Contents

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Interim Financial Report for the half-year ended 30 September 2016, including further detail in relation to key elements of Macquarie Group Limited's ("MGL", "Macquarie", "the Group") financial performance and financial position. The report also outlines the funding and capital profile of the Group.

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

Date of this report

This report has been prepared for the half-year ended 30 September 2016 and is current as at 28 October 2016.

Comparative information and conventions

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

References to the prior corresponding period are to the six months ended 30 September 2015.

References to the prior period are to the six months ended 31 March 2016.

References to the current period and current half-year are to the six months ended 30 September 2016.

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

Independent auditor's review report

This document should be read in conjunction with the Macquarie Group Limited Interim Financial Report for the half-year ended 30 September 2016, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 28 October 2016 was unqualified.

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

Disclaimer

The material in this document has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is a description of Macquarie's activities current as at the date of this document. This information is given in summary form and does not purport to be complete. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Macquarie's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, provisions for impairment and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements.

Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forward looking information, actual results may vary in a materially positive or negative manner. Forward looking and hypothetical examples are subject to uncertainty and contingencies outside Macquarie's control. Past performance is not a reliable indication of future performance.

1.0 Result overview

1.1 Executive summary

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Financial performance summary					
Net interest income	1,096	1,114	1,165	(2)	(6)
Fee and commission income	2,202	2,068	2,794	6	(21)
Net trading income	768	959	1,108	(20)	(31)
Net operating lease income	476	483	397	(1)	20
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(8)	67	(63)	*	(87)
Other operating income and charges	684	126	(83)	*	*
Net operating income	5,218	4,817	5,318	8	(2)
Employment expenses	(2,290)	(1,981)	(2,263)	16	1
Brokerage, commission and trading-related expenses	(418)	(448)	(444)	(7)	(6)
Occupancy expenses	(201)	(195)	(202)	3	(<1)
Non-salary technology expenses	(344)	(300)	(287)	15	20
Other operating expenses	(480)	(497)	(503)	(3)	(5)
Total operating expenses	(3,733)	(3,421)	(3,699)	9	1
Operating profit before income tax	1,485	1,396	1,619	6	(8)
Income tax expense	(438)	(397)	(530)	10	(17)
Profit after income tax	1,047	999	1,089	5	(4)
Loss/(profit) attributable to non-controlling interests	3	(6)	(19)	*	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	1,050	993	1,070	6	(2)
Key metrics					
Expense to income ratio (%)	71.5	71.0	69.6		
Compensation ratio (%)	41.0	38.2	39.8		
Effective tax rate (%)	29.4	28.6	33.1		
Basic earnings per share (cents per share)	311.8	295.4	324.5		
Diluted earnings per share (cents per share)	304.8	291.7	310.0		
Ordinary dividends per share (cents per share)	190.0	240.0	160.0		
Ordinary dividend payout ratio (%)	61.5	82.1	50.6		
Annualised return on equity (%)	14.6	13.7	15.8		

1.0 Result overview
continued

Profit attributable to ordinary equity holders for the half-year ended 30 September 2016 was $A1,050 million, a decrease of 2% from $A1,070 million in the prior corresponding period.

Macquarie's annuity-style businesses – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – generated a combined net profit contribution for the half-year ended 30 September 2016 of $A1,639 million, down 15% on the prior corresponding period. Macquarie Asset Management's result included higher investment-related income, although the overall net profit contribution for the business was down on the prior corresponding period which benefited from significant performance fees. While Corporate and Asset Finance benefited from acquisitions of a portfolio of aircraft from AWAS Aviation Capital Limited (the 'AWAS portfolio acquisition'; transition completed by 31 March 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a lower overall net profit contribution mainly driven by lower income due to the timing of prepayments and realisations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. Banking and Financial Services' net profit contribution benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased expenses mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity investments and intangibles. Additionally, Banking and Financial Services disposed of Macquarie Life's risk insurance business and its remaining US mortgages portfolio during the half-year ended 30 September 2016, generating an overall net gain on the disposals.

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets – delivered a combined net profit contribution for the half-year ended 30 September 2016 of $A695 million, broadly in line with the prior corresponding period. Macquarie Securities' net profit contribution decreased significantly on the prior corresponding period, which benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half-year ended 30 September 2016 were limited due to market uncertainty. Macquarie Capital's net profit contribution was up on the prior corresponding period due to increased income from principal realisations, while Commodities and Financial Markets reported a higher net profit contribution driven by increased income from the sale of equity investments and reduced provisions for impairment compared to the prior corresponding period.

Net operating income of $A5,218 million for the half-year ended 30 September 2016 decreased 2% from $A5,318 million in the prior corresponding period. Decreases across net interest and trading income and fee and commission income were partially offset by higher net operating lease income, an increase in net gains on sale of investments and businesses, and lower provisions for impairment.

Combined net interest and trading income of $A1,864 million for the half-year ended 30 September 2016 decreased 18% from $A2,273 million in the prior corresponding period. The reduction was across a number of operating groups. Macquarie Securities was impacted by limited trading opportunities due to market uncertainty. In Corporate and Asset Finance there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realisations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. Commodities and Financial Markets also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in oil. Partially offsetting these declines was increased net interest and trading income in Banking and Financial Services, mainly driven by volume growth in the Australian loan and deposit portfolios.

Total fee and commission income of $A2,202 million for the half-year ended 30 September 2016 decreased 21% from $A2,794 million in the prior corresponding period. Performance fees were $A170 million for the half-year ended 30 September 2016, down 73% on the prior corresponding period which benefited from significant performance fees of $A629 million, while mergers and acquisitions, advisory and underwriting fees of $A471 million for the current period decreased 12% from $A537 million in the prior corresponding period due to more subdued equity capital markets activity in most key regions. Brokerage and commissions income of $A419 million was also down on the prior corresponding period as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Net operating lease income of $A476 million for the half-year ended 30 September 2016 increased 20% from $A397 million in the prior corresponding period, mainly driven by the AWAS portfolio acquisition by Corporate and Asset Finance.

Other operating income of $A684 million for the half-year ended 30 September 2016 was a significant improvement from a charge of $A83 million in the prior corresponding period. The primary drivers were increased gains on the sale of investments and businesses; and lower provisions for impairment mainly due to reduced exposures to underperforming commodity-related loans in Commodities and Financial Markets. Gains on the sale of businesses and investments included a significant gain from Banking and Financial Services' sale of Macquarie Life's risk insurance business, as well as increased contributions from Macquarie Capital, Commodities and Financial Markets and Macquarie Asset Management, partially offset by a loss on the sale of Banking and Financial Services' US mortgages portfolio.

Total operating expenses of $A3,733 million for the half-year ended 30 September 2016 increased 1% from $A3,699 million in the prior corresponding period.

Employment expenses of $A2,290 million for the half-year ended 30 September 2016 were broadly in line with the prior corresponding period, giving rise to a compensation ratio of 41.0% for the half-year ended 30 September 2016, up from 39.8% in the prior corresponding period largely due to an increase in share based payments expense.

Brokerage, commission and trading-related expenses of $A418 million for the half-year ended 30 September 2016 decreased 6% from $A444 million in the prior corresponding period mainly due to decreased trading-related activity, while non-salary technology expenses of $A344 million for the current period increased 20% from $A287 million in the prior corresponding period mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in Banking and Financial Services.

Other operating expenses of $A480 million for the half-year ended 30 September 2016 decreased 5% from $A503 million in the prior corresponding period mainly due to lower amortisation of intangibles expense, partially offset by the impact of portfolio acquisitions in Corporate and Asset Finance.

Income tax expense for the half-year ended 30 September 2016 was $A438 million, a 17% decrease from $A530 million in the prior corresponding period. The decrease was mainly due to an 8% decrease in operating profit before income tax to $A1,485 million in the half-year ended 30 September 2016 from $A1,619 million in the prior corresponding period, as well as changes in the geographic composition of earnings, with increased income being generated in Australia and the UK, and lower income in the US. The effective tax rate for the half-year ended 30 September 2016 was 29.4%, down from 33.1% in the prior corresponding period.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest income	1,096	1,114	1,165	(2)	(6)
Net trading income	768	959	1,108	(20)	(31)
Net interest and trading income	1,864	2,073	2,273	(10)	(18)

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 businesses that predominately earn income from trading-related activities (Macquarie Securities and Commodities and Financial Markets), the relative contribution of net interest income and trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

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

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

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Macquarie Asset Management	(21)	(24)	9	(13)	*
Corporate and Asset Finance	354	388	460	(9)	(23)
Banking and Financial Services	498	485	456	3	9
Macquarie Securities	161	165	375	(2)	(57)
Macquarie Capital	11	(15)	31	*	(65)
Commodities and Financial Markets					
Commodities					
Risk management products	321	474	345	(32)	(7)
Lending and financing	142	144	148	(1)	(4)
Inventory management, transport and storage	42	114	90	(63)	(53)
Credit, interest rates and foreign exchange	269	184	246	46	9
Corporate	87	158	113	(45)	(23)
Net interest and trading income	1,864	2,073	2,273	(10)	(18)

Combined net interest and trading income of $A1,864 million for the half-year ended 30 September 2016 decreased 18% from $A2,273 million in the prior corresponding period. The reduction was across a number of operating groups. Macquarie Securities was impacted by limited trading opportunities due to market uncertainty. In Corporate and Asset Finance there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realisations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. Commodities and Financial Markets also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in oil. Partially offsetting these declines was increased net interest and trading income in Banking and Financial Services, mainly driven by volume growth in the Australian loan and deposit portfolios.

Macquarie Asset Management

Net interest and trading (expense)/income in Macquarie Asset Management includes income on specialised retail products, interest income from the provision of financing facilities to external funds and their investors, offset by the funding cost of principal investments and assets associated with acquired businesses.

Net interest and trading expense of $A21 million for the half-year ended 30 September 2016 compared to net income of $A9 million in the prior corresponding period, mostly due to the non-recurrence of certain income items recognised in the prior corresponding period in the Macquarie Specialised Investment Solutions (MSIS) business.

Corporate and Asset Finance

Net interest and trading income in Corporate and Asset Finance predominately relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolio and the funding costs associated with the operating lease portfolio (including aviation, mining and energy assets).

Net interest and trading income of $A354 million for the half-year ended 30 September 2016 decreased 23% from $A460 million in the prior corresponding period. The decrease was largely due to a reduced contribution from the Lending portfolio due to the timing of prepayments and realisations and lower loan volumes, as well as increased funding costs driven by the growth of the aircraft operating lease portfolio. This was partially offset by increased net interest income as a result of the acquisition of the Esanda dealer finance portfolio in November 2015.

The loan and finance lease portfolio was $A28.1 billion at 30 September 2016, an increase of 21% from $A23.3 billion at 30 September 2015, mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015, partially offset by lower Lending volumes and the impact of foreign currency movements on period end balances.

Banking and Financial Services

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

Net interest and trading income of $A498 million for the half-year ended 30 September 2016 increased 9% from $A456 million in the prior corresponding period primarily due to volume growth in the Australian loan and deposit portfolios, including:

– a 4% increase in Australian mortgage volumes to $A28.6 billion at 30 September 2016 from $A27.6 billion at 30 September 2015;
– an 8% increase in business lending volumes to $A6.4 billion at 30 September 2016 from $A5.9 billion at 30 September 2015; and
– a 9% increase in Banking and Financial Services deposits to $A42.2 billion at 30 September 2016 from $A38.7 billion at 30 September 2015.

Average net interest margins on deposits were unfavourably impacted by the Reserve Bank of Australia's interest rate cuts made in May 2016 and August 2016.

The legacy loan portfolio reduced to $A0.6 billion at 30 September 2016 from $A2.6 billion at 30 September 2015 following the sale of the US mortgages portfolio during the current period and the continued run down of the Canadian mortgage portfolio.

Macquarie Securities

Net interest and trading income in Macquarie Securities primarily relates to trading income from equities and derivative products and stock borrow and lending activities.

Net interest and trading income of $A161 million for the half-year ended 30 September 2016 decreased from $A375 million in the prior corresponding period. This resulted from limited trading opportunities due to market uncertainty. The prior corresponding period benefited from strong equity markets activity, particularly in China.

Macquarie Capital

Net interest and trading income/(expense) includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios. It also includes Macquarie Capital's share of fair value movements in relation to certain derivatives and debt investments classified as fair value through profit and loss.

Net interest and trading income of $A11 million for the half-year ended 30 September 2016 decreased 65% from $A31 million in the prior corresponding period reflecting a change in the debt investment portfolio. The prior corresponding period benefitted from higher interest income on loans acquired at a discount which are no longer held.

Commodities and Financial Markets

Net interest and trading income in Commodities and Financial Markets is earned from the provision of risk and capital solutions across physical and financial markets.

2.0 Financial performance analysis
continued

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 $A321 million for the half-year ended 30 September 2016 decreased 7% from $A345 million in the prior corresponding period which benefited from higher levels of client activity due to heightened volatility across a number of commodities, particularly oil.

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 base and precious metals, energy and agriculture.

Lending and financing income of $A142 million for the half-year ended 30 September 2016 decreased 4% from $A148 million in the prior corresponding period. An increase in income from higher working capital financing volumes provided by the Energy Markets business was offset by a reduction in income from residual Metals and Energy Capital portfolios that are being wound down.

iii) Inventory management, transport and storage

Commodities and Financial Markets enters into a number of tolling agreements, capacity contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide Commodities and Financial Markets with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements and capacity contracts, 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 volatility with timing of reported income.

Inventory management, transport and storage income of $A42 million for the half-year ended 30 September 2016 decreased 53% from $A90 million in the prior corresponding period due to reduced profitability from price dislocations in US gas markets as well as volatility associated with the timing of income relating to tolling agreements and capacity contracts.

Credit, interest rates and foreign exchange net interest and trading income

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A269 million for the half-year ended 30 September 2016 increased 9% from $A246 million in the prior corresponding period. Increased income in the current period was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility. The result also reflects improved performance of high yield debt markets and increased asset backed securitisation activity in the Northern Hemisphere relative to the prior corresponding period.

Corporate

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

Net interest and trading income of $A87 million for the half-year ended 30 September 2016 decreased 23% from $A113 million in the prior corresponding period primarily due to an increase in interest expense associated with managing the Group's liquidity and funding, as well as lower interest rates.

2.0 Financial performance analysis
continued

2.2 Fee and commission income

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Base fees	794	791	791	<1	<1
Performance fees	170	85	629	100	(73)
Mergers and acquisitions, advisory and underwriting fees	471	425	537	11	(12)
Brokerage and commissions	419	427	461	(2)	(9)
Other fee and commission income	348	340	376	2	(7)
Total fee and commission income	2,202	2,068	2,794	6	(21)

Total fee and commission income of $A2,202 million for the half-year ended 30 September 2016 decreased 21% from $A2,794 million in the prior corresponding period largely due to lower performance fees; and mergers and acquisitions, advisory and underwriting fees which were impacted by more subdued equity capital markets activity in most key regions.

Base and performance fees

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Base fees					
Macquarie Asset Management					
Macquarie Investment Management	448	447	472	<1	(5)
Macquarie Infrastructure and Real Assets	325	314	303	4	7
Macquarie Specialist Investment Solutions	17	24	9	(29)	89
Total Macquarie Asset Management	790	785	784	1	1
Other operating groups	4	6	7	(33)	(43)
Total base fee income	794	791	791	<1	<1
Performance fees					
Macquarie Asset Management					
Macquarie Investment Management	5	24	9	(79)	(44)
Macquarie Infrastructure and Real Assets	165	60	600	175	(73)
Total Macquarie Asset Management	170	84	609	102	(72)
Other operating groups	–	1	20	(100)	(100)
Total performance fee income	170	85	629	100	(73)

Base fees of $A794 million for the half-year ended 30 September 2016 were broadly in line with the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Asset Management, where base fees of $A790 million for the half-year ended 30 September 2016 were broadly in line with $A784 million in the prior corresponding period. Base fee income benefited from investments made by Macquarie Infrastructure and Real Assets (MIRA) managed funds, growth in the MSIS Infrastructure Debt business and positive market movements in Macquarie Investment Management (MIM), largely offset by small net Assets under Management (AUM) outflows in the MIM business, asset realisations by MIRA-managed funds and foreign exchange impacts.

Refer to Section 7 for further details of Macquarie Asset Management's Assets under Management and Equity under Management.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A170 million for the half-year ended 30 September 2016 decreased 73% from $A629 million in the prior corresponding period. The half-year ended 30 September 2016 included performance fees from Macquarie Atlas Roads (MQA), Macquarie Korea Infrastructure Fund (MKIF), Australian managed accounts and from co-investors in respect of infrastructure assets.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of $A471 million for the half-year ended 30 September 2016 decreased 12% from $A537 million in the prior corresponding period.

Market conditions in all key regions in which Macquarie Capital operates were subdued in the half-year ended 30 September 2016 with deal values down across both mergers and acquisitions and capital markets compared to the prior corresponding period. Notwithstanding the market conditions Macquarie Capital retained or strengthened its market position in key markets including Australia.

Brokerage and commissions

Brokerage and commissions income of $A419 million for the half-year ended 30 September 2016 decreased 9% from $A461 million in the prior corresponding period. The decrease was mainly in Macquarie Securities as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Other fee and commission income

Other fee and commission income includes fees earned on a range of Banking and Financial Services' products including the Wrap platform, insurance, business lending, credit cards and mortgages as well as distribution service fees, structuring fees, capital protection fees and income from Macquarie's True Index products in Macquarie Asset Management.

Other fee and commission income of $A348 million for the half-year ended 30 September 2016 decreased 7% from $A376 million in the prior corresponding period including a reduction in income earned from True Index products in Macquarie Asset Management.

2.0 Financial performance analysis
continued

2.3 Net operating lease income

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Rental income	833	854	687	(2)	21
Depreciation on operating lease assets	(357)	(371)	(290)	(4)	23
Net operating lease income	476	483	397	(1)	20

Net operating lease income, which is predominately earned by Corporate and Asset Finance, totalled $A476 million for the half-year ended 30 September 2016, an increase of 20% from $A397 million in the prior corresponding period. The increase was driven by growth of Corporate and Asset Finance's operating lease portfolio, which increased 9% to $A10.0 billion at 30 September 2016 from $A9.2 billion at 30 September 2015 primarily due to the completion of the AWAS portfolio acquisition by 31 March 2016, partially offset by the impact of foreign currency movements on period end balances.

2.4 Share of net profits of associates and joint ventures

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(8)	67	(63)	*	(87)

Share of net losses of associates and joint ventures of $A8 million for the half-year ended 30 September 2016 decreased 87% from a loss of $A63 million in the prior corresponding period. The reduced loss is mainly attributable to investments held within Macquarie Asset Management, where the prior corresponding period reflected the results of a small number of MIRA investments that were impacted by impairments of underlying assets.

2.0 Financial performance analysis
continued

2.5 Other operating income and charges

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net gains on sale of investment securities available for sale	345	58	130	*	165
Impairment charge on investment securities available for sale	(36)	(46)	(75)	(22)	(52)
Net gains on sale of interests in associates and joint ventures	256	134	88	91	191
Impairment charge on interests in associates and joint ventures	(20)	(8)	(16)	150	25
Gain on disposal of operating lease assets	15	5	3	200	*
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	239	147	5	63	*
Impairment charge on intangibles and other non-financial assets	(75)	(60)	(17)	25	*
Dividends/distributions received/receivable	45	78	78	(42)	(42)
Collective allowance for credit losses provided for during the period	(3)	(6)	(20)	(50)	(85)
Individually assessed provisions for impairment and write-offs	(148)	(232)	(316)	(36)	(53)
Other income	66	56	57	18	16
Total other operating income and charges	684	126	(83)	*	*

Total other operating income of $A684 million for the half-year ended 30 September 2016 increased significantly from a charge of $A83 million in the prior corresponding period, mainly driven by an increase in gains on the sale of equity investments in Macquarie Capital, Commodities and Financial Markets and Macquarie Asset Management, a gain on sale of Macquarie Life's risk insurance business in Banking and Financial Services, and a reduction in provisions, mainly in Commodities and Financial Markets.

Net gains on sale of investments

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totalled $A601 million for the half-year ended 30 September 2016, up from $A218 million in the prior corresponding period. The increase was mainly driven by gains in Macquarie Capital in respect of both listed and unlisted investments generated primarily across ANZ and EMEA regions, gains on the sale of a number of investments mainly in the energy and related sectors in Commodities and Financial Markets and gains in Macquarie Asset Management, including the partial sale of its holding in MQA.

Impairment charge on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets

Impairment charge on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets totalled $A131 million for the half-year ended 30 September 2016, an increase of 21% from $A108 million in the prior corresponding period. The increase predominately relates to the underperformance of a small number of equity positions and the impairment of certain intangibles in Banking and Financial Services.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of $A15 million for the half-year ended 30 September 2016 predominately relates to a gain recognised on the sale of eight aircraft in Corporate and Asset Finance.

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A239 million for the half-year ended 30 September 2016 was primarily driven by the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in Banking and Financial Services.

Dividends/distributions received/receivable

Dividends/distributions received/receivable of $A45 million for the half-year ended 30 September 2016 decreased 42% from $A78 million in the prior corresponding period predominately due to lower dividend income from principal investments in Macquarie Capital.

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses of $A151 million for the half-year ended 30 September 2016 decreased 55% from $A336 million in the prior corresponding period. The decrease was mainly due to reduced exposure to underperforming commodity-related loans in Commodities and Financial Markets.

2.0 Financial performance analysis
continued

2.6 Operating expenses

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Employment expenses					
Salary and salary-related costs including commissions, superannuation and performance-related profit share	(1,896)	(1,688)	(1,923)	12	(1)
Share-based payments	(231)	(155)	(184)	49	26
(Provision for)/reversal of long service leave and annual leave	(14)	4	(11)	*	27
Total compensation expenses	(2,141)	(1,839)	(2,118)	16	1
Other employment expenses including on-costs, staff procurement and staff training	(149)	(142)	(145)	5	3
Total employment expenses	(2,290)	(1,981)	(2,263)	16	1
Brokerage, commission and trading-related expenses	(418)	(448)	(444)	(7)	(6)
Occupancy expenses	(201)	(195)	(202)	3	(<1)
Non-salary technology expenses	(344)	(300)	(287)	15	20
Other operating expenses					
Professional fees	(170)	(194)	(157)	(12)	8
Auditor's remuneration	(17)	(21)	(13)	(19)	31
Travel and entertainment expenses	(77)	(90)	(83)	(14)	(7)
Advertising and communication expenses	(58)	(63)	(56)	(8)	4
Amortisation of intangibles	(17)	(20)	(41)	(15)	(59)
Other expenses	(141)	(109)	(153)	29	(8)
Total other operating expenses	(480)	(497)	(503)	(3)	(5)
Total operating expenses	(3,733)	(3,421)	(3,699)	9	1

Total operating expenses of $A3,733 million for the half-year ended 30 September 2016 increased 1% from $A3,699 million in the prior corresponding period mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in Banking and Financial Services.

Key drivers of the change in total operating expenses include:

– Total employment expenses of $A2,290 million for the half-year ended 30 September 2016 were broadly in line with the prior corresponding period, giving rise to a compensation ratio of 41.0% for the half-year ended 30 September 2016, up from 39.8% in the prior corresponding period largely due to an increase in share based payments expense.
– Brokerage, commission and trading-related expenses of $A418 million for the half-year ended 30 September 2016 decreased 6% from $A444 million in the prior corresponding period mainly driven by reduced trading-related activity in Macquarie Securities and reduced commodity-related trading activity in Commodities and Financial Markets.
– Non-salary technology expenses of $A344 million for the half-year ended 30 September 2016 increased 20% from $A287 million in the prior corresponding period mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in Banking and Financial Services. Refer to Section 3.4 for further details.
– Total other operating expenses of $A480 million for the half-year ended 30 September 2016 decreased 5% from $A503 million in the prior corresponding period, which was impacted by higher amortisation of intangibles expense in connection with the Core Banking platform in Banking and Financial Services.

2.7 Headcount

	As at			Movement	
				Mar 16	Sep 15
	Sep 16	Mar 16	Sep 15	%	%
Headcount by group					
Macquarie Asset Management	1,517	1,498	1,480	1	3
Corporate and Asset Finance	1,347	1,353	903	(<1)	49
Banking and Financial Services	2,056	2,182	2,250	(6)	(9)
Macquarie Securities	979	1,054	980	(7)	(<1)
Macquarie Capital	1,149	1,213	1,157	(5)	(1)
Commodities and Financial Markets	943	958	986	(2)	(4)
Total headcount — operating groups	7,991	8,258	7,756	(3)	3
Total headcount — Corporate	5,825	6,114	5,826	(5)	(<1)
Total headcount	13,816	14,372	13,582	(4)	2
Headcount by region					
Australia[1]	6,288	6,676	6,232	(6)	1
International:					
Americas	2,544	2,589	2,508	(2)	1
Asia	3,474	3,599	3,482	(3)	(<1)
Europe, Middle East and Africa	1,510	1,508	1,360	<1	11
Total headcount — International	7,528	7,696	7,350	(2)	2
Total headcount	13,816	14,372	13,582	(4)	2
International headcount ratio (%)	54	54	54		

(1) Includes New Zealand.

Total headcount increased 2% to 13,816 at 30 September 2016 from 13,582 at 30 September 2015. Additional headcount due to the acquisition of the Esanda dealer finance portfolio in November 2015 by Corporate and Asset Finance was partially offset by headcount reductions resulting from the realisation of efficiencies in Banking and Financial Services.

2.0 Financial performance analysis
continued

2.8 Income tax expense

	Half-year to		
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am
Operating profit before income tax	1,485	1,396	1,619
Prima facie tax @ 30%	446	419	486
Income tax permanent differences	(8)	(22)	44
Income tax expense	438	397	530
Effective tax rate[1]	29.4%	28.6%	33.1%

(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 $A3 million for the half-year ended 30 September 2016 (30 September 2015: reduced operating profit before income tax by $A19 million).

Income tax expense for the half-year ended 30 September 2016 was $A438 million, down 17% from $A530 million in the prior corresponding period. The effective tax rate for the half-year ended 30 September 2016 was 29.4%.

The decrease was mainly due to an 8% decrease in operating profit before income tax to $A1,485 million in the half-year ended 30 September 2016 from $A1,619 million in the prior corresponding period, as well as changes in the geographic composition of earnings, with increased income being generated in Australia and the UK, and lower income in the US.

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3.0 Segment analysis

3.1 Basis of preparation

Operating Segments

AASB 8 Operating Segments requires the 'management approach' to disclosing information about Macquarie'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, Macquarie is divided into six operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The operating groups comprise:

- **Macquarie Asset Management** provides clients with access to a diverse range of capabilities and products including infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities;
- **Corporate and Asset Finance** delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment;
- **Banking and Financial Services** provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients;
- **Macquarie Securities** is a global institutional securities house with strong Asia Pacific foundations covering sales, research, equity capital markets, execution and trading activities;
- **Macquarie Capital** provides corporate finance advisory and capital markets services to corporate and government clients involved in public and private mergers and acquisitions, debt and equity fund raisings, private equity raisings and corporate debt restructuring; and
- **Commodities and Financial Markets** provides clients with risk and capital solutions across physical and financial markets.

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

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

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

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

Internal funding arrangements

Operating groups are fully debt funded. Group Treasury has the responsibility for managing funding for the Group and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to operating groups for the early repayment of term funding.

Generally, operating groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Group.

Deposits are a funding source for Macquarie. Banking and Financial Services receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

Transactions between operating groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central service groups

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

Performance-related profit share and share based payments expense

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

Income tax

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

Presentation of segment income statements

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

3.0 Segment analysis
continued

	Macquarie Asset Management $Am	Corporate and Asset Finance $Am	Banking and Financial Services $Am
Half-year ended 30 September 2016			
Net interest and trading (expense)/income	(21)	354	498
Fee and commission income/(expense)	1,064	21	256
Net operating lease income	6	467	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	41	–	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	14	(61)	(78)
Other operating income and charges	255	51	201
Internal management revenue/(charge)	14	3	1
Net operating income	1,373	835	879
Total operating expenses	(516)	(315)	(618)
Profit/(loss) before tax	857	520	261
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	1	–
Net profit/(loss) contribution	**857**	**521**	**261**
Half-year ended 31 March 2016			
Net interest and trading (expense)/income	(24)	388	485
Fee and commission income	987	30	244
Net operating lease income/(expense)	6	486	–
Share of net profits of associates and joint ventures accounted for using the equity method	22	5	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(19)	(144)	(29)
Other operating income and charges	69	37	23
Internal management revenue/(charge)	–	58	4
Net operating income	1,041	860	728
Total operating expenses	(536)	(342)	(548)
Profit/(loss) before tax	505	518	180
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	1	–
Net profit/(loss) contribution	**505**	**519**	**180**
Half-year ended 30 September 2015			
Net interest and trading income	9	460	456
Fee and commission income/(expense)	1,517	13	282
Net operating lease income	6	379	–
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(38)	2	–
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	5	(23)	(14)
Other operating income and charges	170	30	12
Internal management revenue/(charge)	–	2	–
Net operating income	1,669	863	736
Total operating expenses	(517)	(252)	(566)
Profit/(loss) before tax	1,152	611	170

Tax expense	–	–	–
Profit attributable to non-controlling interests	(13)	–	–
Net profit/(loss) contribution	**1,139**	**611**	**170**

Macquarie Securities $Am	Macquarie Capital $Am	Commodities and Financial Markets $Am	Corporate $Am	Total $Am
161	11	774	87	1,864
313	416	134	(2)	2,202
–	–	–	3	476
–	(20)	(10)	(20)	(8)
7	(92)	(58)	(14)	(282)
–	244	156	59	966
2	10	6	(36)	–
483	569	1,002	77	5,218
(465)	(375)	(529)	(915)	(3,733)
18	194	473	(838)	1,485
–	–	–	(438)	(438)
–	11	(1)	(8)	3
18	**205**	**472**	**(1,284)**	**1,050**
165	(15)	916	158	2,073
325	369	111	2	2,068
–	–	–	(9)	483
–	1	8	30	67
5	(58)	(154)	47	(352)
6	327	3	13	478
1	15	–	(78)	–
502	639	884	163	4,817
(474)	(363)	(590)	(568)	(3,421)
28	276	294	(405)	1,396
–	–	–	(397)	(397)
–	5	–	(12)	(6)
28	**281**	**294**	**(814)**	**993**
375	31	829	113	2,273
369	501	117	(5)	2,794
–	–	–	12	397
(1)	(12)	(6)	(8)	(63)
(21)	(129)	(176)	(86)	(444)

3.0 Segment analysis
continued

	2	125	45	(23)	361
	(6)	–	2	2	–
	718	516	811	5	5,318
	(478)	(346)	(529)	(1,011)	(3,699)
	240	170	282	(1,006)	1,619
	–	–	–	(530)	(530)
	–	–	–	(6)	(19)
	240	**170**	**282**	**(1,542)**	**1,070**

3.2 Macquarie Asset Management

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading (expense)/income	(21)	(24)	9	(13)	*
Fee and commission income					
Base fees	790	785	784	1	1
Performance fees	170	84	609	102	(72)
Other fee and commission income	104	118	124	(12)	(16)
Total fee and commission income	1,064	987	1,517	8	(30)
Net operating lease income	6	6	6	–	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	41	22	(38)	86	*
Other operating income and charges					
Net gains on sale of debt and equity investments and non-financial assets	203	37	129	*	57
Other income	66	13	46	*	43
Total other operating income and charges	269	50	175	*	54
Internal management revenue	14	–	–	*	*
Net operating income	1,373	1,041	1,669	32	(18)
Operating expenses					
Employment expenses	(182)	(180)	(175)	1	4
Brokerage, commission and trading-related expenses	(97)	(115)	(104)	(16)	(7)
Other operating expenses	(237)	(241)	(238)	(2)	(<1)
Total operating expenses	(516)	(536)	(517)	(4)	(<1)
Non-controlling interests[1]	-	–	(13)	–	(100)
Net profit contribution	857	505	1,139	70	(25)
Non-GAAP metrics					
MAM (including MIRA) assets under management ($A billion)	491.3	476.9	502.3	3	(2)
MIRA equity under management ($A billion)	72.0	66.5	71.6	8	1
Headcount	1,517	1,498	1,480	1	3

(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.

Macquarie Asset Management's net profit contribution of $A857 million for the half-year ended 30 September 2016 decreased 25% from $A1,139 million in the prior corresponding period, and increased 70% from $A505 million in the prior period, mostly due to performance fees and investment-related income.

Base fees

Base fee income of $A790 million for the half-year ended 30 September 2016 was broadly in line with $A784 million in the prior corresponding period. Base fee income benefited from investments made by MIRA-managed funds, growth in the MSIS Infrastructure Debt business and positive market movements in MIM, largely offset by small net AUM outflows in the MIM business, asset realisations by MIRA-managed funds and foreign exchange impacts.

Performance fees

Performance fee income of $A170 million for the half-year ended 30 September 2016 decreased 72% from a particularly strong prior corresponding period of $A609 million, and increased 102% from $A84 million in the prior period. The half-year ended 30 September 2016 included performance fees from MQA, MKIF, Australian managed accounts and from co-investors in respect of infrastructure assets.

3.0 Segment analysis
continued

Other fee and commission income

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

Other fee and commission income of $A104 million for the half-year ended 30 September 2016 decreased 16% from $A124 million in the prior corresponding period primarily due to a reduction in income earned from True Index products.

Share of net profits/(losses) of associates and joint ventures accounted for using the equity method

Share of net profits of associates and joint ventures of $A41 million for the half-year ended 30 September 2016 improved from a net loss of $A38 million in the prior corresponding period. The overall loss in the prior corresponding period reflected the results of a small number of MIRA investments that were impacted by impairments of underlying assets. In the current period, no impairments were recognised, and the sale of a number of underlying assets resulted in an overall equity accounted gain.

Net gains on sale of debt and equity investments and non-financial assets

Net gains on sale of debt and equity investments and non-financial assets of $A203 million for the half-year ended 30 September 2016 increased 57% from $A129 million in the prior corresponding period. The current period included gains from the partial sale of MIRA's holding in MQA, gains on sale of unlisted real estate holdings in MIRA and income from the sell down of infrastructure debt in MSIS. The prior corresponding period included gains from the partial sale of MIRA's holdings in Macquarie Infrastructure Company LLC (MIC) and MQA, as well as gains on sale of unlisted real estate holdings in MIRA and the sale of the almond orchard in MSIS.

Other income

Other income of $A66 million for the half-year ended 30 September 2016 increased 43% from $A46 million in the prior corresponding period. The current period included distribution income from MIRA's investments in MIC, Axicom and the disposal of MIRA's holding of an Abu Dhabi infrastructure joint venture.

Operating expenses

Total operating expenses of $A516 million for the half-year ended 30 September 2016 were broadly in line with expenses of $A517 million in the prior corresponding period. The impact of a 4% increase in employment expenses to $A182 million in the current period from $A175 million in the prior corresponding period, which was mainly driven by a small increase in headcount, was largely offset by lower sub-advisory expenses in MIM and foreign exchange impacts.

3.3 Corporate and Asset Finance

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income	354	388	460	(9)	(23)
Fee and commission income	21	30	13	(30)	62
Net operating lease income	467	486	379	(4)	23
Share of net profits of associates and joint ventures accounted for using the equity method	-	5	2	(100)	(100)
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	(17)	(41)	(4)	(59)	*
Gain on disposal of operating lease assets	15	5	3	200	*
Provisions for impairment, write-offs and collective allowance for credit losses	(44)	(103)	(19)	(57)	132
Other income	36	32	27	13	33
Total other operating income and charges	(10)	(107)	7	(91)	*
Internal management revenue	3	58	2	(95)	50
Net operating income	835	860	863	(3)	(3)
Operating expenses					
Employment expenses	(135)	(131)	(108)	3	25
Brokerage, commission and trading-related expenses	(4)	(4)	(3)	–	33
Other operating expenses	(176)	(207)	(141)	(15)	25
Total operating expenses	(315)	(342)	(252)	(8)	25
Non-controlling interests[1]	1	1	–	–	*
Net profit contribution	521	519	611	<1	(15)
Non-GAAP metrics					
Loan and finance lease portfolio[2] ($A billion)	28.1	28.8	23.3	(2)	21
Operating lease portfolio ($A billion)	10.0	10.6	9.2	(6)	9
Headcount	1,347	1,353	903	(<1)	49

(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) Includes equity portfolio of $A0.3 billion (March 2016: $A0.3 billion, September 2015: $A0.2 billion)

Corporate and Asset Finance's net profit contribution of $A521 million for the half-year ended 30 September 2016 decreased 15% from $A611 million in the prior corresponding period. The decrease was mainly driven by lower income due to the timing of prepayments and realisations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. This was partially offset by profit from the AWAS portfolio acquisition and the acquisition of the Esanda dealer finance portfolio in the prior year.

Net interest and trading income

Net interest and trading income in Corporate and Asset Finance predominately relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolio and the funding costs associated with the operating lease portfolio (including aviation, mining and energy assets).

Net interest and trading income of $A354 million for the half-year ended 30 September 2016 decreased 23% from $A460 million in the prior corresponding period. The decrease was largely due to a reduced contribution from the Lending portfolio due to the timing of prepayments and realisations and lower loan volumes, as well as increased funding costs driven by the growth of the aircraft operating lease portfolio. This was partially offset by increased net interest income as a result of the acquisition of the Esanda dealer finance portfolio in November 2015.

The loan and finance lease portfolio was $A28.1 billion at 30 September 2016, an increase of 21% from $A23.3 billion at 30 September 2015, mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015, partially offset by lower Lending volumes and the impact of foreign currency movements on period end balances.

3.0 Segment analysis
continued

Net operating lease income

Net operating lease income of $A467 million for the half-year ended 30 September 2016 increased 23% from $A379 million in the prior corresponding period primarily due to the AWAS portfolio acquisition during the prior year. The 4% decrease in net operating lease income from $A486 million in the prior period was mainly due to foreign exchange impacts as well as reduced income following the sale of eight aircraft during the current half-year.

The operating lease portfolio was $A10.0 billion at 30 September 2016, an increase of 9% from $A9.2 billion at 30 September 2015, primarily due to the completion of the AWAS portfolio acquisition by 31 March 2016, partially offset by the impact of foreign currency movements on period end balances.

Impairment charge on equity investments, intangibles and other non-financial assets

Impairment charge on equity investments, intangibles and other non-financial assets of $A17 million for the half-year ended 30 September 2016 predominately related to impairments of certain Aviation assets.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of $A15 million for the half-year ended 30 September 2016 predominately related to a gain recognised on the sale of eight aircraft.

Provisions for impairment, write-offs and collective allowance for credit losses

Provisions for impairment, write-offs and collective allowance for credit losses of $A44 million for the half-year ended 30 September 2016 increased from $A19 million in the prior corresponding period due to portfolio growth primarily from the acquisition of the Esanda dealer finance portfolio in November 2015.

Operating expenses

Total operating expenses of $A315 million for the half-year ended 30 September 2016 increased 25% from $A252 million in the prior corresponding period. This was primarily driven by an increase in costs associated with the Esanda dealer finance portfolio.

3.4 Banking and Financial Services

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income	498	485	456	3	9
Fee and commission income					
Wealth management fee income	155	148	165	5	(6)
Banking fee income	74	70	67	6	10
Life insurance income	27	26	30	4	(10)
Other fee and commission income	–	–	20	–	(100)
Total fee and commission income	256	244	282	5	(9)
Share of net profits of associates and joint ventures accounted for using the equity method	1	1	–	–	*
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	(46)	(6)	(2)	*	*
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	192	–	–	*	*
Provisions for impairment, write-offs and collective allowance for credit losses	(32)	(23)	(12)	39	167
Other income	9	23	12	(61)	(25)
Total other operating income and charges	123	(6)	(2)	*	*
Internal management revenue	1	4	–	(75)	*
Net operating income	879	728	736	21	19
Operating expenses					
Employment expenses	(171)	(168)	(177)	2	(3)
Brokerage, commission and trading-related expenses	(105)	(105)	(102)	–	3
Technology expenses[1]	(189)	(143)	(139)	32	36
Other operating expenses	(153)	(132)	(148)	16	3
Total operating expenses	(618)	(548)	(566)	13	9
Net profit contribution	261	180	170	45	54
Non-GAAP metrics					
Funds on platform[2] ($A billion)	62.1	58.4	46.7	6	33
Australian loan portfolio[3] ($A billion)	35.6	35.1	34.2	1	4
Legacy loan portfolios[4] ($A billion)	0.6	1.6	2.6	(63)	(77)
BFS deposits[5] ($A billion)	42.2	40.4	38.7	4	9
Headcount[6]	1,959	2,182	2,250	(10)	(13)

(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, Vision, Equity Portfolio Services and Industry Super Funds.

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

(4) The legacy loan portfolios primarily comprise residential mortgages in Canada and the US.

(5) Banking and Financial Services (BFS) Deposits excludes corporate/wholesale deposits.

(6) Headcount at 30 September 2016 excludes 97 staff relating to the sale of Macquarie Life's risk insurance business.

Banking and Financial Services' net profit contribution of $A261 million for the half-year ended 30 September 2016 increased 54% from $A170 million in the prior corresponding period. The improved result reflects increased income from growth in Australian lending, deposit and platform volumes, as well as a gain on sale of Macquarie Life's risk insurance business. This was partially offset by a loss on the disposal of the US mortgages portfolio, increased costs mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity

3.0 Segment analysis
continued

investments and intangibles.

Net interest and trading income

Net interest and trading income of $A498 million for the half-year ended 30 September 2016 increased 9% from $A456 million in the prior corresponding period primarily due to volume growth in the Australian loan and deposit portfolios, including:

– a 4% increase in Australian mortgage volumes to $A28.6 billion at 30 September 2016 from $A27.6 billion at 30 September 2015;
– an 8% increase in business lending volumes to $A6.4 billion at 30 September 2016 from $A5.9 billion at 30 September 2015; and
– a 9% increase in Banking and Financial Services deposits to $A42.2 billion at 30 September 2016 from $A38.7 billion at 30 September 2015.

Average net interest margins on deposits were unfavourably impacted by the Reserve Bank of Australia's interest rate cuts made in May 2016 and August 2016.

The legacy loan portfolio reduced to $A0.6 billion at 30 September 2016 from $A2.6 billion at 30 September 2015 following the sale of the US mortgages portfolio during the current period and the continued run down of the Canadian mortgage portfolio.

Wealth management fee income

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

Wealth management fee income of $A155 million for the half-year ended 30 September 2016 decreased 6% from $A165 million in the prior corresponding period mainly due to lower adviser headcount and market movements, partially offset by increased platform commissions from higher funds on the Wrap and Vision platforms.

Funds on platform closed at $A62.1 billion at 30 September 2016, an increase of 33% from $A46.7 billion at 30 September 2015 driven by the consolidation of client accounts onto platforms of $A10.1 billion and net inflows.

Banking fee income

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

Banking fee income of $A74 million for the half-year ended 30 September 2016 increased 10% from $A67 million in the prior corresponding period driven by volume growth in lending and deposits.

Other fee and commission income

Other fee and commission income for the half-year ended 30 September 2015 of $A20 million included a performance fee received in respect of the sale of a UK asset.

Impairment charge on equity investments, intangibles and other non-financial assets

Impairment charge on equity investments, intangibles and other non-financial assets of $A46 million for the half-year ended 30 September 2016 increased from $A2 million in the prior corresponding period predominately due to the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform.

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A192 million for the half-year ended 30 September 2016 was driven by the sale of Macquarie Life's risk insurance business to Zurich Australia Limited, partly offset by losses on the sale of the US mortgages portfolio.

Provisions for impairment, write-offs and collective allowance for credit losses

Provisions for impairment, write-offs and collective allowance for credit losses of $A32 million for the half-year ended 30 September 2016 increased 167% from $A12 million in the prior corresponding period due to increased business lending provisions on a small number of loans, as well as lending growth.

Other income

Other income of $A9 million for the half-year ended 30 September 2016 decreased from $A23 million in the prior period, which included a dividend on disposal of an investment in the UK.

Operating expenses

Total operating expenses of $A618 million for the half-year ended 30 September 2016 increased 9% from $A566 million in the prior corresponding period.

Employment expenses of $A171 million for the half-year ended 30 September 2016 decreased 3% from $A177 million in the prior corresponding period driven by lower headcount as the business realised efficiencies.

Combined Technology and Other operating expenses of $A342 million for the half-year ended 30 September 2016 increased 19% from $A287 million in the prior corresponding period. The increase is mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

The change in approach to the capitalisation of software expenses is in response to a rapidly changing environment for technology and has resulted in the narrowing of the eligibility criteria for capitalisation in connection with the Core Banking platform. Costs that are not directly part of the platform itself, such as ancillary software that connect to the platform, will no longer be eligible for capitalisation going forward.

The impact of this change for the half-year ended 30 September 2016 is as follows:

- increased operating costs of $A8 million relating to technology that has been expensed in the current period but would have otherwise been capitalised and amortised over future periods; and
- accelerated expensing of technology costs previously capitalised of $A40 million bringing forward expenses that would have otherwise been incurred in future periods.

3.0 Segment analysis
continued

3.5 Macquarie Securities

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income	161	165	375	(2)	(57)
Fee and commission income					
Brokerage and commissions	274	284	311	(4)	(12)
Underwriting income	31	47	60	(34)	(48)
Other fee and commission income/(expense)	8	(6)	(2)	*	*
Total fee and commission income	313	325	369	(4)	(15)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	-	–	(1)	–	(100)
Other operating income and charges	7	11	(19)	(36)	*
Internal management revenue/(charge)	2	1	(6)	100	*
Net operating income	483	502	718	(4)	(33)
Operating expenses					
Employment expenses	(135)	(143)	(127)	(6)	6
Brokerage, commission and trading-related expenses	(102)	(93)	(115)	10	(11)
Other operating expenses	(228)	(238)	(236)	(4)	(3)
Total operating expenses	(465)	(474)	(478)	(2)	(3)
Net profit contribution	18	28	240	(36)	(93)
Non-GAAP metrics					
Headcount	979	1,054	980	(7)	(<1)

Macquarie Securities' net profit contribution of $A18 million for the half-year ended 30 September 2016 decreased from $A240 million in the prior corresponding period. The prior corresponding period benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half-year ended 30 September 2016 were limited due to market uncertainty.

Net interest and trading income

Net interest and trading income of $A161 million for the half-year ended 30 September 2016 decreased from $A375 million in the prior corresponding period. This resulted from limited trading opportunities due to market uncertainty. The prior corresponding period benefited from strong equity markets activity, particularly in China.

Brokerage and commissions

Brokerage and commissions income of $A274 million for the half-year ended 30 September 2016 decreased 12% from $A311 million in the prior corresponding period as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Underwriting income

Underwriting income of $A31 million for the half-year ended 30 September 2016 decreased 48% from $A60 million in the prior corresponding period primarily due to more subdued equity capital markets activity in most key regions.

Operating expenses

Total operating expenses of $A465 million for the half-year ended 30 September 2016 decreased 3% from $A478 million in the prior corresponding period.

Employment expenses of $A135 million for the half-year ended 30 September 2016 increased 6% from $A127 million in the prior corresponding period. This was primarily due to the consolidation of the Macquarie First South joint venture in South Africa, partially offset by reduced average headcount resulting from business restructures in Asia.

Brokerage, commission and trading-related expenses of $A102 million for the half-year ended 30 September 2016 decreased 11% from $A115 million in the prior corresponding period due to reduced trading-related activity.

Other operating expenses of $A228 million for the half-year ended 30 September 2016 decreased 3% from $A236 million in the prior corresponding period mainly due to the business' continued focus on cost efficiency and the non-recurrence of certain business-related costs in the prior corresponding period.

3.0 Segment analysis
continued

3.6 Macquarie Capital

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income/(expense)	11	(15)	31	*	(65)
Fee and commission income	416	369	501	13	(17)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(20)	1	(12)	*	67
Other operating income and charges					
Net gains on sale and reclassification of equity and debt investments	244	307	106	(21)	130
Impairment charge on equity and debt investments and non-financial assets	(37)	(43)	(68)	(14)	(46)
Provisions for impairment and collective allowance for credit losses	(55)	(15)	(61)	267	(10)
Other income	-	20	19	(100)	(100)
Total other operating income and charges	152	269	(4)	(43)	*
Internal management revenue	10	15	–	(33)	*
Net operating income	569	639	516	(11)	10
Operating expenses					
Employment expenses	(178)	(173)	(163)	3	9
Brokerage, commission and trading-related expenses	(4)	(4)	(3)	–	33
Other operating expenses	(193)	(186)	(180)	4	7
Total operating expenses	(375)	(363)	(346)	3	8
Non-controlling interests[1]	11	5	–	120	*
Net profit contribution	205	281	170	(27)	21
Non-GAAP metrics					
Headcount	1,149	1,213	1,157	(5)	(1)

(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.

Macquarie Capital's net profit contribution of $A205 million for the half-year ended 30 September 2016 increased 21% from $A170 million in the prior corresponding period. The increase was predominately due to increased income from principal realisations, partially offset by reduced fee and commission income and increased operating expenses.

Net interest and trading income/(expense)

Net interest and trading income/(expense) includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios. It also includes Macquarie Capital's share of fair value movements in relation to certain derivatives and debt investments classified as fair value through profit and loss.

Net interest and trading income of $A11 million for the half-year ended 30 September 2016 decreased 65% from $A31 million in the prior corresponding period reflecting a change in the debt investment portfolio. The prior corresponding period benefitted from higher interest income on loans acquired at a discount which are no longer held.

Fee and commission income

Fee and commission income of $A416 million for the half-year ended 30 September 2016 decreased 17% from $A501 million in the prior corresponding period.

Market conditions in all key regions in which Macquarie Capital operates were subdued in the half-year ended 30 September 2016 with deal values down across both mergers and acquisitions and capital markets compared to the prior corresponding period. Notwithstanding the market conditions Macquarie Capital retained or strengthened its market position in key markets including Australia.

Share of net (losses)/profits of associates and joint ventures accounted for using the equity method

Share of net losses of associates and joint ventures of $A20 million for the half-year ended 30 September 2016 increased from a loss of $A12 million in the prior corresponding period. The movement reflects the underlying performance of certain investments within the portfolio.

Net gains on sale and reclassification of equity and debt investments

Net gains on sale and reclassification of equity and debt investments of $A244 million for the half-year ended 30 September 2016 increased 130% from $A106 million in the prior corresponding period. Gains were generated primarily across ANZ and EMEA regions predominately in technology, infrastructure and renewable energy sectors. The net gains in the half-year ended 30 September 2016 were in respect of both listed and unlisted investments.

Impairment charge on equity and debt investments and non-financial assets and provisions for impairment and collective allowance for credit losses

The aggregate impairment charge on equity and debt investments, non-financial assets and provisions for impairment and collective allowance for credit losses of $A92 million for the half-year ended 30 September 2016 decreased 29% from $A129 million in the prior corresponding period. Impairment charges recognised in the current half-year relate to a small number of underperforming principal investments across a range of sectors and regions.

Other income

Other income of $A19 million for the half-year ended 30 September 2015 included dividend income from principal investments.

Operating expenses

Total operating expenses of $A375 million for the half-year ended 30 September 2016 increased 8% from $A346 million in the prior corresponding period. The movement mainly reflects higher operating expenses arising from increased principal activity and changes in business operations during the period.

3.0 Segment analysis
continued

3.7 Commodities and Financial Markets

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income					
Commodities					
Risk management products	321	474	345	(32)	(7)
Lending and financing	142	144	148	(1)	(4)
Inventory management, transport and storage	42	114	90	(63)	(53)
Total commodities	505	732	583	(31)	(13)
Credit, interest rates and foreign exchange	269	184	246	46	9
Net interest and trading income	774	916	829	(16)	(7)
Fee and commission income					
Brokerage and commissions	81	74	69	9	17
Other fee and commission income	53	37	48	43	10
Total fee and commission income	134	111	117	21	15
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(10)	8	(6)	*	67
Other operating income and charges					
Net gains on sale of equity and debt investments	141	1	30	*	*
Impairment charge on equity investments, intangibles and other non-financial assets	(10)	(34)	(10)	(71)	–
Provisions for impairment and collective allowance for credit losses	(48)	(120)	(166)	(60)	(71)
Other income	15	2	15	*	–
Total other operating income and charges	98	(151)	(131)	*	*
Internal management revenue	6	–	2	*	200
Net operating income	1,002	884	811	13	24
Operating expenses					
Employment expenses	(155)	(178)	(166)	(13)	(7)
Brokerage, commission and trading-related expenses	(103)	(123)	(112)	(16)	(8)
Other operating expenses	(271)	(289)	(251)	(6)	8
Total operating expenses	(529)	(590)	(529)	(10)	–
Non-controlling interests[1]	(1)	–	–	*	*
Net profit contribution	472	294	282	61	67
Non-GAAP metrics					
Headcount	943	958	986	(2)	(4)

[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.

Commodities and Financial Markets' net profit contribution for the half-year ended 30 September 2016 was $A472 million, an increase of 67% from $A282 million in the prior corresponding period. The result reflects an increase in income generated from the sale of equity investments and a reduction in provisions for impairment compared to prior periods. This was partially offset by reduced commodities-related net interest and trading income compared to the prior corresponding period, which benefited from higher levels of volatility across a number of commodities, particularly oil.

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 $A321 million for the half-year ended 30 September 2016 decreased 7% from $A345 million in the prior corresponding period which benefited from higher levels of client activity due to heightened volatility across a number of commodities, particularly oil.

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 base and precious metals, energy and agriculture.

Lending and financing income of $A142 million for the half-year ended 30 September 2016 decreased 4% from $A148 million in the prior corresponding period. An increase in income from higher working capital financing volumes provided by the Energy Markets business was offset by a reduction in income from residual Metals and Energy Capital portfolios that are being wound down.

iii) Inventory management, transport and storage

Commodities and Financial Markets enters into a number of tolling agreements, capacity contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide Commodities and Financial Markets with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements and capacity contracts, 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 volatility with timing of reported income.

Inventory management, transport and storage income of $A42 million for the half-year ended 30 September 2016 decreased 53% from $A90 million in the prior corresponding period due to reduced profitability from price dislocations in US gas markets as well as volatility associated with the timing of income relating to tolling agreements and capacity contracts.

Credit, interest rates and foreign exchange net interest and trading income

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A269 million for the half-year ended 30 September 2016 increased 9% from $A246 million in the prior corresponding period. Increased income in the current period was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility. The result also reflects improved performance of high yield debt markets and increased asset backed securitisation activity in the Northern Hemisphere relative to the prior corresponding period.

Fee and commission income

Fee and commission income of $A134 million for the half-year ended 30 September 2016 increased 15% from $A117 million in the prior corresponding period mainly due to increased volumes executed in global futures markets driven by new clients and ongoing market volatility as a result of geopolitical events, notably the UK's decision to exit the European Union.

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of $A141 million for the half-year ended 30 September 2016 increased from $A30 million in the prior corresponding period due to gains on the sale of a number of investments, mainly in energy and related sectors.

3.0 Segment analysis
continued

Impairment charge on equity investments, intangibles and other non-financial assets

Impairment charge on equity investments, intangibles and other non-financial assets of $A10 million for the half-year ended 30 September 2016 was in line with the prior corresponding period and represented an improvement on the half-year ended 31 March 2016 due to a reduction in the residual Metals & Energy Capital equity investment portfolio.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of $A48 million for the half-year ended 30 September 2016 decreased 71% from $A166 million in the prior corresponding period and decreased 60% from $A120 million in the prior period due to the business' reduced exposure to underperforming commodity-related loans.

Operating expenses

Total operating expenses of $A529 million for the half-year ended 30 September 2016 were in line with the prior corresponding period, although reductions in employment expenses and brokerage, commission and trading-related expenses were offset by an increase in other operating expenses.

Employment expenses of $A155 million for the half-year ended 30 September 2016 decreased 7% from $A166 million in the prior corresponding period mainly due to a decrease in headcount.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities and storage costs of physical metals and other commodities. Brokerage, commission and trading-related expenses of $A103 million for the half-year ended 30 September 2016 decreased 8% from $A112 million in the prior corresponding period mainly due to a reduction in commodity-related trading activity and lower storage costs for physical commodities as a result of a change in storage arrangements, with clients now largely paying for storage costs directly.

Other operating expenses of $A271 million for the half-year ended 30 September 2016 increased 8% from $A251 million in the prior corresponding period mainly due to the impact of increasing costs of regulation and other expenses.

3.8 Corporate

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Net interest and trading income	87	158	113	(45)	(23)
Fee and commission (expense)/income	(2)	2	(5)	*	(60)
Net operating lease income	3	(9)	12	*	(75)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(20)	30	(8)	*	150
Other operating income and charges					
Net gains/(losses) on sale and reclassification of debt and equity securities	46	(2)	(23)	*	*
Impairment (charge)/write back on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses	(14)	47	(86)	*	(84)
Other income	13	15	–	(13)	*
Total other operating income and charges	45	60	(109)	(25)	*
Internal management (charge)/revenue	(36)	(78)	2	(54)	*
Net operating income	77	163	5	(53)	*
Operating expenses					
Employment expenses	(1,334)	(1,008)	(1,347)	32	(1)
Brokerage, commission and trading-related expenses	(3)	(4)	(5)	(25)	(40)
Other operating expenses	422	444	341	(5)	24
Total operating expenses	(915)	(568)	(1,011)	61	(9)
Income tax expense	(438)	(397)	(530)	10	(17)
Macquarie Income Preferred Securities	-	–	(1)	–	(100)
Macquarie Income Securities	(8)	(8)	(8)	–	–
Non-controlling interests[1]	-	(4)	3	(100)	(100)
Net loss contribution	(1,284)	(814)	(1,542)	58	(17)
Non-GAAP metrics					
Headcount	5,825	6,114	5,826	(5)	(<1)

(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.

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

Net interest and trading income

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

Net interest and trading income of $A87 million for the half-year ended 30 September 2016 decreased 23% from $A113 million in the prior corresponding period primarily due to an increase in interest expense associated with managing the Group's liquidity and funding, as well as lower interest rates.

3.0 Segment analysis
continued

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

Share of net losses of associates and joint ventures of $A20 million for the half-year ended 30 September 2016 increased from $A8 million in the prior corresponding period. The movement reflects changes in the underlying performance of central investments, including certain legacy and other non-core assets.

Net gains/(losses) on sale and reclassification of debt and equity securities

Net gains on sale and reclassification of debt and equity securities were $A46 million for the half-year ended 30 September 2016, compared to net losses of $A23 million in the prior corresponding period. The loss in the prior corresponding period largely resulted from the reclassification of legacy assets that are no longer held for strategic purposes. The current period income resulted from the disposal of these legacy assets as well as gains on sale of debt investments.

Impairment (charge)/write back on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses

Impairment charges on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses of $A14 million for the half-year ended 30 September 2016 decreased 84% from $A86 million in the prior corresponding period, which included an increase to the central management overlay applied to the Group's collective provision to account for changes in economic conditions.

Employment expenses

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

Employment expenses of $A1,334 million for the half-year ended 30 September 2016 were broadly in line with the prior corresponding period. Lower performance-related profit share expense, largely driven by the reduced overall performance of the operating groups, was partially offset by increased share based payments expense relating to increased retained equity awards granted in previous years and higher restructuring costs of central support functions.

Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central support functions, offset by the recovery of central support function costs (including employment-related costs) from the operating groups.

The net recovery from the operating groups of $A422 million for the half-year ended 30 September 2016 increased 24% from $A341 million in the prior corresponding period. The increase mainly reflects the recovery of higher costs associated with investment in business-related technology platforms and higher restructuring costs of central support functions.

3.9 International income

International income by region

	Half-year to			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Americas	1,156	1,249	1,677	(7)	(31)
Asia	568	582	850	(2)	(33)
Europe, Middle East and Africa	1,295	1,114	1,262	16	3
Total international income	3,019	2,945	3,789	3	(20)
Australia[1]	2,086	1,631	1,526	28	37
Total income (excluding earnings on capital and other corporate items)	5,105	4,576	5,315	12	(4)
Earnings on capital and other corporate items	113	241	3	(53)	*
Net operating income (as reported)	5,218	4,817	5,318	8	(2)
International income (excluding earnings on capital and other corporate items) ratio (%)	59	64	71		

[1] Includes New Zealand.

International income by group and region

	Half-year to Sep 16						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	Total International $Am	Australia[2] $Am	Total Income[3] $Am	Total International %
Macquarie Asset Management	587	149	226	962	397	1,359	71
Corporate and Asset Finance	160	8	425	593	239	832	71
Banking and Financial Services	(48)	–	–	(48)	926	878	(5)
Macquarie Securities	42	293	47	382	99	481	79
Macquarie Capital	141	3	182	326	233	559	58
Commodities and Financial Markets	274	115	415	804	192	996	81
Total	1,156	568	1,295	3,019	2,086	5,105	59

[2] Includes New Zealand.

[3] Total income reflects net operating income excluding internal management revenue/(charge).

3.0 Segment analysis
continued

Total international income was $A3,019 million for the half-year ended 30 September 2016, a decrease of 20% from $A3,789 million in the prior corresponding period. Total international income represented approximately 60% of total income (excluding earnings on capital and other corporate items), down from 71% in the prior corresponding period.

Income from the Americas of $A1,156 million for the half-year ended 30 September 2016 decreased 31% from $A1,677 million in the prior corresponding period, mainly due to lower performance fees and the non-recurrence of investment-related income reported in the prior corresponding period in Macquarie Asset Management. Income in the region was also down in Commodities and Financial Markets' Energy Markets business as the prior corresponding period benefited from higher levels of volatility across a number of commodities, particularly oil, while Banking and Financial Services' sale of the US mortgages portfolio resulted in a loss being recognised in the Americas in the half-year ended 30 September 2016.

In Asia, income of $A568 million for the half-year ended 30 September 2016 decreased 33% from $A850 million in the prior corresponding period. The decrease was primarily in Macquarie Securities, due to limited trading opportunities compared to the prior corresponding period, which benefited from increased market volatility, particularly in China.

Income from Europe, Middle East and Africa of $A1,295 million for the half-year ended 30 September 2016 increased 3% from $A1,262 million in the prior corresponding period. The increase was mainly driven by gains on sale recognised on specific investments in Commodities and Financial Markets and a greater net contribution from principal assets in Macquarie Capital, partially offset by a decrease in performance fee income in Macquarie Asset Management.

In Australia, income of $A2,086 million for the half-year ended 30 September 2016 increased 37% from $A1,526 million in the prior corresponding period. Banking and Financial Services benefited from growth in their lending, deposit and platform volumes, as well as a gain on sale of Macquarie Life's risk insurance business, while the acquisition of the Esanda dealer finance portfolio in November 2015 contributed to an increase in income in Corporate and Asset Finance. Macquarie Asset Management's Australian income increased due to a gain from the partial sale of its holding in MQA, while lower provisions for impairment were recognised in Commodities and Financial Markets compared to the prior corresponding period.

4.1 Statement of financial position

	As at			Movement	
	Sep 16 $Am	Mar 16 $Am	Sep 15 $Am	Mar 16 %	Sep 15 %
Assets					
Receivables from financial institutions	33,260	33,128	36,954	<1	(10)
Trading portfolio assets	27,207	23,537	31,337	16	(13)
Derivative assets	15,233	17,983	22,307	(15)	(32)
Investment securities available for sale	7,857	11,456	10,707	(31)	(27)
Other assets	15,421	12,496	13,742	23	12
Loan assets held at amortised cost	77,976	80,366	76,690	(3)	2
Other financial assets at fair value through profit or loss	1,378	1,649	2,101	(16)	(34)
Property, plant and equipment	10,957	11,521	10,383	(5)	6
Interests in associates and joint ventures accounted for using the equity method	2,048	2,691	2,779	(24)	(26)
Intangible assets	993	1,078	1,182	(8)	(16)
Deferred tax assets	763	850	908	(10)	(16)
Total assets	193,093	196,755	209,090	(2)	(8)
Liabilities					
Trading portfolio liabilities	5,714	5,030	8,702	14	(34)
Derivative liabilities	12,949	14,744	20,018	(12)	(35)
Deposits	55,438	52,245	51,915	6	7
Other liabilities	13,676	13,103	15,610	4	(12)
Payables to financial institutions	23,736	23,860	23,525	(1)	1
Debt issued at amortised cost	57,617	63,685	65,466	(10)	(12)
Other financial liabilities at fair value through profit or loss	3,018	2,672	2,309	13	31
Deferred tax liabilities	540	543	546	(1)	(1)
Total liabilities excluding loan capital	172,688	175,882	188,091	(2)	(8)
Loan capital	4,942	5,209	5,782	(5)	(15)
Total liabilities	177,630	181,091	193,873	(2)	(8)
Net assets	15,463	15,664	15,217	(1)	2
Equity					
Contributed equity	6,234	6,422	5,836	(3)	7
Reserves	1,295	1,536	2,090	(16)	(38)
Retained earnings	7,392	7,158	6,705	3	10
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	14,921	15,116	14,631	(1)	2
Non-controlling interests	542	548	586	(1)	(8)
Total equity	15,463	15,664	15,217	(1)	2

4.0 Balance sheet

The Group's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2016.

Total assets of $A193.1 billion at 30 September 2016 decreased 2% from $A196.8 billion at 31 March 2016 mainly due to a reduction in Loan assets held at amortised cost, Derivative assets and Investment securities available for sale. These decreases were partially offset by an increase in Trading portfolio assets and Other assets.

Loan assets held at amortised cost of $A78.0 billion at 30 September 2016 decreased 3% from $A80.4 billion at 31 March 2016. Most businesses saw a reduction in volumes, including:

- Corporate and Asset Finance's loan and finance lease portfolios decreased 2% to $A28.1 billion at 30 September 2016 from $A28.8 billion at 31 March 2016 mainly due to repayments in the Lending portfolio; and
- Banking and Financial Services' disposal of the US mortgage portfolio and the run-down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes.

Derivative assets at 30 September 2016 of $A15.2 billion (down 16% from $A18.0 billion at 31 March 2016) and Derivative liabilities of $A12.9 billion (down 12% from $A14.7 billion at 31 March 2016) both decreased mainly as a result of price movements in underlying physical commodities, particularly oil and gas, as well as the revaluation of interest rate and foreign currency derivatives in Commodities and Financial Markets.

Investment securities available for sale of $A7.9 billion at 30 September 2016 decreased 31% from $A11.5 billion at 31 March 2016 mainly due to Treasury's funding and liquidity management activities during the period.

Other notable decreases in asset balances since 31 March 2016 included lower Property, plant and equipment mainly due to the sale of eight aircraft in Corporate and Asset Finance, and lower Interests in associates and joint ventures mainly due to the sale of a number of principal investments in Macquarie Capital.

Trading portfolio assets of $A27.2 billion at 30 September 2016 increased 16% from $A23.5 billion at 31 March 2016 mainly due to an increase in holdings of physical commodities, particularly oil, base and precious metals, and an increase in holdings of government and corporate bonds within Commodities and Financial Markets. In addition, Other assets of $A15.4 billion at 30 September 2016 increased 23% from $A12.5 billion at 31 March 2016 as a result of an increase in debt underwriting volumes in Macquarie Capital at period end, and an increase in recent trading activity in both Commodities and Financial Markets and Macquarie Securities.

Total liabilities decreased 2% to $A177.6 billion at 30 September 2016 from $A181.1 billion at 31 March 2016 mainly driven by Treasury's funding and liquidity management activities during the period including the repayment of Debt issued at amortised cost (down 10% to $A57.6 billion at 30 September 2016 from $A63.7 billion at 31 March 2016) resulting from the reduction in Total assets combined with an increase in Deposits (up 6% to $A55.4 billion at 30 September 2016 from $A52.2 billion at 31 March 2016).

Total equity decreased 1% to $A15.5 billion at 30 September 2016 from $A15.7 billion at 31 March 2016. The decrease was mainly due to purchases of shares for the Macquarie Employee Retained Equity Plan during the period and lower Reserves, including a decrease in the Available for Sale reserve due to the disposal of a number of investments, partially offset by increased valuations of listed investments, and a reduction of the Foreign currency translation reserve driven by the appreciation of the Australian Dollar against the British Pound since 31 March 2016. These reductions were partially offset by retained earnings generated during the half-year ended 30 September 2016 (net of the payment of the 2016 final dividend).

4.2 Loan assets

Reconciliation between loan assets per the statement of financial position and the funded balance sheet

	As at			Movement	
	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Loan assets at amortised cost per statement of financial position	**78.0**	80.4	76.7	(3)	2
Other loans held at fair value[(1)]	**0.2**	0.3	0.4	(33)	(50)
Operating lease assets	**9.9**	10.6	9.2	(7)	8
Other reclassifications[(2)]	**1.7**	1.6	1.8	6	(6)
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[(3)]	**(14.7)**	(15.8)	(17.2)	(7)	(15)
Less: segregated funds[(4)]	**(5.0)**	(4.4)	(4.2)	14	19
Less: margin balances (reclassed to trading)[(5)]	**(1.9)**	(3.6)	(5.4)	(47)	(65)
Total loan assets per funded balance sheet[(6)]	**68.2**	69.1	61.3	(1)	11

(1) Excludes other loans held at fair value that are self-funded.

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

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

(4) These represent the assets and liabilities that are recognised where Macquarie holds segregated client monies. The client monies will be matched by assets held to the same amount and hence does not require funding.

(5) For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.

(6) Total loan assets per funded balance sheet includes self securitisation assets.

4.0 Balance sheet
continued

Loan assets by operating group per the funded balance sheet are shown in further detail below:

		As at			Movement	
	Notes	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Corporate and Asset Finance						
Asset Finance:	1					
Finance lease assets		13.2	12.7	5.8	4	128
Operating lease assets		9.9	10.6	9.2	(7)	8
Total Asset Finance		23.1	23.3	15.0	(1)	54
Lending	2	8.0	9.0	10.6	(11)	(25)
Total Corporate and Asset Finance		31.1	32.3	25.6	(4)	21
Banking and Financial Services						
Retail Mortgages:	3					
Australia		22.9	21.6	19.1	6	20
Canada, US and Other		0.6	1.5	2.5	(60)	(76)
Total Retail Mortgages		23.5	23.1	21.6	2	9
Business banking	4	6.0	5.8	5.9	3	2
Total Banking and Financial Services		29.5	28.9	27.5	2	7
Commodities and Financial Markets						
Resources and commodities	5	2.4	3.0	3.2	(20)	(25)
Other	6	2.7	1.8	1.7	50	59
Total Commodities and Financial Markets		5.1	4.8	4.9	6	4
Macquarie Asset Management						
Structured investments	7	1.4	1.6	1.8	(13)	(22)
Other operating groups						
Corporate and other lending	8	1.1	1.5	1.5	(27)	(27)
Total		68.2	69.1	61.3	(1)	11

Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

Secured by underlying financed assets.

2. Lending

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

3. Retail Mortgages

Secured by residential property and supported by mortgage insurance:

- Australia: most loans are fully mortgage insured; and
- Canada: most loans are fully insured with underlying government support.

4. Business banking

Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding, mortgages to Business Banking clients and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other retail lending including credit cards.

5. Resources and commodities

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

6. Other

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

7. Structured investments

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

8. Corporate lending and other lending

Includes deposits with financial institutions held as collateral for trading positions, as well as diversified secured corporate lending within Macquarie Capital.

4.0 Balance sheet
continued

4.3 Equity investments

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

– other financial assets at fair value through profit or loss;
– investment securities available for sale; and
– interests in associates and joint ventures.

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

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

Equity investments reconciliation

	As at			Movement	
	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	0.8	1.1	1.2	(27)	(33)
Equity investments within investment securities available for sale	2.3	2.4	2.5	(4)	(8)
Interests in associates and joint ventures accounted for using the equity method	2.0	2.7	2.8	(26)	(29)
Held for sale equity investments within other assets	0.6	0.6	0.5	–	20
Total equity investments per statement of financial position	5.7	6.8	7.0	(16)	(19)
Adjustment for funded balance sheet					
Equity hedge positions[1]	(0.4)	(0.8)	(0.8)	(50)	(50)
Total funded equity investments	5.3	6.0	6.2	(12)	(15)
Adjustments for equity investments analysis					
Available for sale and associates' reserves[2]	(0.6)	(0.8)	(0.7)	(25)	(14)
Total adjusted equity investments[3]	4.7	5.2	5.5	(10)	(15)

(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. Consequently, these have been excluded from the analysis of equity investment exposures.

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

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

Equity investments by category

	As at			Movement	
	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Macquarie-managed funds					
Listed MIRA managed funds	0.9	0.8	0.8	13	13
Unlisted MIRA managed funds	0.9	0.9	0.9	–	–
Other Macquarie-managed funds	0.5	0.6	0.6	(17)	(17)
Total Macquarie-managed funds	2.3	2.3	2.3	–	–
Other investments					
Transport, industrial and infrastructure	0.8	1.2	0.7	(33)	14
Telecommunications, information technology, media and entertainment	0.7	0.7	1.2	–	(42)
Energy, resources and commodities	0.4	0.5	0.6	(20)	(33)
Real estate investment, property and funds management	0.1	0.1	0.2	–	(50)
Finance, wealth management and exchanges	0.4	0.4	0.5	–	(20)
Total other investments	2.4	2.9	3.2	(17)	(25)
Total equity investments	4.7	5.2	5.5	*(10)*	*(15)*

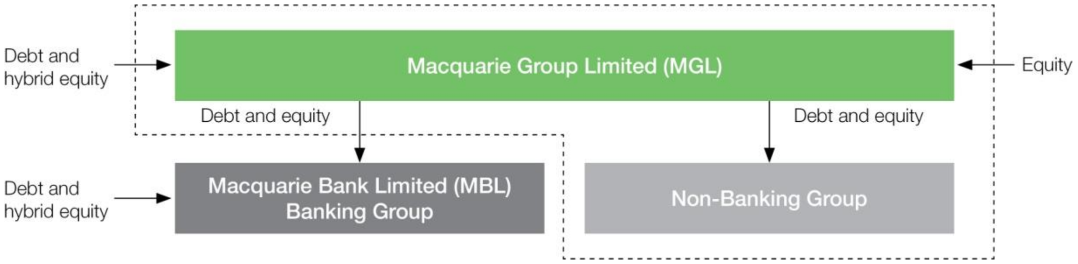
5.0 Funding and liquidity
continued

5.1 Liquidity Risk Governance and Management Framework

Governance and Oversight

Macquarie's two primary external funding vehicles are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Bank Group and limited funding to some MBL Group 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 ensures that both MGL and MBL are able to meet their 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). The respective boards approve the MGL and MBL liquidity policies after endorsement by ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. ALCO includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer, Head of Balance Sheet Management and Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including validating liquidity scenario assumptions, liquidity policies and the required funding maturity profile.

Liquidity Policy and Risk Appetite

Macquarie maintains two key liquidity policies, which together cover the consolidated Macquarie Group:

- The MGL liquidity policy: applies to all entities in the Group except MBL and its subsidiaries. Specifically, this includes MGL and the Non-Bank Group entities.
- The MBL liquidity policy: applies to MBL and its subsidiaries as a standalone entity within the Macquarie Group.

The principles of the MGL and MBL liquidity policies are consistent and together represent a consolidated view of the Group. In some cases, certain entities within the Group may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity specific liquidity policies are consistent with those applied in the broader Group-wide policy.

Macquarie establishes a liquidity risk appetite for both MBL and MGL, which is defined within each of the respective liquidity policies. The risk appetite is approved by each Board 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 Group Limited

MGL's liquidity risk appetite is set so that MGL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominately with a mixture of capital and long-term wholesale funding.

Macquarie Bank Limited

MBL's liquidity risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses.

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

5.0 Funding and liquidity

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 12 month stress scenario and meet minimum regulatory requirements;
- cash and liquid assets held to cover stress scenarios and regulatory minimums must be high quality unencumbered liquid assets and cash;
- diversity and stability of funding sources is a key priority;
- balance sheet currency mismatches are managed within set tolerances; and
- funding and liquidity exposures between entities in the Macquarie Group are subject to constraints where required.

Liquidity Management Principles

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

Liquidity Contingency Plan

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity 'crisis' would be managed across the entire Consolidated Entity. 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 check list 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 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 (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

Funding Strategy

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

5.0 Funding and liquidity
continued

5.2 Management of Liquidity Risk

Scenario analysis

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

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

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

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Group specific crisis over a 12 month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. MGL Group had $A20.4 billion cash and liquid assets as at 30 September 2016 (31 March 2016 : $A30.4 billion), of which $A18.7 billion was held by the MBL Group (31 March 2016: $A28.9 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 the Group 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

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

	Macquarie Bank Limited			Macquarie Group Limited		
	Short term rating	Long term rating	Outlook	Short term rating	Long term rating	Outlook
Moody's Investors Service	P-1	A2	Stable	P-2	A3	Stable
Standard and Poor's[2]	A-1	A	Stable	A-2	BBB	Stable
Fitch Ratings	F-1	A	Stable	F-2	A-	Stable

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

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

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS-210) details the local implementation of the Basel III liquidity framework for Australian banks. The standard incorporates the Liquidity Coverage Ratio (LCR) as well as a range of additional qualitative requirements.

As the regulated ADI in the Macquarie Group, the LCR and associated regulatory requirements apply specifically to MBL and its subsidiaries.

Liquidity Coverage Ratio

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

Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on 1 January 2015. MBL's 3-month average LCR to 30 September 2016 was 169% (average based on month end observations). For a detailed breakdown of Macquarie's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is a 12-month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement in 2018. APRA have released draft requirements on the proposed implementation of NSFR in Australia, with final requirements expected by the end of 2016.

Macquarie has minimal reliance on short term funding and has sufficient cash and liquid assets to repay all short term wholesale funding. In addition, Macquarie's internal liquidity policy requires that term assets are funded with term liabilities. Macquarie expects that it will meet the overall requirements of the NSFR, however the final position will remain uncertain until the requirements are finalised in local standards.

Macquarie continues to monitor developing liquidity regulations.

5.0 Funding and liquidity
continued

5.3 Funded balance sheet

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

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 30 September 2016. The following pages split this between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

The movement in Macquarie's funded balance sheet over the last 6 months was largely driven by the repayment of the Esanda loan facility, issued paper and bonds.

		As at		
	Notes	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab
Total assets per MGL statement of financial position		193.1	196.8	209.1
Accounting deductions:				
Self funded trading assets	1	(21.1)	(16.6)	(25.9)
Derivative revaluation accounting gross-ups	2	(12.5)	(14.4)	(19.8)
Life investment contracts and other segregated assets	3	(9.4)	(8.4)	(8.5)
Outstanding trade settlement balances	4	(7.0)	(5.8)	(8.8)
Short term working capital assets	5	(7.0)	(5.6)	(5.8)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	6	(13.7)	(15.0)	(16.6)
Net funded assets		122.4	131.0	123.7

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. Life investment contracts and other segregated assets

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

4. Outstanding trade settlement balances

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

5. Short term working capital assets

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

6. Securitised assets and other non-recourse funding

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

5.4 Funding profile for consolidated MGL Group

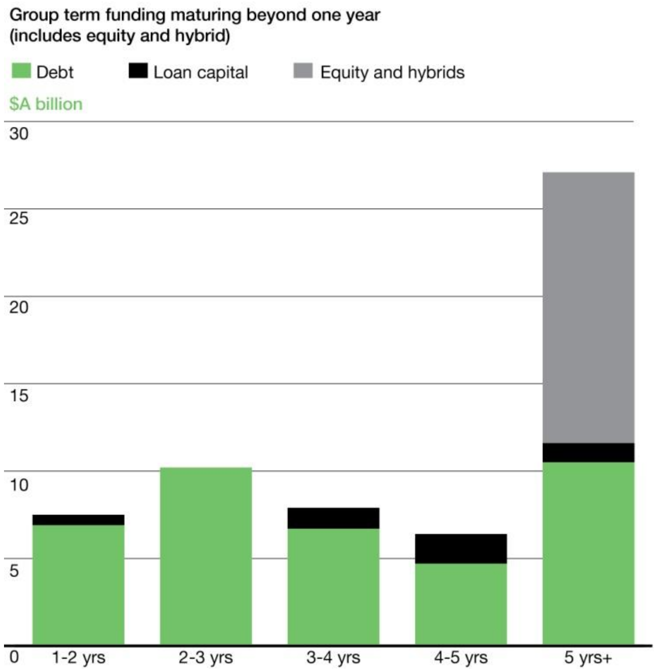
Funded balance sheet

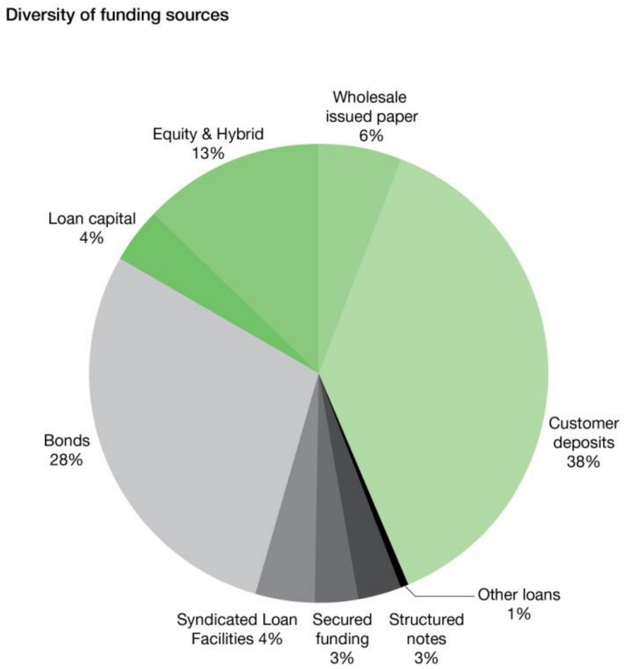
	Notes	As at Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		0.5	0.4	0.7
Commercial paper		6.8	8.9	10.8
Net trade creditors	2	–	1.7	1.0
Structured notes	3	3.7	3.4	3.1
Secured funding	4	4.0	4.6	5.4
Bonds	5	35.3	38.2	35.2
Other loans	6	0.7	0.4	0.6
Syndicated loan facilities	7	4.9	8.9	3.1
Customer deposits	8	46.1	43.6	42.8
Loan capital	9	4.9	5.2	5.8
Equity and hybrid	10	15.5	15.7	15.2
Total		122.4	131.0	123.7
Funded assets				
Cash and liquid assets	11	20.4	30.4	28.2
Self securitisation	12	15.4	13.9	10.4
Net trading assets	13	23.8	21.1	23.3
Loan assets including operating lease assets less than one year	14	14.9	13.1	11.0
Loan assets including operating lease assets greater than one year	14	37.9	42.1	39.9
Debt investment securities	15	2.7	2.7	2.9
Co-investment in Macquarie-managed funds and other equity investments	16	5.3	6.0	6.2
Property, plant and equipment and intangibles		1.6	1.7	1.8
Net trade debtors	17	0.4	–	–
Total		122.4	131.0	123.7

See Section 5.7 for notes 1–17.

5.0 Funding and liquidity
continued

Term funding profile





	As at Sep 16					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	0.3	–	0.3	0.1	1.7	2.4
Secured funding	0.7	0.2	0.2	0.2	1.8	3.1
Bonds	4.5	7.0	6.2	3.7	6.7	28.1
Other loans	0.2	–	–	–	0.3	0.5
Syndicated loan facilities	1.2	3.0	–	0.7	–	4.9
Total debt	**6.9**	**10.2**	**6.7**	**4.7**	**10.5**	**39.0**
Loan capital[2]	0.6	–	1.2	1.7	1.1	4.6
Equity and hybrid	–	–	–	–	15.5	15.5
Total funding sources drawn	**7.5**	**10.2**	**7.9**	**6.4**	**27.1**	**59.1**
Undrawn	–	1.4	–	–	–	1.4
Total funding sources drawn and undrawn	**7.5**	**11.6**	**7.9**	**6.4**	**27.1**	**60.5**

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

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

Macquarie has a stable funding base with minimal reliance on short term wholesale funding markets.
At 30 September 2016, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.5 years at 30 September 2016.

As at 30 September 2016, customer deposits represented $A46.1 billion, or 38% of MGL Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $7.3 billion, or 6% of total funding, and other debt funding maturing within 12 months represented $A9.9 billion, or 8% of total funding.

Term funding initiatives

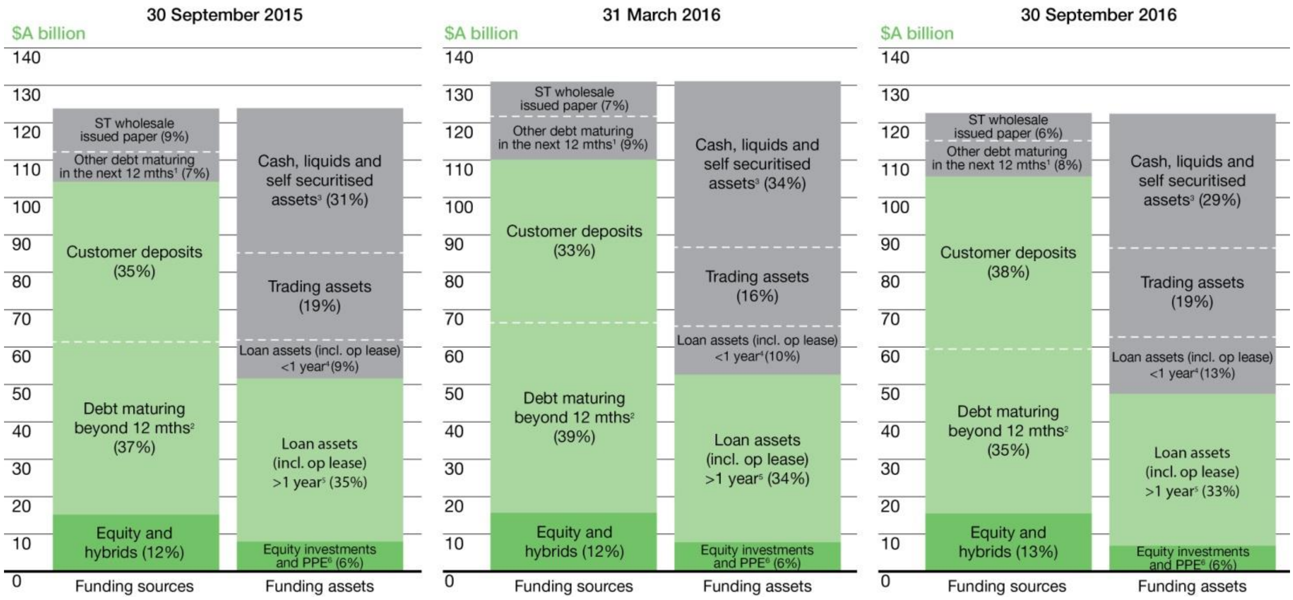
Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2016, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2016 and 30 September 2016:

			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Secured Funding	–	Term securitisation and other secured finance	0.8	–	**0.8**
Issued paper	–	Senior and subordinated	0.5	–	**0.5**
Term Loan	–	AWAS Term Loan	2.4	–	**2.4**
Syndicated loan facilities	–	MBL loan facilities	0.3	–	**0.3**
Total			**4.0**	**-**	**4.0**

Macquarie has continued to develop and expand its major funding markets and products with new issuances in the US, Europe and Australia.

From 1 April 2016 to 30 September 2016, MGL Group raised $A4.0 billion of term funding, including $A2.4 billion of AWAS Term Loan, $A0.8 billion of secured funding, $A0.5 billion of senior and subordinated debt and $A0.3 billion of syndicated loan facility. The change in composition of the funded balance sheet is illustrated in the chart below.



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

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

(3) 'Cash, liquids and self securitised assets' includes self securitisation of repo eligible Australian mortgages originated by Macquarie.

(4) 'Loan Assets (incl. op lease) < 1 yr' includes Net Trade Debtors.

(5) 'Loan Assets (incl. op lease) > 1 yr' includes Debt Investment Securities.

(6) 'Equity Investments and PPE' includes the Group's co-investments in Macquarie-managed funds and equity investments.

5.0 Funding and liquidity
continued

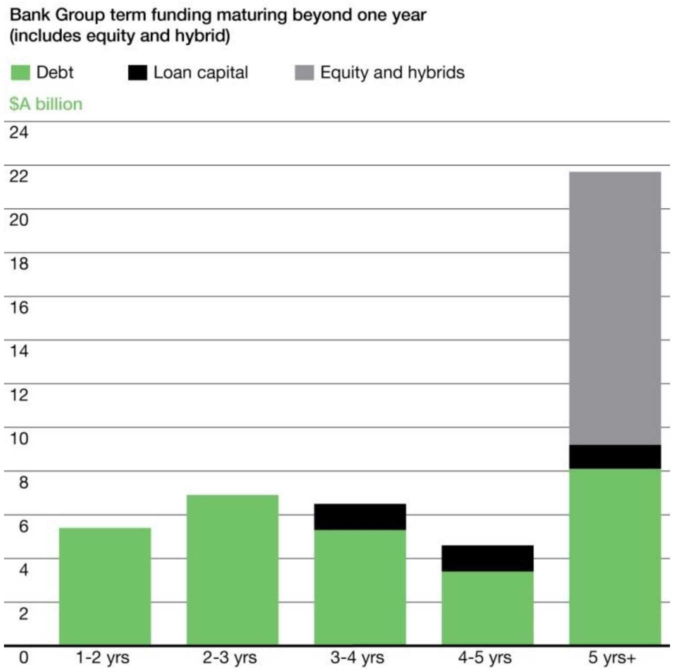
5.5 Funding profile for Bank Group

Funded balance sheet

	Notes	As at Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		0.5	0.4	0.7
Commercial paper		6.8	8.9	10.8
Net trade creditors	2	–	1.4	1.1
Structured notes	3	3.3	3.0	2.6
Secured funding	4	3.9	4.5	5.3
Bonds	5	26.8	29.8	26.2
Other loans	6	0.4	0.2	0.2
Syndicated loan facilities	7	2.5	6.0	–
Customer deposits	8	46.1	43.6	42.8
Loan capital	9	3.8	4.1	4.6
Equity and hybrid	10	12.5	12.7	11.9
Total		106.6	114.6	106.2
Funded assets				
Cash and liquid assets	11	18.7	28.9	26.5
Self securitisation	12	15.4	13.9	10.4
Net trading assets	13	23.3	20.4	22.4
Loan assets including operating lease assets less than one year	14	14.4	12.5	10.7
Loan assets including operating lease assets greater than one year	14	37.1	41.1	38.4
Debt investment securities	15	2.0	2.2	2.4
Non-Bank Group deposit with MBL		(5.2)	(6.2)	(6.3)
Co-investment in Macquarie-managed funds and other equity investments	16	0.8	1.1	1.1
Property, plant and equipment and intangibles		0.6	0.7	0.6
Net trade debtors	17	(0.5)	–	–
Total		106.6	114.6	106.2

See Section 5.7 for notes 1–17.

Term funding profile



	As at Sep 16					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	0.2	–	0.3	0.1	1.7	2.3
Secured funding	0.7	0.2	0.2	0.2	1.8	3.1
Bonds	4.3	4.9	4.8	2.4	4.6	21.0
Other loans	0.2	–	–	–	–	0.2
Syndicated loan facilities	–	1.8	–	0.7	–	2.5
Total debt	5.4	6.9	5.3	3.4	8.1	29.1
Loan capital[2]	–	–	1.2	1.2	1.1	3.5
Equity and hybrid	–	–	–	–	12.5	12.5
Total funding sources drawn	5.4	6.9	6.5	4.6	21.7	45.1
Undrawn	–	–	–	–	–	-
Total funding sources drawn and undrawn	5.4	6.9	6.5	4.6	21.7	45.1

(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.

The Bank Group 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) was 4.4 years at 30 September 2016.

As at 30 September 2016, customer deposits represented $A46.1 billion, or 43% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A7.3 billion, or 7% of total funding, and other debt funding maturing within 12 months represented $A8.6 billion, or 8% of total funding.

5.0 Funding and liquidity
continued

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US11.9 billion debt securities outstanding at 30 September 2016;
- $US10 billion Commercial Paper Program under which $US4.3 billion of debt securities were outstanding at 30 September 2016;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US11.4 billion of issuances were outstanding at 30 September 2016;
- $US5 billion Structured Note Program under which $US2.4 billion of funding from structured notes was outstanding at 30 September 2016;
- $A5 billion Covered Bond Programme under which $A0.7 billion of debt securities were outstanding at 30 September 2016;
- £1.5 billion Sterling Facility under which £1.5 billion was outstanding 30 September 2016; and
- $US1.8 billion AWAS Term Loan under which $US1.7 billion of debt securities were outstanding at 30 September 2016.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits.
At 30 September 2016, MBL Group had $A0.5 billion of these securities outstanding.

At 30 September 2016, MBL Group had internally securitised $A15.4 billion of its own mortgages.

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

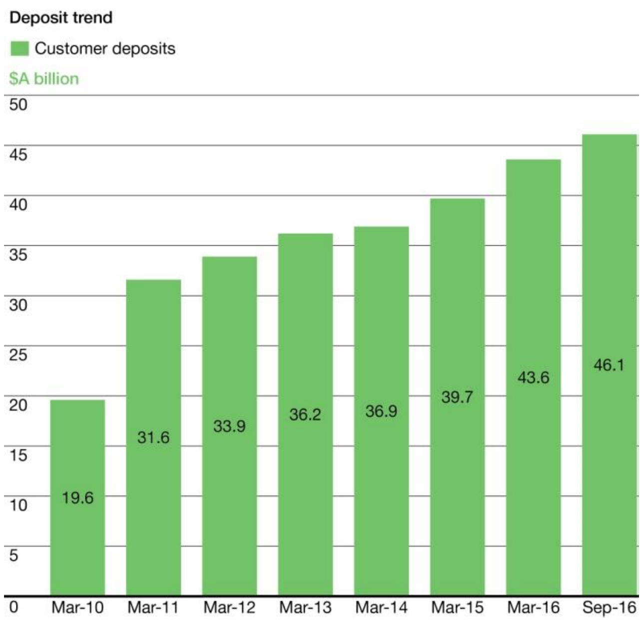
Deposit strategy

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

In particular, Macquarie has focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits such as the Cash Management Account (CMA).

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

The chart below illustrates the customer deposit growth since 31 March 2010.



5.6 Funding profile for Non-Bank Group

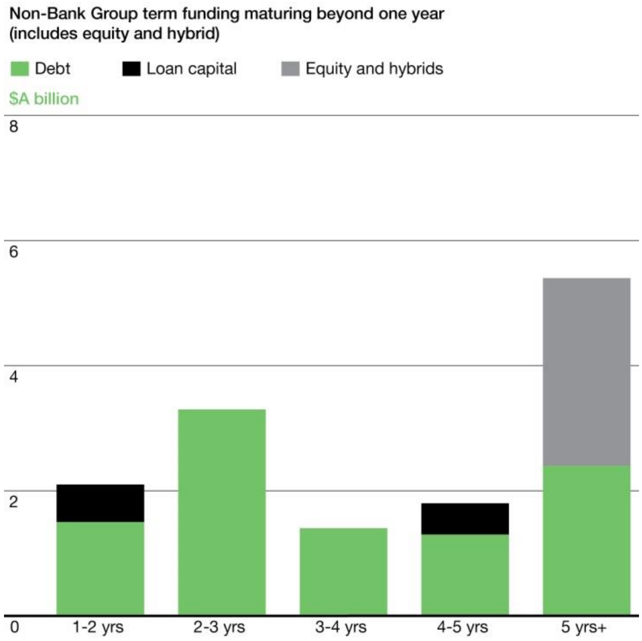
Funded balance sheet

	Notes	As at Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab
Funding sources				
Net trade creditors	2	–	0.3	(0.1)
Structured notes	3	0.4	0.4	0.5
Secured funding	4	0.1	0.1	0.1
Bonds	5	8.5	8.4	9.0
Other loans	6	0.3	0.2	0.4
Syndicated loan facilities	7	2.4	2.9	3.1
Loan capital	9	1.1	1.1	1.2
Equity	10	3.0	3.0	3.3
Total		15.8	16.4	17.5
Funded assets				
Cash and liquid assets	11	1.7	1.5	1.7
Non-Bank Group deposit with MBL		5.2	6.2	6.3
Net trading assets	13	0.5	0.7	0.9
Loan assets less than one year	14	0.5	0.6	0.3
Loan assets greater than one year	14	0.8	1.0	1.5
Debt investment securities	15	0.7	0.5	0.5
Co-investment in Macquarie-managed funds and other equity investments	16	4.5	4.9	5.1
Property, plant and equipment and intangibles		1.0	1.0	1.2
Net trade debtors	17	0.9	–	–
Total		15.8	16.4	17.5

See Section 5.7 for notes 2–17.

5.0 Funding and liquidity
continued

Term funding profile



	As at Sep 16					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.1	–	–	–	–	0.1
Secured funding	–	–	–	–	–	-
Bonds	0.2	2.1	1.4	1.3	2.1	7.1
Other loans	–	–	–	–	0.3	0.3
Syndicated loan facilities	1.2	1.2	–	–	–	2.4
Total debt	1.5	3.3	1.4	1.3	2.4	9.9
Loan capital[1]	0.6	–	–	0.5	–	1.1
Equity	–	–	–	–	3.0	3.0
Total funding sources drawn	2.1	3.3	1.4	1.8	5.4	14.0
Undrawn	–	1.4	–	–	–	1.4
Total funding sources drawn and undrawn	2.1	4.7	1.4	1.8	5.4	15.4

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

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 4.7 years at 31 March 2016 to 4.6 years at 30 September 2016.

As at 30 September 2016, other debt funding maturing within 12 months represented $A1.8 billion, or 11% of total funding.

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

- $US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US4.3 billion was outstanding at 30 September 2016;
- $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 $US0.5 billion debt securities outstanding at 30 September 2016; and
- $US2.9 billion Syndicated Loan Facilities of which $US1.9 billion was drawn at 30 September.

5.7 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

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

2. Net trade creditors

Short term working capital balances (creditors) are created through the day-to-day operations of the Group. A net funding 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 MBL.

9. Loan capital

Long term subordinated debt, Macquarie Capital Notes 1 & 2, Bank Capital Notes, and Exchangeable Capital Securities.

10. Equity and hybrid

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

11. Cash and liquid assets

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

12. Self securitisation

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

13. Net trading assets

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

14. Loan assets including operating lease assets

This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases.
See section 4.2 for further information.

15. Debt investment securities

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

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

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

17. Net trade debtors

Short term working capital balances (debtors) are created through the day-to-day operations of the Group. A net funding use will result due to timing differences in cash flows.

6.0 Capital
continued

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 the whole Macquarie Group, including the Non-Bank Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Adequacy Model (ECAM) and APRA's capital standards for ADIs.

MGL'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 the Macquarie Group are eliminated.

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2016 include the Macquarie Income Securities (MIS), Exchangeable Capital Securities (ECS), Macquarie Bank Capital Notes (BCN), Macquarie Group Capital Notes (MCN) and Macquarie Group Capital Notes 2 (MCN2).

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

Pillar 3

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

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

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

6.0 Capital

Macquarie Group Basel III regulatory capital surplus calculation

	As at Sep 16		As at Mar 16		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Macquarie Group eligible capital:						
Bank Group Gross Tier 1 capital	13,043	13,043	13,465	13,465	(3)	(3)
Non-Bank Group eligible capital	3,865	3,865	3,783	3,783	2	2
Eligible capital	16,908	16,908	17,248	17,248	(2)	(2)
Macquarie Group capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[1]	91,320	93,068	95,248	93,528	(4)	(<1)
Capital required to cover RWA at 8.5%[2]	7,762	7,911	8,096	7,950	(4)	(<1)
Tier 1 deductions	417	2,250	516	2,354	(19)	(4)
Total Bank Group capital requirement	8,179	10,161	8,612	10,304	(5)	(1)
Total Non-Bank Group capital requirement	3,013	3,013	3,016	3,016	(<1)	(<1)
Total Macquarie Group capital requirement (at 8.5%[2] of the Bank Group RWA)	11,192	13,174	11,628	13,320	(4)	(1)
Macquarie Group regulatory capital surplus (at 8.5%[2] of Bank Group RWA)	5,716	3,734	5,620	3,928	2	(5)

(1) In calculating the Bank Group's contribution to MGL's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (30 September 2016: $A530 million, 31 March 2016: $A296 million).

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

6.0 Capital
continued

6.2 Bank Group capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2016 consists of MIS, ECS and BCN. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

ECS were issued by MBL acting through its London Branch (Issuer) in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer. APRA has approved ECS to be fully included in Additional Tier 1 until its first mandatory exchange date.

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 330 basis points margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

Bank Group Basel III Tier 1 Capital

	As at Sep 16		As at Mar 16		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Common Equity Tier 1 capital						
Paid-up ordinary share capital	9,500	9,500	9,491	9,491	<1	<1
Retained earnings	2,139	2,139	2,410	2,410	(11)	(11)
Reserves	368	368	529	529	(30)	(30)
Gross Common Equity Tier 1 capital	12,007	12,007	12,430	12,430	(3)	(3)
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	46	46	46	46	–	–
Deferred tax assets	74	149	74	173	–	(14)
Net other fair value adjustments	(128)	(128)	(31)	(31)	*	*
Intangible component of investments in subsidiaries and other entities	39	39	36	36	8	8
Loan and lease origination fees and commissions paid to mortgage originators and brokers	-	320	–	278	–	15
Shortfall in provisions for credit losses	283	304	248	267	14	14
Equity exposures	-	1,257	–	1,345	–	(7)
Other Common Equity Tier 1 capital deductions	103	263	143	240	(28)	10
Total Common Equity Tier 1 capital deductions	417	2,250	516	2,354	(19)	(4)
Net Common Equity Tier 1 capital	11,590	9,757	11,914	10,076	(3)	(3)
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	1,036	1,036	1,035	1,035	<1	<1
Gross Additional Tier 1 capital	1,036	1,036	1,035	1,035	<1	<1
Deduction from Additional Tier 1 capital	-	-	–	–	–	–
Net Additional Tier 1 capital	1,036	1,036	1,035	1,035	<1	<1
Total Net Tier 1 capital	12,626	10,793	12,949	11,111	(2)	(3)

6.0 Capital
continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Sep 16		As at Mar 16		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	27,150	27,150	29,628	29,628	(8)	(8)
SME Corporate	2,704	2,704	2,498	2,498	8	8
Sovereign	294	294	363	363	(19)	(19)
Bank	1,353	1,353	1,350	1,350	<1	<1
Residential mortgage	5,112	10,688	4,485	6,562	14	63
Other retail	4,575	4,575	3,677	3,677	24	24
Retail SME	2,818	2,949	2,508	2,582	12	14
Total RWA subject to IRB approach	44,006	49,713	44,509	46,660	(1)	7
Specialised lending exposures subject to slotting criteria	6,354	6,354	7,234	7,234	(12)	(12)
Subject to Standardised approach:						
Corporate	776	776	755	755	3	3
Residential mortgage	1,520	1,520	3,271	3,271	(54)	(54)
Other Retail	6,986	6,986	8,130	8,130	(14)	(14)
Total RWA subject to Standardised approach	9,282	9,282	12,156	12,156	(24)	(24)
Credit risk RWA for securitisation exposures	597	493	440	324	36	52
Credit Valuation Adjustment RWA	2,907	2,907	2,853	2,853	2	2
Exposures to Central Counterparties RWA	1,063	1,374	623	1,390	71	(1)
RWA for Other Assets	9,511	9,001	9,607	9,081	(1)	(1)
Total Credit risk RWA	73,720	79,124	77,422	79,698	(5)	(1)
Equity risk exposures RWA	4,301	-	4,572	–	(6)	–
Market risk RWA	4,298	4,298	3,926	3,926	9	9
Operational risk RWA	9,531	9,531	9,624	9,624	(1)	(1)
Interest rate risk in banking book RWA	-	645	–	576	–	12
Total Bank Group RWA	91,850	93,598	95,544	93,824	(4)	(<1)
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	12.6	10.4	12.5	10.7		
Macquarie Bank Group Tier 1 capital ratio (%)	13.7	11.5	13.6	11.8		

6.3 Non-Bank Group capital

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

Risk[1]	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2] Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 49%
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 insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, including fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

(2) Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

6.0 Capital
continued

Non-Bank Group capital requirement

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

	As at Sep 16		
	Asset $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.7	22	16%
Loan assets	1.3	138	133%
Debt investment securities	0.7	73	131%
Co-investments in Macquarie-managed funds and other equity investments	4.2	1,963	589%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.3		
Property, plant and equipment and intangibles	1.0	253	316%
Non-Bank Group deposit with MBL	5.2		
Net trading assets	0.5		
Net trading debtors	0.9		
Total funded assets	**15.8**	**2,449**	
Self-funded and non-recourse assets			
Self-funded trading assets	0.8		
Outstanding trade settlement balances	4.2		
Short term working capital assets	3.8		
Total self-funded and non-recourse assets	**8.8**		
Total Non-Bank Group assets	**24.6**		
Off balance sheet exposures, operational, market and other risks and diversification offset[1]		564	
Non-Bank Group capital requirement		**3,013**	

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

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Assets under Management by type					
Macquarie Investment Management					
Fixed Income	228.8	222.2	231.7	3	(1)
Equities	105.0	97.6	100.8	8	4
Alternatives and Multi-asset	17.3	17.3	18.7	–	(7)
Total Macquarie Investment Management	351.1	337.1	351.2	4	(<1)
Macquarie Infrastructure and Real Assets					
Infrastructure	129.3	128.1	140.6	1	(8)
Agriculture	1.5	1.2	1.1	25	36
Real estate	5.2	6.9	6.1	(25)	(15)
Total Macquarie Infrastructure and Real Assets	136.0	136.2	147.8	(<1)	(8)
Macquarie Specialised Investment Solutions	4.2	3.6	3.3	17	27
Total Macquarie Asset Management	491.3	476.9	502.3	3	(2)
Other Operating Groups	1.8	1.7	2.0	6	(10)
Total Assets under Management	493.1	478.6	504.3	3	(2)
Assets under Management by region					
Americas	278.5	267.6	286.0	4	(3)
Europe, Middle East and Africa	88.5	89.9	98.9	(2)	(11)
Australia	80.2	76.8	76.8	4	4
Asia	45.9	44.3	42.6	4	8
Total Assets under Management	493.1	478.6	504.3	3	(2)

Assets under Management (AUM) of $A493.1 billion at 30 September 2016 increased 3% from $A478.6 billion at 31 March 2016. The increase in AUM over the period was largely due to favourable market movements and additional fund investments in MIRA, partially offset by asset realisations in MIRA, unfavourable foreign currency movements and small net outflows in MIM.

Macquarie Investment Management

Macquarie Investment Management's AUM of $A351.1 billion at 30 September 2016 increased 4% from $A337.1 billion at 31 March 2016 largely driven by positive market movements, partially offset by small net outflows which related to client asset allocation changes in a select number of funds in the US and Australia.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Assets' AUM was $A136.0 billion at 30 September 2016, broadly in line with $A136.2 billion at 31 March 2016. Unfavourable currency movements and asset realisations during the period were partially offset by additional investments by funds and favourable market movements.

7.0 Funds management

7.2 Equity under Management

The MIRA division of Macquarie Asset Management 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].

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

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

Equity under Management by type and region

	As at[1][2]			Movement	
	Sep 16 $Ab	Mar 16 $Ab	Sep 15 $Ab	Mar 16 %	Sep 15 %
Equity under Management by type					
Listed equity	17.0	14.9	16.3	14	4
Unlisted equity	55.0	51.6	55.3	7	(1)
Total EUM	72.0	66.5	71.6	8	1
Equity under Management by region[3]					
Australia	7.4	6.9	5.7	7	30
Europe, Middle East and Africa	27.0	22.9	25.8	18	5
Americas	22.5	21.2	24.2	6	(7)
Asia	15.1	15.5	15.9	(3)	(5)
Total EUM	72.0	66.5	71.6	8	1

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

(2) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.

(3) By location of fund management team.

EUM of $A72.0 billion at 30 September 2016 increased 8% from $A66.5 billion at 31 March 2016. The increase was primarily due to equity raisings for funds, including Macquarie European Infrastructure Fund 5, as well as listed market capitalisation increases. These were partially offset by returns of capital by Macquarie European Infrastructure Fund 2 and Macquarie Infrastructure Partners 1, as well as unfavourable currency movements.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
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.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

8.0 Glossary

BBSW	Bank Bill Swap Rate.
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.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Compensation ratio	The ratio of Compensation Expense to Net Operating Income.
Contingent liabilities	Defined in AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets* as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including structured entities that are not consolidated for the APRA regulatory reporting group.
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 due 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.
Dividend Reinvestment Plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in Macquarie, with no transaction costs.
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*.
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.

ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). ECS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions. Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. ECS may also be exchanged earlier 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).
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Level 2 Bank Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million $A100 face value MIS on issue.
MBI	Macquarie Bank International Limited.
MBL	Macquarie Bank Limited.

8.0 Glossary
continued

MCN	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of $A100 each. MCN are subordinated, non-cumulative, unsecured notes that that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 7 June 2021; 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).
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 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).
MGL	Macquarie Group Limited.
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-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
PMI	On 2 December 2010, Macquarie PMI LLC, a subsidiary of MGL, issued $US400 million of US Dollar denominated Preferred Membership Interests (PMI). These instruments were subordinated, non-cumulative and unsecured equity interests in the issuer. They were redeemed on 2 December 2015.
REIT	Real Estate Investment Trust.
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 AVS, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
SPEs	Special purpose entities.

Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders on 10 January 2014.
Tier 1 Capital	Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.

8.0 Glossary
continued

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