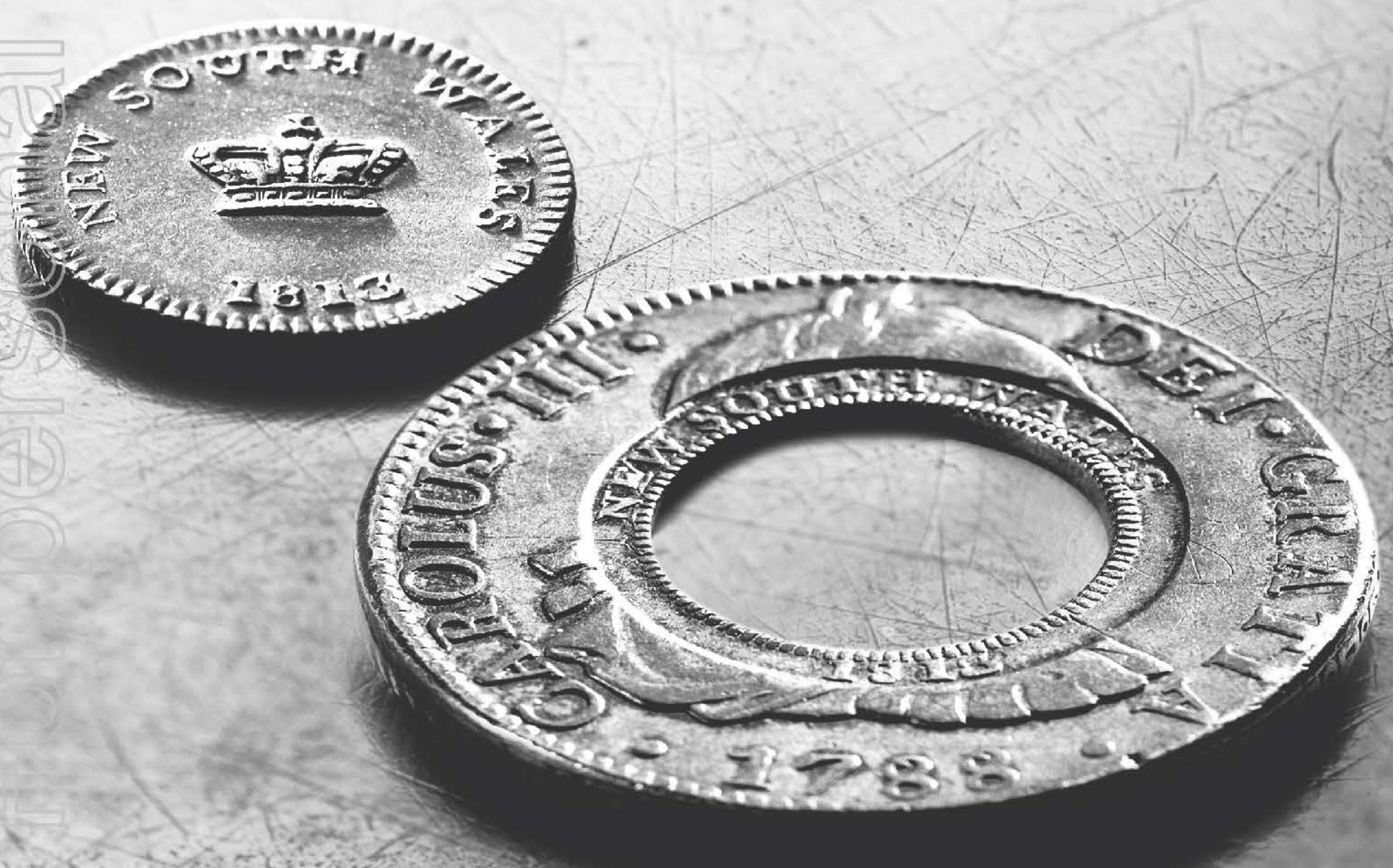
MACQUARIE

Interim Financial Report

Macquarie Group
Half-year ended 30 September 2014



This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and does not include all the notes of the type normally included in an annual financial report.

The material in this report has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is current at the date of this report. It is general background information about Macquarie's activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Financial Report
for the half-year ended 30 September 2014
Contents

The Financial Report was authorised for issue by the Directors on 31 October 2014.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Financial Report
for the half-year ended 30 September 2014

This page has been intentionally left blank.

Directors' Report
for the half-year ended 30 September 2014

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, the Company), the Directors submit herewith the financial statements of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial period ended on 30 September 2014 and report as follows:

Directors

At the date of this report, the Directors of Macquarie are:

Independent Directors

H.K. McCann AM, Chairman
G.R. Banks AO
M.J. Coleman
P.A. Cross
D.J. Grady AM
M.J. Hawker AM
N.M. Wakefield Evans
P.H. Warne

Executive Director

N.W. Moore, Managing Director and Chief Executive Officer

The Voting Directors listed above each held office as a Director of Macquarie throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Dr H.M. Nugent AO and Mr P.M. Kirby retired as Independent Voting Directors on 24 July 2014.

Result

The financial report for the half-year ended 30 September 2014 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $A678 million (half-year to 31 March 2014: $A764 million; half-year to 30 September 2013: $A501 million).

[redacted]

[redacted]

[redacted]

(1) Prior corresponding period refers to the six months to 30 September 2013.
(2) Prior period refers to the six months to 31 March 2014.

Directors' Report
for the half-year ended 30 September 2014
continued

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Directors' Report
for the half-year ended 30 September 2014 continued

[redacted]

Events after the reporting period

Except as disclosed in note 21 to the financial statements, there were no material events subsequent to 30 September 2014 that have not been reflected.

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2014 of $A1.30 per fully paid ordinary MGL share on issue at 14 November 2014. The dividend will be 40 per cent franked and paid on 16 December 2014.

Auditor’s independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001 (Cth)*, is set out on page 6.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 (as amended), amounts in the Directors' report and the half-year financial report have been rounded off to the nearest million dollars unless otherwise indicated.

This report is made in accordance with a resolution of the Directors.

H Kevin McCann AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
31 October 2014

Auditor's independence declaration
for the half-year ended 30 September 2014

pwc

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001 (Cth)* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Group Limited and the entities it controlled during the period.

K. G. Smith

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
31 October 2014

Liability is limited by a scheme approved under Professional Standards Legislation.

Consolidated income statement
for the half-year ended 30 September 2014

	Notes	**Half-year to 30 Sep 2014 $m**	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Interest and similar income		**2,396**	2,367	2,244
Interest expense and similar charges		**(1,440)**	(1,522)	(1,384)
Net interest income	2	**956**	845	860
Fee and commission income	2	**2,181**	2,015	1,838
Net trading income	2	**687**	979	591
Share of net profits of associates and joint ventures accounted for using the equity method	2	**19**	79	70
Other operating income and charges	2	**455**	535	320
Net operating income		**4,298**	4,453	3,679
Employment expenses	2	**(1,944)**	(2,006)	(1,730)
Brokerage, commission and trading-related expenses	2	**(401)**	(400)	(379)
Occupancy expenses	2	**(178)**	(182)	(200)
Non-salary technology expenses	2	**(206)**	(169)	(154)
Other operating expenses	2	**(448)**	(400)	(406)
Total operating expenses		**(3,177)**	(3,157)	(2,869)
Operating profit before income tax		**1,121**	1,296	810
Income tax expense	4	**(432)**	(520)	(307)
Profit after income tax		**689**	776	503
Profit attributable to non-controlling interests:				
Macquarie Income Securities	5	**(9)**	(9)	(9)
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Other non-controlling interests		**–**	(1)	9
Profit attributable to non-controlling interests		**(11)**	(12)	(2)
Profit attributable to ordinary equity holders of Macquarie Group Limited		**678**	764	501
				Cents per share
Basic earnings per share	6	**213.3**	235.0	149.7
Diluted earnings per share	6	**204.9**	224.8	144.6

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income
for the half-year ended 30 September 2014

	Notes	**Half-year to 30 Sep 2014 $m**	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Profit after income tax for the period		**689**	776	503
Other comprehensive income/(expense)[1]:				
Available for sale investments, net of tax	17	**(22)**	(135)	207
Cash flow hedges, net of tax	17	**(21)**	16	5
Share of other comprehensive income of associates and joint ventures, net of tax	17	**(3)**	3	11
Exchange differences on translation of foreign operations, net of hedges and tax		**250**	13	599
Total other comprehensive income/(expense) for the period		**204**	(103)	822
Total comprehensive income for the period		**893**	673	1,325
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of Macquarie Group Limited		**880**	657	1,297
Macquarie Income Securities holders		**9**	9	9
Macquarie Income Preferred Securities holders		**4**	5	13
Other non-controlling interests		**–**	2	6
Total comprehensive income for the period		**893**	673	1,325

(1) All items of other comprehensive income may reclassify subsequently to profit or loss.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 30 September 2014

	Notes	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Assets				
Receivables from financial institutions		**20,775**	19,457	18,384
Trading portfolio assets	7	**26,310**	22,462	22,489
Derivative assets		**14,648**	12,633	14,647
Investment securities available for sale	8	**9,299**	14,051	16,578
Other assets	9	**13,024**	12,990	12,335
Loan assets held at amortised cost	10	**64,435**	58,712	56,093
Other financial assets at fair value through profit or loss		**2,752**	2,854	3,116
Property, plant and equipment		**6,636**	6,311	6,175
Interests in associates and joint ventures accounted for using the equity method	12	**2,483**	2,447	2,497
Intangible assets		**1,237**	1,221	1,276
Deferred tax assets		**733**	766	1,010
Total assets		**162,332**	153,904	154,600
Liabilities				
Trading portfolio liabilities	13	**4,118**	2,762	3,485
Derivative liabilities		**14,634**	11,973	14,149
Deposits		**44,216**	42,401	42,694
Other liabilities	14	**13,287**	13,908	12,638
Payables to financial institutions		**16,961**	19,654	19,625
Other financial liabilities at fair value through profit or loss		**1,364**	1,464	1,205
Debt issued at amortised cost	15	**51,076**	45,565	43,755
Provisions		**221**	205	225
Deferred tax liabilities		**635**	551	667
Total liabilities excluding loan capital		**146,512**	138,483	138,443
Loan capital				
Subordinated debt at amortised cost		**3,604**	3,507	3,438
Total loan capital		**3,604**	3,507	3,438
Total liabilities		**150,116**	141,990	141,881
Net assets		**12,216**	11,914	12,719
Equity				
Contributed equity	16	**5,063**	5,112	5,893
Reserves	17	**826**	669	726
Retained earnings	17	**5,801**	5,637	5,610
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**11,690**	11,418	12,229
Non-controlling interests	17	**526**	496	490
Total equity		**12,216**	11,914	12,719

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the half-year ended 30 September 2014

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2013		5,907	57	5,439	11,403	552	11,955
Profit after income tax		–	–	501	501	2	503
Other comprehensive income, net of tax		–	796	–	796	26	822
Total comprehensive income for the period		–	796	501	1,297	28	1,325
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	16	11	–	–	11	–	11
Purchase of shares by MEREP Trust	16	(216)	–	–	(216)	–	(216)
Dividends and distributions paid or provided for	5,17	–	–	(419)	(419)	–	(419)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(88)	(88)
Distributions paid or provided for		–	–	–	–	(2)	(2)
Change in non-controlling ownership interest		–	–	(5)	(5)	–	(5)
Other equity movements:							
MEREP expense	17	–	136	–	136	–	136
Excess deferred tax on MEREP expense	17	–	22	–	22	–	22
Transfer from share-based payments reserve:							
– to retained earnings	17		(94)	94	–	–	–
– to equity for equity settled awards	16,17	191	(191)	–	–	–	–
Transfer of excess deferred tax on MEREP expense upon vesting to equity	16,17	–	–	–	–	–	–
		(14)	(127)	(330)	(471)	(90)	(561)
Balance at 30 September 2013		5,893	726	5,610	12,229	490	12,719
Profit after income tax		–	–	764	764	12	776
Other comprehensive (expense)/ income, net of tax		–	(107)	–	(107)	4	(103)
Total comprehensive income for the period		–	(107)	764	657	16	673
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	16	4	–	–	4	–	4
Dividends and distributions paid or provided for	5,17	–	–	(740)	(740)	–	(740)
Capital reduction through SYD distribution	16,17	(803)	(72)	–	(875)	–	(875)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	2	2
Distributions paid or provided for		–	–	–	–	(12)	(12)
Other equity movements:							
MEREP expense	17	–	121	–	121	–	121
Excess deferred tax on MEREP expense	17	–	31	–	31	–	31
Transfer from share-based payments reserve:							
– to retained earnings	17	–	(3)	3	–	–	–
– to other liabilities for cash settled awards	17	–	(9)	–	(9)	–	(9)
– to equity for equity settled awards	16,17	4	(4)	–	–	–	–
Transfer of excess deferred tax on MEREP expense upon vesting to equity	16,17	14	(14)	–	–	–	–
		(781)	50	(737)	(1,468)	(10)	(1,478)
Balance at 31 March 2014		5,112	669	5,637	11,418	496	11,914

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2014		5,112	669	5,637	11,418	496	11,914
Profit after income tax		–	–	678	678	11	689
Other comprehensive income, net of tax		–	202	–	202	2	204
Total comprehensive income for the period		–	202	678	880	13	893
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	16	5	–	–	5	–	5
Purchase of shares by MEREP Trust	16	(266)	–	–	(266)	–	(266)
Dividends and distributions paid or provided for	5,17	–	–	(514)	(514)	–	(514)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	28	28
Distributions paid or provided for		–	–	–	–	(11)	(11)
Other equity movements:							
MEREP expense	17	–	169	–	169	–	169
Excess deferred tax on MEREP expense	17	–	(2)	–	(2)	–	(2)
Transfer from share-based payments reserve:							
– to equity for equity settled awards	16,17	218	(218)	–	–	–	–
Transfer from share-based payment capital reduction reserve:							
– to equity	16,17	(18)	18	–	–	–	–
Transfer of excess deferred tax on MEREP expense upon vesting to equity	16,17	12	(12)	–	–	–	–
		(49)	(45)	(514)	(608)	17	(591)
Balance at 30 September 2014		5,063	826	5,801	11,690	526	12,216

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the half-year ended 30 September 2014

	Notes	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Cash flows (used in)/from operating activities				
Interest received		**2,351**	2,234	2,116
Interest and other costs of finance paid		**(1,467)**	(1,482)	(1,419)
Dividends and distributions received		**190**	58	156
Fees and other non-interest income received		**2,583**	2,391	2,295
Fees and commissions paid		**(407)**	(401)	(381)
Net payments for trading portfolio assets and other financial assets/liabilities		**(3,842)**	(362)	(1,705)
Payments to suppliers		**(696)**	(220)	(423)
Employment expenses paid		**(2,274)**	(1,219)	(1,903)
Income tax paid		**(307)**	(151)	(185)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		**556**	516	675
Life investment contract payments and payments for investment assets		**(506)**	(451)	(672)
Net loan assets granted		**(5,045)**	(2,191)	(5,585)
Net increase in amounts due to other financial institutions, deposits and other borrowings		**7,844**	723	7,446
Net cash flows (used in)/from operating activities	18	**(1,020)**	(555)	415
Cash flows from investing activities				
Net proceeds from investment securities available for sale		**1,882**	3,299	889
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		**184**	242	323
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		**(515)**	(360)	(369)
Proceeds from the disposal of property, plant and equipment, lease assets and intangible assets		**65**	142	14
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		**(438)**	(452)	(239)
Net cash flows from investing activities		**1,178**	2,871	618

	Notes	**Half-year to 30 Sep 2014 $m**	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Cash flows used in financing activities				
Proceeds from the issue of ordinary shares	16	**4**	2	10
Proceeds from non-controlling interests		**28**	–	103
Proceeds from issue of subordinated debt		–	–	359
Repayment of convertible preference shares subordinated debt		–	–	(359)
Dividends and distributions paid		**(525)**	(356)	(431)
Payments for acquisition of treasury shares		**(266)**	–	(216)
Net cash flows used in financing activities		**(759)**	(354)	(534)
Net (decrease)/increase in cash and cash equivalents		**(601)**	1,962	499
Cash and cash equivalents at the beginning of the period		**15,540**	13,578	13,079
Cash and cash equivalents at the end of the period	18	**14,939**	15,540	13,578

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014

Note 1
Summary of significant accounting policies

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2014 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

This half-year financial report comprises the consolidated financial report of Macquarie Group Limited (MGL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity).

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2014 and any public announcements made by MGL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

The Consolidated Entity is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 (as amended), relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' report and the half-year financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of MGL for the year ended 31 March 2014 other than where disclosed. Certain comparatives have been restated for consistency in presentation at 30 September 2014.

(ii) Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2014.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

(iii) New Accounting Standards and amendments to Accounting Standards and Interpretations that are effective in the current period

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current period:

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 amends *AASB 132 Financial Instruments: Presentation* to clarify that to set off an asset with a liability:

– the right of set-off must be available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy;
– certain gross settlement mechanisms (such as through a clearing house) may be equivalent to net settlement;
– master netting arrangements where the legal right of offset is only enforceable on the occurrence of a future event (such as default of the counterparty) continue to not meet the requirements for netting.

AASB 2012-3 is required to be retrospectively applied. Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

AASB 2013-5 defines an investment entity and provides an exception to the consolidation requirements in AASB 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity, the parent must still consolidate the investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity. The amendments also set out new disclosure requirements for investment entities.

AASB 2013-5 is required to be retrospectively applied, however adjustments are not required for subsidiary investments that are disposed of or for which control is lost before the due date of initial application, 1 April 2014.

Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

Note 1

Summary of significant accounting policies continued

(iv) New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB *issued IFRS 15 Revenue from Contracts with Customers*, which specifies how and when revenue is recognised, as well as requiring enhanced disclosures. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The transitional provisions require retrospective application. The AASB is expected to issue the Australian equivalent of the Standard with the same effective date. The Consolidated Entity is continuing to assess the full impact of adopting IFRS 15.

AASB 9 Financial Instruments and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments. A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of debt instruments that (i) have cash flows solely principal and interest; and (ii) are held in a business model managed both to collect cash flows and for sale are recognised in other comprehensive income until sold, at which point they are recycled to the income statement. Interest and impairment are recognised directly in profit or loss. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

In respect of financial liabilities, the component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are presented in other comprehensive income, unless such presentation creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in credit risk) are presented in profit or loss. These requirements may be applied early without applying all other requirements of AASB 9.

All other requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to AASB 9 unamended.

AASB 9 contains guidance on hedge accounting that replaces the existing requirements of AASB 139, introduces substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Consolidated Entity is continuing to assess the full impact of adopting AASB 9.

In July 2014, the IASB added to IFRS 9 the new expected credit loss model for impairment. It is no longer necessary for a loss event to have occurred before credit losses are recognised. Instead, the entity brings to account expected credit losses and updates its expectations at each reporting date to reflect changes in credit risk since initial recognition. The AASB is expected to add these requirements to AASB 9.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 2
Profit for the period

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Net interest income			
Interest and similar income received/receivable	**2,396**	2,367	2,244
Interest expense and similar charges paid/payable	**(1,440)**	(1,522)	(1,384)
Net interest income	**956**	845	860
Fee and commission income			
Base fees	**650**	661	628
Performance fees	**373**	143	76
Mergers and acquisitions, advisory and underwriting fees	**429**	452	357
Brokerage and commissions	**410**	434	469
Other fee and commission income	**319**	325	308
Total fee and commission income	**2,181**	2,015	1,838
Net trading income[1]			
Equities	**160**	180	202
Commodities	**382**	722	380
Credit, interest rates and foreign exchange products	**145**	77	9
Net trading income	**687**	979	591
Share of net profits of associates and joint ventures accounted for using the equity method	**19**	79	70

[1] Included in net trading income are fair value gains of $42 million (half-year to 31 March 2014: fair value gain of $285 million; half-year to 30 September 2013: fair value gain of $199 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**146**	366	75
Impairment charge on investment securities available for sale	**(19)**	(21)	(70)
Net gains on sale of associates and joint ventures	**50**	25	36
Impairment charge on interests in associates and joint ventures	**(29)**	(140)	(12)
Gain on disposal of operating lease assets	**97**	13	14
Impairment charge on non-financial assets	**(31)**	(4)	(24)
Net operating lease income			
Rental income	**484**	481	449
Depreciation on operating lease assets	**(211)**	(210)	(191)
Dividends/distributions received/receivable:			
Investment securities available for sale	**26**	104	104
Collective allowance for credit losses provided for during the period (note 10)	**(26)**	(37)	(21)
Individually assessed provisions:			
Loan assets provided for during the period (note 10)	**(57)**	(73)	(46)
Other receivables provided for during the period	**(10)**	(19)	(13)
Recovery of loans previously provided for (note 10)	**18**	5	6
Recovery of other receivables previously provided for	**–**	2	5
Loan losses written off	**(39)**	(29)	(33)
Recovery of loans previously written off	**10**	10	7
Other income	**46**	62	34
Total other operating income and charges	**455**	535	320
Net operating income	**4,298**	4,453	3,679

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,626)**	(1,753)	(1,464)
Share-based payments[1]	**(180)**	(131)	(153)
Provision for long service leave and annual leave	**(15)**	1	(5)
Total compensation expenses	**(1,821)**	(1,883)	(1,622)
Other employment expenses including on-costs, staff procurement and staff training	**(123)**	(123)	(108)
Total employment expenses	**(1,944)**	(2,006)	(1,730)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(313)**	(326)	(301)
Other fee and commission expenses	**(88)**	(74)	(78)
Total brokerage, commission and trading-related expenses	**(401)**	(400)	(379)
Occupancy expenses			
Operating lease rentals	**(108)**	(112)	(114)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(34)**	(37)	(47)
Other occupancy expenses	**(36)**	(33)	(39)
Total occupancy expenses	**(178)**	(182)	(200)
Non-salary technology expenses			
Information services	**(68)**	(68)	(72)
Depreciation: equipment	**(7)**	(9)	(11)
Service provider and other non-salary technology expenses	**(131)**	(92)	(71)
Total non-salary technology expenses	**(206)**	(169)	(154)
Other operating expenses			
Professional fees	**(143)**	(128)	(129)
Auditor's remuneration	**(11)**	(13)	(11)
Travel and entertainment expenses	**(75)**	(80)	(70)
Advertising and promotional expenses	**(35)**	(35)	(32)
Communication expenses	**(14)**	(15)	(14)
Amortisation of intangibles	**(28)**	(28)	(38)
Other expenses	**(142)**	(101)	(112)
Total other operating expenses	**(448)**	(400)	(406)
Total operating expenses	**(3,177)**	(3,157)	(2,869)

(1) Includes $11 million (half-year to 31 March 2014: $10 million; half-year to 30 September 2013: $17 million) of share based payment expense of cash settled awards.

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups and a corporate group. These segments have been set up based on the different core products and services offered. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy.

Macquarie Funds Group is the Consolidated Entity's funds management business. It is a full-service asset manager, offering a diverse range of capabilities and products including investment management, infrastructure and real asset management and fund and equity based structured products.

Corporate and Asset Finance is the lending and leasing business of the Consolidated Entity.

Banking and Financial Services Group is the primary relationship manager for the Consolidated Entity's retail client base. The group brings together the retail banking and financial services businesses providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

Macquarie Securities Group activities include institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full-service institutional cash equities broker in the Asia Pacific region and South Africa, and offers specialised services in other regions. It also provides an equity capital markets service through a joint venture with Macquarie Capital.

Macquarie Capital comprises the Consolidated Entity's corporate advisory, equity underwriting and debt structuring and distribution businesses, private equity placements and principal products.

Fixed Income, Currencies and Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialisation in interest rate, commodity and foreign exchange related institutional trading, marketing, lending, and clearing or platform provision.

Corporate is not considered an operating group and includes head office and central support functions including Group Treasury. The Corporate segment also holds certain investments not aligned with 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, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non-controlling interests (NCI) and holders of loan capital.

Internal transactions

All transactions and transfers between segments are 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 the key policies.

Internal funding arrangements

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 and are fully costed.

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. 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.

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense and benefits. Non-assessable income generated by an Operating Group results in management revenue added to that group's operating result. Conversely a non-deductible expense results in a management charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that on aggregation the total nets to nil.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 3
Segment reporting continued

(i) Operating segments continued

The following is an analysis of the Consolidated Entity's results by reportable segment for the period:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income/(expense)	**11**	**326**	**406**
Fee and commission income/(expense)	**1,133**	**21**	**262**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**38**	**1**	**1**
Other operating income and charges			
Impairment charges and provisions, net of recoveries	**(17)**	**(34)**	**(15)**
Other other operating income and charges	**77**	**370**	**11**
Internal management (charge)/ revenue	**(3)**	**4**	**–**
Net operating income	**1,239**	**688**	**665**
Total operating expenses	**(454)**	**(220)**	**(524)**
Profit/(loss) before tax	**785**	**468**	**141**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**785**	**468**	**141**
Reportable segment assets	**7,203**	**28,717**	**32,805**
Net interest and trading (expense)/ income	(18)	386	372
Fee and commission income/(expense)	915	29	259
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	56	(2)	–
Other operating income and charges			
Impairment charges and provisions, net of recoveries	(1)	(56)	(24)
Other other operating income and charges	59	265	43
Internal management revenue/(charge)	10	7	3
Net operating income	1,021	629	653
Total operating expenses	(470)	(199)	(504)
Profit/(loss) before tax	551	430	149
Tax expense	–	–	–
Profit attributable to non-controlling interests	–	–	–
Net profit/(loss) attributable to ordinary equity holders	551	430	149
Reportable segment assets	8,582	26,543	29,612
Net interest and trading income/(expense)	(5)	277	366
Fee and commission income/(expense)	805	7	317
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	47	4	1
Other operating income and charges			
Impairment charges and provisions, net of recoveries	5	(29)	(25)
Other other operating income and charges	49	311	6
Internal management revenue/(charge)	6	8	2
Net operating income	907	578	667
Total operating expenses	(407)	(182)	(556)
Profit/(loss) before tax	500	396	111
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	–	–
Net profit/(loss) attributable to ordinary equity holders	500	396	111
Reportable segment assets	9,010	25,799	29,307

	Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
					Half-year to 30 September 2014
	113	**(13)**	**671**	**129**	**1,643**
	323	**361**	**93**	**(12)**	**2,181**
	–	**(7)**	**2**	**(16)**	**19**
	(1)	**(17)**	**(72)**	**(27)**	**(183)**
	1	**114**	**32**	**33**	**638**
	(5)	**1**	**(1)**	**4**	**–**
	431	**439**	**725**	**111**	**4,298**
	(414)	**(290)**	**(475)**	**(800)**	**(3,177)**
	17	**149**	**250**	**(689)**	**1,121**
	–	**–**	**–**	**(432)**	**(432)**
	–	**1**	**–**	**(12)**	**(11)**
	17	**150**	**250**	**(1,133)**	**678**
	26,466	**3,127**	**53,009**	**11,005**	**162,332**
					Half-year to 31 March 2014
	109	(32)	964	43	1,824
	318	406	81	7	2,015
	–	23	8	(6)	79
	–	(35)	(74)	(116)	(306)
	1	76	62	335	841
	1	7	(12)	(16)	–
	429	445	1,029	247	4,453
	(393)	(265)	(506)	(820)	(3,157)
	36	180	523	(573)	1,296
	–	–	–	(520)	(520)
	–	(1)	–	(11)	(12)
	36	179	523	(1,104)	764
	26,015	2,885	44,811	15,456	153,904
					Half-year to 30 September 2013
	125	(3)	616	75	1,451
	315	321	81	(8)	1,838
	–	(5)	15	8	70
	(5)	(13)	(133)	(1)	(201)
	1	72	69	13	521
	–	–	5	(21)	–
	436	372	653	66	3,679
	(365)	(283)	(450)	(626)	(2,869)
	71	89	203	(560)	810
	–	–	–	(307)	(307)
	–	12	–	(14)	(2)
	71	101	203	(881)	501
	24,143	2,771	43,915	19,655	154,600

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 3
Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:

Asset and Wealth Management: distribution and manufacture of funds management products;

Financial Markets: trading in fixed income, equities, currency, commodities and derivative products;

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development; and

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Half-year to 30 September 2014
Revenues from external customers	**1,476**	**1,522**	**931**	**2,255**	**6,184**
					Half-year to 31 March 2014
Revenues from external customers	1,333	1,817	1,167	2,215	6,532
					Half-year to 30 September 2013
Revenues from external customers	1,174	1,291	856	2,180	5,501

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Revenues from external customers			
Australia	**2,851**	2,693	2,820
Americas	**1,465**	1,993	1,591
Europe, Middle East and Africa	**1,427**	1,302	710
Asia Pacific	**441**	544	380
Total	**6,184**	6,532	5,501

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Note 4
Income tax expense

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
(i) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable			
Prima facie income tax expense on operating profit[1]	**(336)**	(389)	(243)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**(79)**	(154)	(25)
Other items	**(17)**	23	(39)
Total income tax expense	**(432)**	(520)	(307)
(ii) Tax (expense)/benefit relating to items of other comprehensive income			
Available for sale reserves	**(16)**	54	(92)
Cash flow hedges	**10**	(7)	(4)
Foreign currency translation reserve	**1**	(29)	(2)
Share of other comprehensive income of associates and joint ventures	**2**	(1)	(5)
Total tax (expense)/benefit relating to items of other comprehensive income	**(3)**	17	(103)

(1) Prima facie income tax expense on operating profit is calculated at the rate of 30 per cent.

Revenue authorities undertake risk reviews and audits as part of their normal activities.

Macquarie Group is currently subject to risk review and audit by the Australian Taxation Office (ATO). In prior years, Macquarie received amended assessments from the ATO. A number of these matters have been resolved. Macquarie has not received amended assessments from the ATO in the current period.

In accordance with ATO practice, Macquarie has paid a portion of the primary tax and interest in respect of the unresolved amended assessments and this amount has been included in these financial statements as part of tax receivables, pending resolution.

Macquarie has considered its position with respect to unresolved matters and other tax claims, including seeking advice, and considers that it holds appropriate provisions.

.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid or provided for

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Ordinary share capital and exchangeable shares			
Interim dividend paid (half-year to 31 March 2014: $1.00 per share)[1]	–	345	–
2014 final dividend paid $1.60 per share (half-year to 30 September 2013: $1.25 per share)[2]	**514**	–	420
2014 special dividend paid[3]	–	395	–
Dividend reversed	–	–	(1)
Total dividends paid or provided for (note 17)	**514**	740	419

(1) Interim dividend paid by the Consolidated Entity includes $nil (half-year to 31 March 2014: $8 million; half-year to 30 September 2013: $nil) of dividend equivalent amount paid during the period to Deferred Share Units (DSUs) holders.

(2) Final dividend paid by the Consolidated Entity includes $5 million (half-year to 31 March 2014: $nil; half-year to 30 September 2013: $nil) of dividend equivalent amount paid during the period to Deferred Share Units (DSUs) holders.

(3) On 12 December 2013, MGL shareholders approved the SYD Distribution, a distribution of the majority of the Group's investment in Sydney Airport stapled securities (SYD Securities) to its ordinary shareholders implemented through a special dividend and a capital reduction along with a consolidation of one MGL share into 0.9438 ordinary share (Refer to note 16 - Contributed equity for further details on capital reduction and share consolidation). Eligible MGL ordinary shareholders received one SYD Security for each MGL ordinary share held. The carrying value of SYD securities on approval date (12 December 2013) was $3.77 per share and at settlement date (13 January 2014) was $3.73 per share. The special dividend component of the SYD Distribution was $1.1563 per ordinary share. The amount paid by the Consolidated Entity includes $2 million paid to the holders of the exchangeable shares and $4 million to DSU holders.

The final dividend paid during the period was 40 per cent franked based on tax paid at 30 per cent (half-year to 31 March 2014: 40 per cent franked; half-year to 30 September 2013: 40 per cent franked). The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. Effective from 31 October 2014, a discount has been re-introduced to the DRP pricing of 1.5% to the prevailing market rate. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in note 16 – Contributed equity.

(ii) Dividends not recognised at the end of the period

Since the end of the period, the Directors have recommended the payment of an interim dividend for the half-year ended 30 September 2014 of $1.30 per fully paid ordinary MGL share on issue on 14 November 2014, 40 per cent franked. The aggregate amount of the proposed dividend expected to be paid on 16 December 2014 from retained profits at 30 September 2014, but not recognised as a liability at the end of the period, is $419 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of $1 million to be received on treasury shares – refer to note 16 – Contributed equity for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 30 September 2014.

	Half-year to 30 Sep 2014	Half-year to 31 Mar 2014	Half-year to 30 Sep 2013
			Dividend per ordinary share
Cash dividend per ordinary share (distribution of current year profits)	**$1.30**	$1.60	$1.00

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided for)	**5**	5	5
Distributions provided for	**4**	4	4
Total distributions paid or provided for	**9**	9	9

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to note 17 – Reserves, retained earnings and non-controlling interests for further details on these instruments. MIS are stapled arrangements, which include perpetual preference shares issued by Macquarie Bank Limited (MBL) subsidiary. No dividends are payable under the preference shares until MBL, exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise of the option, dividends on the preference shares are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion.

Macquarie Income Preferred Securities			
Distributions provided for	**2**	2	2
Total distributions provided for	**2**	2	2

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 17 - Reserves, retained earnings and non-controlling interests for further details on these instruments. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 6
Earnings per share

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
			Cents per share
Basic earnings per share	**213.3**	235.0	149.7
Diluted earnings per share	**204.9**	224.8	144.6
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m	$m
Profit after income tax	**689**	776	503
(Profit) attributable to non-controlling interests:			
Macquarie Income Securities	**(9)**	(9)	(9)
Macquarie Income Preferred Securities	**(2)**	(2)	(2)
Other non-controlling interests	**–**	(1)	9
Total profit attributable to ordinary equity holders of MGL	**678**	764	501
Less profit attributable to participating unvested Macquarie Group Employee Retained Equity Plan (MEREP) awards	**(48)**	(54)	(37)
Total earnings used in the calculation of basic earnings per share	**630**	710	464
Add back adjusted interest expense on Macquarie Group Capital Notes	**9**	9	5
Add back adjusted interest expense on Exchangeable Capital Securities	**5**	5	6
Add back adjusted interest expense on Macquarie Convertible Preference Securities(1)	**–**	–	7
Add back profit attributable to dilutive participating unvested MEREP awards	**34**	45	28
Total earnings used in the calculation of diluted earnings per share	**678**	769	510
			Number of shares
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share(2)	**295,358,984**	302,081,567	309,901,261
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid externally held ordinary shares	**295,358,984**	302,081,567	309,901,261
Potential ordinary shares:			
Weighted average options	**5,426**	43,663	61,289
Weighted average Macquarie Group Capital Notes	**10,421,153**	10,824,681	7,983,346
Weighted average Exchangeable Capital Securities	**5,167,993**	5,067,970	5,884,804
Weighted average unvested MEREP awards	**19,939,884**	24,009,586	22,359,709
Weighted average Macquarie Convertible Preference Securities(1)	**–**	–	6,426,467
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**330,893,440**	342,027,467	352,616,876

(1) The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.
(2) The overall impact of the Sydney distribution was that of a share repurchase at fair value, therefore no adjustment has been made to half-year to September 2013. Refer to note 5 - Dividends and distributions paid or provided for.

Note 6

Earnings per share continued

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive.

There are no outstanding options as at 30 September 2014.

Macquarie Group Employee Retained Equity Plan

In December 2009, the Company's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP).

Vested MEREP awards are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of vesting.

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average shares are 4,407,964 (31 March 2014: 3,990,619; 30 September 2013: 3,700,731) awards that were vested, lapsed or cancelled during the period. As at 30 September 2014, a further 463 (31 March 2014: nil; 30 September 2013: 19,500) MEREP awards have not been included in the balance of weighted average unvested MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer note 16 - Contributed equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, issued US$250 million of Exchangeable Capital Securities (ECS).

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. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

The number of MGL ordinary shares that would be issued on an exchange based on the current share price is 5,167,993 (31 March 2014: 5,067,970; 30 September 2013: 5,884,804).

The ECS have not been included in the determination of basic earnings per share and have been included in diluted earnings per share from their date of issue to the extent to which they are dilutive based on the conversion features measured using 30 September 2014 as the conversion date.

Macquarie Group Capital Notes

In June 2013, Macquarie issued six million MCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be resold, redeemed on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) on 7 June 2021. In the event that the MCN do not convert and are not redeemed or resold, they will continue until such time as the conditions are met and the securities mandatorily convert.

The MCN have not been included in the determination of basic earnings per share and have been included in diluted earnings per share from their date of issue to the extent to which they are dilutive based on the conversion features measured using 30 September 2014 as the conversion date.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 7
Trading portfolio assets

Equities			
Listed	**10,095**	7,990	8,194
Unlisted	**72**	33	37
Commodities	**5,681**	4,506	3,425
Commonwealth government securities	**5,191**	5,707	5,657
Corporate securities	**3,048**	2,190	2,221
Foreign government securities	**1,833**	1,756	2,467
Treasury notes	**240**	173	85
Promissory notes	**100**	59	67
Bank bills	**42**	40	112
Other government securities[(1)]	**8**	8	224
Total trading portfolio assets	**26,310**	22,462	22,489

(1) Other government securities include state and local governments and related enterprises predominantly in Australia.

Note 8
Investment securities available for sale

Equity securities			
Listed	**756**	771	2,304
Unlisted	**1,268**	1,234	1,063
Debt securities[(1)]	**7,275**	12,046	13,211
Total investment securities available for sale	**9,299**	14,051	16,578

(1) Included within this balance is $1,167 million (31 March 2014: $3,909 million; 30 September 2013: $2,457 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and nil (31 March 2014: $100 million; 30 September 2013: $265 million) of bank bills.

Note 9
Other assets

Security settlements[(1)]	**6,516**	6,094	5,175
Debtors and prepayments	**4,301**	4,721	4,658
Life investment contracts and other unitholder assets	**1,060**	1,113	1,155
Income tax receivable	**777**	726	932
Property held for sale and development	**237**	175	239
Other	**133**	161	176
Total other assets	**13,024**	12,990	12,335

(1) Security settlements are generally receivable within three working days of the relevant trade date.

Note 10

Loan assets held at amortised cost

	As at 30 Sep 2014			As at 31 Mar 2014			As at 30 Sep 2013		
	Gross $m	**Individually assessed provision for impairment $m**	**Net $m**	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Residential mortgage loans	**25,362**	**(12)**	**25,350**	23,107	(13)	23,094	21,699	(12)	21,687
Corporate and commercial lending	**17,991**	**(305)**	**17,686**	16,785	(260)	16,525	16,276	(270)	16,006
Lease and retail financing	**11,808**	**(66)**	**11,742**	11,082	(72)	11,010	10,436	(81)	10,355
Margin money placed	**6,660**	**–**	**6,660**	5,342	–	5,342	5,344	–	5,344
Relationship banking mortgages	**1,849**	**–**	**1,849**	1,613	–	1,613	1,423	–	1,423
Investment and insurance premium lending	**1,505**	**(6)**	**1,499**	1,450	(14)	1,436	1,560	(12)	1,548
Total loan assets before collective allowance for credit losses	**65,175**	**(389)**	**64,786**	59,379	(359)	59,020	56,738	(375)	56,363
Less collective allowance for credit losses			**(351)**			(308)			(270)
Total loan assets held at amortised cost[(1),(2)]			**64,435**			58,712			56,093

(1) Included within this balance are loans of $15,881 million (31 March 2014: $14,025 million; 30 September 2013: $13,103 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Margin monies placed of $1,617 million have been reclassed from Receivables from financial institutions for the Consolidated Entity for the period ended 30 September 2013.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**359**	375	335
Provided for during the period (note 2)	**57**	73	46
Loan assets written off, previously provided for	**(24)**	(83)	(33)
Recovery of loans previously provided for (note 2)	**(18)**	(5)	(6)
Transfer from other provisions	**2**	–	10
Impact of foreign currency translation	**13**	(1)	23
Balance at the end of the period	**389**	359	375
Individually assessed provisions as a percentage of total gross loan assets	**0.60%**	0.60%	0.66%
Collective allowance for credit losses			
Balance at the beginning of the period	**308**	270	240
Provided for during the period (note 2)	**26**	37	21
Acquisitions during the period	**14**	–	–
Transfer from other provisions	**(4)**	1	–
Impact of foreign currency translation	**7**	–	9
Balance at the end of the period	**351**	308	270

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identified.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Note 11			
Impaired financial assets			
Impaired debt investment securities available for sale before individually assessed provisions for impairment	7	7	8
Less individually assessed provisions for impairment	(6)	(6)	(7)
Debt investment securities available for sale after individually assessed provisions for impairment	1	1	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	956	848	849
Less individually assessed provisions for impairment	(461)	(434)	(448)
Loan assets and other financial assets after individually assessed provisions for impairment	495	414	401
Total net impaired financial assets	**496**	415	402

Note 12
Interests in associates and joint ventures accounted for using the equity method

Loans and investments without provisions for impairment	2,082	2,074	2,327
Loans and investments with provisions for impairment	1,077	1,052	781
Less provisions for impairment	(676)	(679)	(611)
Loans and investments at recoverable amount	401	373	170
Total interests in associates and joint ventures accounted for using the equity method	**2,483**	2,447	2,497

There are no material associates and joint ventures accounted for using the equity method.

Note 13
Trading portfolio liabilities

Listed equity securities	3,292	1,888	2,942
Corporate securities	541	396	282
Foreign government securities	225	363	257
Commodities	54	115	–
Commonwealth government securities	6	–	4
Total trading portfolio liabilities	**4,118**	2,762	3,485

Note 14
Other liabilities

Due to brokers and customers	6,217	6,343	5,985
Creditors	4,161	4,269	3,935
Accrued charges and sundry provisions	1,527	1,921	1,248
Life insurance contracts and other unitholder liabilities	1,037	1,084	1,129
Income tax payable	122	74	70
Other	223	217	271
Total other liabilities	**13,287**	13,908	12,638

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 15

Debt issued at amortised cost

Debt issued at amortised cost[1]	**51,076**	45,565	43,755
Total debt issued at amortised cost	**51,076**	45,565	43,755

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $14,541 million (31 March 2014: $12,732 million; 30 September 2013: $11,961 million).

The Consolidated Entity has not had any defaults of principal, interest or other breaches with respect to its debt during the periods reported.

Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent):

United States dollars	**27,020**	23,495	21,392
Australian dollars	**13,392**	11,914	11,538
Canadian dollars	**3,218**	3,932	4,789
Euro	**3,195**	1,577	1,499
Great British pounds	**1,721**	1,085	778
Swiss franc	**1,134**	1,137	1,087
Japanese yen	**887**	1,928	2,158
South African rand	**136**	114	111
Hong Kong dollars	**116**	109	109
Korean won	**111**	173	191
Singapore dollars	**97**	101	103
Others	**49**	–	–
Total by currency	**51,076**	45,565	43,755

The Consolidated Entity's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic negotiable certificate of deposits (NCD) issuance. Securities can be issued for terms varying from one day to 30 years.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 16
Contributed equity

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Ordinary share capital			
Opening balance of 321,074,750 (1 October 2013: 339,888,036; 1 April 2013: 339,506,578) fully paid ordinary shares(1)	**6,075**	6,884	6,882
Issue of 67,664 (31 March 2014: 93,971; 30 September 2013: 329,188) shares on exercise of options	**4**	2	10
Issue of 22,994 (31 March 2014: 32,757; 30 September 2013: 32,384) shares on exercise of MEREP awards	**1**	2	1
Issue of 37,586 (31 March 2014: 127,954; 30 September 2013:19,886) shares on retraction of exchangeable shares	**2**	7	2
Capital reduction through SYD distribution(1)	**–**	(803)	–
Consolidation of one ordinary share into 0.9438 ordinary share resulting in reduction of 19,067,968 shares (31 March 2014: nil; 30 September 2013: nil)	**–**	–	–
For employee MEREP awards that have vested and forfeited, and options exercised during the period:			
Transfer of MEREP expense from share-based payments reserve	**218**	4	191
Transfer of excess deferred tax on MEREP expense from share-based payments reserve	**12**	14	–
Transfer from treasury shares for shares withdrawn	**(253)**	(35)	(202)
Transfer from share-based payment capital reduction reserve	**(18)**	–	–
Closing balance of 321,202,994 (31 March 2014: 321,074,750; 30 September 2013: 339,888,036) fully paid ordinary shares	**6,041**	6,075	6,884

(1) Represents SYD Distribution to ordinary shareholders recognised as return of ordinary share capital and consolidation of ordinary shares on Sydney Airport stapled securities distribution. Refer note 5 - Dividends and distribution paid or provided for.

Treasury shares			
Opening balance of 26,011,106 (1 October 2013: 28,793,669; 1 April 2013: 28,981,801) treasury shares	**(990)**	(1,025)	(1,011)
Purchase of 4,461,905 (31 March 2014: nil; 30 September 2013: 4,969,737) shares for employee MEREP awards	**(266)**	–	(216)
Transfer of 6,353,707 (31 March 2014: 1,187,502; 30 September 2013: 5,157,869) shares withdrawn/exercised for vested MEREP awards	**253**	35	202
Consolidation of one treasury share into 0.9438 treasury share resulting in a reduction of 1,595,061 treasury shares (31 March 2014: nil; 30 September 2013: nil)	**–**	–	–
Purchase of 1,049,203 (31 March 2014: 702,614; 30 September 2013: 1,866,577) shares for DRP share issue by the company	**(63)**	(39)	(81)
Allocation of 1,049,203 (31 March 2014: 702,614; 30 September 2013: 1,866,577) shares under DRP scheme by the company	**63**	39	81
Closing balance of 24,119,304 (31 March 2014: 26,011,106; 30 September 2013: 28,793,669) Treasury shares(2)	**(1,003)**	(990)	(1,025)

(2) In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share which is held in shares of the Company by the Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) is presented as Treasury shares.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 16

Contributed equity continued

Exchangeable shares			
Opening balance of 447,562 (1 October 2013: 584,320; 1 April 2013: 604,206) exchangeable shares	**27**	34	36
Retraction of 39,820 (31 March 2014: 127,954; 30 September 2013: 19,886) exchangeable shares, exchangeable to shares in MGL[1]	**(2)**	(7)	(2)
Cancellation of 2,428 (31 March 2014: 8,804; 30 September 2013: nil) exchangeable shares	**–**	–	–
Closing balance of 405,314 (31 March 2014: 447,562; 30 September 2013: 584,320) exchangeable shares	**25**	27	34

[1] The exchangeable shares were issued by a subsidiary as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. As per terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. However, subsequent to the approval of consolidation of Macquarie ordinary shares by Macquarie's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL.

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Contributed equity	**5,063**	5,112	5,893

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Note 17			
Reserves, retained earnings and non-controlling interests			
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(313)**	(322)	(895)
Currency translation differences arising during the period, net of hedges and tax	**248**	9	573
Balance at the end of the period	**(65)**	(313)	(322)
Available for sale reserve			
Balance at the beginning of the period	**385**	520	313
Revaluation movement for the period, net of tax	**74**	103	208
Transfer to income statement for impairment, net of tax	**14**	15	49
Transfer to profit on realisation, net of tax	**(110)**	(253)	(50)
Balance at the end of the period	**363**	385	520
Share-based payments reserve			
Balance at the beginning of the period	**683**	561	688
MEREP expense including related tax effect for the financial period	**169**	121	136
Excess deferred tax on MEREP expense	**(2)**	31	22
Transfer to retained earnings in respect of expired and lapsed options and forfeited MEREP awards	**–**	(3)	(94)
Transfer to other liabilities on vesting of MEREP awards and exercise of options[1]	**–**	(9)	–
Transfer to share capital on vesting of MEREP awards and exercise of options	**(218)**	(4)	(191)
Transfer of excess deferred tax to share capital on vesting of MEREP awards	**(12)**	(14)	–
Balance at the end of the period	**620**	683	561
Share-based payments capital reduction reserve[2]			
Balance at the beginning of the period	**(72)**	–	–
Transfer to share capital related to vested and forfeited awards	**18**	(72)	–
Balance at the end of the period	**(54)**	(72)	–
Cash flow hedging reserve			
Balance at the beginning of the period	**(28)**	(44)	(49)
Revaluation movement for the period, net of tax	**(21)**	16	5
Balance at the end of the period	**(49)**	(28)	(44)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**14**	11	–
Share of other comprehensive income during the period	**(3)**	3	11
Balance at the end of the period	**11**	14	11
Total reserves at the end of the period	**826**	669	726
Retained earnings			
Balance at the beginning of the period	**5,637**	5,610	5,439
Profit attributable to ordinary equity holders of MGL	**678**	764	501
Dividends paid on ordinary share capital (note 5)	**(514)**	(740)	(419)
Transfer from share based payments reserves in respect of expired and lapsed options and forfeited MEREP awards	**–**	3	94
Change in non-controlling ownership interest	**–**	–	(5)
Balance at the end of the period	**5,801**	5,637	5,610

(1) Represents vested MEREP awards settled through cash.

(2) Represents SYD Distribution to the unvested MEREP holders recognised as return of ordinary share capital on Sydney Airport stapled securities distribution. Refer Note 5 - Dividends and distributions paid or provided for.

Note 17

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The Macquarie Income Securities issued by MBL, a subsidiary, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent per annum (31 March 2014: 1.7 per cent per annum; 30 September 2013: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, currently pay a 6.177 per cent (31 March 2014: 6.177 per cent; 30 September 2013: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

These instruments are classified as equity in accordance with AASB 132 Financial Instruments: Presentation and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax. Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Macquarie Income Securities			
4,000,000 Macquarie Income Securities of $100 each	**400**	400	400
Less transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391
Macquarie Income Preferred Securities			
Proceeds on issue of Macquarie Income Preferred Securities	**109**	109	107
Less issue costs	**(1)**	(1)	(1)
	108	108	106
Foreign currency translation reserve	**(30)**	(32)	(35)
Total Macquarie Income Preferred Securities	**78**	76	71
Other non-controlling interests			
Ordinary share capital	**56**	28	28
Preference share capital	**2**	2	2
Foreign currency translation reserve	**–**	–	(1)
Retained earnings	**(1)**	(1)	(1)
Total other non-controlling interests	**57**	29	28
Total non-controlling interests	**526**	496	490

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 18
Notes to the consolidated statement of cash flows

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Reconciliation of cash and cash equivalents			
Cash and cash equivalents at the end of the period as shown in the consolidated statement of cash flows are reconciled to related items in the consolidated statement of financial position as follows:			
Receivables from financial institutions(1)	**10,474**	8,362	8,260
Trading portfolio assets(2)	**567**	538	1,354
Debt securities(3)	**1,129**	4,208	2,347
Loan asset at amortised cost(4)	**2,769**	2,432	1,617
Cash and cash equivalents at the end of the period(5)	**14,939**	15,540	13,578

(1) Includes cash and other receivables.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes amounts due from clearing houses.
(5) Cash and cash equivalents include $3,242 million (31 March 2014: $4,172 million; 30 September 2013: $3,728 million) held by collaterised securitisation vehicles in segregated deposit fund and escrow accounts which are restricted for use.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Reconciliation of profit after income tax to net cash flows (used in)/from operating activities			
Profit after income tax	**689**	776	503
Adjustments to profit after income tax:			
Depreciation and amortisation	**280**	284	287
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(51)**	(315)	14
Provision and impairment charge on financial and non-financial assets	**193**	316	208
Interest on available for sale financial assets	**(46)**	(92)	(106)
Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets	**(293)**	(404)	(125)
Share-based payments expense	**169**	106	158
Share of net profits of associates and joint ventures accounted for using the equity method	**(19)**	(79)	(70)
Changes in assets and liabilities:			
Change in dividends receivable	**84**	(97)	(8)
Change in values of associates due to dividends received	**80**	51	60
Change in fees and non-interest income receivable	**69**	(119)	(29)
Change in fees and commissions payable	**(6)**	(1)	(2)
Change in tax balances	**125**	401	122
Change in provisions for employee entitlements	**16**	(20)	13
Change in loan assets	**(5,055)**	(2,201)	(5,592)
Change in debtors, prepayments, accrued charges and creditors	**(396)**	1,141	(89)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(4,676)**	(1,024)	(2,357)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**7,817**	722	7,428
Net cash flows (used in)/from operating activities	**(1,020)**	(555)	415

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 19

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives and matters where the likelihood of an obligation arising is remote.

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Contingent liabilities exist in respect of:			
Letters of credit	**521**	558	430
Performance related contingents	**341**	342	130
Guarantees	**277**	285	321
Indemnities	**138**	161	20
Total contingent liabilities[1]	**1,277**	1,346	901
Commitments exist in respect of:			
Undrawn credit facilities	**5,801**	4,792	3,803
Forward asset purchases	**819**	455	531
Total commitments[2]	**6,620**	5,247	4,334
Total contingent liabilities and commitments	**7,897**	6,593	5,235

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(2) Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20
Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Consolidated Entity uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt;
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations;
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA).

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

Note 20

Fair values of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

– the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
– the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
– the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
– the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
– the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread;
– substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
– in the financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost:

	Carrying value $m	Fair value $m
Assets	**As at 30 September 2014**	
Receivables from financial institutions	20,775	20,775
Other financial assets	13,024	13,024
Loan assets held at amortised cost	64,435	64,945
Total assets	**98,234**	**98,744**
Liabilities		
Deposits	44,216	44,225
Other financial liabilities	13,287	13,287
Payables to financial institutions	16,961	17,006
Debt issued at amortised cost	51,076	51,965
Loan capital at amortised cost	3,604	3,778
Total liabilities	**129,144**	**130,261**

The fair values for "Receivable from financial institutions" and "Deposits" have been predominantly classified as Level 1 except for $10,065 million (March 2014:$10,948 million) under Receivables from financial institutions and $11,480 million (March 2014: $10,489 million) under Deposits which have been classified as Level 2.

Fair values for "Other financial assets", "Other financial liabilities", "Payables to financial institutions", "Debt issued at amortised cost" and "Loan capital" have been predominantly classified as Level 2 except for $1,998 million (March 2014: $1,595 million) in Payables to financial institutions, $2,690 million (March 2014: $3,279 million) in Debt issued at amortised cost and $941 million (March 2014: $934 million) in Loan capital has been classified as Level 1 and $6,906 million (March 2014: $5,999 million) in Debt issued at amortised cost is classified as Level 3.

Loan assets at amortised cost are primarily Level 3 except for $10,583 million (March 2014: $3,211 million) which has been classified as Level 2 and $6,686 million (March 2014: $5,342 million) which has been classified as Level 1.

Note 20
Fair values of financial assets and liabilities continued

	Carrying value $m	Fair value $m
Assets	As at 31 March 2014	
Receivables from financial institutions	19,457	19,457
Other financial assets	10,377	10,377
Loan assets held at amortised cost	58,712	58,875
Total assets	88,546	88,709
Liabilities		
Deposits	42,401	42,413
Other financial liabilities	10,027	10,027
Payables to financial institutions	19,654	19,698
Debt issued at amortised cost	45,565	46,302
Loan capital at amortised cost	3,507	3,744
Total liabilities	121,154	122,184
Assets	As at 30 September 2013	
Receivables from financial institutions	18,384	18,384
Other financial assets	9,255	9,255
Loan assets held at amortised cost	56,093	56,420
Total assets	83,732	84,059
Liabilities		
Deposits	42,694	42,710
Other financial liabilities	9,333	9,333
Payables to financial institutions	19,625	19,755
Debt issued at amortised cost	43,755	44,340
Loan capital at amortised cost	3,438	3,588
Total liabilities	118,845	119,726

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**As at 30 September 2014**
Trading portfolio assets	**15,105**	**10,524**	**681**	**26,310**
Derivative assets	**1,309**	**12,807**	**532**	**14,648**
Investment securities available for sale	**4,849**	**2,465**	**1,985**	**9,299**
Other financial assets at fair value through profit or loss	**192**	**2,456**	**104**	**2,752**
Other financial assets[(1)]	**281**	**779**	**–**	**1,060**
Total assets	**21,736**	**29,031**	**3,302**	**54,069**
Liabilities				
Trading portfolio liabilities	**2,137**	**1,979**	**2**	**4,118**
Derivative liabilities	**1,550**	**12,705**	**379**	**14,634**
Other financial liabilities at fair value through profit or loss	**–**	**1,339**	**25**	**1,364**
Other financial liabilities[(1)]	**284**	**753**	**–**	**1,037**
Total liabilities	**3,971**	**16,776**	**406**	**21,153**
Assets				As at 31 March 2014
Trading portfolio assets	13,982	7,770	710	22,462
Derivative assets	591	11,944	98	12,633
Investment securities available for sale	8,897	3,930	1,224	14,051
Other financial assets at fair value through profit or loss	244	2,457	153	2,854
Other financial assets[(1)]	353	760	–	1,113
Total assets	24,067	26,861	2,185	53,113
Liabilities				
Trading portfolio liabilities	1,125	1,637	–	2,762
Derivative liabilities	738	11,148	87	11,973
Other financial liabilities at fair value through profit or loss	–	1,432	32	1,464
Other financial liabilities[(1)]	351	733	–	1,084
Total liabilities	2,214	14,950	119	17,283
Assets				As at 30 September 2013
Trading portfolio assets	15,927	6,427	135	22,489
Derivative assets	1,078	13,422	147	14,647
Investment securities available for sale	11,289	4,602	687	16,578
Other financial assets at fair value through profit or loss	526	2,539	51	3,116
Other financial assets[(1)]	381	776	–	1,157
Total assets	29,201	27,766	1,020	57,987
Liabilities				
Trading portfolio liabilities	2,143	1,342	–	3,485
Derivative liabilities	1,225	12,859	65	14,149
Other financial liabilities at fair value through profit or loss	50	1,105	50	1,205
Other financial liabilities[(1)]	380	749	–	1,129
Total liabilities	3,798	16,055	115	19,968

(1) Relates to life insurance contracts and other unitholder investment assets and liabilities.

This page has been intentionally left blank.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20
Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the period ended 30 September 2014, 31 March 2014 and 30 September 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the period	**710**	**1,224**
Purchases	**457**	**338**
Sales	**(361)**	**(264)**
Issues	–	–
Settlements	–	**(11)**
Transfers into Level 3	**83**	**645**
Transfers out of Level 3	**(217)**	**(77)**
Fair value gains/(losses) recognised in the income statement[1]	**9**	**49**
Fair value gains recognised in other comprehensive income[1]	**–**	**81**
Balance at the end of the period	**681**	**1,985**
Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the period[1]	**9**	**50**
Balance at the beginning of the period	135	687
Purchases	286	454
Sales	2	(112)
Issues	–	49
Settlements	–	(3)
Transfers into Level 3	276	66
Transfers out of Level 3	–	–
Fair value gains/(losses) recognised in the income statement[1]	11	29
Fair value gains recognised in other comprehensive income[1]	–	54
Balance at the end of the period	710	1,224
Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the period[1]	12	12
Balance at the beginning of the period	322	744
Purchases	68	129
Sales	(198)	(125)
Settlements	–	–
Transfers into Level 3	40	–
Transfers out of Level 3	(94)	(115)
Fair value (losses)/gains recognised in the income statement[1]	(3)	47
Fair value gains recognised in other comprehensive income[1]	–	7
Balance at the end of the period	135	687
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	(3)	21

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $532 million (31 March 2014: $98 million; 30 September 2013: $147 million) and derivative liabilities are $379 million (31 March 2014: $87 million; 30 September 2013: $65 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Half-year to 30 September 2014
153	**–**	**(32)**	**11**	**2,066**
–	**(2)**	**–**	**181**	**974**
(5)	**–**	**7**	**(13)**	**(636)**
–	**–**	**–**	**(4)**	**(4)**
12	**–**	**–**	**–**	**1**
–	**–**	**–**	**5**	**733**
(61)	**–**	**–**	**(19)**	**(374)**
5	**–**	**–**	**(8)**	**55**
–	**–**	**–**	**–**	**81**
104	**(2)**	**(25)**	**153**	**2,896**
5	**–**	**–**	**(11)**	**53**
				Half-year to 31 March 2014
51	–	(50)	82	905
62	–	–	(79)	723
(21)	–	17	3	(111)
–	–	–	(5)	44
–	–	3	6	6
63	–	–	(23)	382
–	–	–	2	2
(2)	–	(2)	25	61
–	–	–	–	54
153	–	(32)	11	2,066
(3)	–	–	37	58
				Half-year to 30 September 2013
69	–	(70)	23	1,088
–	–	–	46	243
(19)	–	23	(5)	(324)
–	–	(1)	(25)	(26)
–	–	–	34	74
(6)	–	–	5	(210)
7	–	(2)	4	53
–	–	–	–	7
51	–	(50)	82	905
4	–	(4)	1	19

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period, the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the period.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Balance at the beginning of the period	**12**	26	32
Deferral on new transactions	**18**	1	3
Amounts recognised in the income statement during the period	**(12)**	(15)	(9)
Balance at the end of the period	**18**	12	26

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		**Unfavourable changes**	
	Profit or loss $m	**Equity $m**	**Profit or loss $m**	**Equity $m**
Product type			**As at 30 September 2014**	
Equity and equity linked products	**18**	**97**	**(18)**	**(87)**
Other products	**63**	**13**	**(61)**	**(12)**
Total	**81**	**110**	**(79)**	**(99)**
Product type			As at 31 March 2014	
Equity and equity linked products	3	75	(3)	(54)
Other products	17	7	(11)	(7)
Total	20	82	(14)	(61)
Product type			As at 30 September 2013	
Equity and equity linked products	6	68	(6)	(43)
Other products	30	–	(24)	–
Total	36	68	(30)	(43)

Note 20

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair values of the instruments. The range of values represent the highest and lowest of inputs used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Range of inputs Maximum value
					As at 30 September 2014	
Equity and equity linked products	**1,611**	**25**	Discounted cash flows	Discount rate	6.8%	25.0%
			Pricing model	Volatility	28.6%	59.6%
				Earnings multiple	0.4x	16.0x
			Market comparability	Price in %	(25.0)%	25.0%
Other products	**1,691**	**381**	Pricing model	Volatility	10.3%	110.0%
				Correlation	–	1.00
			Market comparability	Price in %	0.0%	129.0%
Total	**3,302**	**406**				
					As at 31 March 2014	
Equity and equity linked products	1,022	35	Discounted cash flows	Discount rate	6.8%	25.0%
			Pricing model	Volatility	9.2%	95.0%
				Earnings multiple	0.4x	8.45x
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	–	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	2,185	119				
					As at 30 September 2013	
Equity and equity linked products	690	59	Discounted cash flows	Discount rate	8.4%	13.5%
			Pricing model	Volatility	1.4%	107.7%
				Earnings multiple	0.4x	7x
				Correlation	(0.68)	0.63
			Market comparability	Price in %	94.8%	113.4%
Other products	330	56	Pricing model	Volatility	8.5%	92.0%
				Correlation	0.15	1
			Market comparability	Price in %	5%	337%
Total	1,020	115	Total			

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 20
Fair values of financial assets and liabilities continued

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility and skew

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Forward prices

Forward prices are a price or rate that is applicable to a financial transaction that will take place in the future. It is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment.

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples, discount rates, and forecast earnings of the investee companies.

Note 21
Events after the reporting period

On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes ("BCN") at face value of $100 each. 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.

BCN may also be converted into a variable number of MGL's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. They can also be exchanged earlier on an acquisition event (where a person acquires 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).

The BCN pay discretionary, semi-annual floating rate cash distributions equal to 6 month BBSW plus 330bps margin, adjusting for franking credits, paid semi annually.

Directors' declaration
for the half-year ended 30 September 2014

In the Directors' opinion

a) financial statements and notes for the half-year ended 30 September 2014 set out on pages 7 to 48 are in accordance with the *Corporations Act 2001 (Cth)* including:
   i) complying with the accounting standards; and
   ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2014 and performance for the half-year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 14).

This declaration is made in accordance with a resolution of the Directors.

H Kevin McCann, AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
31 October 2014

Independent auditor's review report
to the members of Macquarie Group Limited

pwc

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited, which comprises the consolidated statement of financial position as at 30 September 2014, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Macquarie Group Limited (the consolidated entity). The consolidated entity comprises both Macquarie Group Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001 (Cth)* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*. As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001 (Cth)*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Group Limited is not in accordance with the *Corporations Act 2001 (Cth)* including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2014 and of its performance for the half-year ended on that date;
b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. G. Smith

K.G. Smith
Partner

Sydney
31 October 2014

Liability is limited by a scheme approved under Professional Standards Legislation.

This page has been intentionally left blank.

CONTACT DETAILS

Macquarie Group Head Office
50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333
Fax: +61 2 8237 1899

macquarie.com.au