year (Foresters).

Macquarie Capital

$A755m

↓ 57% on prior year

- Lower net income on equity and debt investments following strong asset realisations in the prior year
- Lower net interest and trading income mainly due to higher funding costs for balance sheet positions reflecting increased activity
- Increased credit impairment charges primarily related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19 impacting the performing loan portfolio
- Lower fee and commission income due to lower debt capital markets fee income and other fee income, partially offset by higher mergers and acquisitions fee income
- Higher operating expenses reflecting additional headcount and foreign exchange movements.

Banking Group

Banking and Financial Services (BFS)

$A770m

↑ 2% on prior year

- Growth in BFS deposits, loan portfolio and funds on platform average volumes
- Lower employment expenses due to a reduction in average headcount mainly due to the realignment of the wealth advice business to focus on the high net worth segment.

Partially offset by:

- increased specific provision in Business banking and Vehicle Finance, together with increased credit impairment charges on the performing portfolios related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19
- margin compression on deposits
- lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

Commodities and Global Markets[1] (CGM)

$A1,746m

— In line with prior year

- Strength of global client contribution across all products and sectors including:
  - strong results across the commodities platform from client hedging activity
  - increased contribution in structured foreign exchange and interest rate products across all regions
  - improved equities performance, primarily due to increased contribution from client activity in Asia.

Offset by:

- reduction in inventory management and trading income due to reduced opportunities in North American gas markets following a strong prior year that were partially offset by the timing of income recognition, which increased revenue relating to transport agreements. The first half benefited from opportunities across a range of energy sectors which were partially offset by more challenging markets in Fuel oil (related to changing regulations) and North American gas markets in the second half
- increased impairment charges on a small number of counterparties in Futures and FI&C, together with increased credit impairment charges on the performing loan and lease portfolio related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Operating Groups update

In the first half, all businesses of the Corporate and Asset Finance (CAF) Operating Group were aligned to other Operating Groups, where they have the greatest opportunities in terms of shared clients and complementary offerings as follows:

- CAF Principal Finance joined Macquarie Capital to bring together all principal investing activity and enhance the ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a joint venture
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients
- In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance into MAM.

Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

(1) The Banking Group includes certain activities of CGM.

Profit attributable to the ordinary equity holder

$A2,731m

↓ 8% on prior year

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Financial performance summary						
Net interest income	**1,069**	790	*35*	**1,859**	1,760	*6*
Fee and commission income	**2,963**	2,874	*3*	**5,837**	5,526	*6*
Net trading income	**1,234**	1,627	*(24)*	**2,861**	2,791	*3*
Net operating lease income	**284**	461	*(38)*	**745**	950	*(22)*
Share of net profits/(losses) of associates and joint ventures	**144**	(49)	*	**95**	(56)	*
Net credit impairment charges	**(661)**	(144)	*	**(805)**	(320)	*152*
Other impairment (charges)/reversals	**(240)**	5	*	**(235)**	(232)	*1*
Other operating income and charges	**1,212**	756	*60*	**1,968**	2,335	*(16)*
Net operating income	**6,005**	6,320	*(5)*	**12,325**	12,754	*(3)*
Employment expenses	**(2,547)**	(2,776)	*(8)*	**(5,323)**	(5,217)	*2*
Brokerage, commission and trading-related expenses	**(482)**	(482)	–	**(964)**	(1,140)	*(15)*
Occupancy expenses	**(199)**	(201)	*(1)*	**(400)**	(441)	*(9)*
Non-salary technology expenses	**(382)**	(367)	*4*	**(749)**	(684)	*10*
Other operating expenses	**(781)**	(654)	*19*	**(1,435)**	(1,405)	*2*
Total operating expenses	**(4,391)**	(4,480)	*(2)*	**(8,871)**	(8,887)	*(<1)*
Operating profit before income tax	**1,614**	1,840	*(12)*	**3,454**	3,867	*(11)*
Income tax expense	**(352)**	(376)	*(6)*	**(728)**	(879)	*(17)*
Profit after income tax	**1,262**	1,464	*(14)*	**2,726**	2,988	*(9)*
Loss/(profit) attributable to non-controlling interests	**12**	(7)	*	**5**	(6)	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**1,274**	1,457	*(13)*	**2,731**	2,982	*(8)*
Key metrics						
Expense to income ratio (%)	**73.1**	70.9		**72.0**	69.7	
Compensation ratio (%)	**40.0**	41.2		**40.6**	38.3	
Effective tax rate (%)	**21.6**	20.5		**21.0**	22.8	
Basic Earnings per share (cents per share)	**362.1**	430.1		**791.0**	883.3	
Diluted Earnings per share (cents per share)	**350.7**	419.5		**764.5**	868.1	
Dividend per ordinary share (cents per share)	**180.0**	250.0		**430.0**	575.0	
Dividend payout ratio (%)	**50.1**	60.8		**55.8**	65.6	
Annualised return on equity (%)	**12.7**	16.4		**14.5**	18.0	

1.1 Executive Summary

Continued

Net operating income

Net operating income of $A12,325 million for the year ended 31 March 2020 decreased 3% from $A12,754 million in the prior year. Higher Credit and other impairment charges and decreases across Other operating income and charges and Net operating lease income were partially offset by higher Share of net profits/(losses) of associates and joint ventures, Fee and commission income and Net interest and trading income.

Net interest and trading income

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
4,720	4,551

↑ 4% on prior year

- Increased contributions from client hedging activity, structured foreign exchange, interest rate and credit products as well as equities in CGM
- Growth in BFS deposits and loan portfolio average volumes in BFS
- Reduced funding costs in MAM driven by the sale of Macquarie AirFinance to a joint venture
- Accounting volatility from the changes in the fair value on economic hedges in Corporate.

Partially offset by:

- Reduced contributions from Inventory management and trading following a strong prior year and the impact of fair value adjustments in CGM
- Margin compression on deposits and the sale of an investment in Macquarie Pacific Funding (MPF) in BFS.

Fee and commission income

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
5,837	5,526

↑ 6% on prior year

- Increased base fees in MAM primarily driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from assets acquired during the year related to the mutual fund management business of Foresters
- Higher mergers and acquisitions fee income in Macquarie Capital.

Partially offset by:

- Lower fee income from debt capital markets and other fee income in Macquarie Capital.

Net operating lease income

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
745	950

↓ 22% on prior year

- Lower income in MAM driven by the sale of Macquarie AirFinance to a joint venture during the first half.

Partially offset by:

- The acquisition of rotorcraft assets during the prior year in MAM
- Higher secondary income from the Technology, Media and Telecoms (TMT) portfolio in CGM.

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

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
95	(56)

↑ significantly on prior year

- Increase in the share of net profits from the sale of a number of underlying assets within equity accounted investments and income from the Macquarie AirFinance joint venture during the year in MAM
- A non-recurring gain on an investment in Corporate.

Partially offset by:

- Losses in a small number of underlying assets within equity accounted investments in MAM.

Credit and other impairment charges

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
(1,040)	(552)

↑ 88% on prior year

- Higher impairment charges recognised across the Consolidated Entity primarily driven by a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Other operating income and charges

FULL YEAR TO	
31 Mar 20 $Am	31 Mar 19 $Am
1,968	2,335

↓ 16% on prior year

- Decrease in investment income following strong asset realisations in the prior year in Macquarie Capital
- A change in the composition of Macquarie Capital's investment portfolio including increased development expenditure in relation to green energy projects.

Partially offset by:

- Gains on sale of investments and a one-off payment from Atlas Arteria (ALX) for the termination of management rights related to APRR in MAM.

Operating expenses

Total operating expenses of $A8,871 million for the year ended 31 March 2020 were in line with $A8,887 million in the prior year with increases across Employment expenses and Non-salary technology expenses, largely offset by decreases in Brokerage, commission and trading-related expenses.

Employment expenses

FULL YEAR TO

31 Mar 20 $Am	31 Mar 19 $Am
5,323	5,217

↑ 2% on prior year

- Unfavourable foreign exchange movements
- Higher average headcount in Central Service Groups to support business growth, technology projects and ongoing regulatory compliance
- Higher share-based payments expense mainly driven by the accelerated amortisation of prior years' equity awards to retiring Key Management Personnel.

Partially offset by:

- Decrease in performance-related profit share expense as a result of lower Group performance and higher retention rates being applied
- Lower average headcount in BFS as the wealth advice business focused on the high net worth segment.

Brokerage, commission and trading-related expenses

FULL YEAR TO

31 Mar 20 $Am	31 Mar 19 $Am
964	1,140

↓ 15% on prior year

- Reductions in CGM driven by the equities structural change to refocus on the Asia-Pacific region
- The sale of an investment in MPF in BFS.

Non-salary technology expenses

FULL YEAR TO

31 Mar 20 $Am	31 Mar 19 $Am
749	684

↑ 10% on prior year

- Higher project spend and cloud consumption from an increase in business activity
- Unfavourable foreign exchange movements.

Other operating expenses and Occupancy

FULL YEAR TO

31 Mar 20 $Am	31 Mar 19 $Am
1,835	1,846

— In line with prior year

- Lower occupancy costs reflect the transitional and classification consequences of adopting the new lease accounting standard AASB 16, with interest expense on the lease liability now recognised within net interest income.

Offset by:

- Unfavourable foreign exchange movements.

Income tax expense

Income tax expense for the year ended 31 March 2020 was $A728 million, compared to $A879 million in the prior year. The effective tax rate for the year ended 31 March 2020 was 21.0%, down from 22.8% in the prior year.

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

Note on adoption of new Australian Accounting Standards

The current year financial results reflect the adoption of AASB 16 *Leases* (AASB 16) on 1 April 2019. As permitted by AASB 16, the Consolidated Entity has not restated previously reported financial periods.

Refer to Note 1 *Summary of significant accounting policies* in the Financial Report for details regarding the Consolidated Entity's transition to AASB 16. No material transition adjustments arose following the adoption of AASB 16

1.1 Executive Summary

Continued

COVID-19 - Expected Credit Losses

Total credit and other impairment charges of $A1,040 million increased 88% from $A552 million in the prior year. This included $A805 million of net credit impairment charges, up from $A320 million in the prior year and including the impact of expected credit loss (ECL) charges, which reflects the uncertain macroeconomic outlook as a result of COVID-19. For the markets-facing businesses of CGM and Macquarie Capital, $A377 million of charges in respect of specific impairments were recognised during the year. In addition, certain additional overlays are held within the Corporate segment.

The ECL charge includes the impact of modelled expected future credit losses on positions that have not yet defaulted and the impact of defaults, predominately relating to the markets-facing businesses. Further details on the ECL charge are set out in section 2.5, page 24 of this document and Note 12 of the Macquarie Group Full Year 2020 Financial Report.

ECL calculation methodology and sensitivity

The ECL calculation probability weights three different forward-looking economic scenarios. The baseline and downside scenarios carried the highest weightings this year and required a large degree of management judgement given the uncertainty in the current macroeconomic environment.

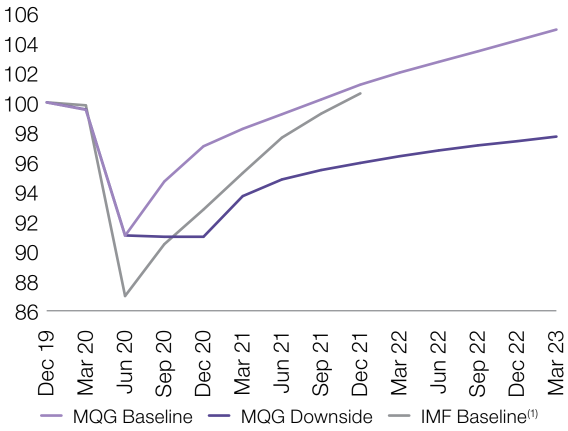
The scenarios reflect the different views held on the severity of the impact of COVID-19, the speed at which COVID-19 may be brought under control, and the time required for economic activity to return to previous levels. Whilst the outlook is uncertain, these outlooks reflect Macquarie's current view.

- **Baseline** – broadly assumes a recovery within 18 months. A 100% weighting to this scenario would result in total ECL provisions on the balance sheet of $A1,400 million (actual ECL provisions recognised at 31 March 2020 were $A1,541 million)
- **Downside** – assumes a more severe economic impact with the start of the recovery being delayed by half a year. The recovery period is ~18 months longer than the baseline, with some metrics such as unemployment in some regions remaining higher than pre-COVID-19 levels in 2023. Assuming a 100% weighting would have resulted in ECL provisions of $A1,900 million being recognised on the balance sheet as at 31 March 2020.

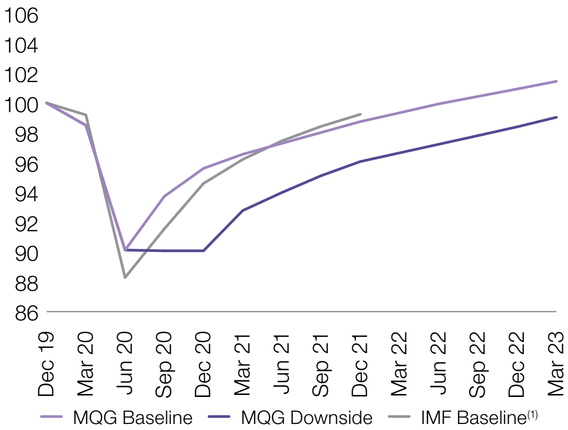
The scenarios are used to forecast both the probability of customers defaulting on their obligations, and the loss Macquarie may incur if this was to occur. The key variables when determining the probability of defaults are generally GDP, unemployment rates, commodity prices and interest rates. The modelled values of collateral in the event of default are sensitive to property prices and share price index outlooks.

The graphs below show Macquarie's GDP outlook for both Australia and the United States, reflecting the two largest countries to which Macquarie's loan asset portfolio is exposed, representing approximately 77% of total credit risk exposures.

Australia – Real GDP Indexed Dec 19



US – Real GDP Indexed Dec 19



ECL Calculation Sensitivity

ECL calculations utilise scenarios rather than stress individual variables, reflecting the interplay between the variables. Each of the scenarios are different and the weightings applied to them are a matter of judgement. While it is possible to construct more severe outlooks, their plausibility seems remote at this time, noting the speed at which governments are acting to both limit the spread of COVID-19 and to seek to restart their economic activities.

It is important to note that while the forecasts are forward looking in respect of the economic outlook and their impact on collective provisioning, they do assume credit performance remains broadly consistent to the baseline. Where there is a significant increase in credit risk represented by higher arrears, re-rating of counterparties, or a higher level of defaults, additional ECL charges may be recognised in future periods.

(1) IMF GDP profiles are implied/estimated based on IMF year-ended and year-average GDP forecasts.

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Financial Performance Analysis

Georgina and Celeste – I bank with Macquarie

Georgina and Celeste are real home loan clients who feature in our new home loan campaign "Great home loans for good borrowers".

2.1 Net Interest and Trading Income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Net interest income	**1,069**	790	*35*	**1,859**	1,760	*6*
Net trading income	**1,234**	1,627	*(24)*	**2,861**	2,791	*3*
Net interest and trading income	**2,303**	2,417	*(5)*	**4,720**	4,551	*4*

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards, with net interest income brought to account using the effective interest method and net trading income 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, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) are recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that are attributable to the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the non-trading businesses, with changes in fair value recognised within the Corporate segment and is managed via the application of hedge accounting.

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

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
MAM	**(144)**	(258)	*(44)*	**(402)**	(469)	*(14)*
BFS	**890**	838	*6*	**1,728**	1,678	*3*
CGM						
Commodities						
Risk management products	**662**	632	*5*	**1,294**	1,078	*20*
Lending and financing	**151**	115	*31*	**266**	250	*6*
Inventory management and trading	**(124)**	302	*	**178**	655	*(73)*
Foreign exchange, interest rates and credit	**337**	345	*(2)*	**682**	564	*21*
Equities	**137**	216	*(37)*	**353**	242	*46*
Specialised and Asset Finance	**88**	78	*13*	**166**	151	*10*
Macquarie Capital	**(23)**	(18)	*28*	**(41)**	87	*
Corporate	**329**	167	*97*	**496**	315	*57*
Net interest and trading income	**2,303**	2,417	*(5)*	**4,720**	4,551	*4*

Net interest and trading income of $A4,720 million for the year ended 31 March 2020 increased 4% from $A4,551 million in the prior year.

MAM

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

Net interest and trading expense of $A402 million for the year ended 31 March 2020 decreased 14% from $A469 million in the prior year, driven by a decrease in interest expense due to the sale of Macquarie AirFinance to a joint venture during the first half, partially offset by an increase in investments.

BFS

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

Net interest and trading income of $A1,728 million for the year ended 31 March 2020 increased 3% from $A1,678 million in the prior year due to a 10% increase in the average BFS deposit balance and a 10% increase in average loan and lease portfolio volumes, partially offset by margin compression on deposits and the sale of an investment in MPF in the current year.

As at 31 March 2020 the deposit and loan and lease portfolios included:

- BFS Deposits of $A63.9 billion, up 20% from $A53.4 billion as at 31 March 2019;
- Home loan volumes of $A52.1 billion, up 35% from $A38.5 billion as at 31 March 2019;
- Vehicle finance volumes of $A13.7 billion, down 10% from $A15.2 billion as at 31 March 2019; and
- Business banking loan volumes of $A9.0 billion, up 10% from $A8.2 billion as at 31 March 2019.

CGM

Net interest and trading income of $A2,939 million was broadly in line with $A2,940 million in the prior year.

Commodities

(i) Risk management products

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

Risk management products income of $A1,294 million for the year ended 31 March 2020 increased 20% from $A1,078 million in the prior year. The current year included strong results across the commodities platform due to increased client hedging activity in Global Oil, EMEA Gas and Power, Agriculture, and Metals and Mining compared to the prior year as a result of increased volatility and commodity price movements, partially offset by the impact of fair value adjustments.

(ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

Lending and financing income of $A266 million for the year ended 31 March 2020 increased 6% from $A250 million in the prior year due to increased physical oil financing activity.

(iii) Inventory management and trading

CGM enters into financial and physical contracts including exchange traded derivatives, OTC derivatives, storage contracts and transportation agreements as part of its commodities platform. These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

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

Inventory management and trading income of $A178 million for the year ended 31 March 2020 decreased 73% from $A655 million in the prior year primarily due to reduced opportunities in North American Gas markets following a strong prior year that were partially offset by the timing of income recognition, which increased revenue relating to transport agreements.

The first half benefited from opportunities across a range of energy sectors which were partially offset by more challenging markets in Fuel oil (related to changing regulations) and North American gas markets in the second half. The prior year included significant gains linked to supply and demand imbalances across natural gas markets in specific North American regions which were not repeated.

Foreign exchange, interest rates and credit

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A682 million for the year ended 31 March 2020 increased 21% from $A564 million in the prior year. Increased income in the current year was driven by increased client activity in structured foreign exchange and interest rate products, primarily from corporates, generated across the Americas, EMEA and the Asia-Pacific region.

2.1 Net Interest and Trading Income

Continued

Equities

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

Equities net interest and trading income of $A353 million for the year ended 31 March 2020 increased 46% from $A242 million in the prior year reflecting increased opportunities in Asian markets and reduced trading losses following the structural change announced in the second half to refocus equities on the Asia-Pacific region.

Specialised and Asset Finance (SAF)

Net interest and trading income in SAF predominantly relates to net income from the loan and finance lease portfolios (including ship finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Net interest and trading income of $A166 million for the year ended 31 March 2020 increased 10% from $A151 million in the prior year. The increase was largely driven by the net proceeds from end of lease asset sales and favourable foreign exchange movements.

The loan and finance lease portfolio was $A6.3 billion as at 31 March 2020, an increase of 13% from $A5.6 billion as at 31 March 2019. The increase was largely due to the growth in funds products, partially offset by the equipment finance portfolio.

Macquarie Capital

Net interest and trading (expense)/income in Macquarie Capital includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading expense of $A41 million for the year ended 31 March 2020 compared to a Net interest and trading income of $A87 million in the prior year. The decrease was due to higher funding costs for balance sheet positions reflecting increased activity and higher trading losses related to a deterioration in current macroeconomic conditions as a result of COVID-19, partially offset by re-accretion and interest income on debt acquired at a discount and subsequently sold.

Corporate

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

Net interest and trading income of $A496 million for the year ended 31 March 2020 increased 57% from $A315 million in the prior year mainly due to accounting volatility from the changes in the fair value on economic hedges and transfer pricing income from the deployment of additional funding to Operating Groups during the year.

2.2 Fee and Commission Income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Base fees	1,086	967	12	2,053	1,815	13
Other asset management fees	157	146	8	303	304	(<1)
Base fees and other asset management fees	1,243	1,113	12	2,356	2,119	11
Performance fees	275	546	(50)	821	859	(4)
Mergers and acquisitions, advisory and underwriting fees	578	482	20	1,060	1,006	5
Brokerage and other trading-related income	458	412	11	870	932	(7)
Other fee and commission income	409	321	27	730	610	20
Total fee and commission income	2,963	2,874	3	5,837	5,526	6

Total fee and commission income of $A5,837 million for the year ended 31 March 2020 increased 6% from $A5,526 million in the prior year primarily due to an increase in base fees mainly driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from MIM as a result of additional assets acquired during the year, and an increase in mergers and acquisitions fee income in Macquarie Capital. This was partially offset by lower debt capital markets and other fee income in Macquarie Capital, and a reduction in brokerage following the structural change announced in the second half to refocus equities on the Asia-Pacific region in CGM and lower brokerage income in BFS as the wealth advice business focused on the high net worth segment.

Base fees, Other asset management fees and Performance fees

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Base fees						
MAM						
MIM	573	514	11	1,087	976	11
MIRA	498	436	14	934	802	16
Total MAM	1,071	950	13	2,021	1,778	14
Other Operating Groups	15	17	(12)	32	37	(14)
Total base fee income	1,086	967	12	2,053	1,815	13
Total other asset management fees	157	146	8	303	304	(<1)
Performance fees						
MAM						
MIM	2	4	(50)	6	6	–
MIRA	273	542	(50)	815	759	7
Total MAM	275	546	(50)	821	765	7
Other Operating Groups	–	–	–	–	94	(100)
Total performance fee income	275	546	(50)	821	859	(4)

2.2 Fee and Commission Income

Continued

Base fees

Base fees of $A2,053 million for the year ended 31 March 2020 increased 13% from $A1,815 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM, where base fees of $A2,021 million for the year ended 31 March 2020 increased 14% from $A1,778 million in the prior year. Base fee income benefited from foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from MIM as a result of additional assets acquired during the year. This was partially offset by the internalisation of ALX and asset realisations in MIRA-managed funds.

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

Other asset management fees

Other asset management fees includes fees earned on the BFS Wrap platform as well as distribution and marketing service fees in MAM.

Other asset management fees of $A303 million for the year ended 31 March 2020 were broadly in line with $A304 million in the prior year.

Performance fees

Performance fees of $A821 million for the year ended 31 March 2020 decreased 4% from $A859 million in the prior year.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks included performance fees from a broad range of funds including Macquarie European Infrastructure Fund (MEIF), MEIF 3 and 4, Macquarie Infrastructure Partners (MIP) and MIP II, Macquarie Global Infrastructure Fund (GIF) II and GIF III, Macquarie Super Core Infrastructure Fund (MSCIF) and other MIRA-managed funds, managed accounts and co-investors. The prior year included performance fees from MEIF, MEIF3, ALX, MIP, GIF II, Korea Macquarie Growth Fund (KMGF) and other MIRA-managed funds, managed accounts and co-investment mandates.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of $A1,060 million for the year ended 31 March 2020 increased 5% from $A1,006 million in the prior year.

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

Brokerage and other trading-related income

Brokerage and other trading-related income primarily includes brokerage income from the Equities and Futures businesses in CGM and brokerage income from the BFS Wrap and Vision platforms.

Brokerage and commissions income of $A870 million for the year ended 31 March 2020 decreased 7% from $A932 million in the prior year.

The decrease was driven by a reduction in brokerage following the structural change announced in the second half to refocus equities on the Asia-Pacific region in CGM and lower brokerage income in BFS as the wealth advice business focused on the high net worth segment.

Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including provision of wealth services, home loans, vehicle finance, credit cards, business loans and deposits. MAM includes fees related to capital raising and income from True Index products, while CGM includes income from structured, index and retail products.

Other fee and commission income of $A730 million for the year ended 31 March 2020 increased 20% from $A610 million in the prior year, primarily in CGM due to higher income from commodity related fees.

2.3 Net Operating Lease Income

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Rental income	682	1,066	(36)	1,748	2,290	(24)
Depreciation and other operating lease-related charges	(398)	(605)	(34)	(1,003)	(1,340)	(25)
Net operating lease income	**284**	461	(38)	**745**	950	(22)

Net operating lease income of $A745 million for the year ended 31 March 2020, decreased 22% from $A950 million in the prior year driven by the sale of Macquarie AirFinance to a joint venture during the first half, partially offset by higher operating lease income driven by the acquisition of rotorcraft assets in the prior year in MAM and higher secondary income from the TMT portfolio in addition to favourable foreign exchange movements in CGM.

The total operating lease portfolio(1) was $A3.9 billion as at 31 March 2020, a decrease of 65% from $A11.2 billion as at 31 March 2019. The decrease was driven by the sale of Macquarie AirFinance to a joint venture during the first half.

Subsequent to the sale, MAM's equity accounted income from its interest in the Macquarie AirFinance joint venture has been recognised in Share of net profits of associates and joint ventures. In addition, MAM earned base fee income from providing support services to the Macquarie AirFinance joint venture.

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

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Share of net profits/(losses) of associates and joint ventures	**144**	(49)	*	**95**	(56)	*

Share of net profits of associates and joint ventures was $A95 million for the year ended 31 March 2020 compared to losses of $A56 million in the prior year. The movement was primarily due to an increase in the share of net profits from the sale of a number of underlying assets within equity accounted investments and income from the Macquarie AirFinance joint venture during the year, partially offset by losses in a small number of underlying assets within equity accounted investments in MAM. The current year also included a non-recurring gain on an investment in Corporate and share of net losses from investments in the development, construction and operational phases, which included a small number of underperforming assets in Macquarie Capital.

(1) Within the operating lease portfolio Macquarie AirFinance was classified as held for sale at 31 March 2019. Also, Macquarie European Rail was classified as held for sale at 31 March 2020.

2.5 Credit and Other Impairment Charges

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Net credit impairment charges						
Loan assets	**(492)**	(126)	*290*	**(618)**	(173)	*257*
Loans to associates and joint ventures	**(7)**	(6)	*17*	**(13)**	(89)	*(85)*
Other assets	**(65)**	(16)	*	**(81)**	(39)	*108*
Margin money and settlement assets	**(71)**	–	*	**(71)**	–	*
Financial investments	**(10)**	(2)	*	**(12)**	(35)	*(66)*
Undrawn commitments and financial guarantees	**(16)**	(8)	*100*	**(24)**	2	*
Gross credit impairment charges	**(661)**	(158)	*	**(819)**	(334)	*145*
Recovery of loans previously written off	**–**	14	*(100)*	**14**	14	–
Total net credit impairment charges	**(661)**	(144)	*	**(805)**	(320)	*152*
Other impairment (charges)/reversal						
Interests in associates and joint ventures	**(126)**	7	*	**(119)**	(207)	*(43)*
Intangible assets and other non-financial assets	**(114)**	(2)	*	**(116)**	(25)	*
Total other impairment (charges)/reversal	**(240)**	5	*	**(235)**	(232)	*1*
Total credit and other impairment charges	**(901)**	(139)	*	**(1,040)**	(552)	*88*

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
MAM	**(226)**	(5)	*	**(231)**	(105)	*120*
BFS	**(106)**	(42)	*152*	**(148)**	(82)	*80*
CGM	**(223)**	(35)	*	**(258)**	(165)	*56*
Macquarie Capital	**(208)**	(59)	*253*	**(267)**	(175)	*53*
Corporate	**(138)**	2	*	**(136)**	(25)	*
Total credit and other impairment charges	**(901)**	(139)	*	**(1,040)**	(552)	*88*

Total credit and other impairment charges of $A1,040 million increased 88% from $A552 million in the prior year. This included $A805 million of net credit impairment charges, up from $A320 million in the prior year and including the impact of expected credit loss (ECL) charges, which reflects the uncertain macroeconomic outlook as a result of COVID-19.

MAM

Credit and other impairment charges of $A231 million for the year ended 31 March 2020 increased significantly from $A105 million in the prior year due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including an impairment charge on MIRA's investment in MIC and a small number of other investments.

BFS

Credit and other impairment charges of $A148 million for the year ended 31 March 2020 increased 80% from $A82 million in the prior year largely due to increased specific provisions in Business banking and Vehicle Finance together with increased credit impairment charges on the performing portfolios related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

CGM

Credit and other impairment charges of $A258 million for the year ended 31 March 2020 increased 56% from $A165 million in the prior year due to increased impairment charges on a small number of counterparties in Futures and FI&C, together with increased credit impairment charges on the performing loan and lease portfolio related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Macquarie Capital

Credit and other impairment charges of $A267 million for the year ended 31 March 2020 increased 53% from $A175 million in the prior year primarily related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19 impacting the performing loan portfolio.

Corporate

Credit and other impairment charges of $A136 million for the year ended 31 March 2020 increased significantly from $A25 million in the prior year driven by higher central overlay provisions for expected credit losses on the performing portfolio due to a higher weighting to the ECL downside scenario.

2.6 Other Operating Income and Charges

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Investment income						
Net (loss)/gain on equity investments	**(15)**	91	*	**76**	161	*(53)*
Net (loss)/gain on debt investments	**(45)**	7	*	**(38)**	17	*
Net gain on interests in associates and joint ventures	**987**	248	*298*	**1,235**	1,097	*13*
Net gain on sale of businesses and subsidiaries held for sale	**80**	211	*(62)*	**291**	624	*(53)*
Net gain on change of control, joint control and/or significant influence and reclassifications to/from held for sale	**–**	113	*(100)*	**113**	203	*(44)*
Total investment income	**1,007**	670	*50*	**1,677**	2,102	*(20)*
Other income	**205**	86	*138*	**291**	233	*25*
Total other operating income and charges	**1,212**	756	*60*	**1,968**	2,335	*(16)*

Total other operating income and charges of $A1,968 million for the year ended 31 March 2020 decreased 16% from $A2,335 million in the prior year, mainly driven by lower investment income in Macquarie Capital due to strong asset realisations in the prior year.

Investment income

Investment income totalled $A1,677 million for the year ended 31 March 2020, a decrease of 20% from $A2,102 million in the prior year primarily following strong asset realisations in the prior year in Macquarie Capital. Investment income in the current year primarily included income from asset realisations in Europe and Asia particularly in the green energy and infrastructure sectors in Macquarie Capital and gains on sale of investments in MAM.

Other income

Other income of $A291 million for the year ended 31 March 2020 increased 25% from $A233 million in the prior year. The increase was primarily driven by a one-off payment from ALX for the termination of management rights related to APRR in the current year in MAM and an increase in CGM from a fair value adjustment on debt securities. This was partially offset by a change in the composition of investments in Macquarie Capital including increased development expenditure in relation to green energy projects.

2.7 Operating Expenses

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Employment expenses						
Salary and related costs including commissions, superannuation and performance-related profit share	**(2,157)**	(2,238)	*(4)*	**(4,395)**	(4,357)	*1*
Share-based payments	**(237)**	(349)	*(32)*	**(586)**	(522)	*12*
Provision for long service leave and annual leave	**(5)**	(15)	*(67)*	**(20)**	(12)	*67*
Total compensation expenses	**(2,399)**	(2,602)	*(8)*	**(5,001)**	(4,891)	*2*
Other employment expenses including on-costs, staff procurement and staff training	**(148)**	(174)	*(15)*	**(322)**	(326)	*(1)*
Total employment expenses	**(2,547)**	(2,776)	*(8)*	**(5,323)**	(5,217)	*2*
Brokerage, commission and trading-related expenses	**(482)**	(482)	–	**(964)**	(1,140)	*(15)*
Occupancy expenses	**(199)**	(201)	*(1)*	**(400)**	(441)	*(9)*
Non-salary technology expenses	**(382)**	(367)	*4*	**(749)**	(684)	*10*
Other operating expenses						
Professional fees	**(243)**	(262)	*(7)*	**(505)**	(478)	*6*
Travel and entertainment expenses	**(86)**	(97)	*(11)*	**(183)**	(186)	*(2)*
Advertising and communication expenses	**(72)**	(67)	*7*	**(139)**	(119)	*17*
Amortisation of intangibles assets	**(39)**	(31)	*26*	**(70)**	(47)	*49*
Auditor's remuneration	**(21)**	(19)	*11*	**(40)**	(38)	*5*
Other expenses	**(320)**	(178)	*80*	**(498)**	(537)	*(7)*
Total other operating expenses	**(781)**	(654)	*19*	**(1,435)**	(1,405)	*2*
Total operating expenses	**(4,391)**	(4,480)	*(2)*	**(8,871)**	(8,887)	*(<1)*

Total operating expenses of $A8,871 million for the year ended 31 March 2020 was in line with the prior year mainly due to the impact of unfavourable foreign exchange movements and higher technology spend. This was offset by a decrease in brokerage, commission and trading-related expenses primarily across the equities markets in CGM and occupancy expenses following AASB 16 adoption.

Key drivers of the movement included:

- Total employment expenses of $A5,323 million for the year ended 31 March 2020 increased 2% from $A5,217 million in the prior year mainly driven by the impact of unfavourable foreign exchange movements, higher average headcount driven by central service groups due to business growth, technology projects and ongoing regulatory compliance and higher share-based payment expense mainly driven by the accelerated amortisation of prior years' equity awards for retiring Key Management Personnel. This was partially offset by lower performance-related profit share expense as a result of lower Group performance and higher retention rates being applied, and lower headcount in BFS as the wealth advice business focused on the high net worth segment and in CGM following the structural change announced in the second half to refocus equities on the Asia-Pacific region
- Brokerage, commission and trading-related expenses of $A964 million for the year ended 31 March 2020 decreased 15% from $A1,140 million in the prior year primarily due to the equities structural change to refocus on the Asia-Pacific region in CGM and the sale of an investment in MPF in the first half in BFS
- Occupancy expenses of $A400 million for the year ended 31 March 2020 decreased 9% from $A441 million in the prior year reflecting the transitional and classification consequences of adopting the new lease accounting standard AASB 16, with interest expense on the lease liability now recognised within net interest income
- Non-salary technology expenses of $A749 million for the year ended 31 March 2020 increased 10% from $A684 million in the prior year primarily driven by higher project spend and cloud consumption from an increase in business activity and unfavourable foreign exchange movements
- Total other operating expenses of $A1,435 million for the year ended 31 March 2020 increased 2% from $A1,405 million in the prior year mainly due to increased business activity across the Operating Groups and the impact of unfavourable foreign exchange movements.

2.8 Headcount

	AS AT			MOVEMENT	
	Mar 20	Sep 19	Mar 19	Sep 19 %	Mar 19 %
Headcount by Operating Group[1]					
MAM	**1,899**	1,789	1,900	*6*	*(<1)*
BFS	**2,660**	2,651	2,772	*<1*	*(4)*
CGM	**2,636**	2,816	2,866	*(6)*	*(8)*
Macquarie Capital	**1,547**	1,459	1,369	*6*	*13*
Total headcount – Operating Groups	**8,742**	8,715	8,907	*<1*	*(2)*
Total headcount – Corporate	**7,107**	6,989	6,695	*2*	*6*
Total headcount	**15,849**	15,704	15,602	*1*	*2*
Headcount by region					
Australia[2]	**6,670**	6,537	6,675	*2*	*(<1)*
International:					
Americas	**2,756**	2,803	2,833	*(2)*	*(3)*
Asia	**4,014**	3,911	3,681	*3*	*9*
Europe, Middle East and Africa	**2,409**	2,453	2,413	*(2)*	*(<1)*
Total headcount – International	**9,179**	9,167	8,927	*<1*	*3*
Total headcount	**15,849**	15,704	15,602	*1*	*2*
International headcount ratio (%)	**58**	58	57		

Total headcount increased 2% to 15,849 as at 31 March 2020 from 15,602 as at 31 March 2019, mainly to support business growth, technology projects and ongoing regulatory compliance in central service groups. The year-on-year decrease in Operating Group headcount was driven by CGM, following the structural change announced in the second half to refocus equities on the Asia-Pacific region, and by BFS due to realignment of the wealth advice business to focus on the high net worth segment, partially offset by additional headcount in the US and Europe in Macquarie Capital to support future business growth. In addition, the second half increase in MAM headcount was primarily driven by an internal restructure resulting in the transfer of certain business aligned support headcount from FMG to MAM.

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

2.9 Income Tax Expense

	FULL-YEAR TO	
	Mar 20 $Am	Mar 19 $Am
Operating profit before income tax	**3,454**	3,867
Prima facie tax @ 30%	**1,036**	1,160
Income tax permanent differences	**(308)**	(281)
Income tax expense	**728**	879
Effective tax rate[1]	**21.0%**	22.8%

Income tax expense for the year ended 31 March 2020 was $A728 million, compared to $A879 million in the prior year. The effective tax rate for the year ended 31 March 2020 was 21.0%, down from 22.8% in the prior year.

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

(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests increased operating profit before income tax by $A5 million for the year ended 31 March 2020 (31 March 2019: reduced operating profit before income tax by $A6 million).

Segment Analysis

Carmody's Hill wind farm, South Australia

Macquarie's investment in Carmody's Hill wind farm development with Georgetown Hills Renewable Energy will power approximately 188,000 homes, reducing CO_2 emissions by 788,000 tonnes per annum in South Australia once built.

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 Operating Groups and a Corporate segment.

In the first half, all businesses of the Corporate and Asset Finance (CAF) Operating Group were aligned to other Operating Groups, where they have the greatest opportunities in terms of shared clients and complementary offerings as follows:

- CAF Principal Finance joined Macquarie Capital to bring together all principal investing activity and enhance our ability to invest directly and alongside clients and partners
- CAF Transportation Finance joined MAM, reflecting its evolution towards a fiduciary business following the sale of Macquarie AirFinance to a joint venture
- CAF Asset Finance moved to CGM, reflecting a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients
- In addition, certain fiduciary businesses, such as the infrastructure debt business (MIDIS), moved from CAF Asset Finance in the Bank Group to MAM in the Non-Bank Group.

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

These segments have been set up based on the different core products and services offered. Following the reorganisation described above, the Operating Groups comprise:

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a diverse range of tailored specialised asset finance solutions globally across a variety of industries and asset classes.
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and construction of infrastructure and energy projects, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients.

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

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, central credit and asset related impairments including certain additional central overlays on expected credit losses, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests and holders of Macquarie Income Securities (MIS). The MIS were repaid on 15 April 2020, followed by a redemption on 16 April 2020.

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 may be charged to Operating Groups for the early repayment of term funding.

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

Deposits are a funding source for the Banking Group. BFS receives a deposit premium from Group Treasury on deposits that it generates. This deposit premium is included within Net interest and trading income for segment reporting purposes.

Transactions between Operating Segments

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

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

Accounting for derivatives that economically hedge interest rate risk

For businesses that predominantly earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value. The changes in fair value (volatility) are recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for changes in fair value that are attributable to the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of the non-trading businesses, with changes in fair value recognised within the Corporate segment and managed via the application of hedge accounting.

Central service groups

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

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

Performance-related profit share and share-based payments expense

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

Income tax

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

This internal management revenue/charges category, which is primarily used for permanent income tax differences generated by the Operating Groups, are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on consolidation.

Presentation of segment income statements

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

3.1 Basis of Preparation

Continued

	MAM $Am	BFS $Am
Full-year ended 31 March 2020		
Net interest and trading (expense)/income	(402)	1,728
Fee and commission income/(expense)	3,207	445
Net operating lease income	380	–
Share of net profits/(losses) of associates and joint ventures	224	2
Other operating income and charges		
Credit and Other impairments charges	(231)	(148)
Other operating income and charges	465	8
Internal management revenue/(charge)	89	2
Net operating income	3,732	2,037
Total operating expenses	(1,554)	(1,267)
Operating profit/(loss) before income tax	2,178	770
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(1)	–
Net profit/(loss) contribution	**2,177**	**770**
Full-year ended 31 March 2019		
Net interest and trading (expense)/income	(469)	1,678
Fee and commission income/(expense)	2,830	476
Net operating lease income	662	–
Share of net profits/(losses) of associates and joint ventures	114	8
Other operating income and charges		
Credit and Other impairments charges	(105)	(82)
Other operating income and charges	188	21
Internal management revenue/(charge)	107	2
Net operating income	3,327	2,103
Total operating expenses	(1,453)	(1,347)
Operating profit/(loss) before income tax	1,874	756
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(2)	–
Net profit/(loss) contribution	**1,872**	**756**

CGM $Am	Macquarie Capital $Am	Corporate $Am	Total $Am
2,939	(41)	496	**4,720**
1,271	951	(37)	**5,837**
360	–	5	**745**
23	(197)	43	**95**
(258)	(267)	(136)	**(1,040)**
98	1,396	1	**1,968**
12	64	(167)	**–**
4,445	1,906	205	**12,325**
(2,699)	(1,168)	(2,183)	**(8,871)**
1,746	738	(1,978)	**3,454**
–	–	(728)	**(728)**
–	17	(11)	**5**
1,746	**755**	**(2,717)**	**2,731**
2,940	87	315	**4,551**
1,222	1,023	(25)	**5,526**
285	–	3	**950**
20	(191)	(7)	**(56)**
(165)	(175)	(25)	**(552)**
136	2,049	(59)	**2,335**
(4)	41	(146)	**–**
4,434	2,834	56	**12,754**
(2,689)	(1,073)	(2,325)	**(8,887)**
1,745	1,761	(2,269)	**3,867**
–	–	(879)	**(879)**
(2)	13	(15)	**(6)**
1,743	**1,774**	**(3,163)**	**2,982**

3.2 MAM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Net interest and trading expense	**(144)**	(258)	*(44)*	**(402)**	(469)	*(14)*
Fee and commission income						
Base fees	**1,071**	950	*13*	**2,021**	1,778	*14*
Performance fees	**275**	546	*(50)*	**821**	765	*7*
Other fee and commission income	**213**	152	*40*	**365**	287	*27*
Total fee and commission income	**1,559**	1,648	*(5)*	**3,207**	2,830	*13*
Net operating lease income	**77**	303	*(75)*	**380**	662	*(43)*
Share of net profits of associates and joint ventures	**141**	83	*70*	**224**	114	*96*
Other operating income and charges						
Net income on equity and debt investments	**201**	52	*287*	**253**	78	*224*
Credit and Other impairment charges	**(226)**	(5)	*	**(231)**	(105)	*120*
Other income	**156**	56	*179*	**212**	110	*93*
Total other operating income and charges	**131**	103	*27*	**234**	83	*182*
Internal management revenue	**89**	–	*	**89**	107	*(17)*
Net operating income	**1,853**	1,879	*(1)*	**3,732**	3,327	*12*
Operating expenses						
Employment expenses	**(262)**	(243)	*8*	**(505)**	(519)	*(3)*
Brokerage, commission and trading-related expenses	**(140)**	(127)	*10*	**(267)**	(248)	*8*
Other operating expenses	**(397)**	(385)	*3*	**(782)**	(686)	*14*
Total operating expenses	**(799)**	(755)	*6*	**(1,554)**	(1,453)	*7*
Non-controlling interests[1]	**1**	(2)	*	**(1)**	(2)	*(50)*
Net profit contribution	**1,055**	1,122	*(6)*	**2,177**	1,872	*16*
Non-GAAP metrics						
MAM (including MIRA) assets under management ($Ab)	**605.7**	562.0	*8*	**605.7**	550.0	*10*
MIRA equity under management ($Ab)	**149.3**	134.4	*11*	**149.3**	127.9	*17*
Headcount	**1,899**	1,789	*6*	**1,899**	1,900	*(<1)*

Net profit contribution of $A2,177 million for the year ended 31 March 2020, up 16% from the prior year:

– increased Investment-related income[2] includes gains on sale of investments, higher equity accounted income from the sale of a number of underlying assets and income from the Macquarie AirFinance joint venture during the year
– increased base fees primarily driven by foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from assets acquired during the year related to the mutual fund management business of Foresters.

Partially offset by:

– decreased net operating lease income driven by the sale of Macquarie AirFinance to a joint venture during the first half
– increased credit and other impairments recognised due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including an impairment charge on MIC
– higher operating expenses mainly driven by foreign exchange movements and the impact of new business acquired during the year (Foresters).

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.
(2) 'Investment-related income' refers to Net income on equity and debt investments and Share of net profits of associates and joint ventures.

Net interest and trading expense

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

Net interest and trading expense of $A402 million for the year ended 31 March 2020 decreased 14% from $A469 million in the prior year, driven by a decrease in interest expense due to the sale of Macquarie AirFinance to a joint venture during the first half, partially offset by an increase in investments.

Base fees

Base fee income of $A2,021 million for the year ended 31 March 2020 increased 14% from $A1,778 million in the prior year. Base fee income benefited from foreign exchange movements, fees earned on the Macquarie AirFinance joint venture, investments made by MIRA-managed funds and mandates as well as contributions from MIM as a result of additional assets acquired during the year. This was partially offset by the internalisation of ALX and asset realisations in MIRA-managed funds.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A821 million for the year ended 31 March 2020 increased 7% from $A765 million in the prior year. The year ended 31 March 2020 included performance fees from a broad range of funds including MEIF, MEIF3, MEIF4, MIP, MIP II, GIF II, GIF III, MSCIF and other MIRA-managed funds, managed accounts and co-investors. The prior year included performance fees from MEIF, MEIF3, ALX, MIP, GIF II, KMGF and other MIRA-managed funds, managed accounts and co-investors.

Other fee and commission income

Other fee and commission income includes fees related to capital raising, distribution services and transactions, brokerage and commission income and income from True Index products.

Distribution service fees and brokerage and commission income are offset by associated expenses that, for accounting purposes, are recognised in Operating expenses.

Other fee and commission income of $A365 million for the year ended 31 March 2020 increased 27% from $A287 million in the prior year, largely due to higher income from private capital markets, transaction fees and True Index Products.

Net operating lease income

Net operating lease income of $A380 million for the year ended 31 March 2020 decreased 43% from $A662 million in the prior year, driven by the sale of Macquarie AirFinance to a joint venture during the first half, partially offset by higher operating lease income driven by the acquisition of rotorcraft assets in the prior year.

The operating lease portfolio[(3)] $A1.7 billion as at 31 March 2020, a decrease of 81% from $A8.8 billion as at 31 March 2019. The decrease was driven by the sale of Macquarie AirFinance to a joint venture during the first half.

Subsequent to the sale, MAM's equity accounted income from its interest in the Macquarie AirFinance joint venture has been recognised in Share of net profits of associates and joint ventures. In addition, MAM earned base fee income from providing support services to the Macquarie AirFinance joint venture.

Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures of $A224 million for the year ended 31 March 2020 increased 96% from $A114 million in the prior year, due to an increase in the share of net profits from the sale of a number of underlying assets within equity accounted investments and income from the Macquarie AirFinance joint venture during the year, partially offset by losses in a small number of underlying assets within equity accounted investments.

At 30 September 2019, MAM held a 75% interest in the Macquarie AirFinance joint venture. During the second half Macquarie sold a 25% interest in the joint venture.

Net income on equity and debt investments

Net income on equity and debt investments of $A253 million for the year ended 31 March 2020 increased significantly from $A78 million in the prior year. The current year includes gains on sale of investments.

Credit and Other impairment charges

Credit and Other impairment charges of $A231 million for the year ended 31 March 2020 increased significantly from $A105 million in the prior year.

Higher Credit and other impairment charges were due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 including a write-down of MIRA's investment in MIC and a small number of other investments.

Other income

Other income of $A212 million for the year ended 31 March 2020 increased 93% from $A110 million in the prior year primarily driven by a one-off payment from ALX for the termination of management rights related to APRR in the current year. The prior year included the gain on disposal of operating lease assets.

Operating expenses

Total operating expenses of $A1,554 million for the year ended 31 March 2020 increased 7% from $A1,453 million in the prior year. The increase was mainly driven by foreign exchange movements, the impact of a new business acquired during the year (Foresters) as well as the full year impact of the GLL and ValueInvest acquisitions completed in the prior year partially offset by cost savings initiatives.

(3) Within the operating lease portfolio Macquarie AirFinance was classified as held for sale at 31 March 2019. Also, Macquarie European Rail was classified as held for sale at 31 March 2020.

3.3 BFS

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Net interest and trading income	**890**	838	*6*	**1,728**	1,678	*3*
Fee and commission income						
Wealth management fee income	**140**	144	*(3)*	**284**	315	*(10)*
Banking and leasing fee income	**79**	82	*(4)*	**161**	161	–
Total fee and commission income	**219**	226	*(3)*	**445**	476	*(7)*
Share of net profits/(losses) of associates and joint ventures	**5**	(3)	*	**2**	8	*(75)*
Other operating income and charges						
Credit and Other impairment charges	**(106)**	(42)	*152*	**(148)**	(82)	*80*
Other income	**8**	–	*	**8**	21	*(62)*
Total other operating income and charges	**(98)**	(42)	*133*	**(140)**	(61)	*130*
Internal management revenue	**–**	2	*(100)*	**2**	2	–
Net operating income	**1,016**	1,021	*(<1)*	**2,037**	2,103	*(3)*
Operating expenses						
Employment expenses	**(172)**	(183)	*(6)*	**(355)**	(421)	*(16)*
Brokerage, commission and trading-related expenses	**(85)**	(87)	*(2)*	**(172)**	(216)	*(20)*
Technology expenses[(1)]	**(183)**	(191)	*(4)*	**(374)**	(363)	*3*
Other operating expenses	**(191)**	(175)	*9*	**(366)**	(347)	*5*
Total operating expenses	**(631)**	(636)	*(1)*	**(1,267)**	(1,347)	*(6)*
Net profit contribution	**385**	385	–	**770**	756	*2*
Non-GAAP metrics						
Funds on platform[(2)] ($Ab)	**79.1**	91.5	*(14)*	**79.1**	86.0	*(8)*
Loan and lease portfolio[(3)] ($Ab)	**75.3**	67.4	*12*	**75.3**	62.5	*20*
BFS deposits[(4)] ($Ab)	**63.9**	56.2	*14*	**63.9**	53.4	*20*
Headcount	**2,660**	2,651	*<1*	**2,660**	2,772	*(4)*

Net profit contribution of $A770 million for the year ended 31 March 2020, up 2% from the prior year:

- growth in BFS deposits, loan portfolio and funds on platform average volumes
- lower employment expenses due to a reduction in average headcount mainly due to the realignment of the wealth advice business to focus on the high net worth segment.

Partially offset by:

- increased specific provisions in Business banking and Vehicle Finance together with increased credit impairment charges on the performing portfolios related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19
- margin compression on deposits
- lower wealth management fee income associated with realigning the wealth advice business to focus on the high net worth segment
- increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
(2) Funds on platform includes Macquarie Wrap and Vision.
(3) The Loan and lease portfolio comprises home loans, loans to Australian businesses, vehicle finance and credit cards.
(4) BFS deposits excludes corporate/wholesale deposits.

Net interest and trading income

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

Net interest and trading income of $A1,728 million for the year ended 31 March 2020 increased 3% from $A1,678 million in the prior year due to a 10% increase in the average BFS deposit balance and a 10% increase in average loan and lease portfolio volumes, partially offset by margin compression on deposits and the sale of an investment in MPF in the current year.

As at 31 March 2020 the deposit and loan and lease portfolios included:

- BFS Deposits of $A63.9 billion, up 20% from $A53.4 billion as at 31 March 2019;
- Home loan volumes of $A52.1 billion, up 35% from $A38.5 billion as at 31 March 2019;
- Vehicle finance volumes of $A13.7 billion, down 10% from $A15.2 billion as at 31 March 2019; and
- Business banking loan volumes of $A9.0 billion, up 10% from $A8.2 billion as at 31 March 2019.

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 $A79.1 billion at 31 March 2020, from $A86.0 billion at 31 March 2019 representing strong client inflows offset by market movements during March.

Wealth management fee income of $A284 million for the year ended 31 March 2020 decreased 10% from $A315 million in the prior year due to lower brokerage income as the wealth advice business focused on the high net worth segment.

Banking and leasing fee income

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

Banking and leasing fee income of $A161 million for the year ended 31 March 2020 was in line with the prior year.

Credit and Other impairment charges

Credit and Other impairment charges of $A148 million for the year ended 31 March 2020 increased 80% from $A82 million in prior year largely due to increased specific provisions in Business banking and Vehicle Finance together with increased credit impairment charges on the performing portfolios related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Other income

Other income of $A8 million for the year ended 31 March 2020 decreased 62% from $A21 million in prior year. The current year includes the gain on sale of an investment in MPF. The prior year included equity investment dividends and revaluations.

Operating expenses

Total operating expenses of $A1,267 million for the year ended 31 March 2020 decreased 6% from $A1,347 million in the prior year.

Employment expenses of $A355 million for the year ended 31 March 2020 decreased 16% from $A421 million in the prior year largely due to lower headcount as the wealth advice business focused on the high net worth segment.

Brokerage, commission and trading-related expenses of $A172 million for the year ended 31 March 2020 decreased 20% from $A216 million in the prior year largely due to the sale of an investment in MPF in the first half.

Technology expenses of $A374 million for the year ended 31 March 2020 increased 3% from $A363 million in the prior year to support business growth.

Other operating expenses of $A366 million for the year ended 31 March 2020 increased 5% from $A347 million in the prior year driven by increased risk and regulatory costs.

3.4 CGM

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Net interest and trading income						
Commodities						
Risk management products	**662**	632	*5*	**1,294**	1,078	*20*
Lending and financing	**151**	115	*31*	**266**	250	*6*
Inventory management and trading	**(124)**	302	*	**178**	655	*(73)*
Total commodities	**689**	1,049	*(34)*	**1,738**	1,983	*(12)*
Foreign exchange, interest rates and credit	**337**	345	*(2)*	**682**	564	*21*
Equities	**137**	216	*(37)*	**353**	242	*46*
Specialised and Asset Finance	**88**	78	*13*	**166**	151	*10*
Net interest and trading income	**1,251**	1,688	*(26)*	**2,939**	2,940	*(<1)*
Fee and commission income						
Brokerage and other trading-related income	**426**	383	*11*	**809**	857	*(6)*
Other fee and commission income	**239**	223	*7*	**462**	365	*27*
Total fee and commission income	**665**	606	*10*	**1,271**	1,222	*4*
Net operating lease income	**203**	157	*29*	**360**	285	*26*
Share of net profits of associates and joint ventures	**14**	9	*56*	**23**	20	*15*
Other operating income and charges						
Net income on equity and debt investments	**8**	4	*100*	**12**	73	*(84)*
Credit and Other impairment charges	**(223)**	(35)	*	**(258)**	(165)	*56*
Other income	**41**	45	*(9)*	**86**	63	*37*
Total other operating income and charges	**(174)**	14	*	**(160)**	(29)	*
Internal management revenue/(charges)	**10**	2	*	**12**	(4)	*
Net operating income	**1,969**	2,476	*(20)*	**4,445**	4,434	*<1*
Operating expenses						
Employment expenses	**(389)**	(389)	–	**(778)**	(781)	*(<1)*
Brokerage, commission and trading-related expenses	**(242)**	(257)	*(6)*	**(499)**	(636)	*(22)*
Other operating expenses	**(730)**	(692)	*5*	**(1,422)**	(1,272)	*12*
Total operating expenses	**(1,361)**	(1,338)	*2*	**(2,699)**	(2,689)	*<1*
Non-controlling interests(1)	**–**	–	–	**–**	(2)	*(100)*
Net profit contribution	**608**	1,138	*(47)*	**1,746**	1,743	*<1*
Non-GAAP metrics						
Headcount	**2,636**	2,816	*(6)*	**2,636**	2,866	*(8)*

Net profit contribution of $A1,746 million for the year ended 31 March 2020, was in line with the prior year driven by:

- strength of global client contribution across all products and sectors including
  - strong results across the commodities platform from client hedging activity
  - increased contribution in structured foreign exchange and interest rate products across all regions
  - improved equities performance, primarily due to increased contribution from client activity in Asia.

Offset by:

- reduction in inventory management and trading income due to reduced opportunities in North American Gas markets following a strong prior year that were partially offset by the timing of income recognition, which increased revenue relating to transport agreements. The first half benefited from opportunities across a range of energy sectors which were partially offset by more challenging markets in Fuel oil (related to changing regulations) and North American gas markets in the second half
- increased impairment charges on a small number of counterparties in Futures and FI&C, together with increased credit impairment charges on the performing loan and lease portfolio related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

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

Net interest and trading income

Net interest and trading income of $A2,939 million was broadly in line with $A2,940 million in the prior year.

Commodities net interest and trading income

(i) Risk management products

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

Risk management products income of $A1,294 million for the year ended 31 March 2020 increased 20% from $A1,078 million in the prior year. The current year included strong results across the commodities platform due to increased client hedging activity in Global Oil, EMEA Gas and Power, Agriculture, and Metals and Mining compared to the prior year as a result of increased volatility and commodity price movements, partially offset by the impact of fair value adjustments.

(ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

Lending and financing income of $A266 million for the year ended 31 March 2020 increased 6% from $A250 million in the prior year due to increased physical oil financing activity.

(iii) Inventory management and trading

CGM enters into financial and physical contracts including exchange traded derivatives, OTC derivatives, storage contracts and transportation agreements as part of its commodities platform. These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

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

Inventory management and trading income of $A178 million for the year ended 31 March 2020 decreased 73% from $A655 million in the prior year primarily due to reduced opportunities in North American Gas markets following a strong prior year that were partially offset by the timing of income recognition, which increased revenue relating to transport agreements.

The first half benefited from opportunities across a range of energy sectors which were partially offset by more challenging markets in Fuel oil (related to changing regulations) and North American gas markets in the second half.

The prior year included significant gains linked to supply and demand imbalances across natural gas markets in specific North American regions which were not repeated.

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

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A682 million for the year ended 31 March 2020 increased 21% from $A564 million in the prior year. Increased income in the current year was driven by increased client activity in structured foreign exchange and interest rate products, primarily from corporates, generated across the Americas, EMEA and the Asia-Pacific region.

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 $A353 million for the year ended 31 March 2020 increased 46% from $A242 million in the prior year reflecting increased opportunities in Asian markets and reduced trading losses following the structural change announced in the second half to refocus equities on the Asia-Pacific region.

Specialised and Asset Finance net interest and trading income

Net interest and trading income in Specialised and Asset Finance predominantly relates to net income from the loan and finance lease portfolios (including ship finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Net interest and trading income of $A166 million for the year ended 31 March 2020 increased 10% from $A151 million in the prior year. The increase was largely driven by the net proceeds from end of lease asset sales and favourable foreign exchange movements.

The loan and finance lease portfolio was $A6.3 billion as at 31 March 2020, an increase of 13% from $A5.6 billion as at 31 March 2019. The increase was largely due to the growth in funds products, partially offset by the equipment finance portfolio.

Fee and commission income

Fee and commission income of $A1,271 million for the year ended 31 March 2020 increased 4% from $A1,222 million in the prior year.

The increase relates to higher income from commodity related fees, offset by a reduction in brokerage following the structural change announced in the second half to refocus equities on the Asia-Pacific region.

Net operating lease income

Net operating lease income of $A360 million for the year ended 31 March 2020 increased 26% from $A285 million in the prior year. The movement was primarily driven by higher secondary income from the Technology, Media and Telecoms portfolio in addition to favourable foreign exchange movements.

The operating lease portfolio was $A2.2 billion as at 31 March 2020, down 8% from $A2.4 billion as at 31 March 2019.

Net income on equity and debt investments

Net income on equity and debt investments of $A12 million for the year ended 31 March 2020 decreased 84% from $A73 million in the prior year. The prior year reflected the gain on sale on a small number of investments in the commodities sector which were not repeated.

Credit and Other impairment charges

Credit and other impairment charges of $A258 million for the year ended 31 March 2020 increased 56% from $A165 million in the prior year due to increased impairment charges on a small number of counterparties in Futures and FI&C, together with increased credit impairment charges on the performing loan and lease portfolio related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Operating expenses

Total operating expenses of $A2,699 million for the year ended 31 March 2020 were broadly in line with $A2,689 million in the prior year.

Employment expenses of $A778 million for the year ended 31 March 2020 were broadly in line with $A781 million in the prior year, driven by reduced expenses following a structural change announced in the second half to refocus equities on the Asia-Pacific region, partially offset by investment in personnel across the rest of the platform and the impact of foreign exchange movements.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of $A499 million for the year ended 31 March 2020 reduced 22% from $A636 million driven by a reduction in brokerage, commission and trading-related expenses due to the equities structural change to refocus on the Asia-Pacific region.

Other operating expenses of $A1,422 million for the year ended 31 March 2020 increased 12% from $A1,272 million in the prior year, driven by expenditure on technology infrastructure as well as increasing compliance and regulatory requirements.

3.5 Macquarie Capital

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	Mar 20 $Am	Mar 19 $Am	*Movement %*
Net interest and trading (expense)/income	**(23)**	(18)	*28*	**(41)**	87	*
Fee and commission income	**536**	415	*29*	**951**	1,023	*(7)*
Share of net losses of associates and joint ventures	**(60)**	(137)	*(56)*	**(197)**	(191)	*3*
Other operating income and charges						
Net income on equity and debt investments	**827**	589	*40*	**1,416**	1,970	*(28)*
Credit and Other impairment charges	**(208)**	(59)	*253*	**(267)**	(175)	*53*
Other (expenses)/income	**(7)**	(13)	*(46)*	**(20)**	79	*
Total other operating income and charges	**612**	517	*18*	**1,129**	1,874	*(40)*
Internal management revenue	**26**	38	*(32)*	**64**	41	*56*
Net operating income	**1,091**	815	*34*	**1,906**	2,834	*(33)*
Operating expenses						
Employment expenses	**(267)**	(272)	*(2)*	**(539)**	(477)	*13*
Brokerage, commission and trading-related expenses	**(15)**	(11)	*36*	**(26)**	(40)	*(35)*
Other operating expenses	**(293)**	(310)	*(5)*	**(603)**	(556)	*8*
Total operating expenses	**(575)**	(593)	*(3)*	**(1,168)**	(1,073)	*9*
Non-controlling interests[1]	**16**	1	*	**17**	13	*31*
Net profit contribution	**532**	223	*139*	**755**	1,774	*(57)*
Non-GAAP metrics						
Headcount	**1,547**	1,459	*6*	**1,547**	1,369	*13*

Net profit contribution of $A755 million for the year ended 31 March 2020, down 57% from the prior year due to:

- lower net income on equity and debt investments following strong asset realisations in the prior year
- lower net interest and trading income mainly due to higher funding costs for balance sheet positions reflecting increased activity
- increased credit impairment charges primarily related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19 impacting the performing loan portfolio
- lower fee and commission income due to lower debt capital markets fee income and other fee income, partially offset by higher mergers and acquisitions fee income
- higher operating expenses reflecting additional headcount and foreign exchange movements.

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

Net interest and trading (expense)/income

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

Net interest and trading expense of $A41 million for the year ended 31 March 2020 compared to a net interest and trading income of $A87 million in the prior year. The decrease was due to higher funding costs for balance sheet positions reflecting increased activity and higher trading losses related to a deterioration in current macroeconomic conditions as a result of COVID-19, partially offset by re-accretion and interest income on debt acquired at a discount and subsequently sold.

Fee and commission income

Fee and commission income of $A951 million for the year ended 31 March 2020 decreased 7% from $A1,023 million in the prior year.

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

Share of net losses of associates and joint ventures

Share of net losses of associates and joint ventures of $A197 million for the year ended 31 March 2020 was in line with $A191 million in the prior year.

Share of net losses of associates and joint ventures primarily related to investments in the development, construction and operational phases, which included a small number of underperforming assets.

Net income on equity and debt investments

Net income on equity and debt investments of $A1,416 million for the year ended 31 March 2020 decreased 28% from $A1,970 million in the prior year.

The investment income for the year ended 31 March 2020 primarily included income from asset realisations in Europe and Asia particularly in the green energy and infrastructure sectors.

The decrease in income was due to strong asset realisations in the prior year.

Credit and Other impairment charges

Credit and Other impairment charges of $A267 million for the year ended 31 March 2020 increased 53% from $A175 million in the prior year primarily related to a small number of loan facilities in the debt portfolio and a deterioration in current and expected macroeconomic conditions as a result of COVID-19 impacting the performing loan portfolio.

Other (expenses)/income

Other expenses were $A20 million for the year ended 31 March 2020 compared to other income of $A79 million in the prior year.

The movement reflected a change in the composition of investments in the portfolio including increased development expenditure in relation to green energy projects.

Operating expenses

Total operating expenses of $A1,168 million for the year ended 31 March 2020 increased 9% from $A1,073 million in the prior year. This increase was driven by additional headcount in the US and Europe to support future business growth and unfavourable foreign exchange movements.

3.6 Corporate

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	*Movement %*	**Mar 20 $Am**	Mar 19 $Am	*Movement %*
Net interest and trading income	**329**	167	*97*	**496**	315	*57*
Fee and commission expense	**(16)**	(21)	*(24)*	**(37)**	(25)	*48*
Net operating lease income	**4**	1	*300*	**5**	3	*67*
Share of net profits/(losses) of associates and joint ventures	**44**	(1)	*	**43**	(7)	*
Other operating income and charges						
Net (loss)/income on equity and debt investments	**(24)**	9	*	**(15)**	(47)	*(68)*
Credit and Other impairment (charges)/reversal	**(138)**	2	*	**(136)**	(25)	*
Other income and charges	**2**	14	*(86)*	**16**	(12)	*
Total other operating income and charges	**(160)**	25	*	**(135)**	(84)	*61*
Internal management charge	**(125)**	(42)	*198*	**(167)**	(146)	*14*
Net operating income and charges	**76**	129	*(41)*	**205**	56	*266*
Operating expenses						
Employment expenses	**(1,457)**	(1,689)	*(14)*	**(3,146)**	(3,019)	*4*
Other operating expenses	**432**	531	*(19)*	**963**	694	*39*
Total operating expenses	**(1,025)**	(1,158)	*(11)*	**(2,183)**	(2,325)	*(6)*
Income tax expense	**(352)**	(376)	*(6)*	**(728)**	(879)	*(17)*
Macquarie Income Securities	**(6)**	(6)	–	**(12)**	(15)	*(20)*
Non-controlling interests[1]	**1**	–	*	**1**	–	*
Net loss contribution	**(1,306)**	(1,411)	*(7)*	**(2,717)**	(3,163)	*(14)*
Non-GAAP metrics						
Headcount	**7,107**	6,989	*2*	**7,107**	6,695	*6*

The Corporate segment comprises head office and central service groups, including Group Treasury, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group. The Corporate segment also includes costs that are not allocated to the Operating Groups, including performance-related profit share and share-based payments expense, income tax expense and the net result of managing Macquarie's liquidity and funding requirements.

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

Net interest and trading income

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

Net interest and trading income of $A496 million for the year ended 31 March 2020 increased 57% from $A315 million in the prior year mainly due to accounting volatility from the changes in the fair value on economic hedges and transfer pricing income from the deployment of additional funding to Operating Groups during the year.

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

Net income on equity and debt investments was $A43 million for the year ended 31 March 2020, compared to a net loss of $A7 million in the prior year.

The current year reflects a non-recurring gain on an investment in Corporate.

Net (loss)/income on equity and debt investments

Net loss on equity and debt investments of $A15 million for the year ended 31 March 2020 decreased 68% from $A47 million in the prior year. The loss in the prior year was due to Group consolidation adjustments recognised in a prior period, realised in the Operating Groups.

Credit and Other impairment (charges)/reversal

Credit and Other impairment charges of $A136 million for the year ended 31 March 2020 increased significantly from $A25 million in the prior year driven by higher central overlay provisions for expected credit losses on the performing portfolio due to a higher weighting to the ECL downside scenario.

Employment expenses

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

Employment expenses of $A3,146 million for the year ended 31 March 2020 increased 4% from $A3,019 million in the prior year as a result of higher average headcount in central service groups to support business growth, technology projects and ongoing regulatory compliance, certain restructuring costs and higher share-based payment expense mainly driven by the accelerated amortisation of prior years' equity awards to retiring Key Management Personnel. This was partially offset by lower performance-related profit share expense as a result of lower Group performance and higher retention rates being applied.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of central service groups, offset by the recovery of central service groups' costs (including employment-related costs) from the Operating Groups.

The net recovery from the Operating Groups of $A963 million for the year ended 31 March 2020 increased 39% from $A694 million in the prior year, primarily driven by an increased recovery of a higher central service groups cost base driven by higher average headcount.

3.7 International Income

International income by region

	HALF-YEAR TO			FULL-YEAR TO		
	Mar 20 $Am	Sep 19 $Am	Movement %	Mar 20 $Am	Mar 19 $Am	Movement %
Americas	**1,161**	1,857	*(37)*	**3,018**	3,707	*(19)*
Asia	**1,085**	488	*122*	**1,573**	1,138	*38*
Europe, Middle East and Africa	**1,579**	1,891	*(16)*	**3,470**	3,472	*(<1)*
Total international income	**3,825**	4,236	*(10)*	**8,061**	8,317	*(3)*
Australia[1]	**1,979**	1,913	*3*	**3,892**	4,235	*(8)*
Total income (excluding earnings on capital and other corporate items)	**5,804**	6,149	*(6)*	**11,953**	12,552	*(5)*
Earnings on capital and other corporate items	**201**	171	*18*	**372**	202	*84*
Net operating income (as reported)	**6,005**	6,320	*(5)*	**12,325**	12,754	*(3)*
International income (excluding earnings on capital and other corporate items) ratio (%)	**66**	69		**67**	66	

International income by Operating Group and region

	FULL-YEAR TO MAR 20						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	**Total International $Am**	Australia[1] $Am	**Total Income[2] $Am**	**Total International %**
MAM	1,423	281	1,375	**3,079**	564	**3,643**	**85**
BFS	–	–	–	**–**	2,035	**2,035**	**–**
CGM	1,343	1,057	1,097	**3,497**	936	**4,433**	**79**
Macquarie Capital	252	235	998	**1,485**	357	**1,842**	**81**
Total	**3,018**	**1,573**	**3,470**	**8,061**	**3,892**	**11,953**	**67**

Total international income was $A8,061 million for the year ended 31 March 2020, a decrease of 3% from $A8,317 million in the prior year. Total international income represented approximately 67% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior year.

Income from the Americas of $A3,018 million for the year ended 31 March 2020 decreased 19% from $A3,707 million in the prior year and included a reduction in inventory management and trading income due to reduced opportunities in North American Gas markets in CGM. The prior year included significant gains linked to supply and demand imbalances across specific North American regions which were not repeated. In addition, Macquarie Capital included higher asset realisations in the prior year as well as lower debt capital markets fee income, and MAM recognised higher credit and other impairment charges. This was partially offset by the timing of income recognition, which increased revenue relating to transport agreements in CGM, and higher base and performance fees in MAM.

In Asia, income of $A1,573 million for the year ended 31 March 2020 increased 38% from $A1,138 million in the prior year. The increase was primarily driven by asset realisations in Macquarie Capital particularly in the green energy sector, partially offset by higher share of net losses of associates and joint ventures, primarily related to investments in the development, construction and operational phases which included a small number of underperforming assets. In addition, CGM included improved equities performance, primarily due to increased contribution from client activity.

Income from Europe, Middle East and Africa of $A3,470 million for the year ended 31 March 2020 was in line with the prior year which included a one-off payment from ALX for the termination of management rights related to APRR as well as higher share of net profits of associates and joint ventures from the sale of a number of underlying assets within equity accounted investments in MAM, offset by higher credit and other impairment charges related to a deterioration in current and expected macroeconomic conditions as a result of COVID-19 in Macquarie Capital.

Income from Australia of $A3,892 million for the year ended 31 March 2020 decreased 8% from $A4,235 million in the prior year. The decrease was primarily in Macquarie Capital due to strong asset realisations in the prior year. This was partially offset by a gain on sale of an investment and higher performance fees in MAM.

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

Balance Sheet

Macquarie wins 2019 Natural Gas/ LNG House of the Year

Macquarie won the Natural Gas/LNG House of the Year in the highly regarded Energy Risk Awards, which recognise excellence across global commodity markets, reflecting CGM's increase in traded gas volumes, geographic expansion and customer reach.

4.1 Statement of Financial Position

	AS AT		MOVEMENT
	Mar 20[1] $Am	Mar 19[2] $Am	Mar 19 %
Assets			
Cash and bank balances	**9,717**	8,643	*12*
Cash collateral on securities borrowed and reverse repurchase agreements	**37,710**	29,871	*26*
Trading assets	**16,855**	17,446	*(3)*
Margin money and settlement assets	**16,393**	13,694	*20*
Derivative assets	**45,607**	14,390	*217*
Financial investments	**8,930**	7,161	*25*
Held for sale assets	**1,634**	9,023	*(82)*
Other assets	**6,868**	7,736	*(11)*
Loan assets	**94,117**	77,811	*21*
Property, plant and equipment and right-of-use assets	**5,044**	4,701	*7*
Interests in associates and joint ventures	**8,319**	4,219	*97*
Intangible assets	**3,268**	2,031	*61*
Deferred tax assets	**1,340**	1,031	*30*
Total assets	**255,802**	197,757	*29*
Liabilities			
Cash collateral on securities lent and repurchase agreements	**2,334**	4,838	*(52)*
Trading liabilities	**5,544**	6,907	*(20)*
Margin money and settlement liabilities	**22,815**	16,897	*35*
Derivative liabilities	**38,399**	12,666	*203*
Deposits	**67,342**	56,191	*20*
Held for sale liabilities	**260**	6,809	*(96)*
Other liabilities	**8,027**	6,990	*15*
Borrowings	**17,093**	9,318	*83*
Debt issued	**64,556**	51,389	*26*
Deferred tax liabilities	**234**	425	*(45)*
Total liabilities excluding loan capital	**226,604**	172,430	*31*
Loan capital	**7,414**	6,963	*6*
Total liabilities	**234,018**	179,393	*30*
Net assets	**21,784**	18,364	*19*
Equity			
Contributed equity	**7,851**	6,181	*27*
Reserves	**2,773**	1,773	*56*
Retained earnings	**10,439**	9,807	*6*
Total capital and reserves attributable to the ordinary equity holders of Macquarie Group Limited	**21,063**	17,761	*19*
Non-controlling interests	**721**	603	*20*
Total equity	**21,784**	18,364	*19*

(1) The March 2020 financial position reflects the adoption of AASB 16 *Leases* (AASB 16) on 1 April 2019. As permitted by the standard, the Consolidated Entity has not restated the comparative financial reporting period. Refer to Note 1 *Summary of significant accounting policies* of the Financial Report for further details.
(2) Refer to Note 1(i) *Basis of Preparation* of the Financial Report for an explanation of the re-presentation of certain comparative financial information.

Balance sheet

The Consolidated Entity's statement of financial position has mainly been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2020.

Assets

Total assets of $A255.8 billion as at 31 March 2020 increased 29% from $A197.8 billion as at 31 March 2019 mainly due to an increase in Derivative assets, Loan assets, Cash collateral on securities borrowed and reverse repurchase agreements and Interests in associate and joint ventures. These increases were partially offset by a decrease in Held for sale assets.

- Derivative assets of $A45.6 billion as at 31 March 2020 increased 217% from $A14.4 billion as at 31 March 2019 following an increase in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM largely driven by recent volatility in financial markets
- Loan assets of $A94.1 billion as at 31 March 2020 increased 21% from $A77.8 billion as at 31 March 2019 primarily due to growth in Home Loans and Business Banking Loans in BFS and US Debt Capital Markets' positions in Macquarie Capital
- Cash collateral on securities borrowed and reverse repurchase agreements of $A37.7 billion as at 31 March 2020 increased 26% from $A29.9 billion as at 31 March 2019 following increased client flows and positions to maintain the Group's HQLA requirements
- Interests in associates and joint ventures of $A8.3 billion as at 31 March 2020 increased 97% from $A4.2 billion as at 31 March 2019 primarily due to new investments and sale of the MAF business to a joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest
- Held for sale assets of $A1.6 billion as at 31 March 2020 decreased 82% from $A9.0 billion as at 31 March 2019 primarily due to the sale of the MAF business to a joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest.

Liabilities

Total liabilities of $A234.0 billion as at 31 March 2020 increased 30% from $A179.4 billion as at 31 March 2019 mainly driven by an increase in Derivative liabilities, Debt issued, Deposits, Borrowings and Margin money and settlement liabilities. These increases were partially offset by a decrease in Held for sale liabilities.

- Derivative liabilities of $A38.4 billion as at 31 March 2020 increased 203% from $A12.7 billion as at 31 March 2019 primarily due to an increase in client trade volumes and mark to market movements in energy markets, interest rate and foreign exchange products in CGM largely driven by recent volatility in financial markets
- Debt issued of $A64.6 billion as at 31 March 2020 increased 26% from $A51.4 billion as at 31 March 2019 primarily due to the issue of long-term debt by Group Treasury to manage the Group's funding and liquidity, securitisation issuances in BFS and foreign exchange movements following the depreciation of the Australian dollar against major currencies
- Deposits of $A67.3 billion as at 31 March 2020 increased 20% from $A56.2 billion as at 31 March 2019 primarily due to an increase in customer deposits in BFS
- Borrowings of $A17.1 billion as at 31 March 2020 increased 83% from $A9.3 billion as at 31 March 2019 primarily driven by new investments in Macquarie Capital, oil finance transactions in CGM and Treasury's liquidity management activities
- Margin money and settlement liabilities of $A22.8 billion as at 31 March 2020 increased 35% from $A16.9 billion as at 31 March 2019 primarily due to an increase in call margin placed by financial institutions and commodity trade settlement balances in CGM
- Held for sale liabilities of $A0.3 billion as at 31 March 2020 decreased 96% from $A6.8 billion as at 31 March 2019 primarily due to the sale of the MAF business to a newly formed joint venture of which Macquarie held a 75% interest and at 31 March 2020 held a 50% interest.

Equity

Total equity of $A21.8 billion as at 31 March 2020 increased 19% from $A18.4 billion as at 31 March 2019.

The increase in the Consolidated Entity's equity was attributable to the issuance of Contributed equity of $A1.7 billion through the Institutional Private Placement and Share Purchase Plan, earnings of $A2.7 billion generated during the year, partially offset by dividends of $A2.1 billion, and an increase in the foreign currency and net investment hedge reserve of $A1.2 billion.

4.2 Loan Assets

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

	AS AT			MOVEMENT	
	Mar 20 $Ab	Sep 19 $Ab	Mar 19 $Ab	*Sep 19 %*	*Mar 19 %*
Loan assets per the statement of financial position	**94.1**	84.2	77.8	*12*	*21*
Operating lease assets	**3.9**	3.9	11.2	*–*	*(65)*
Other reclassifications[(1)]	**1.3**	0.8	0.5	*63*	*160*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[(2)]	**(12.8)**	(8.6)	(7.2)	*49*	*78*
Total loan assets including operating lease assets per the funded balance sheet[(3)]	**86.5**	80.3	82.3	*8*	*5*

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

Loan assets[4] including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

	Notes	AS AT Mar 20 $Ab	Sep 19 $Ab	Mar 19 $Ab	MOVEMENT Sep 19 %	Mar 19 %
BFS						
Home loans	1	**43.2**	38.8	35.6	*11*	*21*
Business banking	2	**9.4**	9.0	8.7	*4*	*8*
Vehicle finance	3	**10.6**	11.9	11.5	*(11)*	*(8)*
Total BFS		**63.2**	59.7	55.8	*6*	*13*
CGM						
Asset Finance:	4	**8.4**	8.0	7.9	*5*	*6*
Loans and finance lease assets		**6.2**	5.7	5.6	*9*	*11*
Operating lease assets		**2.2**	2.3	2.3	*(4)*	*(4)*
Resources and commodities	5	**3.0**	3.6	2.6	*(17)*	*15*
Other	6	**3.2**	2.6	2.5	*23*	*28*
Total CGM		**14.6**	14.2	13.0	*3*	*12*
MAM						
Operating lease assets[5]	7	**1.7**	1.6	8.9	*6*	*(81)*
Structured investments	8	**–**	0.2	0.2	*(100)*	*(100)*
Other	9	**0.3**	0.4	0.3	*(25)*	–
Total MAM		**2.0**	2.2	9.4	*(9)*	*(79)*
Macquarie Capital						
Corporate and other lending	10	**6.7**	4.2	4.1	*60*	*63*
Total Macquarie Capital		**6.7**	4.2	4.1	*60*	*63*
Total		**86.5**	80.3	82.3	*8*	*5*

(4) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.
(5) Movement includes the sale of Macquarie AirFinance to a joint venture.

4.2 Loan Assets

Continued

Explanatory notes concerning asset security of funded loan asset portfolio

1. Home loans

Secured by Australian residential property.

2. Business banking

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

3. Vehicle finance

Secured by Australian motor vehicles.

4. Asset Finance

Predominantly secured by underlying financed assets.

5. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets with associated price hedging to mitigate risk.

6. CGM Other

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

7. Operating lease assets

Secured by underlying financed assets including transportation assets.

8. 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.

9. MAM Other

Secured by underlying financed assets.

10. Corporate and other lending

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

4.3 Equity Investments

Equity investments are reported in the following categories in the statement of financial position:
- Financial investments;
- Interests in associates and joint ventures; and
- Other assets.

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

Equity investments reconciliation

	AS AT		MOVEMENT
	Mar 20 $Ab	Mar 19 $Ab	*Mar 19 %*
Equity investments			
Statement of financial position			
Equity investments at fair value	**1.3**	1.3	-
Interests in associates and joint ventures	**8.3**	4.2	*98*
Other assets – Held for sale associates	**0.1**	0.6	*(83)*
Total equity investments per statement of financial position	**9.7**	6.1	*59*
Adjustment for funded balance sheet			
Equity hedge positions[1]	**-**	(0.1)	*(100)*
Non-controlling interests[2]	**-**	(0.1)	*(100)*
Borrowings[3]	**(2.3)**	–	*
Total funded equity investments	**7.4**	5.9	*25*
Adjustment for equity investment analysis			
Associates' reserves[4]	**0.1**	–	*
Total adjusted equity investments[5]	**7.5**	5.9	*27*

(1) These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity-linked instruments except investment in associates. Consequently, these have been excluded from the analysis of equity investment exposures.
(2) These represent the portion of ownership in equity investments not attributable to Macquarie. As this is not a position that Macquarie is required to fund it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.
(3) Macquarie's investment in East Anglia ONE Limited was partially funded with asset-specific borrowings of $A2.3 billion as at 31 March 2020.
(4) Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.
(5) The adjusted book value represents the total net exposure to Macquarie.

4.3 Equity Investments

Continued

Equity investments by category

	AS AT		MOVEMENT
	Mar 20 $Ab	Mar 19 $Ab	*Mar 19 %*
Macquarie-managed funds			
Listed MIRA managed funds	**0.9**	0.9	-
Unlisted MIRA managed funds	**0.9**	1.0	*(10)*
Other Macquarie-managed funds	**0.3**	0.3	-
Total Macquarie-managed funds	**2.1**	2.2	*(5)*
Other investments			
Investments acquired to seed new MIRA products and mandates	**-**	–	-
Transport, industrial and infrastructure(6)	**1.3**	0.6	*117*
Telecommunications, information technology, media and entertainment	**1.2**	0.5	*140*
Green energy(7)	**1.0**	1.0	-
Conventional energy, resources and commodities	**0.4**	0.4	-
Real estate investment, property and funds management	**1.0**	0.7	*43*
Finance, wealth management and exchanges	**0.5**	0.5	-
Total other investments	**5.4**	3.7	*46*
Total equity investments	**7.5**	5.9	*27*

(6) Includes a 50% interest in Macquarie AirFinance investment following the sale of Macquarie AirFinance to a joint venture of which Macquarie held a 75% interest in the first half and the sale of 25% interest of the joint venture in the second half.
(7) Green energy includes Macquarie's investment in East Anglia ONE Limited. The investment was partially funded with asset-specific borrowings of $A2.3 billion as at 31 March 2020.

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Green
Investment
Group
울산동방귀신고래2

Funding and Liquidity

The first commercial floating LiDAR system in South Korea

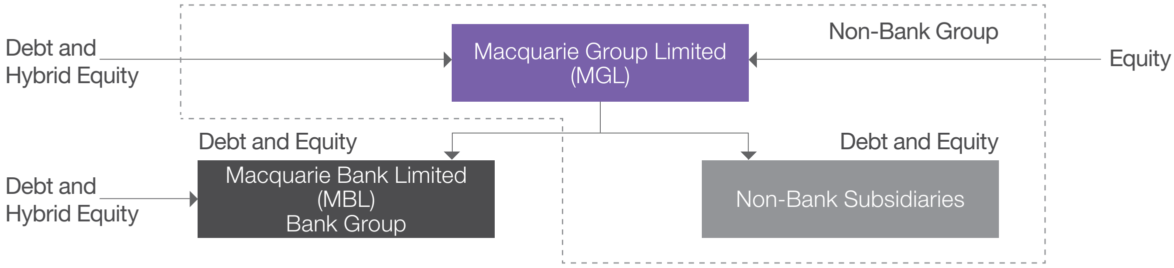
The installation of the first floating LiDAR system in South Korea will collect wind resource data and marks a critical step in the development of Green Investment Group's (GIG) first floating offshore wind project located off the coast of Ulsan City.

5.1 Liquidity Risk Governance and Management Framework

Governance and oversight

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

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



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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and the Risk Management Group (RMG). Macquarie's liquidity 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 policies are designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. The MBL liquidity policy outlines the standalone framework for the Bank Group and is consistent with the MGL policy. In some cases, other entities within Macquarie may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are also consistent with those applied in the broader MGL policy.

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

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

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

Liquidity risk tolerance and principles

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

Risk tolerances

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

Liquidity management principles

- Macquarie has a centralised approach to liquidity management
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities
- a regional liquidity framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis
- a liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis'
- a funding strategy is prepared annually and monitored on a regular basis
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them
- strong relationships are maintained to assist with managing confidence and liquidity
- the MGL Board, MBL Board and Senior Management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

Liquidity contingency plan

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

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

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

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

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

Funding strategy

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

5.2 Management of Liquidity Risk

Scenario analysis

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

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios
- determining a minimum level of cash and liquid assets
- determining an appropriate minimum tenor of funding for Macquarie's assets; and
- determining the overall capacity for future asset growth.

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

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

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available under a range of market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. Certain other Operating Segments also hold cash and liquid assets as part of their operations. Macquarie had $A38.9 billion cash and liquid assets as at 31 March 2020 (31 March 2019: $A26.3 billion), of which $A33.6 billion was held by Macquarie Bank (31 March 2019: $A24.3 billion).

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for Macquarie as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Credit ratings[1] as at 31 March 2020

	MACQUARIE BANK LIMITED			MACQUARIE GROUP LIMITED		
	Short-term rating	Long-term rating	Outlook	Short-term rating	Long-term rating	Outlook
Moody's Investors Service	P-1	A2	Stable	P-2	A3	Stable
Standard and Poor's[2]	A-1	A+	Stable[3]	A-2	BBB+	Stable
Fitch Ratings	F-1	A	Stable	F-2	A-	Stable

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie. As an APRA authorised and regulated Non-Operating Holding Company, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements. Separate quantitative requirements are imposed internally by the ALCO and the Board.

Liquidity coverage ratio

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

Macquarie Bank's three month average LCR to 31 March 2020 was 173% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net stable funding ratio

The NSFR is a twelve month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than twelve months. Macquarie Bank's NSFR as at 31 March 2020 was 118%. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.
(2) Standard and Poor's (S&P) does not place outlook statements on short-term ratings.
(3) On 8 April 2020, S&P placed Australia's sovereign credit rating on a negative outlook. As a result of this outlook change, S&P changed the outlook for MBL to negative.

5.3 Funded Balance Sheet

Macquarie's statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement to Macquarie.

The table below reconciles the reported assets of Macquarie to the net funded assets as at 31 March 2020. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

		AS AT	
	Notes	**Mar 20 $Ab**	Mar 19 $Ab
Total assets per Macquarie's statement of financial position		**255.8**	197.8
Accounting deductions:			
Self-funded trading assets	1	**(17.7)**	(16.6)
Derivative revaluation accounting gross-ups	2	**(38.0)**	(12.5)
Segregated funds	3	**(7.0)**	(4.6)
Outstanding trade settlement balances	4	**(6.8)**	(7.4)
Short-term working capital assets	5	**(8.4)**	(8.8)
Non-controlling interests	6	**(0.3)**	(0.2)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	7	**(16.0)**	(7.2)
Net funded assets		**161.6**	140.5

Explanatory notes concerning net funded assets

1. Self-funded trading assets

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

2. Derivative revaluation accounting gross-ups

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

3. Segregated funds

These represent the assets and liabilities that are recognised where Macquarie provides products such as investment-linked policy contracts or where Macquarie holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount.

4. Outstanding trade settlement balances

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

5. Short-term working capital assets

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

6. Non-controlling interests

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

7. Securitised assets and other non-recourse funding

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

5.4 Funding Profile for Macquarie

Funded balance sheet

	Notes	AS AT Mar 20 $Ab	Mar 19 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**0.6**	1.0
Commercial paper		**5.0**	6.3
Net trade creditors	2	**2.0**	2.1
Structured notes	3	**2.0**	2.5
Secured funding	4	**3.8**	5.8
Bonds	5	**40.9**	32.2
Other loans	6	**1.2**	1.2
Syndicated loan facilities	7	**10.1**	8.3
Customer deposits	8	**67.1**	56.0
Subordinated debt	9	**3.5**	3.0
Equity and hybrids	10	**25.4**	22.1
Total		**161.6**	140.5
Funded assets			
Cash and liquid assets	11	**38.9**	26.3
Self-securitisation	12	**23.5**	21.1
Net trading assets	13	**23.2**	21.3
Loan assets including operating lease assets less than one year	14	**13.4**	13.9
Loan assets including operating lease assets greater than one year	14	**49.6**	47.3
Debt investment securities	15	**1.9**	1.7
Co-investment in Macquarie-managed funds and other equity investments	16	**7.4**	5.9
Property, plant and equipment and intangibles		**3.7**	3.0
Total		**161.6**	140.5

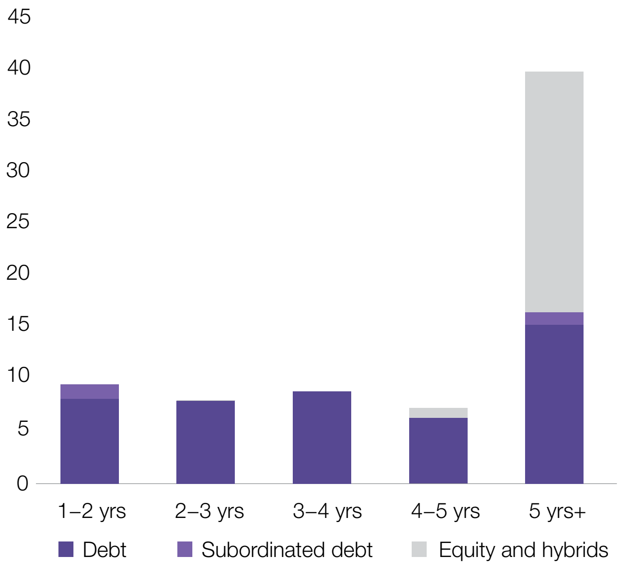
See section 5.7 for Notes 1–16.

5.4 Funding Profile for Macquarie

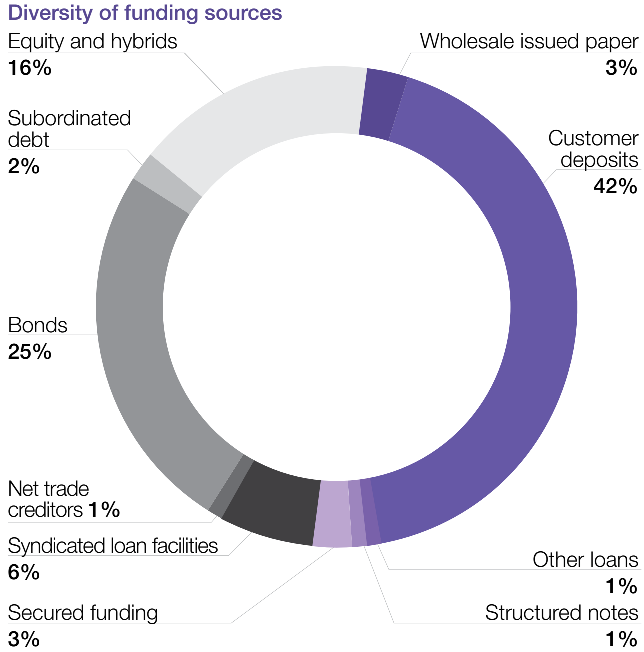
Continued

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



	AS AT MAR 20					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	**Total $Ab**
Structured notes[1]	–	0.1	–	0.2	1.7	**2.0**
Secured funding	1.1	0.1	0.2	–	–	**1.4**
Bonds	5.8	5.2	5.9	6.2	10.6	**33.7**
Other loans	0.1	–	–	–	–	**0.1**
Syndicated loan facilities	1.3	2.7	2.9	–	3.2	**10.1**
Total debt	**8.3**	**8.1**	**9.0**	**6.4**	**15.5**	**47.3**
Subordinated debt[2]	1.4	–	–	–	1.2	**2.6**
Equity and hybrids[2]	–	–	–	1.0	23.5	**24.5**
Total funding sources drawn	**9.7**	**8.1**	**9.0**	**7.4**	**40.2**	**74.4**
Undrawn	0.2	1.8	–	0.5	–	**2.5**
Total funding sources drawn and undrawn	**9.9**	**9.9**	**9.0**	**7.9**	**40.2**	**76.9**

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

As at 31 March 2020, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding, and securitisations) was 4.8 years as at 31 March 2020.

As at 31 March 2020, customer deposits represented $A67.1 billion, or 42% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A5.6 billion, or 3% of total funding, and other debt funding maturing within 12 months[3] and net trade creditors represented $A14.5 billion, or 9% of total funding.

(1) Structured notes are profiled using a behavioural maturity profile.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.
(3) Includes hybrids maturing in the next 12 months.

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2019, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2019 and 31 March 2020:

		Bank Group $Ab	Non-Bank Group $Ab	**Total $Ab**
Secured funding	– Term securitisation and other secured finance	11.1	0.7	**11.8**
Issued paper	– Senior unsecured	12.4	1.0	**13.4**
Loan facilities	– MGL loan facilities	–	0.8	**0.8**
Total		**23.5**	**2.5**	**26.0**

Macquarie has continued to develop its major funding markets and products during the year ended 31 March 2020.

From 1 April 2019 to 31 March 2020, Macquarie raised $A26.0 billion[(1)] of term funding including:

- $A13.4 billion of term wholesale issued paper comprising of $A9.2 billion of senior unsecured debt issuance, $A4.0 billion of private placements and $A0.2 billion of structured notes
- $A0.8 billion of MGL USD syndicated loan facility[(2)]
- $A8.5 billion of PUMA RMBS public and warehouse securitisation issuance
- $A1.0 billion of SMART ABS warehouse securitisation issuance; and
- $A2.3 billion of secured trade finance facilities.

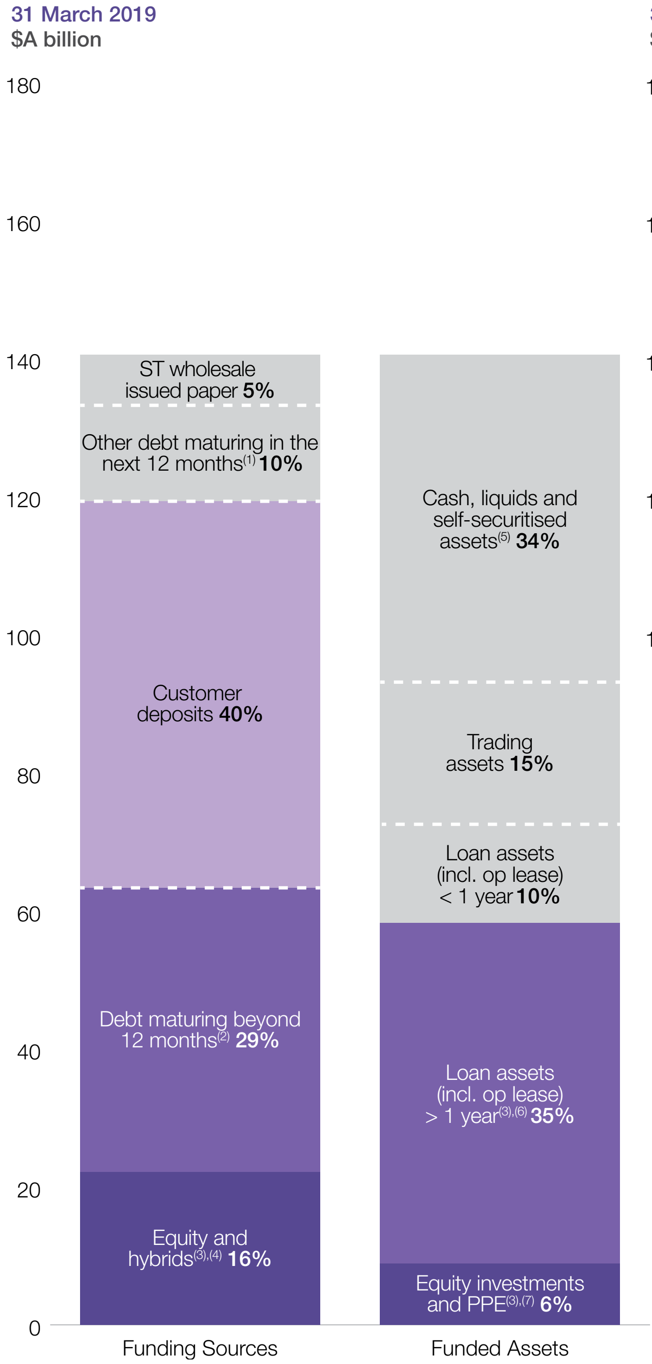
In addition to the $A26.0 billion of term funding raised, $A1.7 billion of equity capital was raised through $A1.0 billion institutional placement and $A0.7 billion share purchase plan.

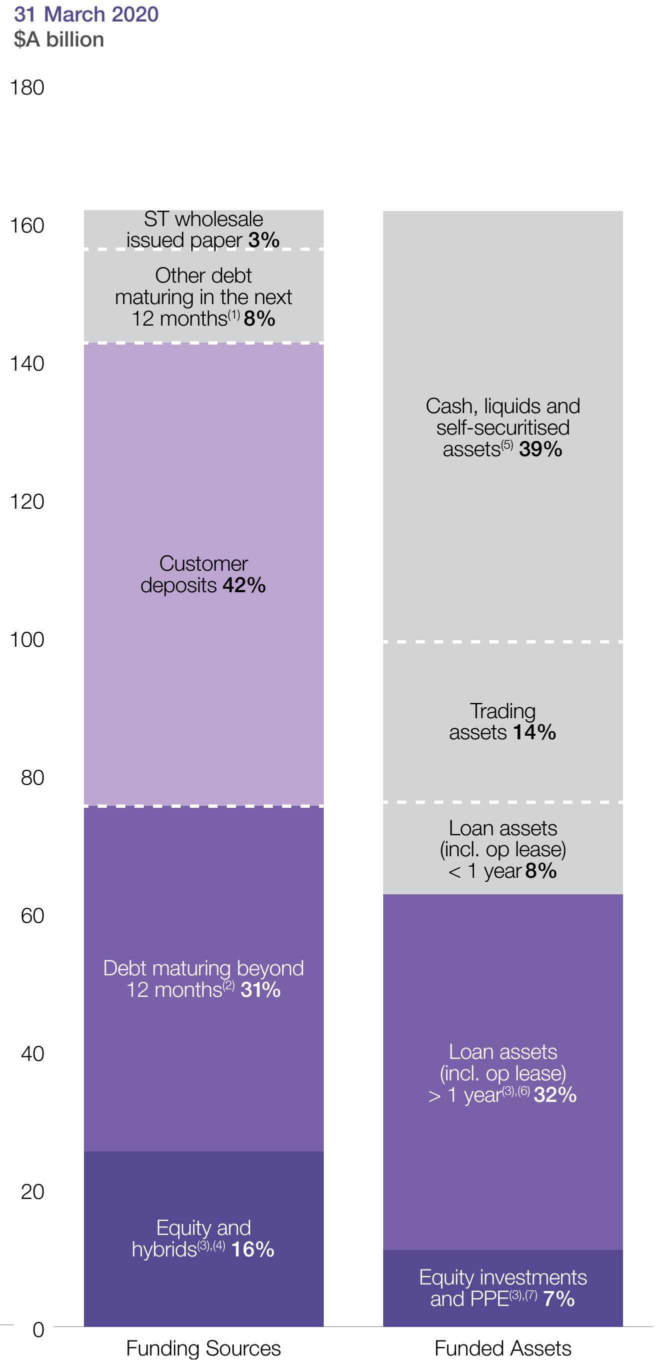
(1) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities.
(2) Includes $A0.2 billion green financing.

5.4 Funding Profile for Macquarie

Continued

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





(1) 'Other debt maturing in the next 12 months' includes Structured notes, Secured funding, Bonds, Other loans, Subordinated debt and Net trade creditors.
(2) 'Debt maturing beyond 12 months' includes Subordinated debt.
(3) Non-controlling interests are netted down in 'Equity and hybrids', 'Equity investments and PPE' and 'Loan assets (incl. op lease) > 1 year'.
(4) Hybrid instruments include MIS, MACS, BCN and MCN 2, 3 and 4 (BCN of $A0.4 billion were redeemed in March 2020 and MIS of $A0.4 billion were redeemed in April 2020).
(5) 'Cash, liquids and self-securitised assets' includes self-securitisation of repo eligible Australian assets originated by Macquarie, a portion of which Macquarie can utilise as collateral in the Reserve Bank of Australia's Committed Liquidity Facility.
(6) 'Loan assets (incl. op lease) > 1 year' includes Debt investment securities.
(7) 'Equity investments and PPE' includes Macquarie's co-investments in Macquarie-managed funds and equity investments.

5.5 Funding Profile for the Bank Group

Funded balance sheet

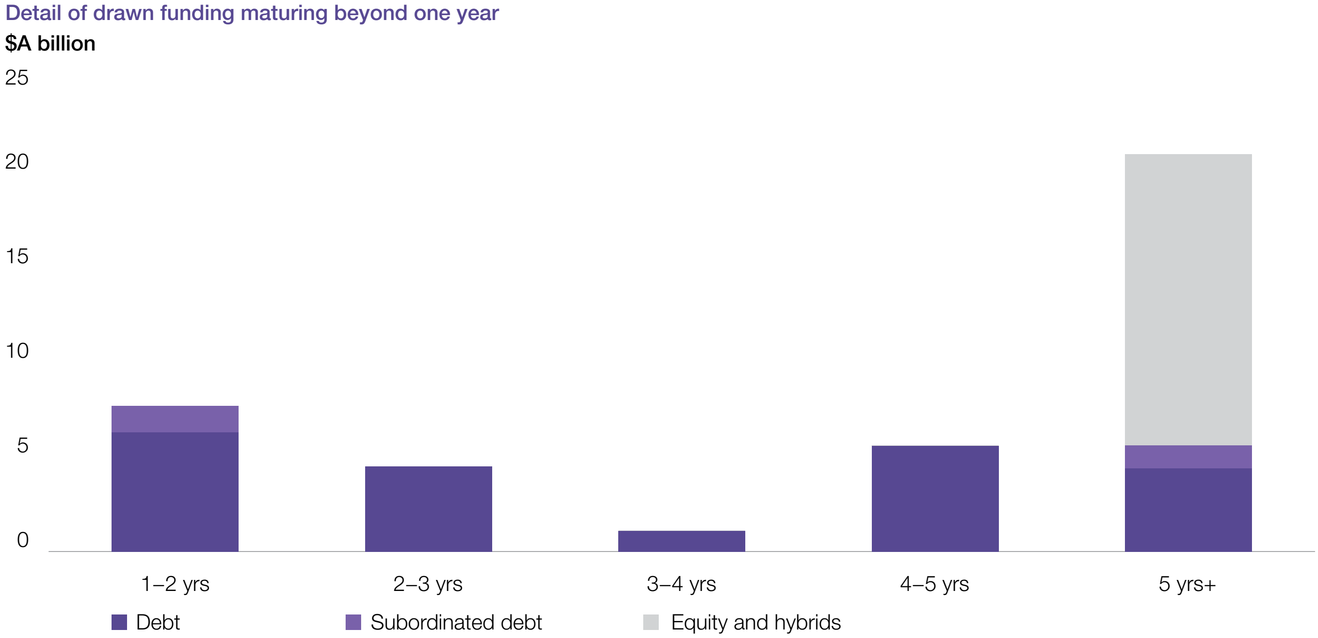
	Notes	AS AT Mar 20 $Ab	Mar 19 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**0.6**	1.0
Commercial paper		**5.0**	6.3
Net trade creditors	2	**1.1**	1.1
Structured notes	3	**1.9**	2.2
Secured funding	4	**3.2**	1.4
Bonds	5	**24.4**	16.1
Other loans	6	**0.9**	0.7
Customer deposits	8	**67.1**	56.0
Subordinated debt	9	**3.5**	3.0
Equity and hybrids	10	**15.8**	12.8
Total		**123.5**	100.6
Funded assets			
Cash and liquid assets	11	**33.6**	24.3
Self-securitisation	12	**23.5**	21.1
Net trading assets	13	**22.0**	20.3
Loan assets including operating lease assets less than one year	14	**12.2**	12.6
Loan assets including operating lease assets greater than one year	14	**41.7**	35.0
Debt investment securities	15	**1.7**	1.1
Non-Bank Group deposit with MBL		**(12.2)**	(14.8)
Co-investment in Macquarie-managed funds and other equity investments	16	**0.4**	0.4
Property, plant and equipment and intangibles		**0.6**	0.6
Total		**123.5**	100.6

See section 5.7 for Notes 1–16.

5.5 Funding Profile for the Bank Group

Continued

Term funding profile



	AS AT MAR 20					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	**Total $Ab**
Structured notes[(1)]	–	0.1	–	0.2	1.6	**1.9**
Secured funding	1.0	–	0.2	–	–	**1.2**
Bonds	5.2	4.4	0.9	5.4	2.8	**18.7**
Other loans	0.1	–	–	–	–	**0.1**
Total debt	**6.3**	**4.5**	**1.1**	**5.6**	**4.4**	**21.9**
Subordinated debt[(2)]	1.4	–	–	–	1.2	**2.6**
Equity and hybrids[(2)]	–	–	–	–	15.4	**15.4**
Total funding sources drawn	**7.7**	**4.5**	**1.1**	**5.6**	**21.0**	**39.9**
Undrawn	–	–	–	–	–	**–**
Total funding sources drawn and undrawn	**7.7**	**4.5**	**1.1**	**5.6**	**21.0**	**39.9**

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 3.8 years as at 31 March 2020.

As at 31 March 2020, customer deposits represented $A67.1 billion, or 54% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A5.6 billion, or 5% of total funding, and other debt funding maturing within 12 months[(3)] and net trade creditors represented $A10.9 billion, or 9% of total funding.

(1) Structured notes are profiled using a behavioural maturity profile.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.
(3) Includes hybrids maturing in the next 12 months.

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US8.9 billion debt securities outstanding as at 31 March 2020
- $US15 billion Commercial Paper Program under which $US2.9 billion of debt securities were outstanding as at 31 March 2020
- $US20 billion US Rule 144A/Regulation S Medium-Term Note Program under which $US8.3 billion of issuances were outstanding as at 31 March 2020
- $US1.1 billion Secured Trade Finance Facility[(1)] of which $US1.0 billion was drawn as at 31 March 2020
- $US5 billion Structured Note Program under which $US1.2 billion of funding from structured notes was outstanding as at 31 March 2020; and
- $A5 billion Covered Bond Programme under which $A0.9 billion of debt securities were outstanding as at 31 March 2020.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 31 March 2020, Macquarie Bank had $A0.6 billion of these securities outstanding.

As at 31 March 2020, Macquarie Bank had internally securitised $A23.5 billion of its own Australian assets (predominantly mortgages and motor vehicles).

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

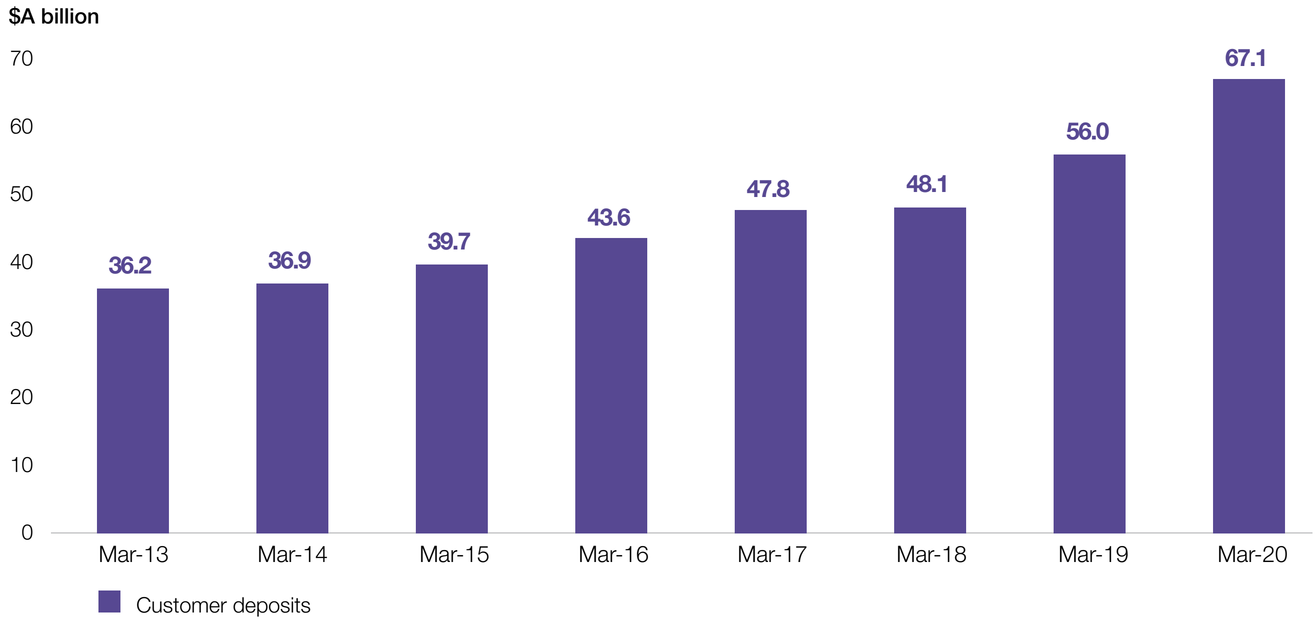
Deposit strategy

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

In particular, MBL is focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits. The Financial Claims Scheme (FCS) is an Australian Government scheme that provides protection to depositors up to a limit of $A250,000 per account holder. The majority of MBL's deposits are covered by the FCS.

The chart below illustrates the customer deposit growth since 31 March 2013.

Deposit trend



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

5.6 Funding Profile for the Non-Bank Group

Funded balance sheet

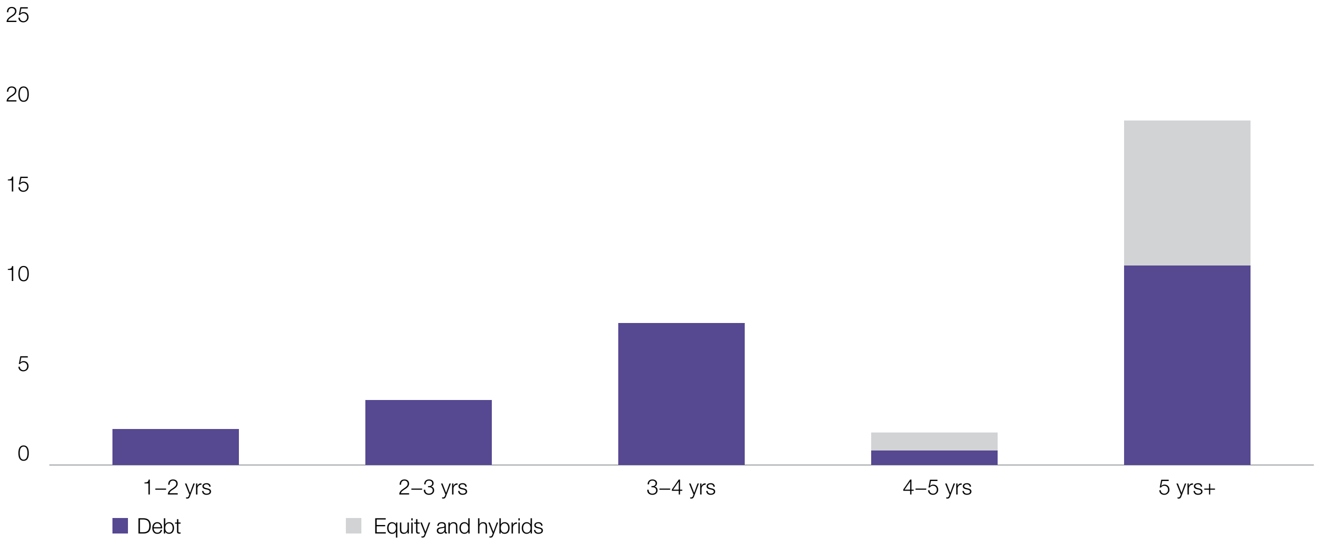
	Notes	AS AT Mar 20 $Ab	Mar 19 $Ab
Funding sources			
Net trade creditors	2	**0.9**	1.0
Structured notes	3	**0.1**	0.3
Secured funding	4	**0.6**	4.4
Bonds	5	**16.5**	16.1
Other loans	6	**0.3**	0.5
Syndicated loan facilities	7	**10.1**	8.3
Equity and hybrids	10	**9.6**	9.3
Total		**38.1**	39.9
Funded assets			
Cash and liquid assets	11	**5.3**	2.0
Non-Bank Group deposit with MBL		**12.2**	14.8
Net trading assets	13	**1.2**	1.0
Loan assets including operating lease assets less than one year	14	**1.2**	1.3
Loan assets including operating lease assets greater than one year	14	**7.9**	12.3
Debt investment securities	15	**0.2**	0.6
Co-investment in Macquarie-managed funds and other equity investments	16	**7.0**	5.5
Property, plant and equipment and intangibles		**3.1**	2.4
Total		**38.1**	39.9

See section 5.7 for Notes 2–16.

Term funding profile

Detail of drawn funding maturing beyond one year

$A billion



	AS AT MAR 20					
	1–2yrs $Ab	2–3yrs $Ab	3–4yrs $Ab	4–5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	–	–	–	–	0.1	**0.1**
Secured funding	0.1	0.1	–	–	–	**0.2**
Bonds	0.6	0.8	5.0	0.8	7.8	**15.0**
Syndicated loan facilities	1.3	2.7	2.9	–	3.2	**10.1**
Total debt	**2.0**	**3.6**	**7.9**	**0.8**	**11.1**	**25.4**
Equity and hybrids[2]	–	–	–	1.0	8.1	**9.1**
Total funding sources drawn	**2.0**	**3.6**	**7.9**	**1.8**	**19.2**	**34.5**
Undrawn	0.2	1.8	–	0.5	–	**2.5**
Total funding sources drawn and undrawn	**2.2**	**5.4**	**7.9**	**2.3**	**19.2**	**37.0**

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 5.6 years as at 31 March 2020.

As at 31 March 2020, other debt funding maturing within 12 months represented $A3.6 billion, or 9% of total funding.

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

- $US20 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US5.9 billion was outstanding as at 31 March 2020
- $US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro Medium-Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had $US2.2 billion debt securities outstanding as at 31 March 2020
- $A12.4 billion[3] of Syndicated Loan Facilities of which $A10.1 billion[3] was drawn as at 31 March 2020
- $US0.5 billion Secured Trade Finance Facility of which $US0.3 billion was drawn as at 31 March 2020
- $US2.1 billion of Muni-gas Prepayment funding outstanding as at 31 March 2020; and
- $US5 billion Structured Note Program under which $US0.1 billion of funding from structured notes was outstanding as at 31 March 2020.

(1) Structured notes are profiled using a behavioural maturity profile.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.
(3) Values are Australian dollar equivalents as at 31 March 2020.

5.7 Explanatory Notes Concerning Funding Sources and Funded Assets

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Subordinated debt

Long-term subordinated debt.

10. Equity and hybrids

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

11. Cash and liquid assets

Cash and liquid assets generally consist of amounts due from banks and liquid debt investment securities. 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. Macquarie can utilise a portion of this as collateral in the Reserve Bank of Australia's Committed Liquidity Facility.

13. Net trading assets

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

14. Loan assets including operating lease assets

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

See section 4.2 for further information.

15. Debt investment securities

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

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

These include co-investments in Macquarie-managed funds.

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FARMING

Capital

Tantanoola, Australia

Macquarie is one of the largest agricultural investment managers in the world. Located in Western Australia, the Tantanoola property – operated by Macquarie-managed Viridis Ag – grows grains such as wheat, barley, lupins and canola.

6.1 Overview

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

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

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

Eligible regulatory capital of Macquarie consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2020 include the Macquarie Income Securities (MIS), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes 2 (MCN2), Macquarie Group Capital Notes 3 (MCN3) and Macquarie Group Capital Notes 4 (MCN4).

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

Pillar 3

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

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS) and further updated by BCBS 279 'The standardised approach for measuring counterparty credit risk exposures'.
(2) APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

Macquarie Basel III regulatory capital surplus calculation

	AS AT MAR 20		AS AT SEP 19		MOVEMENT	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Macquarie eligible capital:						
Bank Group Gross Tier 1 capital	**15,163**	**15,163**	13,649	13,649	*11*	*11*
Non-Bank Group eligible capital	**9,589**	**9,589**	10,127	10,127	*(5)*	*(5)*
Eligible capital	**24,752**	**24,752**	23,776	23,776	*4*	*4*
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[3]	**87,996**	**94,976**	81,070	87,076	*9*	*9*
Capital required to cover RWA at 8.5%[4]	**7,480**	**8,073**	6,891	7,401	*9*	*9*
Tier 1 deductions	**659**	**2,195**	508	1,933	*30*	*14*
Total Bank Group capital requirement	**8,139**	**10,268**	7,399	9,334	*10*	*10*
Total Non-Bank Group capital requirement	**7,431**	**7,431**	7,790	7,790	*(5)*	*(5)*
Total Macquarie capital requirement (at 8.5%[4],[5] of the Bank Group RWA)	**15,570**	**17,699**	15,189	17,124	*3*	*3*
Macquarie regulatory capital surplus (at 8.5%[4],[5] of Bank Group RWA)	**9,182**	**7,053**	8,587	6,652	*7*	*6*

(3) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA internal to Macquarie are eliminated (31 March 2020: $A642 million; 30 September 2019: $A1,016 million).
(4) Calculated at 8.5% of the Bank Group's RWA. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB).
(5) Based on materiality, the countercyclical capital buffer (CCyB) of ~3bps has not been included. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions.

6.2 Bank Group Capital

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

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

Common Equity Tier 1 capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves. $A1,000 million of additional ordinary shares were issued by Macquarie Bank Limited to its parent entity of Macquarie B.H. Pty Ltd in March 2020.

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2020 consists of MIS and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

MIS are a perpetual instrument with no ordinary equity conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. MIS are included in Additional Tier 1 capital under Basel III transitional rules. MIS were repaid on 15 April 2020, followed by a redemption on 16 April 2020.

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

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). On 24 March 2020, MBL redeemed the BCN. No BCN were exchanged during the period before their redemption.

Bank Group Basel III Tier 1 Capital

	AS AT MAR 20		AS AT SEP 19		MOVEMENT	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Common Equity Tier 1 capital						
Paid-up ordinary share capital	**8,508**	**8,508**	7,507	7,507	*13*	*13*
Retained earnings	**4,350**	**4,350**	3,824	3,824	*14*	*14*
Reserves	**990**	**990**	637	637	*55*	*55*
Gross Common Equity Tier 1 capital	**13,848**	**13,848**	11,968	11,968	*16*	*16*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**47**	**47**	44	44	*7*	*7*
Deferred tax assets	**69**	**489**	67	437	*3*	*12*
Net other fair value adjustments	**(12)**	**(12)**	(131)	(131)	*(91)*	*(91)*
Intangible component of investments in subsidiaries and other entities	**53**	**53**	52	52	*2*	*2*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**441**	–	415	*–*	*6*
Shortfall in provisions for credit losses	**278**	**317**	315	350	*(12)*	*(9)*
Equity exposures	**–**	**588**	–	565	*–*	*4*
Capitalised software	**69**	**69**	75	75	*(8)*	*(8)*
Other Common Equity Tier 1 capital deductions	**155**	**203**	86	126	*80*	*61*
Total Common Equity Tier 1 capital deductions	**659**	**2,195**	508	1,933	*30*	*14*
Net Common Equity Tier 1 capital	**13,189**	**11,653**	11,460	10,035	*15*	*16*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**1,315**	**1,315**	1,681	1,681	*(22)*	*(22)*
Gross Additional Tier 1 capital	**1,315**	**1,315**	1,681	1,681	*(22)*	*(22)*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	*–*	*–*
Net Additional Tier 1 capital	**1,315**	**1,315**	1,681	1,681	*(22)*	*(22)*
Total Net Tier 1 capital	**14,504**	**12,968**	13,141	11,716	*10*	*11*

6.2 Bank Group Capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT MAR 20		AS AT SEP 19		*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	**29,246**	**29,246**	24,927	24,927	*17*	*17*
SME Corporate	**3,581**	**3,581**	3,573	3,573	*<1*	*<1*
Sovereign	**382**	**382**	199	199	*92*	*92*
Bank	**1,499**	**1,499**	1,535	1,535	*(2)*	*(2)*
Residential mortgage	**7,416**	**17,757**	6,839	15,948	*8*	*11*
Other retail	**4,220**	**4,220**	4,373	4,373	*(3)*	*(3)*
Retail SME	**3,508**	**3,515**	3,584	3,591	*(2)*	*(2)*
Total RWA subject to IRB approach	**49,852**	**60,200**	45,030	54,146	*11*	*11*
Specialised lending exposures subject to slotting criteria[1]	**6,545**	**6,545**	6,079	6,079	*8*	*8*
Subject to Standardised approach:						
Corporate	**262**	**262**	320	320	*(18)*	*(18)*
Residential mortgage	**740**	**740**	762	762	*(3)*	*(3)*
Other Retail	**1,928**	**1,928**	2,240	2,240	*(14)*	*(14)*
Total RWA subject to Standardised approach	**2,930**	**2,930**	3,322	3,322	*(12)*	*(12)*
Credit risk RWA for securitisation exposures	**758**	**758**	740	740	*2*	*2*
Credit Valuation Adjustment RWA	**7,635**	**7,635**	5,343	5,343	*43*	*43*
Exposures to Central Counterparties RWA	**835**	**835**	716	716	*17*	*17*
RWA for Other Assets	**3,580**	**2,089**	3,766	2,426	*(5)*	*(14)*
Total Credit risk RWA	**72,135**	**80,992**	64,996	72,772	*11*	*11*
Equity risk exposures RWA	**1,877**	**–**	1,770	–	*6*	*–*
Market risk RWA	**3,971**	**3,971**	4,934	4,934	*(20)*	*(20)*
Operational risk RWA	**10,655**	**10,655**	10,386	10,386	*3*	*3*
Interest rate risk in banking book RWA	**–**	**–**	–	–	*–*	*–*
Total Bank Group RWA	**88,638**	**95,618**	82,086	88,092	*8*	*9*
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	**14.9**	**12.2**	14.0	11.4		
Bank Group Tier 1 capital ratio (%)	**16.4**	**13.6**	16.0	13.3		

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

6.3 Non-Bank Group Capital

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

RISK[1]	BASEL III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2]. Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 84% of face value; average 50%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

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

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6.3 Non-Bank Group Capital

Continued

Non-Bank Group capital requirement

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

	AS AT MAR 20		
	Assets $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	5.3	51	12%
Loan assets[3]	9.1	758	104%
Debt investment securities	0.2	54	338%
Co-investments in Macquarie-managed funds and other equity investments	6.5	3,411	656%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.5		
Property, plant and equipment and intangibles	3.1	1,126	454%
Non-Bank Group deposit with MBL	12.2		
Net trading assets	1.2		
Total funded assets	**38.1**	**5,400**	
Self-funded and non-recourse assets			
Self-funded trading assets	1.2		
Outstanding trade settlement balances	3.4		
Derivative revaluation accounting gross ups	0.6		
Short-term working capital assets	10.3		
Assets funded non-recourse	3.2		
Non-controlling interests	0.3		
Total self-funded and non-recourse assets	**19.0**		
Total Non-Bank Group assets	**57.1**		
Equity commitments		879	
Off balance sheet exposures, operational, market and other risks and diversification offset[4]		1,152	
Non-Bank Group capital requirement		**7,431**	

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

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£ 0.05
per hour
£ 0.06
per hour
£
kW
CO2

Funds Management

CGM facilitates smart meter roll-out with challenger UK energy supplier

CGM has agreed to provide a £20 million facility to award-winning energy supplier So Energy Trading Limited, enabling its smart meter roll-out to UK customers over the next three years.

7.1 Assets Under Management

	AS AT			MOVEMENT	
	Mar 20 $Ab	Sep 19 $Ab	Mar 19 $Ab	*Sep 19 %*	*Mar 19 %*
Assets under Management by type					
MIM					
Fixed Income	**235.7**	200.1	209.2	*18*	*13*
Equities	**137.0**	150.5	141.5	*(9)*	*(3)*
Alternatives and Multi-asset	**9.9**	10.5	10.3	*(6)*	*(4)*
Total MIM	**382.6**	361.1	361.0	*6*	*6*
MIRA					
Infrastructure Equity	**176.4**	158.3	152.6	*11*	*16*
Infrastructure Debt	**11.7**	8.9	7.3	*31*	*60*
Real Estate	**29.1**	29.5	26.8	*(1)*	*9*
Agriculture	**2.8**	2.6	2.3	*8*	*22*
Transport Finance	**3.1**	1.6	–	*94*	*
Total MIRA	**223.1**	200.9	189.0	*11*	*18*
Total MAM	**605.7**	562.0	550.0	*8*	*10*
Other Operating Groups	**1.2**	1.4	1.3	*(14)*	*(8)*
Total Assets under Management	**606.9**	563.4	551.3	*8*	*10*
Assets under Management by region					
Americas	**291.6**	270.5	275.5	*8*	*6*
Europe, Middle East and Africa	**132.0**	122.1	107.5	*8*	*23*
Australia	**116.4**	109.7	108.1	*6*	*8*
Asia	**66.9**	61.1	60.2	*9*	*11*
Total Assets under Management	**606.9**	563.4	551.3	*8*	*10*

Assets under Management (AUM) is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.

AUM of $A606.9 billion as at 31 March 2020 increased 10% from $A551.3 billion as at 31 March 2019. The increase in AUM during the year was largely due to favourable impacts from foreign exchange, the acquisition of the assets related to the mutual fund management business of Foresters and investments made by MIRA-managed funds. These were partially offset by asset realisations made by MIRA-managed funds (see section 7.2 Equity under Management for further details), recent market movements and a reduction in contractual insurance assets.

7.2 Equity Under Management

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

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

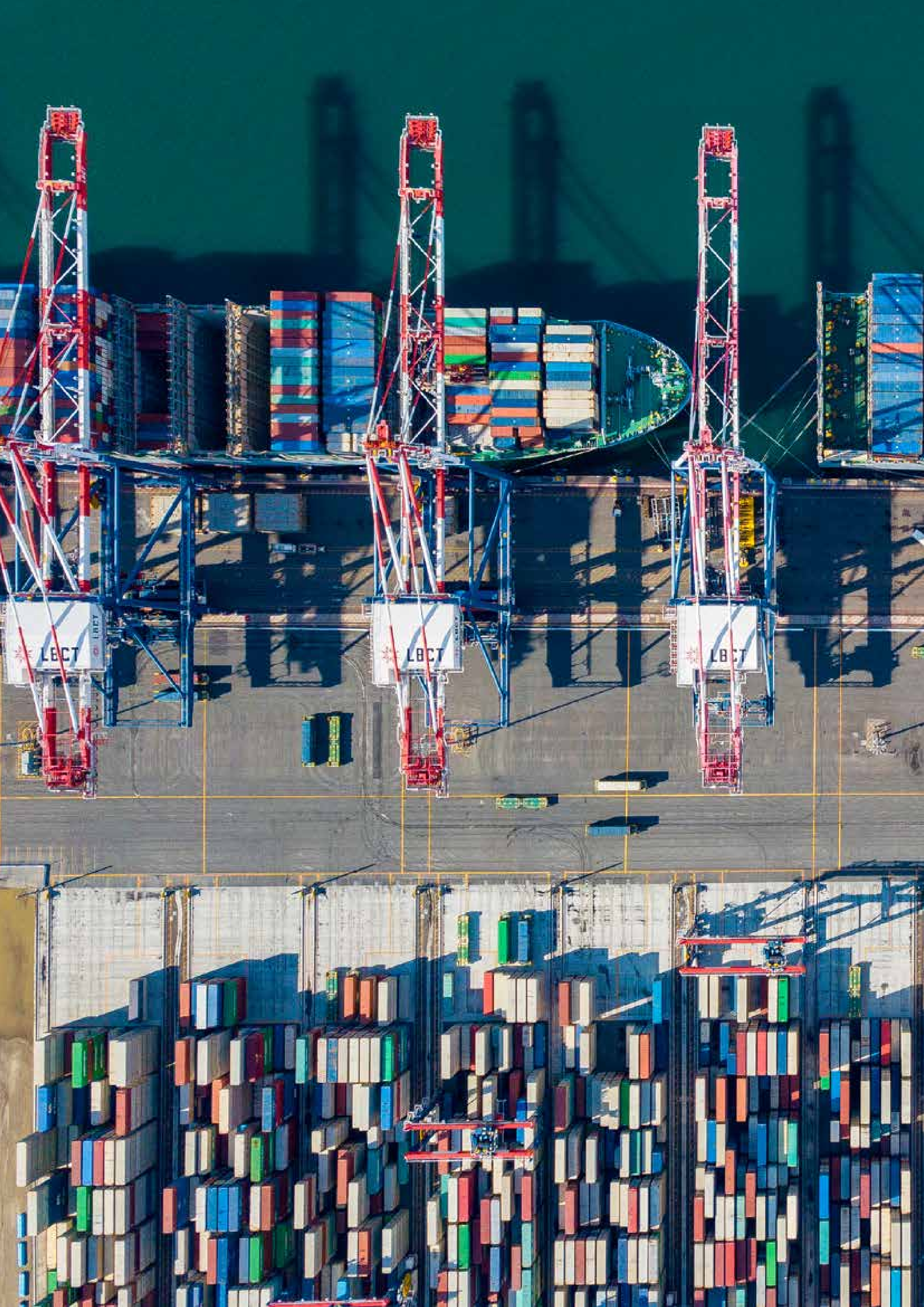
If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	AS AT[(2),(3)]			MOVEMENT	
	Mar 20 $Ab	Sep 19 $Ab	Mar 19 $Ab	*Sep 19 %*	*Mar 19 %*
Equity under Management by type					
Listed equity	**9.7**	11.6	10.8	*(16)*	*(10)*
Unlisted equity	**139.6**	122.8	117.1	*14*	*19*
Total EUM	**149.3**	134.4	127.9	*11*	*17*
Equity under Management by region[(4)]					
Australia	**14.4**	13.1	14.2	*10*	*1*
Europe, Middle East and Africa	**86.3**	75.0	67.0	*15*	*29*
Americas	**24.0**	22.2	23.4	*8*	*3*
Asia	**24.6**	24.1	23.3	*2*	*6*
Total EUM	**149.3**	134.4	127.9	*11*	*17*

EUM of $A149.3 billion as at 31 March 2020 increased 17% from $A127.9 billion as at 31 March 2019. The increase was primarily due to equity raised for unlisted funds and co-investments, and foreign exchange movements. These were partially offset by equity returned by unlisted funds and co-investments due to divestment of underlying assets and share price movements for listed funds.

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


LBCT
LBCT
LBCT

Glossary

Long Beach Container Terminal, United States of America

Long Beach Container Terminal is the largest cargo gateway in North America, handling one third of the region's total container volumes. A Macquarie-led consortium acquired the highly automated and energy efficient terminal operator in October 2019.

8.1 Glossary

Defined term	Definition
A	
AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 *Capital Adequacy: Measurement of Capital*.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for sale (HFS) associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
B	
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises of BFS and certain activities of CGM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $A100 each. BCN were subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions. BCN were redeemed on 24 March 2020.
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.

Defined term	Definition
C	
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.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 Deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 *Capital Adequacy: Measurement of Capital*.
Compensation ratio	The ratio of Compensation expense to Net operating income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.
D	
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
E	
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
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.
ECL	Expected Credit Losses as defined and measured in terms of AASB 9: *Financial Instruments*.
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer to definition in section 7.2.
Expense/Income ratio	Total operating expenses expressed as a percentage of Net operating income.

8.1 Glossary

Continued

Defined term	Definition
F	
Financial Report	The Financial Report within the Macquarie Group Annual Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FY2019	The year ended 31 March 2019.
FY2020	The year ended 31 March 2020.
FVOCI	Fair value through other comprehensive income.
FVTPL	Fair value through profit or loss.
H	
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High-quality liquid assets.
I	
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
L	
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
M	
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie Bank	MBL and its subsidiaries.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) were perpetual, subordinated instruments that had no conversion rights to ordinary shares and discretionary distributions paid quarterly. They are treated as equity in the statement of financial position. MIS were repaid on 15 April 2020.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of 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.
MAMHPL	Macquarie Asset Management Holdings Pty Ltd.
MBL	Macquarie Bank Limited ABN 46 008 583 542.

Defined term	Definition
MCN2	On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of $A100 each. MCN2 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN3	On 7 June 2018, MGL issued 10 million Macquarie Group Capital Notes 3 (MCN3) at a face value of $A100 each. MCN3 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 15 December 2027; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN4	On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of $A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
MIM	Macquarie Investment Management.
MIRA	Macquarie Infrastructure and Real Assets.
N	
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries, MAMHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital, MAM and some business activities of CGM that use certain offshore regulated entities of the Non-Banking Group.

8.1 Glossary

Continued

Defined term	Definition
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.
O	
Operating Groups	The Operating Groups consist of MAM, BFS, CGM and Macquarie Capital.
R	
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of FVOCI, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
S	
Specialised and Asset Finance (SAF)	SAF is a global provider of specialist finance and asset management solutions across: Technology, Media & Telecoms; Energy, Renewables & Sustainability; Fund Finance; Resources; Structured Lending; and Shipping & Export Credit Agencies.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
T	
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
U	
UK	The United Kingdom.
US	The United States of America.

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