MACQUARIE

Management Discussion and Analysis

Macquarie Group
Half-year ended 30 September 2014

MACQUARIE GROUP LIMITED ACN 122 169 279

Contents

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the half-year ended 30 September 2014, including further detail in relation to key elements of Macquarie Group Limited's ("MGL", "Macquarie", "the Group") financial performance and financial position. The report also outlines the funding and capital profile of the Group.

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

Date of this report

This report has been prepared for the half-year ended 30 September 2014 and is current as at 31 October 2014.

Comparative information and conventions

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

References to the prior corresponding period are to the six months ended 30 September 2013.

References to the prior period are to the six months ended 31 March 2014.

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

Independent auditor's review report

This document should be read in conjunction with the Macquarie Group Limited Financial Report for the half-year ended 30 September 2014, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 31 October 2014 was unqualified.

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

Disclaimer

1.0 Result Overview

1.1 Executive summary

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Financial performance summary					
Net interest income	**956**	845	860	*13*	*11*
Fee and commission income	**2,181**	2,015	1,838	*8*	*19*
Net trading income	**687**	979	591	*(30)*	*16*
Share of net profits of associates and joint ventures accounted for using the equity method	**19**	79	70	*(76)*	*(73)*
Other operating income and charges	**455**	535	320	*(15)*	*42*
Net operating income	**4,298**	4,453	3,679	*(3)*	*17*
Employment expenses	**(1,944)**	(2,006)	(1,730)	*(3)*	*12*
Brokerage, commission and trading-related expenses	**(401)**	(400)	(379)	*<1*	*6*
Occupancy expenses	**(178)**	(182)	(200)	*(2)*	*(11)*
Non-salary technology expenses	**(206)**	(169)	(154)	*22*	*34*
Other operating expenses	**(448)**	(400)	(406)	*12*	*10*
Total operating expenses	**(3,177)**	(3,157)	(2,869)	*1*	*11*
Operating profit before income tax	**1,121**	1,296	810	*(14)*	*38*
Income tax expense	**(432)**	(520)	(307)	*(17)*	*41*
Profit after income tax	**689**	776	503	*(11)*	*37*
Profit attributable to non-controlling interests	**(11)**	(12)	(2)	*(8)*	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**678**	764	501	*(11)*	*35*
Key metrics					
Expense to income ratio (%)	**73.9**	70.9	78.0		
Compensation ratio (%)	**42.4**	42.3	44.1		
Effective tax rate (%)	**38.9**	40.5	38.0		
Basic earnings per share (cents per share)	**213.3**	235.0	149.7		
Diluted earnings per share (cents per share)	**204.9**	224.8	144.6		
Ordinary dividends per share (cents per share)	**130.0**	160.0	100.0		
Ordinary dividend payout ratio (%)	**61.8**	66.6	67.1		
Special dividend per share (cents per share)	**–**	115.6	–		
Annualised return on equity (%)	**12.5**	13.5	8.7		

Profit attributable to ordinary equity holders was $A678 million for the half-year ended 30 September 2014, up 35% from $A501 million in the prior corresponding period.

Macquarie's annuity style businesses – Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services – continued to perform well, generating a combined net profit contribution for the half-year ended 30 September 2014 of $A1,394 million, an increase of 38% on the prior corresponding period. Macquarie Funds benefited from increased performance fee income, while Corporate and Asset Finance's higher profit contribution was largely driven by increased income from early repayments, loan sales and a gain on disposal of operating lease assets. Banking and Financial Services' improved profit contribution was largely driven by volume growth in mortgages, business lending, deposits, and the Wrap platform.

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities – delivered a combined net profit contribution for the half-year ended 30 September 2014 of $A417 million, an increase of 11% on the prior corresponding period. Macquarie Capital benefited from increased fee income and net gains on sale of principal investments compared to the prior corresponding period, while Fixed Income, Currencies and Commodities' improved profit contribution was mainly driven by increased

1.0 Result Overview
continued

income across commodities, interest rates and foreign exchange platforms and a decrease in listed equity impairments compared to the prior corresponding period. Macquarie Securities' profit contribution was down on the prior corresponding period largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs including the exit of the Structured Products business during the period.

Net operating income of $A4,298 million for the half-year ended 30 September 2014 increased 17% from $A3,679 million in the prior corresponding period. Key drivers of the changes from the prior corresponding period were:

- A 13% increase in combined net interest and trading income to $A1,643 million for the half-year ended 30 September 2014 from $A1,451 million in the prior corresponding period. Most operating groups contributed to the increase, with key drivers being improved trading conditions for certain businesses in Fixed Income, Currencies and Commodities, income earned from early repayments and the sale of loan assets in the Lending portfolio in Corporate and Asset Finance and higher loan and deposit volumes in Banking and Financial Services.
  - Net interest and trading income for the half-year ended 30 September 2014 was down 10% from $A1,824 million for the six months ended 31 March 2014, which benefited from strong customer flows in Fixed Income, Currencies and Commodities' Energy Markets business.
- A 19% increase in fee and commission income to $A2,181 million for the half-year ended 30 September 2014 from $A1,838 million in the prior corresponding period primarily driven by:
  - increased performance fees of $A373 million for the half-year ended 30 September 2014, up significantly from $A76 million in the prior corresponding period, including significant performance fees recognised in Macquarie Funds from Macquarie Infrastructure Company LLC (MIC) and Macquarie European Infrastructure Fund 1 (MEIF1);
  - increased mergers and acquisitions, advisory and underwriting fees of $A429 million for the half-year ended 30 September 2014, up 20% from $A357 million in the prior corresponding period, mainly due to improved equity capital markets, particularly in Australia, which benefited Macquarie Capital and Macquarie Securities, and an increase in debt capital markets activity in the US; partially offset by
  - decreased brokerage and commissions income of $A410 million for the half-year ended 30 September 2014, down 13% from $A469 million in the prior corresponding period mainly due to the sale of Macquarie Private Wealth Canada by Banking and Financial Services in November 2013.
- A 42% increase in other operating income and charges to $A455 million for the half-year ended 30 September 2014 from $A320 million in the prior corresponding period. The increase was mainly due to:
  - an increase of 77% in net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) to $A196 million for the half-year ended 30 September 2014 from $A111 million in the prior corresponding period mainly due to a number of transactions in Macquarie Capital, including the sale of a stake in 3P Learning Pty Limited on its IPO and the partial sell down of an investment in Charter Hall Group;
  - a reduction in aggregate impairment charges on investment securities available for sale, associates and joint ventures, and non-financial assets of 25% to $A79 million for the half-year ended 30 September 2014 from $A106 million in the prior corresponding period. While impairment charges were down considerably in Fixed Income, Currencies and Commodities, mining equity markets remained subdued during the period; and
  - a gain on disposal of operating lease assets in Corporate and Asset Finance of $A97 million in the half-year ended 30 September 2014 mainly due to a gain on the restructure of an operating lease facility.
  - Other operating income for the half-year ended 30 September 2014 was down 15% from $A535 million for the six months ended 31 March 2014, which included the gain on the SYD distribution of $A228 million.

Total operating expenses increased 11% from $A2,869 million in the prior corresponding period to $A3,177 million for the half-year ended 30 September 2014 mainly due to the following key drivers:

- a 12% increase in employment expenses to $A1,944 million for the half-year ended 30 September 2014 from $A1,730 million in the prior corresponding period primarily due to higher staff compensation resulting from the improved performance of the Group. Headcount increased 2% from 13,901 at 30 September 2013 to 14,138 at 30 September 2014. The compensation ratio of 42.4% for the half-year ended 30 September 2014 decreased from 44.1% in the prior corresponding period;

- a 34% increase in non-salary technology expenses from $A154 million in the prior corresponding period to $A206 million for the half-year ended 30 September 2014 mainly driven by increased information technology development activity to support business growth and increased regulatory compliance requirements; and
- a 10% increase in total other operating expenses from $A406 million in the prior corresponding period to $A448 million for the half-year ended 30 September 2014 mainly driven by increased business activity, investment in platforms and increased regulatory compliance requirements.

Income tax expense for the half-year ended 30 September 2014 was $A432 million, up 41% from $A307 million in the prior corresponding period. The increase was mainly driven by a 38% increase in operating profit before income tax, from $A810 million in the prior corresponding period to $A1,121 million in the half-year ended 30 September 2014, in addition to a 50% increase in income tax permanent differences, which include the impact of offshore income tax rate differentials and tax uncertainties. These factors resulted in an effective tax rate for the half-year ended 30 September 2014 of 38.9%, up from 38.0% in the prior corresponding period.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest income	**956**	845	860	*13*	*11*
Net trading income	**687**	979	591	*(30)*	*16*
Net interest and trading income	**1,643**	1,824	1,451	*(10)*	*13*

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

For businesses that predominantly earn income from trading activities (Macquarie Securities and Fixed Income, Currencies and Commodities), the relative contribution of net interest income and trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

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

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

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Macquarie Funds	**11**	(18)	(5)	*	*
Corporate and Asset Finance	**326**	386	277	*(16)*	*18*
Banking and Financial Services	**406**	372	366	*9*	*11*
Macquarie Securities	**113**	109	125	*4*	*(10)*
Macquarie Capital	**(13)**	(32)	(3)	*(59)*	*
Fixed Income, Currencies and Commodities					
Commodities	**418**	731	393	*(43)*	*6*
Credit, interest rates and foreign exchange	**253**	233	223	*9*	*13*
Corporate	**129**	43	75	*200*	*72*
Net interest and trading income	**1,643**	1,824	1,451	*(10)*	*13*

Net interest and trading income of $A1,643 million for the half-year ended 30 September 2014 increased 13% from $A1,451 million in the prior corresponding period. Most Operating Groups contributed to the increase with key drivers being the impact of the depreciation of the Australian dollar, improved trading conditions for certain businesses in Fixed Income, Currencies and Commodities, income earned from early repayments and the sale of loan assets in the Lending portfolio in Corporate and Asset Finance and higher loan and deposit volumes in Banking and Financial Services.

Macquarie Funds

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

Net interest and trading income of $A11 million for the half-year ended 30 September 2014 increased from an expense of $A5 million in the prior corresponding period primarily due to lower funding costs associated with balance sheet investments.

Corporate and Asset Finance

Net interest and trading income of $A326 million for the half-year ended 30 September 2014 increased 18% from $A277 million in the prior corresponding period. This was driven by growth in the loan and finance lease portfolios and income earned from early repayments and the sale of loan assets in the Lending portfolio.

The loan and finance lease portfolios of $A21.6 billion at 30 September 2014 increased 14% from the prior corresponding period driven by organic growth.

Banking and Financial Services

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

Net interest and trading income of $A406 million for the half-year ended 30 September 2014 increased 11% from $A366 million in the prior corresponding period primarily due to growth in lending and deposit volumes.

Retail deposits increased 7% to $A35.3 billion at 30 September 2014 from $A33.1 billion at 30 September 2013.

The total Australian loan portfolio of $A25.3 billion at 30 September 2014 increased 33% from $A19.0 billion at 30 September 2013 primarily due to 36% increase in the Australian mortgage portfolio to $A19.8 billion at 30 September 2014 from $A14.6 billion at 30 September 2013. The majority of the growth in lending and deposit volumes is organic, with the acquisition of the Woolworths credit card portfolio in May 2014 being the key driver of the growth in credit card volumes from $A0.3 billion at 30 September 2013 to $A0.6 billion at 30 September 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins, including reduced average margins on the Australian mortgages portfolio as higher margin loans continue to run off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined $A4.6 billion at 30 September 2014, down 31% from $A6.7 billion at 30 September 2013.

Macquarie Securities

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

Net interest and trading income of $A113 million for the half-year ended 30 September 2014 decreased 10% from $A125 million in the prior corresponding period mainly due to lower demand for retail warrant products, particularly in Hong Kong and Thailand. This was partially offset by higher income from improved trading opportunities in Asia and Europe.

2.0 Financial performance analysis
continued

Macquarie Capital

Net interest and trading expense includes the interest income and funding costs associated with debt and equity investment portfolios, and fair value movements associated with derivative products typically held as part of debt or equity transactions in which Macquarie Capital is involved.

Net interest and trading expense of $A13 million for the half-year ended 30 September 2014 increased from an expense of $A3 million in the prior corresponding period due to reduced income on debt investments.

Fixed Income, Currencies and Commodities

Net interest and trading income in Fixed Income, Currencies and Commodities is earned from a broad range of financial markets activities including trading, financing and the provision of risk management solutions to clients.

Commodities

Commodities trading income of $A418 million for the half-year ended 30 September 2014 increased 6% from $A393 million in the prior corresponding period, underpinned by continued growth in the trading and financing of physical commodities, while lower levels of volatility in certain markets led to reduced levels of client hedging activity.

The Energy Markets business remained a significant contributor to commodities trading income, benefitting from strong customer flows and trading opportunities across its global platform during the period, particularly in the European Gas, European Power and Global Oil businesses. In the prior period the Energy Markets business benefited from strong customer flows, particularly in the US gas business, which was the main driver of the significant increase in Commodities trading income to $A731 million for the six months ended 31 March 2014.

The Metals & Agriculture Sales and Trading business continued to grow its trading and financing of physical commodities, which resulted in higher overall income for the half-year ended 30 September 2014 compared to the prior corresponding period, partially offset by the impact of low volatility in base metals markets which dampened customer hedging activity.

These increases in income were partially offset by the impact of reduced client hedging activity in the Metals and Energy Capital business compared to the prior corresponding period due to low levels of volatility in precious metals markets during the period.

Credit, interest rates and foreign exchange

Net interest and trading income from credit, interest rates and foreign exchange products of $A253 million for the half-year ended 30 September 2014 increased 13% from $A223 million in the prior corresponding period. In foreign exchange markets, increased volatility compared to the prior corresponding period drove higher client hedging and trading activity, which resulted in increased income. This was partially offset by the impact of a mixed credit environment influenced by downward rate movements, liquidity volatility driven by investor risk appetite and general global uncertainty. However, debt origination and issuances continued to increase in the United Kingdom and Europe.

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with non-core investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share plan.

Net interest and trading income of $A129 million for the half-year ended 30 September 2014 increased 72% from $A75 million in the prior corresponding period mainly due to favourable non-trading derivative volatility in the half-year ended 30 September 2014 compared to the prior corresponding period. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

2.2 Fee and commission income

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Base fees	**650**	661	628	*(2)*	*4*
Performance fees	**373**	143	76	*161*	*
Mergers and acquisitions, advisory and underwriting fees	**429**	452	357	*(5)*	*20*
Brokerage and commissions	**410**	434	469	*(6)*	*(13)*
Other fee and commission income	**319**	325	308	*(2)*	*4*
Total fee and commission income	**2,181**	2,015	1,838	*8*	*19*

Total fee and commission income of $A2,181 million for the half-year ended 30 September 2014 increased 19% from $A1,838 million in the prior corresponding period largely due to higher performance fees driven by funds outperforming their respective benchmarks; increased mergers and acquisitions, advisory and underwriting fees across most regions; growth in base fee income resulting from the impact of favourable market movements, acquisitions and investments on assets under management (AUM); partially offset by a decrease in brokerage and commissions income due to the sale of Macquarie Private Wealth Canada in November 2013.

Base and performance fees

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Base fees					
Macquarie Funds					
Macquarie Investment Management	**384**	393	356	*(2)*	*8*
Macquarie Infrastructure and Real Assets	**248**	247	246	*<1*	*1*
Macquarie Specialist Investment Solutions	**9**	12	8	*(25)*	*13*
Total Macquarie Funds	**641**	652	610	*(2)*	*5*
Other Operating Groups	**9**	9	18	–	*(50)*
Total base fee income	**650**	661	628	*(2)*	*4*
Performance fees					
Macquarie Funds					
Macquarie Investment Management	**9**	46	9	*(80)*	–
Macquarie Infrastructure and Real Assets	**364**	96	66	*279*	*
Total Macquarie Funds	**373**	142	75	*163*	*
Other Operating Groups	**–**	1	1	*(100)*	*(100)*
Total performance fee income	**373**	143	76	*161*	*

Base fees of $A650 million for the half-year ended 30 September 2014 increased 4% from $A628 million in the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Funds where base fees increased 5% to $A641 million for the half-year ended 30 September 2014 from $A610 million in the prior corresponding period. This was largely due to favourable market movements, positive net flows in the securities investment management business particularly into higher margin products, the acquisition of ING Investment Management Korea (MIM Korea) in December 2013 and investments in the infrastructure and real assets business. These were partially offset by the impact of the formation of the Jackson Square Partners (JSP) joint venture and the management buyout of the MIM Private Markets business and other divestments in the infrastructure and real assets business.

For further details of AUM refer to Section 7.1.

2.0 Financial performance analysis
continued

Performance fees, which are typically generated from Macquarie-managed funds that have outperformed pre-defined benchmarks, of $A373 million for the half-year ended 30 September 2014 increased significantly from $A76 million in the prior corresponding period. The half-year ended 30 September 2014 included significant performance fees from Macquarie Infrastructure Company LLC (MIC), Macquarie European Infrastructure Fund 1 (MEIF1) and Macquarie Atlas Roads (MQA). Performance fee income of $A76 million in the prior corresponding period primarily related to performance fees from MIC and MQA outperforming their respective benchmarks.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A429 million for the half-year ended 30 September 2014 increased 20% from $A357 million in the prior corresponding period. Market conditions for mergers and acquisitions improved in Australia and Asia, while conditions in Europe and the US were broadly in line with, or down on the prior corresponding period. Improved investor sentiment led to an increase in activity in equity capital markets, particularly in Australian IPOs, while an increase in debt capital markets activity in the US resulted in overall growth of fee income in that region.

Brokerage and commissions

Brokerage and commissions income of $A410 million for the half-year ended 30 September 2014 decreased 13% from $A469 million in the prior corresponding period. The decrease was mainly due to the sale of Macquarie Private Wealth Canada by Banking and Financial Services in November 2013. Macquarie Securities also reported lower brokerage and commissions income mainly driven by lower client activity in institutional cash equities, particularly in Asia and America, partially offset by improved institutional cash equities market share in Europe and increased client activity in Australia due to improved equity capital markets. Market share of the Australian institutional cash equities business was also up on the prior corresponding period.

Other fee and commission income

Other fee and commission income of $A319 million for the half-year ended 30 September 2014 increased 4% from $A308 million in the prior corresponding period. Other fee and commission income includes fees earned on Funds under Administration (including the Australian Wrap platform), mortgages, insurance, credit cards and business banking as well as distribution service fees, structuring fees, capital protection fees and income from True Index products.

The increase from the prior corresponding period was mostly due to increased income from end of lease buyouts in Corporate and Asset Finance's equipment finance business, while Banking and Financial Services reported higher fee income from growth in the credit card portfolio and increased platform commissions driven by higher assets under administration on the Wrap platform. Macquarie platform assets under administration closed at $A41.7 billion on 30 September 2014, an increase of 10% from $A37.8 billion at 30 September 2013 due mainly to favourable market movements and net inflows, partially offset by the sale of Macquarie Private Wealth Canada in November 2013.

2.3 Share of net profits of associates and joint ventures

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Share of net profits of associates and joint ventures accounted for using the equity method	**19**	79	70	*(76)*	*(73)*

Share of net profits of associates and joint ventures of $A19 million for the half-year ended 30 September 2014 decreased 73% from $A70 million in the prior corresponding period. The decrease was largely driven by reduced income from legacy investments in the Corporate segment and investments in Fixed Income, Currencies and Commodities, partially offset by equity accounted gains arising from the sale of assets by unlisted infrastructure funds in which Macquarie has investments, particularly Macquarie European Infrastructure Fund 1 (MEIF1). The prior corresponding period included equity accounting gains arising from an increase in the valuation of real estate assets held by funds in which Macquarie Funds has investments.

2.0 Financial performance analysis
continued

2.4 Other operating income and charges

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net gains on sale of investment securities available for sale	**146**	366	75	*(60)*	*95*
Impairment charge on investment securities available for sale	**(19)**	(21)	(70)	*(10)*	*(73)*
Net gains on sale of associates (including associates held for sale) and joint ventures	**50**	25	36	*100*	*39*
Impairment charge on interest in associates and joint ventures	**(29)**	(140)	(12)	*(79)*	*142*
Gain on disposal of operating lease assets	**97**	13	14	*	*
Impairment charge on non-financial assets	**(31)**	(4)	(24)	*	*29*
Net operating lease income					
Rental income	**484**	481	449	*1*	*8*
Depreciation on operating lease assets	**(211)**	(210)	(191)	*<1*	*10*
Dividends/distributions received/receivable	**26**	104	104	*(75)*	*(75)*
Collective allowance for credit losses provided for during the period	**(26)**	(37)	(21)	*(30)*	*24*
Specific provisions	**(78)**	(104)	(74)	(25)	5
Other income	**46**	62	34	(26)	35
Total other operating income and charges	**455**	535	320	*(15)*	*42*

Total other operating income and charges of $A455 million for the half-year ended 30 September 2014 increased 42% from $A320 million in the prior corresponding period primarily due to increased gains on the sale of investments, reduced impairment charges on equity investments and a gain on the restructure of an operating lease facility by Corporate and Asset Finance.

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totaled $A196 million for the half-year ended 30 September 2014, an increase of 77% from $A111 million in the prior corresponding period. The net gains in the half-year ended 30 September 2014 were driven by gains on the sale of a number of investments, including the sale of a stake in 3P Learning Pty Limited on its IPO and the partial sell down of an investment in Charter Hall Group by Macquarie Capital. The prior period included a $A228 million gain on the SYD distribution.

Impairment charges on investment securities available for sale, associates and joint ventures, and non-financial assets totaled $A79 million for the half-year ended 30 September 2014, a decrease of 25% from $A106 million in the prior corresponding period. Mining equity markets remained subdued, resulting in further equity impairments for Fixed Income, Currencies and Commodities, albeit down considerably from the prior corresponding period. Impairment charges on interests in associates and joint ventures in the half-year ended 31 March 2014 primarily related to a number of legacy investments that are no longer strategic holdings.

Gain on disposal of operating lease assets of $A97 million for the half-year ended 30 September 2014 increased significantly from $A14 million in the prior corresponding period. The increase predominantly relates to the restructure of an operating lease facility in Corporate and Asset Finance resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable.

Net operating lease income, which is predominantly earned by Corporate and Asset Finance, totaled $A273 million for the half-year ended 30 September 2014, an increase of 6% from $A258 million in the prior corresponding period. The increase is broadly in line with growth of the operating lease portfolio from $A5.7 billion at 30 September 2013 to $A5.9 billion at 30 September 2014, which was primarily driven by acquisitions in the Aviation portfolio and the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets.

Dividends/distributions received/receivable of $A26 million for the half-year ended 30 September 2014 decreased 75% from $A104 million in the prior corresponding period. The decrease was predominantly driven by the absence of dividends from Sydney Airport due to the SYD distribution in January 2014 and the sale of investments in Macquarie Capital from which dividend income was derived in the prior corresponding period.

Net charges for specific and collective provisions of $A104 million for the half-year ended 30 September 2014 increased 9% from $A95 million in the prior corresponding period mainly due to additional collective provisions in Fixed Income, Currencies and Commodities relating to loan assets in the resource and energy sectors. This was partly offset by write backs within Corporate and Asset Finance and Banking and Financial Services due to the recovery of previously written off loan and lease assets.

Other income of $A46 million for the half-year ended 30 September 2014 increased 35% from $A34 million in the prior corresponding period. The prior corresponding period was impacted by losses on the partial repurchase of Macquarie's Government guaranteed debt securities, partially offset by gains on the realisation of net profit interests in Fixed Income, Currencies and Commodities.

2.0 Financial performance analysis
continued

2.5 Operating expenses

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Employment expenses					
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,626)**	(1,753)	(1,464)	*(7)*	*11*
Share based payments	**(180)**	(131)	(153)	*37*	*18*
(Provision)/reversal for long service leave and annual leave	**(15)**	1	(5)	*	*200*
Total compensation expenses	**(1,821)**	(1,883)	(1,622)	*(3)*	*12*
Other employment expenses including on-costs, staff procurement and staff training	**(123)**	(123)	(108)	–	*14*
Total employment expenses	**(1,944)**	(2,006)	(1,730)	*(3)*	*12*
Brokerage, commission and trading-related expenses	**(401)**	(400)	(379)	*<1*	*6*
Occupancy expenses	**(178)**	(182)	(200)	*(2)*	*(11)*
Non-salary technology expenses	**(206)**	(169)	(154)	*22*	*34*
Other operating expenses:					
Professional fees	**(143)**	(128)	(129)	*12*	*11*
Auditor's remuneration	**(11)**	(13)	(11)	*(15)*	–
Travel and entertainment expenses	**(75)**	(80)	(70)	*(6)*	*7*
Advertising and communication expenses	**(49)**	(50)	(46)	*(2)*	*7*
Amortisation of intangibles	**(28)**	(28)	(38)	–	*(26)*
Other expenses	**(142)**	(101)	(112)	*41*	*27*
Total other operating expenses	**(448)**	(400)	(406)	*12*	*10*
Total operating expenses	**(3,177)**	(3,157)	(2,869)	*1*	*11*

Total operating expenses of $A3,177 million for the half-year ended 30 September 2014 increased 11% from $A2,869 million in the prior corresponding period mainly due to higher employment expenses driven by the improved performance of the Group and increased headcount to support business growth.

Total employment expenses of $A1,944 million for the half-year ended 30 September 2014 increased 12% from $A1,730 million in the prior corresponding period mainly due to the improved performance of the Group, higher headcount across support functions driven by increased investment in technology platforms and increased compliance requirements. This was partly offset by reduced headcount and adviser commissions as a result of the sale of Macquarie Private Wealth Canada in November 2013. Refer to Section 2.6 Headcount for further information and details of Macquarie's headcount.

Brokerage, commission and trading-related expenses of $A401 million for the half-year ended 30 September 2014 increased 6% from $A379 million in the prior corresponding period mainly due to higher sub-advisory expenses in the Macquarie Funds Delaware business and costs associated with the rewards program of the Woolworths credit card portfolio acquired by Banking and Financial Services in May 2014.

Occupancy expenses of $A178 million for the half-year ended 30 September 2014 decreased 11% from $A200 million in the prior corresponding period mainly due to the sale of Macquarie Private Wealth Canada in November 2013 and savings from the consolidation of leased office space in Sydney and Hong Kong.

Non-salary technology expenses of $A206 million for the half-year ended 30 September 2014 increased 34% from $A154 million in the prior corresponding period primarily due to additional outsourcing of non-core technology functions combined with increased information technology development activity to support business growth, including the implementation of a new Core Banking system in Banking and Financial Services and activity driven by increased regulatory compliance requirements.

Total other operating expenses of $A448 million for the half-year ended 30 September 2014 increased 10% from $A406 million in the prior corresponding period, largely driven by an increase in business activity, investment in platforms and increased regulatory compliance requirements.

2.6 Headcount

	As at			Movement	
	Sep 14	Mar 14	Sep 13	*Mar 14 %*	*Sep 13 %*
Headcount by group					
Macquarie Funds	**1,492**	1,510	1,445	*(1)*	*3*
Corporate and Asset Finance	**1,063**	1,039	976	*2*	*9*
Banking and Financial Services	**2,568**	2,419	2,891	*6*	*(11)*
Macquarie Securities	**1,013**	1,050	1,038	*(4)*	*(2)*
Macquarie Capital	**1,139**	1,141	1,117	*(<1)*	*2*
Fixed Income, Currencies and Commodities	**959**	944	932	*2*	*3*
Total headcount — Operating Groups	**8,234**	8,103	8,399	*2*	*(2)*
Total headcount — Corporate	**5,904**	5,810	5,502	*2*	*7*
Total headcount	**14,138**	13,913	13,901	*2*	*2*
Headcount by region					
Australia[1]	**6,635**	6,533	6,167	*2*	*8*
International:					
Americas	**2,706**	2,685	3,255	*1*	*(17)*
Asia	**3,462**	3,447	3,280	*<1*	*6*
Europe, Middle East and Africa	**1,335**	1,248	1,199	*7*	*11*
Total headcount — International	**7,503**	7,380	7,734	*2*	*(3)*
Total headcount	**14,138**	13,913	13,901	*2*	*2*
International headcount ratio (%)	**53**	53	56		

(1) Includes New Zealand.

Total headcount of 14,138 at 30 September 2014 increased 2% from 13,901 at 30 September 2013.

The total headcount of Operating Groups was 8,234 at 30 September 2014, a decrease of 2% from 8,399 at 30 September 2013. The sale of Macquarie Private Wealth Canada in November 2013 by Banking and Financial Services was the main driver of the decrease since 30 September 2013, which was partially offset by headcount increases for the implementation of a new Core Banking system and to support business growth. Corporate and Asset Finance's headcount increased 9% from 976 at 30 September 2013 to 1,063 at 30 September 2014, primarily in Europe, Middle East and Africa to support growth of the business. Macquarie Funds' headcount increased 3% on the prior corresponding period to 1,492 at 30 September 2014 predominantly due to the acquisition of the ING Investment Management business in Korea (MIM Korea), partially offset by the formation of the Jackson Square Partners (JSP) joint venture and the management buyout of the MIM Private Markets business.

Total Corporate headcount was 5,904 at 30 September 2014, an increase of 7% from 5,502 at 30 September 2013. The increase in headcount was mainly due to growth in the regional service hubs supporting Macquarie's global operating platform driven by increased regulatory compliance requirements and additional technology staff for development projects across Macquarie, including Banking and Financial Services' Core Banking platform.

2.0 Financial performance analysis
continued

2.7 Income tax expense

	Half-year to		
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am
Operating profit before income tax	**1,121**	1,296	810
Prima facie tax @ 30%	**336**	389	243
Income tax permanent differences	**96**	131	64
Income tax expense	**432**	520	307
Effective tax rate[(1)]	**38.9%**	40.5%	38.0%

(1) The effective tax rate is calculated on net profit before income tax and after non-controlling interests. Non-controlling interests reduced net profit before income tax by $A11 million for the half-year ended 30 September 2014 (31 March 2014: $A12 million; 30 September 2013: $A2 million). The effective tax rate differs from the Australian company tax rate due to permanent tax differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned outside of Australia.

Income tax expense for the half-year ended 30 September 2014 was $A432 million, up 41% from $A307 million in the prior corresponding period. The increase was mainly driven by a 38% increase in operating profit before income tax, from $A810 million in the prior corresponding period to $A1,121 million in the half-year ended 30 September 2014, in addition to a 50% increase in income tax permanent differences, which includes the impact of offshore income tax rate differentials and tax uncertainties, from $A64 million in the prior corresponding period to $A96 million in the half-year ended 30 September 2014.

The effective tax rate was 38.9% for the half-year ended 30 September 2014, a slight increase from 38.0% in the prior corresponding period. The effective tax rate reflects the geographic mix of income and tax uncertainties.

3.0 Segment analysis

3.1 Basis of preparation

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

For internal reporting, performance measurement and risk management purposes, Macquarie is divided into six Operating Groups:

– Macquarie Funds
– Corporate and Asset Finance
– Banking and Financial Services
– Macquarie Securities
– Macquarie Capital
– Fixed Income, Currencies and Commodities.

In addition, there is a Corporate segment which includes head office and central support functions including Group Treasury, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

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, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

Central support functions recover their costs from Operating Groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Corporate Operations, Financial Management, Risk Management, Legal and Governance and Central Executive.

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.

Presentation of segment income statements

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

3.0 Segment analysis
continued

	Macquarie Funds $Am	Corporate and Asset Finance $Am	Banking and Financial Services $Am
Half-year ended 30 September 2014			
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	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	**785**	**468**	**141**
Half-year ended 31 March 2014			
Net interest and trading income/(expense)	(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/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	**551**	**430**	**149**
Half-year ended 30 September 2013			
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	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	**500**	**396**	**111**

Macquarie Securities $Am	Macquarie Capital $Am	Fixed Income, Currencies and Commodities $Am	Corporate $Am	Total $Am
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**
109	(32)	964	43	1824
318	406	81	7	2015
–	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**
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**

3.0 Segment analysis
continued

3.2 Macquarie Funds

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest and trading income/(expense)	**11**	(18)	(5)	*	*
Fee and commission income					
Base fees	**641**	652	610	*(2)*	*5*
Performance fees	**373**	142	75	*163*	*
Brokerage and commissions	**15**	16	16	*(6)*	*(6)*
Other fee and commission income	**104**	105	104	*(1)*	–
Total fee and commission income	**1,133**	915	805	*24*	*41*
Share of net profits of associates and joint ventures accounted for using the equity method	**38**	56	47	*(32)*	*(19)*
Other operating income and charges					
Net gains on sale of equity investments	**34**	19	23	*79*	*48*
Other income	**26**	39	31	*(33)*	*(16)*
Total other operating income and charges	**60**	58	54	*3*	*11*
Internal management (charge)/revenue	**(3)**	10	6	*	*
Net operating income	**1,239**	1,021	907	*21*	*37*
Operating expenses					
Employment expenses	**(147)**	(163)	(143)	*(10)*	*3*
Brokerage, commission and trading-related expenses	**(102)**	(86)	(87)	*19*	*17*
Other operating expenses	**(205)**	(221)	(177)	*(7)*	*16*
Total operating expenses	**(454)**	(470)	(407)	*(3)*	*12*
Net profit contribution	**785**	551	500	*42*	*57*
Non-GAAP metrics					
MFG (including MIRA) assets under management ($A billion)	**423.3**	424.8	380.7	*(<1)*	*11*
MIRA equity under management ($A billion)	**58.5**	52.5	49.6	*11*	*18*
Headcount	**1,492**	1,510	1,445	*(1)*	*3*

Macquarie Funds' net profit contribution of $A785 million for the half-year ended 30 September 2014 increased 57% from $A500 million in the prior corresponding period, primarily driven by increased performance fee income and growth in annuity base fee income from higher assets and equity under management.

Net interest and trading income/(expense)

Net interest and trading income was $A11 million for the half-year ended 30 September 2014, up from an expense of $A5 million in the prior corresponding period primarily due to lower funding costs associated with balance sheet investments.

Base fees

Base fee income of $A641 million for the half-year ended 30 September 2014 increased 5% from $A610 million in the prior corresponding period. This was primarily driven by an increase in AUM, up 11% from $A380.7 billion at 30 September 2013 to $A423.3 billion at 30 September 2014. This was largely due to favourable market movements, positive net flows in the securities investment management business particularly into higher margin products, the acquisition of ING Investment Management Korea (MIM Korea) in December 2013 and investments in the infrastructure and real assets business. AUM was also impacted by favourable currency movements although the impact on base fees was lower as the movement primarily occurred at the end of the period. These were partially offset by the impact of the formation of the Jackson Square Partners (JSP) joint venture and the management buyout of the MIM Private Markets business and other divestments in the infrastructure and real assets business.

Refer to Section 7 for a breakdown of Macquarie Funds' Assets under Management and Equity under Management.

Performance fees

Performance fee income of $A373 million for the half-year ended 30 September 2014 increased significantly from $A75 million in the prior corresponding period. The half-year ended 30 September 2014 included significant performance fees from Macquarie Infrastructure Company LLC (MIC), Macquarie European Infrastructure Fund 1 (MEIF1) and Macquarie Atlas Roads (MQA). Performance fee income of $A75 million in the prior corresponding period primarily related to performance fees from MIC and MQA outperforming their respective benchmarks.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and income from True Index products. Distribution service fees are offset by associated expenses that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses. Other fee and commission income of $A104 million for the half-year ended 30 September 2014 was broadly in line with the prior corresponding period.

Share of net profits of associates and joint ventures accounted for using the equity method

Share of net profits of associates and joint ventures of $A38 million for the half-year ended 30 September 2014 decreased 19% from $A47 million in the prior corresponding period. The half-year ended 30 September 2014 included equity accounted gains arising from the sale of assets by unlisted infrastructure funds in which Macquarie has investments, particularly MEIF1. The prior corresponding period included equity accounting gains arising from an increase in the valuation of real estate assets held by funds in which Macquarie has investments.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A34 million for the half-year ended 30 September 2014 mainly related to a gain from the partial sale of Macquarie Funds' holding in MQA.

Other income

Other income of $A26 million for the half-year ended 30 September 2014 decreased 16% from $A31 million in the prior corresponding period. The decrease was primarily driven by lower dividend income from investments, in particular MQA and DUET Group.

Operating expenses

Total operating expenses of $A454 million for the half-year ended 30 September 2014 increased 12% from $A407 million in the prior corresponding period. The increase was primarily driven by higher sub-advisory expenses in the Delaware business as a result of the JSP transaction, the impact of the acquisition of MIM Korea in December 2013 and additional headcount to support business growth, partially offset by reduced costs resulting from the JSP and MIM Private Markets transactions.

3.0 Segment analysis
continued

3.3 Corporate and Asset Finance

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest and trading income	**326**	386	277	*(16)*	*18*
Fee and commission income	**21**	29	7	*(28)*	*200*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**1**	(2)	4	*	*(75)*
Other operating income and charges					
Impairment charge on debt and equity investments and non-financial assets	**(15)**	(14)	(2)	*7*	*
Gain on disposal of operating lease assets	**97**	13	14	*	*
Net operating lease income	**265**	265	255	–	*4*
Specific provisions and collective allowance for credit losses	**(19)**	(42)	(27)	*(55)*	*(30)*
Other income	**8**	(13)	42	*	*(81)*
Total other operating income and charges	**336**	209	282	*61*	*19*
Internal management revenue	**4**	7	8	*(43)*	*(50)*
Net operating income	**688**	629	578	*9*	*19*
Operating expenses					
Employment expenses	**(97)**	(94)	(82)	*3*	*18*
Brokerage, commission and trading-related expenses	**(4)**	(7)	(6)	*(43)*	*(33)*
Other operating expenses	**(119)**	(98)	(94)	*21*	*27*
Total operating expenses	**(220)**	(199)	(182)	*11*	*21*
Net profit contribution	**468**	430	396	*9*	*18*
Non-GAAP metrics					
Loan and finance lease portfolio ($A billion)	**21.6**	19.8	18.9	*9*	*14*
Operating lease portfolio ($A billion)	**5.9**	5.7	5.7	*4*	*4*
Headcount	**1,063**	1,039	976	*2*	*9*

Corporate and Asset Finance's net profit contribution of $A468 million for the half-year ended 30 September 2014 increased 18% from $A396 million in the prior corresponding period. The result was largely driven by increased income from early repayments, loan sales and a gain on disposal of operating lease assets.

Net interest and trading income

Net interest and trading income of $A326 million for the half-year ended 30 September 2014 increased 18% from $A277 million in the prior corresponding period. This was driven by increased income from early repayments and the sale of loan assets in the Lending portfolio, combined with portfolio growth.

The loan and finance lease portfolios of $A21.6 billion at 30 September 2014 increased 14% from the prior corresponding period driven by organic growth.

Impairment charge on debt and equity investments and non-financial assets

Impairment charge on equity investments and non-financial assets of $A15 million for the half-year ended 30 September 2014 increased from $A2 million in the prior corresponding period mainly due to the write-off of intangible assets realised through the restructure of an operating lease as outlined below.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of $A97 million for the half-year ended 30 September 2014 predominantly relates to the restructure of an operating lease facility resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. This gain was partially offset by costs and charges associated with the transaction (refer Impairment charge on debt and equity investments and non-financial assets above, and Operating expenses below).

Net operating lease income

Net operating lease income of $A265 million for the half-year ended 30 September 2014 increased 4% from $A255 million in the prior corresponding period. The increase is broadly in line with growth of the operating lease portfolio from $A5.7 billion at 30 September 2013 to $A5.9 billion at 30 September 2014, which was primarily driven by acquisitions in the Aviation portfolio and the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A19 million for the half-year ended 30 September 2014 decreased 30% from $A27 million in the prior corresponding period mainly due to the recovery of previously written off loan and finance lease assets, partially offset by increased collective allowances reflecting growth of the lending and finance leasing portfolios.

Other income

Other income of $A8 million for the half-year ended 30 September 2014 decreased 81% from $A42 million in the prior corresponding period, which included income from the favourable settlement of a claim in relation to the UK Energy Leasing business and gains from the realisation of equity exposures.

Operating expenses

Total operating expenses of $A220 million for the half-year ended 30 September 2014 increased 21% from $A182 million in the prior corresponding period primarily due to a 9% increase in headcount, investment in platforms and expenses associated with a lease renegotiation (refer Gain on disposal of operating lease assets above).

3.0 Segment analysis
continued

3.4 Banking and Financial Services

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	Mar 14 %	Sep 13 %
Net interest and trading income	**406**	372	366	*9*	*11*
Fee and commission income					
Base fees	**6**	8	16	*(25)*	*(63)*
Brokerage and commissions	**64**	73	106	*(12)*	*(40)*
Other fee and commission income	**192**	178	195	*8*	*(2)*
Total fee and commission income	**262**	259	317	*1*	*(17)*
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	–	1	*	–
Other operating income and charges					
Net gains on sale of equity investments	**4**	49	1	*(92)*	*300*
Impairment charge on equity investments and non-financial assets	**(1)**	–	(2)	*	*(50)*
Specific provisions and collective allowance for credit losses	**(14)**	(24)	(23)	*(42)*	*(39)*
Other income	**7**	(6)	5	*	*40*
Total other operating income and charges	**(4)**	19	(19)	*	*(79)*
Internal management revenue	**–**	3	2	*(100)*	*(100)*
Net operating income	**665**	653	667	*2*	*(<1)*
Operating expenses					
Employment expenses	**(190)**	(186)	(218)	*2*	*(13)*
Brokerage, commission and trading-related expenses	**(95)**	(80)	(88)	*19*	*8*
Other operating expenses	**(239)**	(238)	(250)	*<1*	*(4)*
Total operating expenses	**(524)**	(504)	(556)	*4*	*(6)*
Net profit contribution	**141**	149	111	*(5)*	*27*
Non-GAAP metrics					
Funds under management/advice/administration[1] ($A billion)	**132.6**	127.7	136.8	*4*	*(3)*
Australian loan portfolio[2] ($A billion)	**25.3**	21.5	19.0	*18*	*33*
Legacy loan portfolio[3] ($A billion)	**4.6**	5.5	6.7	*(16)*	*(31)*
Retail deposits ($A billion)	**35.3**	33.3	33.1	*6*	*7*
Headcount	**2,568**	2,419	2,891	*6*	*(11)*

(1) Funds under management/advice/administration includes Assets under Management plus funds on Banking and Financial Services platforms (e.g. Wrap Funds under Administration), total Banking and Financial Services loan and deposit portfolios, CHESS holdings of Banking and Financial Services clients, and funds under advice (e.g. assets under advice of Macquarie Private Bank).
(2) The Australian loan portfolio comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.
(3) The legacy loan portfolio primarily comprises residential mortgages in Canada and the US.

Banking and Financial Services' net profit contribution of $A141 million for the half-year ended 30 September 2014 increased 27% from $A111 million in the prior corresponding period.

In the half-year ended 30 September 2014, BFS benefited from strong volume growth in mortgages, business lending, deposits and the Wrap platform, partially offset by higher distribution costs and increased investment in technology projects to support growth in the business, including the implementation of a new Core Banking system.

Net interest and trading income

Net interest and trading income of $A406 million for the half-year ended 30 September 2014 increased 11% from $A366 million in the prior corresponding period primarily due to growth in lending and deposit volumes, including:

– a 36% increase in Australian mortgage volumes from $A14.6 billion at 30 September 2013 to $A19.8 billion at 30 September 2014;
– a 23% increase in business lending volumes from $A3.9 billion at 30 September 2013 to $A4.8 billion at 30 September 2014;
– a 7% increase in retail deposits from $A33.1 billion at 30 September 2013 to $A35.3 billion at 30 September 2014; and
– a 100% increase in credit card volumes from $A0.3 billion at 30 September 2013 to $A0.6 billion at 30 September 2014.

The majority of the growth in lending and deposit volumes is organic, with the acquisition of the Woolworths credit card portfolio in May 2014 being the key driver of the growth in credit card volumes.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins, including reduced average margins on the Australian mortgages portfolio as higher margin loans continue to run off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined $A4.6 billion at 30 September 2014, down 31% from $A6.7 billion at 30 September 2013.

Base fees

Base fee income of $A6 million for the half-year ended 30 September 2014 decreased 63% from $A16 million in the prior corresponding period driven by the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage and commissions

Brokerage and commissions income of $A64 million for the half-year ended 30 September 2014 decreased 40% from $A106 million in the prior corresponding period mainly due to the sale of Macquarie Private Wealth Canada in November 2013. The remaining income, which is largely derived from the provision of retail equities broking services in Australia, decreased from the prior corresponding period mainly due to a reduction in retail market activity.

Other fee and commission income

Other fee and commission income relates to fees earned on a range of Banking and Financial Services' products including the Australian Wrap platform, mortgages, insurance, credit cards and business banking.

Other fee and commission income of $A192 million for the half-year ended 30 September 2014 decreased 2% from $A195 million in the prior corresponding period. Lower income due to the sale of Macquarie Private Wealth Canada in November 2013 was largely offset by higher fee income from growth in the credit card portfolio and increased platform commissions driven by higher assets under administration on the Wrap platform.

Macquarie platform assets under administration closed at $A41.7 billion on 30 September 2014, an increase of 10% from $A37.8 billion at 30 September 2013. This increase was mainly due to favourable market movements and net inflows.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A4 million for the half-year ended 30 September 2014 predominantly related to the sale of a minority investment in a mortgage aggregator. The net gain on sale of equity investments in the prior period was largely from the disposal of an investment in OzForex on its IPO in October 2013.

3.0 Segment analysis
continued

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A14 million for the half-year ended 30 September 2014 decreased 39% from $A23 million in the prior corresponding period due to the recovery in the current period of loans to business lending clients previously provided for.

Operating expenses

Employment expenses of $A190 million for the half-year ended 30 September 2014, decreased 13% from $A218 million in the prior corresponding period mainly due to reduced headcount and commissions paid to internal advisers as a result of the sale of Macquarie Private Wealth Canada in November 2013, partially offset by an increase in headcount to support business growth.

Brokerage, commission and trading-related expenses, which are mainly paid to external advisers for product distribution, of $A95 million for the half-year ended 30 September 2014 increased 8% from $A88 million in the prior corresponding period largely due to costs associated with the rewards program of the Woolworths credit card portfolio acquired in May 2014.

Other operating expenses of $A239 million for the half-year ended 30 September 2014 decreased 4% from $A250 million in the prior corresponding period mainly driven by the sale of Macquarie Private Wealth Canada in November 2013, partially offset by investment in technology projects to support business growth, including the implementation of a new Core Banking system.

3.5 Macquarie Securities

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest and trading income	**113**	109	125	*4*	*(10)*
Fee and commission income					
Brokerage and commissions	**262**	275	272	*(5)*	*(4)*
Other fee and commission income	**61**	43	43	*42*	*42*
Total fee and commission income	**323**	318	315	*2*	*3*
Share of net profits of associates and joint ventures accounted for using the equity method	**–**	–	–	–	–
Other operating income and charges	**–**	1	(4)	*(100)*	*(100)*
Internal management (charge)/revenue	**(5)**	1	–	*	*
Net operating income	**431**	429	436	*<1*	*(1)*
Operating expenses					
Employment expenses	**(127)**	(123)	(117)	*3*	*9*
Brokerage, commission and trading-related expenses	**(71)**	(64)	(66)	*11*	*8*
Other operating expenses	**(216)**	(206)	(182)	*5*	*19*
Total operating expenses	**(414)**	(393)	(365)	*5*	*13*
Net profit contribution	**17**	36	71	*(53)*	*(76)*
Non-GAAP metrics					
Headcount	**1,013**	1,050	1,038	*(4)*	*(2)*

Macquarie Securities' net profit contribution of $A17 million for the half-year ended 30 September 2014 decreased from $A71 million in the prior corresponding period largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs including the exit of the Structured Products business during the period.

Net interest and trading income

Net interest and trading income of $A113 million for the half-year ended 30 September 2014 decreased 10% from $A125 million in the prior corresponding period mainly due to lower demand for retail warrant products, particularly in Hong Kong and Thailand. This was partially offset by higher income from improved trading opportunities in Asia and Europe.

Brokerage and commissions

Brokerage and commissions income of $A262 million for the half-year ended 30 September 2014 decreased 4% from $A272 million in the prior corresponding period reflecting lower client activity in institutional cash equities particularly in Asia and America. This was partially offset by improved institutional cash equities market share in Europe and increased client activity in Australia due to improved equity capital markets. Market share of the Australian institutional cash equities business was also up on the prior corresponding period.

Other fee and commission income

Other fee and commission income, which mainly consists of equity capital markets fees, of $A61 million for the half-year ended 30 September 2014 increased 42% from $A43 million in the prior corresponding period as improved investor sentiment led to an increase in equity capital markets activity, particularly in Australia.

Operating expenses

Total operating expenses of $A414 million for the half-year ended 30 September 2014 increased 13% from $A365 million in the prior corresponding period largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs including the exit of the Structured Products business during the period.

3.0 Segment analysis
continued

3.6 Macquarie Capital

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest and trading expense	**(13)**	(32)	(3)	*(59)*	*
Fee and commission income					
Mergers and acquisitions, advisory and underwriting fees	**332**	379	288	*(12)*	*15*
Brokerage and commissions	**18**	22	24	*(18)*	*(25)*
Other fee and commission expense	**11**	5	9	*120*	*22*
Total fee and commission income	**361**	406	321	*(11)*	*12*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(7)**	23	(5)	*	*40*
Other operating income and charges					
Net gains on sale of debt and equity investments	**109**	38	50	*187*	*118*
Impairment charge on equity investments and non-financial assets	**(1)**	(18)	–	*(94)*	*
Specific provisions and collective allowance for credit losses	**(16)**	(17)	(13)	*(6)*	*23*
Other income	**5**	38	22	*(87)*	*(77)*
Total other operating income and charges	**97**	41	59	*137*	*64*
Internal management revenue	**1**	7	–	*(86)*	*
Net operating income	**439**	445	372	*(1)*	*18*
Operating expenses					
Employment expenses	**(140)**	(142)	(132)	*(1)*	*6*
Brokerage, commission and trading-related expenses	**(2)**	(1)	(5)	*100*	*(60)*
Other operating expenses	**(148)**	(122)	(146)	*21*	*1*
Total operating expenses	**(290)**	(265)	(283)	*9*	*2*
Non-controlling interests[1]	**1**	(1)	12	*	*(92)*
Net profit contribution	**150**	179	101	*(16)*	*49*
Non-GAAP metrics					
Headcount	**1,139**	1,141	1,117	*(<1)*	*2*

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

Macquarie Capital's net profit contribution of $A150 million for the half-year ended 30 September 2014 increased 49% from $A101 million in the prior corresponding period predominantly due to increased fee income and net gains on sale of principal investments.

Net interest and trading expense

Net interest and trading expense includes the interest income and funding costs associated with debt and equity investment portfolios, and fair value movements associated with derivative products typically held as part of debt or equity transactions in which Macquarie Capital is involved.

Net interest and trading expense of $A13 million for the half-year ended 30 September 2014 increased from an expense of $A3 million in the prior corresponding period due to reduced income on debt investments.

Mergers and acquisitions, advisory and underwriting fees

Fees from advisory and underwriting activities (net of sharing with other Operating Groups) of $A332 million for the half-year ended 30 September 2014 increased 15% from $A288 million in the prior corresponding period. Market conditions for mergers and acquisitions improved in Australia and Asia, while conditions in Europe and the US were broadly in line with, or down on the prior corresponding period. Improved investor sentiment led to an increase in activity in equity capital markets, particularly in Australian IPOs.

The Australian and US businesses generated comparable levels of fee income for the half-year ended 30 September 2014, with both regions reporting increased fee income relative to the prior corresponding period. The growth of fee income in the US was mainly due to an increase in debt capital markets activity, while the growth in Australia was driven by increased equity capital markets activity, particularly IPOs.

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

Share of net losses of associates and joint ventures of $A7 million for the half-year ended 30 September 2014 increased 40% from a loss of $A5 million in the prior corresponding period. The movement reflects changes in the composition and underlying performance of principal investments within the portfolio.

Net gains on sale of debt and equity investments

Net gains on sale of debt and equity investments of $A109 million for the half-year ended 30 September 2014 increased 118% from $A50 million in the prior corresponding period. The net gains in the half-year ended 30 September 2014 were driven by gains on the sale of a number of investments, including the sale of a stake in 3P Learning Pty Limited on its IPO and the partial sell down of an investment in Charter Hall Group.

Other income

Other income of $A5 million for the half-year ended 30 September 2014 decreased 77% from $A22 million in the prior corresponding period reflecting lower dividend and operating income from investments sold in previous periods.

Operating expenses

Total operating expenses of $A290 million for the half-year ended 30 September 2014 increased 2% from $A283 million in the prior corresponding period. The movement predominantly reflects higher employment expenses arising from an increase in headcount from the prior corresponding period.

3.0 Segment analysis
continued

3.7 Fixed Income, Currencies and Commodities

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest and trading income					
Commodities	**418**	731	393	*(43)*	*6*
Credit, interest rates and foreign exchange	**253**	233	223	*9*	*13*
Net interest and trading income	**671**	964	616	*(30)*	*9*
Fee and commission income					
Brokerage and commissions	**51**	51	51	–	–
Other fee and commission income	**42**	30	30	*40*	*40*
Total fee and commission income	**93**	81	81	*15*	*15*
Share of net profits of associates and joint ventures accounted for using the equity method	**2**	8	15	*(75)*	*(87)*
Other operating income and charges					
Net gains on sale of equity investments	**23**	27	18	*(15)*	*28*
Impairment charge on equity investments and non-financial assets	**(24)**	(14)	(104)	*71*	*(77)*
Specific provisions and collective allowance for credit losses	**(48)**	(60)	(29)	*(20)*	*66*
Other income	**9**	35	51	*(74)*	*(82)*
Total other operating income and charges	**(40)**	(12)	(64)	*233*	*(38)*
Internal management (charge)/revenue	**(1)**	(12)	5	*(92)*	*
Net operating income	**725**	1,029	653	*(30)*	*11*
Operating expenses					
Employment expenses	**(133)**	(142)	(122)	*(6)*	*9*
Brokerage, commission and trading-related expenses	**(124)**	(157)	(124)	*(21)*	–
Amortisation of intangibles	**(2)**	(2)	(15)	–	*(87)*
Other operating expenses	**(216)**	(205)	(189)	*5*	*14*
Total operating expenses	**(475)**	(506)	(450)	*(6)*	*6*
Net profit contribution	**250**	523	203	*(52)*	*23*
Non-GAAP metrics					
Headcount	**959**	944	932	*2*	*3*

Fixed Income, Currencies and Commodities' net profit contribution for the half-year ended 30 September 2014 was $A250 million, an increase of 23% from $A203 million in the prior corresponding period, but down 52% from $A523 million in the prior period which benefited from strong customer flows in the Energy Markets business.

The result for the half-year ended 30 September 2014 reflected increased income across commodities, interest rates and foreign exchange platforms. Listed equity impairments were down significantly compared to the prior corresponding period however continued subdued mining equity markets and low prices in both metals and bulk commodities have again impacted the timing of asset realisations and new project financings.

Commodities trading income

Commodities trading income of $A418 million for the half-year ended 30 September 2014 increased 6% from $A393 million in the prior corresponding period, underpinned by continued growth in the trading and financing of physical commodities, while lower levels of volatility in certain markets led to reduced levels of client hedging activity.

The Energy Markets business remained a significant contributor to commodities trading income, benefitting from strong customer flows and trading opportunities across its global platform during the period, particularly in the European Gas, European Power and Global Oil businesses. In the prior period the Energy Markets business benefited from strong customer flows, particularly in the US Gas business, which was the main driver of the significant increase in Commodities trading income to $A731 million for the six months ended 31 March 2014.

The Metals & Agriculture Sales and Trading business continued to grow its trading and financing of physical commodities, which resulted in higher overall income for the half-year ended 30 September 2014 compared to the prior corresponding period, partially offset by the impact of low volatility in base metals markets which dampened customer hedging activity.

These increases in income were partially offset by the impact of reduced client hedging activity in the Metals and Energy Capital business compared to the prior corresponding period due to low levels of volatility in precious metals markets during the period.

Credit, interest rates and foreign exchange trading income

Net interest and trading income from credit, interest rates and foreign exchange products of $A253 million for the half-year ended 30 September 2014 increased 13% from $A223 million in the prior corresponding period. In foreign exchange markets, increased volatility compared to the prior corresponding period drove higher client hedging and trading activity, which resulted in increased income. This was partially offset by the impact of a mixed credit environment influenced by downward rate movements, liquidity volatility driven by investor risk appetite and general global uncertainty. However, debt origination and issuances continued to increase in the United Kingdom and Europe.

Other fee and commission income

Other fee and commission income of $A42 million for the half-year ended 30 September 2014 increased 40% from $A30 million in the prior corresponding period driven by improved transaction flows across global debt markets for the securitisation and origination parts of the business.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A23 million for the half-year ended 30 September 2014 improved 28% from $A18 million in the prior corresponding period, however continued subdued mining equity markets have again impacted the timing of asset realisations in the Metals and Energy Capital business.

3.0 Segment analysis
continued

Impairment charge on equity investments

Impairment charges on equity investments of $A24 million for the half-year ended 30 September 2014 decreased 77% from $A104 million in the prior corresponding period as mining equity markets stabilised.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of $A48 million for the half-year ended 30 September 2014 increased 66% from $A29 million in the prior corresponding period. The charges in the current period predominantly relate to loan assets in the resource and energy sectors.

Other income

Other income of $A9 million for the half-year ended 30 September 2014 decreased 82% from $A51 million in the prior corresponding period, which included significant gains of the realisation of net profit interests.

Operating expenses

Total operating expenses of $A475 million for the half-year ended 30 September 2014 increased 6% from $A450 million in the prior corresponding period.

Employment expenses of $A133 million for the half-year ended 30 September 2014 increased 9% from $A122 million in the prior corresponding period mainly driven by increased headcount associated with additional regulatory compliance requirements.

Brokerage, commission and trading-related expenses of $A124 million for the half-year ended 30 September 2014 were broadly in line with the prior corresponding period. The expense is driven by physical commodities financing activities which result in storage costs that, for accounting purposes, are reported within Brokerage, commission and trading-related expenses, while the associated income is included within commodities trading income.

Amortisation of intangibles relate to investments in net profit interests which are amortised based on the production output of the investment. The expense of $A2 million for the half-year ended 30 September 2014 was down 87% from $A15 million in the prior corresponding period, consistent with a reduced level of operating income from net profit interests during the period.

Other operating expenses of $A216 million for the half-year ended 30 September 2014 increased 14% from $A189 million in the prior corresponding period mainly due to increased investment in technology to meet additional regulatory compliance requirements globally.

3.8 Corporate

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Net interest income and trading income	**129**	43	75	*200*	*72*
Fee and commission (expense)/income	**(12)**	7	(8)	*	*50*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(16)**	(6)	8	*167*	*
Other operating income and charges					
Net gains on sale of debt and equity securities	**23**	254	7	*(91)*	*229*
Impairment (charge)/write-back on debt and equity securities	**(25)**	(116)	1	*(78)*	*
Dividends and distributions received	**2**	36	52	*(94)*	*(96)*
Specific provisions and collective allowance for credit losses	**(2)**	–	(2)	*	–
Other income/(expense)	**8**	45	(46)	*(82)*	*
Total other operating income and charges	**6**	219	12	*(97)*	*(50)*
Internal management revenue/(charge)	**4**	(16)	(21)	*	*
Net operating income	**111**	247	66	*(55)*	*68*
Operating expenses					
Employment expenses	**(1,110)**	(1,156)	(916)	*(4)*	*21*
Brokerage, commission and trading-related expenses	**(3)**	(5)	(3)	*(40)*	–
Other operating expenses	**313**	341	293	*(8)*	*7*
Total operating expenses	**(800)**	(820)	(626)	*(2)*	*28*
Tax expense	**(432)**	(520)	(307)	*(17)*	*41*
Macquarie Income Preferred Securities	**(2)**	(2)	(2)	–	–
Macquarie Income Securities	**(9)**	(9)	(9)	–	–
Non-controlling interests[1]	**(1)**	–	(3)	*	*(67)*
Net loss contribution	**(1,133)**	(1,104)	(881)	*3*	*29*
Non-GAAP metrics					
Headcount	**5,904**	5,810	5,502	*2*	*7*

(1) "Non-controlling interests" adjusts reported consolidated profit or loss such that the net profit contribution represents the net profit attributable to ordinary equity holders.

3.0 Segment analysis
continued

The Corporate segment comprises head office and central support functions, including Group Treasury, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

The Corporate segment's result for the half-year ended 30 September 2014 was a net loss of $A1,133 million, an increase of 29% from a net loss of $A881 million in the prior corresponding period, mainly driven by higher staff compensation resulting from the improved performance of the Group and increased tax expense.

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with non-core investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share plan.

Net interest and trading income of $A129 million for the half-year ended 30 September 2014 increased 72% from $A75 million in the prior corresponding period mainly due to favourable non-trading derivative volatility in the half-year ended 30 September 2014 compared to the prior corresponding period. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

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

Share of net losses of associates and joint ventures for the half-year ended 30 September 2014 was $A16 million which compares to a profit of $A8 million in the prior corresponding period, which included income from legacy assets. There were no individually significant items during the current period.

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of $A23 million for the half-year ended 30 September 2014 increased significantly from $A7 million in the prior corresponding period due to gains from the disposal of securities undertaken in managing the Group's liquidity. The net gains of $A254 million in the half-year ended 31 March 2014 primarily relate to the gain on the SYD distribution in January 2014.

Impairment charge/(write back) on debt and equity securities

Impairment charges on debt and equity securities was $A25 million for the half-year ended 30 September 2014 up from a write back of $A1 million in the prior corresponding period but down 78% from $A116 million in the half-year ended 31 March 2014, which related to a number of legacy investments that are no longer strategic holdings. There were no individually significant items during the current period.

Dividends and distributions received

Dividends and distributions received of $A2 million in the half-year ended 30 September 2014 decreased significantly from $A52 million in the prior corresponding period. The decrease was predominantly due to the absence of dividends from Sydney Airport due to the SYD distribution in January 2014.

Other income/(expense)

Other income of $A8 million for the half-year ended 30 September 2014 compared to a loss of $A46 million in the prior corresponding period. The losses in the prior corresponding period were predominantly due to the partial repurchase of Macquarie's Government guaranteed debt securities.

Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Group's central support functions; including Corporate Operations, Financial Management, Risk Management, Legal and Governance, and Central Executive; as well as staff profit share for the Group, share based payments expense and the impact of fair value adjustments to Directors' Profit Share liabilities.

For the half-year ended 30 September 2014 employment expenses were $A1,110 million, an increase of 21% from $A916 million in the prior corresponding period. The increase was mainly attributable to the improved performance of the Group and increased headcount across support functions driven by increased investment in technology platforms and increased regulatory compliance requirements.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of central support functions, offset by the recovery of central support function costs from the Operating Groups. Net recoveries from the Operating Groups increased 7% from $A293 million in the prior corresponding period to $A313 million for the half-year ended 30 September 2014, which reflected the increased cost base of central support functions resulting from investment in technology platforms and increased regulatory compliance costs.

3.0 Segment analysis
continued

3.9 International income

International income by region

	Half-year to			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Americas	**1,272**	1,573	1,161	*(19)*	*10*
Asia	**419**	558	485	*(25)*	*(14)*
Europe, Middle East and Africa	**1,049**	812	738	*29*	*42*
Total international income	**2,740**	2,943	2,384	*(7)*	*15*
Australia(1)	**1,451**	1,247	1,208	*16*	*20*
Total income (excluding earnings on capital and other corporate items)	**4,191**	4,190	3,592	*<1*	*17*
Earnings on capital and other corporate items	**107**	263	87	*(59)*	*23*
Net operating income (as reported)	**4,298**	4,453	3,679	*(3)*	*17*
International income (excluding earnings on capital and other corporate items) ratio (%)	**65**	70	66		

(1) Includes New Zealand.

International income by group and region

	Half-year to Sep 14						
	Americas $Am	**Asia $Am**	**Europe, Middle East and Africa $Am**	**Total International $Am**	**Australia(1) $Am**	**Total Income $Am**	**Total International %**
Macquarie Funds	622	35	371	1,028	214	1,242	83
Corporate and Asset Finance	232	11	277	520	164	684	76
Banking and Financial Services	14	–	1	15	650	665	2
Macquarie Securities	53	245	42	340	96	436	78
Macquarie Capital	134	39	54	227	211	438	52
Fixed Income, Currencies and Commodities	217	89	304	610	116	726	84
Total	1,272	419	1,049	2,740	1,451	4,191	65

(1) Includes New Zealand.

Total international income was $A2,740 million for the half-year ended 30 September 2014, up 15% from $A2,384 million in the prior corresponding period. Total international income represented 65% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior corresponding period.

Income from the Americas of $A1,272 million for the half-year ended 30 September 2014 increased 10% from $A1,161 million in the prior corresponding period, driven by increased performance fee income from Macquarie Infrastructure Company LLC in Macquarie Funds and a gain on disposal of operating lease assets in Corporate and Asset Finance. In the prior period Fixed Income, Currencies and Commodities' Energy Markets business benefited from strong customer flows, particularly in the US Gas business.

In Asia, income of $A419 million for the half-year ended 30 September 2014 decreased 14% from $A485 million in the prior corresponding period. The decrease was mainly in Macquarie Funds, which benefited from equity accounting gains arising from an increase in the valuation of real estate assets held by funds in which Macquarie has investments in the prior corresponding period.

Income from Europe, Middle East and Africa of $A1,049 million for the half-year ended 30 September 2014 increased 42% from $A738 million in the prior corresponding period. The increase was mainly driven by performance fee income from Macquarie European Infrastructure Fund 1 in Macquarie Funds and an increased contribution from Fixed Income, Currencies and Commodities as improved activity across commodities markets resulted in strong customer flows and trading opportunities, particularly in the European Gas and European Power businesses.

In Australia, income of $A1,451 million for the half-year ended 30 September 2014 increased 20% from $A1,208 million in the prior corresponding period, mainly driven by gains on sale of principal investments in Macquarie Capital and growth in platforms, lending and deposit volumes in Banking and Financial Services.

4.0 Balance sheet

4.1 Statement of financial position

	As at			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Assets					
Receivables from financial institutions	**20,775**	19,457	18,384	*7*	*13*
Trading portfolio assets	**26,310**	22,462	22,489	*17*	*17*
Derivative assets	**14,648**	12,633	14,647	*16*	*<1*
Investment securities available for sale	**9,299**	14,051	16,578	*(34)*	*(44)*
Other assets	**13,024**	12,990	12,335	*<1*	*6*
Loan assets held at amortised cost	**64,435**	58,712	56,093	*10*	*15*
Other financial assets at fair value through profit or loss	**2,752**	2,854	3,116	*(4)*	*(12)*
Property, plant and equipment	**6,636**	6,311	6,175	*5*	*7*
Interests in associates and joint ventures accounted for using the equity method	**2,483**	2,447	2,497	*1*	*(1)*
Intangible assets	**1,237**	1,221	1,276	*1*	*(3)*
Deferred tax assets	**733**	766	1,010	*(4)*	*(27)*
Total assets	**162,332**	153,904	154,600	*5*	*5*
Liabilities					
Trading portfolio liabilities	**4,118**	2,762	3,485	*49*	*18*
Derivative liabilities	**14,634**	11,973	14,149	*22*	*3*
Deposits	**44,216**	42,401	42,694	*4*	*4*
Other liabilities	**13,287**	13,908	12,638	*(4)*	*5*
Payables to financial institutions	**16,961**	19,654	19,625	*(14)*	*(14)*
Other financial liabilities at fair value through profit or loss	**1,364**	1,464	1,205	*(7)*	*13*
Debt issued at amortised cost	**51,076**	45,565	43,755	*12*	*17*
Provisions	**221**	205	225	*8*	*(2)*
Deferred tax liabilities	**635**	551	667	*15*	*(5)*
Total liabilities excluding loan capital	**146,512**	138,483	138,443	*6*	*6*
Loan capital					
Subordinated debt at amortised cost	**3,604**	3,507	3,438	*3*	*5*
Total loan capital	**3,604**	3,507	3,438	*3*	*5*
Total liabilities	**150,116**	141,990	141,881	*6*	*6*
Net assets	**12,216**	11,914	12,719	*3*	*(4)*

	As at			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Equity					
Contributed equity	**5,063**	5,112	5,893	*(1)*	*(14)*
Reserves	**826**	669	726	*23*	*14*
Retained earnings	**5,801**	5,637	5,610	*3*	*3*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**11,690**	11,418	12,229	*2*	*(4)*
Non-controlling interests	**526**	496	490	*6*	*7*
Total equity	**12,216**	11,914	12,719	*3*	*(4)*

Total assets of $A162.3 billion at 30 September 2014 increased 5% from $A153.9 billion at 31 March 2014. The depreciation of the Australian dollar since 31 March 2014 resulted in growth of both assets and liabilities denominated in foreign currencies. Key movements included:

– Receivables from financial institutions increased 7% from $A19.5 billion at 31 March 2014 to $A20.8 billion at 30 September 2014 predominantly due to an increase in reverse repurchase balances reflecting an increase in surplus liquidity combined with an increase in balances with financial institutions within Fixed Income and Currencies. This was partly offset by a decrease in holdings required to cover short positions due to lower stock borrowing activity within Macquarie Securities.

– Trading portfolio assets increased 17% from $A22.5 billion at 31 March 2014 to $A26.3 billion at 30 September 2014 predominantly due to increased trading activity in Macquarie Securities and Fixed Income, Currencies and Commodities.

– Derivative assets increased 16% from $A12.6 billion at 31 March 2014 to $A14.6 billion at 30 September 2014 and derivative liabilities increased 22% from $A12.0 billion at 31 March 2014 to $A14.6 billion at 30 September 2014 predominantly due to increased trading activity within Fixed Income, Currencies and Commodities.

– Investment securities available for sale decreased 34% from $A14.1 billion at 31 March 2014 to $A9.3 billion at 30 September 2014 mainly due to liquidity management activities within Group Treasury.

– Loan assets increased 10% from $A58.7 billion at 31 March 2014 to $A64.4 billion at 30 September 2014 primarily due to growth of the Australian mortgage, business banking and credit card portfolios in Banking and Financial Services and growth in the lending and finance lease portfolios in Corporate and Asset Finance. This was partly offset by the decrease in asset backed lending within Macquarie Funds and the run-down of the Canadian mortgage portfolio in Banking and Financial Services.

4.0 Balance sheet
continued

Total liabilities (excluding loan capital) increased 6% from $A138.5 billion at 31 March 2014 to $A146.5 billion at 30 September 2014. Key movements included:

- Trading portfolio liabilities increased 49% from $A2.8 billion at 31 March 2014 to $A4.1 billion at 30 September 2014 largely due to an increase in trading activity in Macquarie Securities and Fixed Income, Currencies and Commodities.
- Deposits increased 4% from $A42.4 billion at 31 March 2014 to $A44.2 billion at 30 September 2014 primarily due to growth in cash deposits and interest related products in Banking and Financial Services.
- Payables to financial institutions decreased 14% from $A19.7 billion at 31 March 2014 to $A17.0 billion at 30 September 2014 largely due to a decline in business funding requirements resulting in a decrease in short term funding activities conducted by Group Treasury.
- Debt issued at amortised cost increased 12% from $A45.6 billion at 31 March 2014 to $A51.1 billion at 30 September 2014 largely due to new debt issuances by Group Treasury and Corporate and Asset Finance, partly offset by the maturity of Government guaranteed securities during the half.

Total equity increased $A302 million from $A11.9 billion at 31 March 2014 to $A12.2 billion at 30 September 2014. This was largely driven by a net increase in reserves of $A157 million mainly due to movements in the foreign currency translation reserve.

4.2 Loan assets

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

	As at			Movement	
	Sep 14 $Ab	Mar 14 $Ab	Sep 13 $Ab	*Mar 14 %*	*Sep 13 %*
Loan assets at amortised cost per statement of financial position	**64.4**	58.7	56.1	*10*	*15*
Other loans held at fair value[1]	**0.6**	0.9	1.1	*(33)*	*(45)*
Operating lease assets	**6.0**	5.7	5.7	*5*	*5*
Other reclassifications[2]	**0.5**	0.6	0.2	*(17)*	*150*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3]	**(15.3)**	(13.6)	(12.7)	*13*	*20*
Less: segregated funds[4]	**(2.2)**	(2.2)	(1.2)	*–*	*83*
Less: margin balances (reclassed to trading)[5]	**(4.1)**	(2.9)	(3.3)	*41*	*24*
Total loan assets per funded balance sheet[6]	**49.9**	47.2	45.9	*6*	*9*

(1) Excludes other loans held at fair value that are self-funded.
(2) Reclassification between loan assets and other funded balance sheet categories.
(3) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPE).
(4) These represent the assets and liabilities that are recognised where Macquarie holds segregated client monies. The client monies will be matched by assets held to the same amount and hence does not require funding.
(5) For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.
(6) Total loan assets per funded balance sheet includes self securitisation assets.

4.0 Balance sheet
continued

Loan assets per the funded balance sheet are shown below in further detail

		As at			Movement	
	Notes	**Sep 14 $Ab**	Mar 14 $Ab	Sep 13 $Ab	*Mar 14 %*	*Sep 13 %*
Mortgages:	1					
Australia		**12.6**	10.5	8.4	*20*	*50*
Canada, United States and Other		**5.2**	5.7	6.8	*(9)*	*(24)*
Total mortgages		**17.8**	16.2	15.2	*10*	*17*
Structured investments	2	**2.3**	3.8	4.3	*(39)*	*(47)*
Banking	3	**4.9**	4.2	4.1	*17*	*20*
Real estate	4	**2.9**	2.5	2.6	*16*	*12*
Resources and commodities	5	**2.6**	2.4	2.1	*8*	*24*
Leasing (finance and operating)	6	**10.7**	10.7	10.6	*–*	*1*
Corporate lending	7	**6.5**	6.0	5.5	*8*	*18*
Other lending	8	**2.2**	1.4	1.5	*57*	*47*
Total		**49.9**	47.2	45.9	*6*	*9*

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential property and supported by mortgage insurance:

- Australia: most loans are fully mortgage insured
- United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured
- Canada: most loans are fully insured with underlying government support.

2. Structured investments

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

3. Banking

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

4. Real estate

Loans secured against real estate assets, generally subject to regular independent valuations.

5. Resources and commodities

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

6. Leasing (finance and operating)

Secured by underlying leased assets (aircraft, motor vehicles and specialised equipment).

7. Corporate lending

Diversified secured corporate lending.

8. Other lending

Includes deposits with financial institutions held as collateral for trading positions.

4.3 Equity investments

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

– Other financial assets at fair value through profit or loss
– Investment securities available for sale
– Interests in associates and joint ventures.

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

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

Equity investments reconciliation

	As at			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	**1,268**	1,342	1,369	*(6)*	*(7)*
Equity investments within investment securities available for sale	**2,024**	2,005	3,367	*1*	*(40)*
Interests in associates and joint ventures accounted for using the equity method	**2,483**	2,447	2,497	*1*	*(1)*
Total equity investments per statement of financial position	**5,775**	5,794	7,233	*(<1)*	*(20)*
Adjustment for funded balance sheet					
Equity hedge positions[(1)]	**(1,038)**	(1,138)	(1,111)	*(9)*	*(7)*
Total funded equity investments	**4,737**	4,656	6,122	*2*	*(23)*
Adjustments for equity investments analysis					
Other assets[(2)]	**7**	17	85	*(59)*	*(92)*
Available for sale reserves[(3)]	**(509)**	(493)	(689)	*3*	*(26)*
Associates reserves[(4)]	**(15)**	(20)	(16)	*(25)*	*(6)*
Total adjusted equity investments[(5)]	**4,220**	4,160	5,502	*1*	*(23)*

(1) These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity linked instruments. Consequently, these have been excluded from the analysis of equity investment exposures.
(2) Other assets include equity investments which do not fall within the categories per the statement of financial position.
(3) Available for sale reserves on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie has no economic exposure.
(4) Associates reserves (gross of tax) that will be released to income upon realisation of the investment.
(5) The adjusted book value represents the total net exposure to Macquarie.

4.0 Balance sheet
continued

Equity investments by category

	As at			Movement	
	Sep 14 $Am	Mar 14 $Am	Sep 13 $Am	*Mar 14 %*	*Sep 13 %*
Macquarie-managed funds					
Listed MIRA managed funds	**529**	492	522	*8*	*1*
Unlisted MIRA managed funds	**993**	1,036	835	*(4)*	*19*
Other Macquarie-managed funds	**481**	414	302	*16*	*59*
Total Macquarie-managed funds	**2,003**	1,942	1,659	*3*	*21*
Other investments					
Transport, industrial and infrastructure[1]	**335**	364	1,771	*(8)*	*(81)*
Telecommunications, information technology, media and entertainment	**603**	549	610	*10*	*(1)*
Energy, resources and commodities	**416**	445	434	*(7)*	*(4)*
Real estate investment, property and funds management[2]	**315**	369	574	*(15)*	*(45)*
Finance, wealth management and exchanges	**548**	491	454	*12*	*21*
Total other investments	**2,217**	2,218	3,843	*(<1)*	*(42)*
Total equity investments	**4,220**	4,160	5,502	*1*	*(23)*

(1) Balance at 30 September 2013 included the investment in Sydney Airport.
(2) Reduction from September 2013 relates to a number of investments.

5.0 Funding and liquidity

5.1 Overview

The two primary external funding vehicles for the Group are MGL and MBL. MGL provides funding principally to the Non-Bank Group and limited funding to some MBL Group subsidiaries. MBL provides funding to the Bank Group.

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

Liquidity management

The Group's liquidity risk management framework is designed to ensure that both MGL and MBL are able to meet their funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and the Risk Management Group (RMG). MGL Group and MBL Group's liquidity policies are approved by their respective Boards after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Business Group Heads.

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

Liquidity policy and principles

MGL provides funding predominantly to the Non-Bank Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Bank Group. MGL's liquidity risk appetite is set so that MGL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

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

The MBL liquidity policy outlines the liquidity requirements for the Bank Group. MBL's liquidity risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses. MBL is funded mainly by capital, long-term wholesale funding and deposits.

5.0 Funding and liquidity
continued

The liquidity risk appetite is supported by a number of risk tolerances and principles Macquarie applies to managing liquidity risk in both MGL and MBL:

Risk Tolerances

- Term assets must be funded by term liabilities
- Cash and liquid assets are sufficient to cover a 12 month stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered high quality liquid assets and cash
- Short term assets exceed short term wholesale liabilities
- Diversity and stability of funding sources is a key priority
- Balance sheet currency mismatches are managed within set tolerances
- Funding and liquidity exposures between entities in the Macquarie Group are subject to constraints where required.

Liquidity Management Principles

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

Scenario analysis

Scenario analysis is central to the Group’s liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide and firm-specific crises. The objective of this modelling is to ensure MGL and MBL’s ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions. The size of the liquid asset portfolio must exceed the minimum requirement as calculated in this model at all times.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank, either by Macquarie or other counterparties. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 30 September 2014, 100% of the liquid asset portfolio was eligible for repurchase with a central bank.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible government, semi-government, supranational, bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper.

The liquid asset portfolio is largely denominated and held in Australian Dollars although liquid assets denominated in US Dollars or other currencies are held where appropriate. MGL Group had $A21.2 billion cash and liquid assets as at 30 September 2014 (31 March 2014: $A19.1 billion), of which $A19.5 billion was held by the MBL Group (31 March 2014: $A17.3 billion).

5.0 Funding and liquidity
continued

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Macquarie Group and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

Funds transfer pricing

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

Credit ratings

Credit ratings[(1)] at 30 September 2014 are detailed below.

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

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

Regulatory developments

In December 2013, APRA released its final liquidity standard (APS 210) and Prudential Practice Guide (PPG) detailing the local implementation of the Basel III liquidity framework. APRA's standard incorporates one of the key quantitative metrics put forward by the Basel Committee - the Liquidity Coverage Ratio (LCR) - as well as a range of qualitative requirements which became effective in January 2014. APRA will later incorporate the other key Basel Committee metric – the Net Stable Funding Ratio (NSFR) – into local standards once the Basel Committee has finalised calibrating this metric.

Liquidity Coverage Ratio

The LCR requires high-quality liquid assets to be held to cover net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. LCR requirements will be effective from 1 January 2015. With its Committed Liquidity Facility (CLF) allocation in place, the Bank Group's LCR would exceed 120% as at 30 September 2014.

Net Stable Funding Ratio

The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation and consultation period prior to being introduced as a requirement in 2018.

Macquarie has minimal reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, Macquarie's internal liquidity policy requires that term assets are funded with term liabilities. Macquarie expects that it will meet the overall requirements of the NSFR, however the ratio is subject to change over the consultation period.

Macquarie continues to monitor developing liquidity regulations.

5.0 Funding and liquidity
continued

5.2 Funded balance sheet

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

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 30 September 2014. The following pages split this between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

		As at		
	Notes	**Sep 14 $Ab**	Mar 14 $Ab	Sep 13 $Ab
Total assets per MGL statement of financial position		**162.3**	153.9	154.6
Accounting deductions:				
Self funded trading assets	1	**(16.2)**	(17.9)	(16.7)
Derivative revaluation accounting gross-ups	2	**(14.3)**	(11.6)	(13.9)
Life investment contracts and other segregated assets	3	**(5.6)**	(5.7)	(5.2)
Outstanding trade settlement balances	4	**(7.1)**	(7.2)	(7.0)
Short-term working capital assets	5	**(5.7)**	(5.5)	(5.3)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	6	**(15.5)**	(13.4)	(12.7)
Net funded assets		**97.9**	92.6	93.8

Explanatory notes concerning net funded assets

1. Self funded trading assets

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

2. Derivative revaluation accounting gross-ups

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

3. Life investment contracts and other segregated assets

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

4. Outstanding trade settlement balances

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

5. Short-term working capital assets

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

6. Securitised and non-recourse assets

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

5.3 Funding profile for consolidated MGL Group

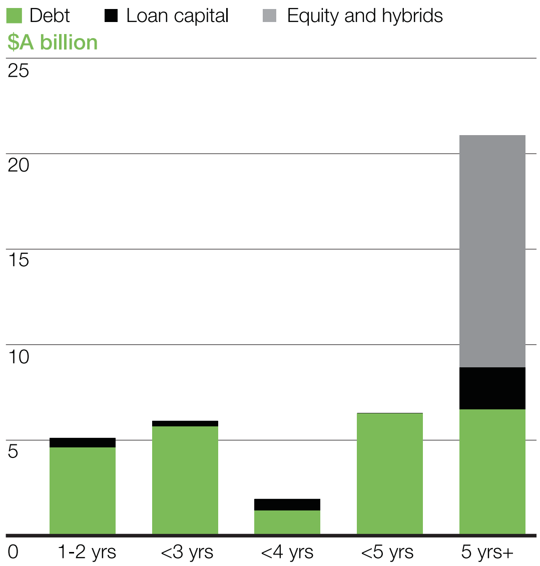
Funded balance sheet

	Notes	As at Sep 14 $Ab	As at Mar 14 $Ab	As at Sep 13 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		**1.7**	1.9	2.2
Commercial paper		**10.0**	6.6	6.7
Net trade creditors	2	**0.3**	1.0	—
Structured notes	3	**2.2**	2.3	2.1
Secured funding	4	**6.1**	7.0	8.0
Bonds	5	**20.3**	19.3	16.9
Other loans	6	**1.3**	0.9	1.2
Senior credit facility	7	**1.4**	1.3	2.6
Deposits:	8			
Retail deposits		**35.3**	33.3	33.1
Corporate and wholesale deposits		**3.5**	3.6	4.9
Loan capital	9	**3.6**	3.5	3.4
Equity and hybrids	10	**12.2**	11.9	12.7
Total		**97.9**	92.6	93.8
Funded assets				
Cash and liquid assets	11	**21.2**	19.1	21.5
Self securitisation	12	**7.9**	7.4	6.2
Net trading assets	13	**16.6**	16.7	15.1
Loan assets less than one year	14	**11.2**	11.9	12.0
Loan assets greater than one year	14	**30.8**	27.9	27.7
Debt investment securities	15	**3.6**	3.1	2.9
Co-investment in Macquarie-managed funds and other equity investments	16	**4.7**	4.7	6.1
Property, plant and equipment and intangibles		**1.9**	1.8	1.8
Net trade debtors	17	**—**	—	0.5
Total		**97.9**	92.6	93.8

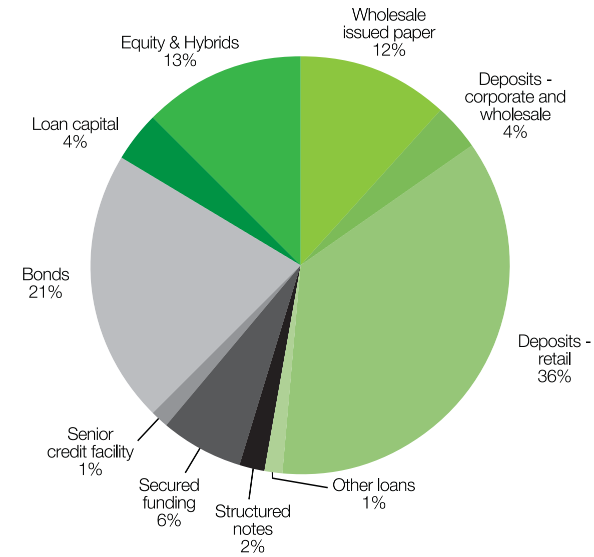
See Section 5.6 for notes 1-17.

5.0 Funding and liquidity
continued

Detail of term funding (drawn & committed but undrawn) maturing beyond one year



Diversity of Funding Sources



	As at Sep 14					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	—	0.5	0.1	0.1	1.0	**1.7**
Secured funding	1.8	0.1	0.3	—	0.3	**2.5**
Bonds	2.8	5.1	0.9	4.2	5.2	**18.2**
Other loans	—	—	—	—	0.1	**0.1**
Senior credit facility	—	—	—	1.4	—	**1.4**
Total debt	**4.6**	**5.7**	**1.3**	**5.7**	**6.6**	**23.9**
Loan capital	0.5	0.3	0.6	—	2.2	**3.6**
Equity and hybrids	—	—	—	—	12.2	**12.2**
Total funding sources drawn	**5.1**	**6.0**	**1.9**	**5.7**	**21.0**	**39.7**
Undrawn	—	—	—	0.7	—	**0.7**
Total funding sources drawn and undrawn	**5.1**	**6.0**	**1.9**	**6.4**	**21.0**	**40.4**

Macquarie has a stable funding base with minimal reliance on short-term wholesale funding markets. At 30 September 2014, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) is unchanged from 4.5 years at 31 March 2014 to 4.5 years at 30 September 2014.

As at 30 September 2014, total deposits represented $A38.8 billion, or 40% of MGL Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A11.7 billion, or 12% of total funding, and other debt funding maturing within 12 months represented $A7.7 billion, or 8% of total funding.

During the half year ended 30 September 2014, all remaining government guaranteed debt was repaid.

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2014, MGL and MBL have continued to raise term wholesale funding.

Details of term funding raised since 31 March 2014:

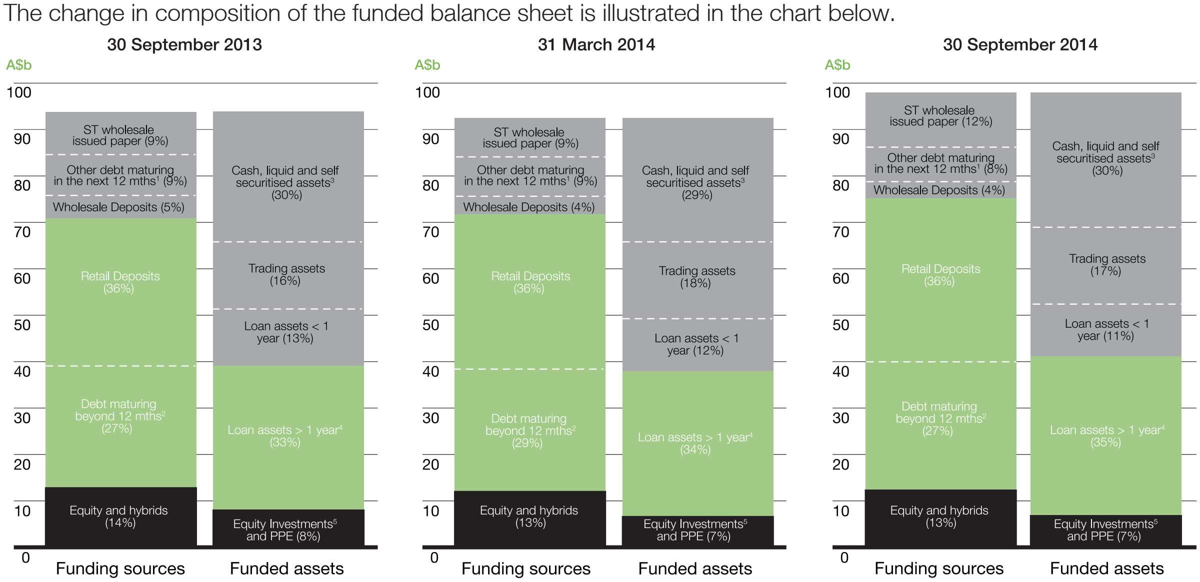
			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Secured Funding	–	Term securitisation and other secured finance	4.7	—	**4.7**
Issued paper	–	Senior	6.1	—	**6.1**
Loan Capital	–	Macquarie Bank Capital Notes (BCN)	0.4	—	**0.4**
Total[(1)]			**11.2**	**—**	**11.2**

(1) Includes BCN ($A0.4 billion) and MBL 3 year USD bond ($A2.0 billion) issuances completed in October 2014.

Macquarie has continued to diversify its funding base and develop new markets including issuances in the United States, Europe, Australia and United Kingdom.

Since 31 March 2014, MGL Group raised $A11.2 billion of term funding, including $A6.1 billion of term wholesale funding, $A4.7 billion of term secured finance and $A0.4 billion of BCN issuance. Wholesale term issuance of $A6.1 billion includes $A4.1 billion in senior unsecured debt issuance in US market, $A1.6 billion in senior unsecured issuance in the Euro and Sterling markets, $A0.4 billion in private placements and structured notes. Term secured finance of $A4.7 billion includes $A2.4 billion of PUMA RMBS, $A1.5 billion of SMART auto & equipment ABS, $A0.3 billion of Macquarie Equipment Finance ABS and a net increase of $A0.5 billion of warehouse funding for SMART.

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



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

(2) 'Debt maturing beyond 12 mths' includes Loan Capital. The BCN ($A0.4 billion) and MBL 3 year USD bond ($A2.0 billion) issuances completed during October 2014 are excluded from balances reported at 30 September 2014.

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

(4) 'Loan Assets > 1 yr' includes Debt Investment Securities and Operating Lease Assets.

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

5.0 Funding and liquidity
continued

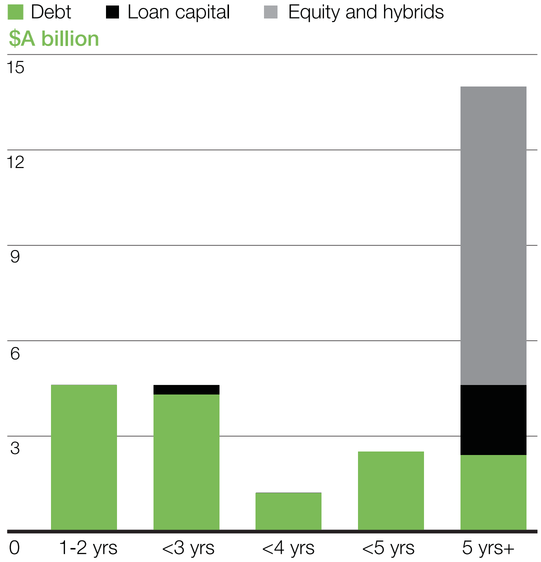
5.4 Funding profile for Bank Group

Funded balance sheet

	Notes	As at Sep 14 $Ab	Mar 14 $Ab	Sep 13 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		**1.7**	1.9	2.2
Commercial paper		**10.0**	6.6	6.7
Net trade creditors	2	**1.0**	0.7	—
Structured notes	3	**1.7**	1.6	1.4
Secured funding	4	**6.0**	6.9	7.7
Bonds	5	**13.0**	11.3	10.5
Other loans	6	**0.6**	0.5	0.9
Deposits:	8			
Retail deposits		**35.3**	33.3	33.1
Corporate and wholesale deposits		**3.5**	3.6	4.9
Loan capital	9	**2.5**	2.5	2.4
Equity and hybrids	10	**9.4**	9.5	9.4
Total		**84.7**	78.4	79.2
Funded assets				
Cash and liquid assets	11	**19.5**	17.3	19.4
Self securitisation	12	**7.9**	7.4	6.2
Net trading assets	13	**15.2**	15.4	13.9
Loan assets less than one year	14	**11.0**	11.7	11.6
Loan assets greater than one year	14	**29.8**	26.9	26.7
Debt investment securities	15	**2.7**	2.6	2.8
Non-Bank Group deposit with MBL		**(3.7)**	(5.0)	(3.6)
Co-investment in Macquarie-managed funds and other equity investments	16	**1.1**	1.0	1.1
Property, plant and equipment and intangibles		**1.2**	1.1	1.2
Net trade debtors	17	**—**	—	(0.1)
Total		**84.7**	78.4	79.2

See Section 5.6 for notes 1-17.

Detail of term funding (drawn & committed but undrawn) maturing beyond one year



	As at Sep 14					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	—	0.4	0.1	0.1	0.9	**1.5**
Secured funding	1.8	0.1	0.3	—	0.3	**2.5**
Bonds	2.8	3.8	0.8	2.4	1.2	**11.0**
Other loans	—	—	—	—	—	**—**
Total debt	**4.6**	**4.3**	**1.2**	**2.5**	**2.4**	**15.0**
Loan capital	—	0.3	—	—	2.2	**2.5**
Equity and hybrids	—	—	—	—	9.4	**9.4**
Total funding sources drawn	**4.6**	**4.6**	**1.2**	**2.5**	**14.0**	**26.9**
Undrawn	—	—	—	—	—	**—**
Total funding sources drawn and undrawn	**4.6**	**4.6**	**1.2**	**2.5**	**14.0**	**26.9**

The Bank Group has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) increased from 3.6 years at 31 March 2014 to 3.7 years at 30 September 2014.

As at 30 September 2014, total deposits represented $38.8 billion, or 46% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A11.7 billion, or 14% of total funding, and other debt funding maturing within 12 months represented $A7.3 billion, or 9% of total funding.

5.0 Funding and liquidity
continued

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

- $US25 billion Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US7.6 billion debt securities outstanding at 30 September 2014
- $US10 billion Commercial Paper Program under which $US7.2 billion of debt securities were outstanding at 30 September 2014
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 30 September 2014 issuances outstanding amounted to $US7 billion under the Rule 144A/Regulation S Medium Term Note Program
- $US5 billion Structured Note Program under which $US1.2 billion of funding from structured notes was outstanding at 30 September 2014.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 30 September 2014, MBL Group had $A1.7 billion of these securities outstanding.

At 30 September 2014, MBL Group had internally securitised $A7.9 billion of its own mortgages.

MBL, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations.

Deposit strategy

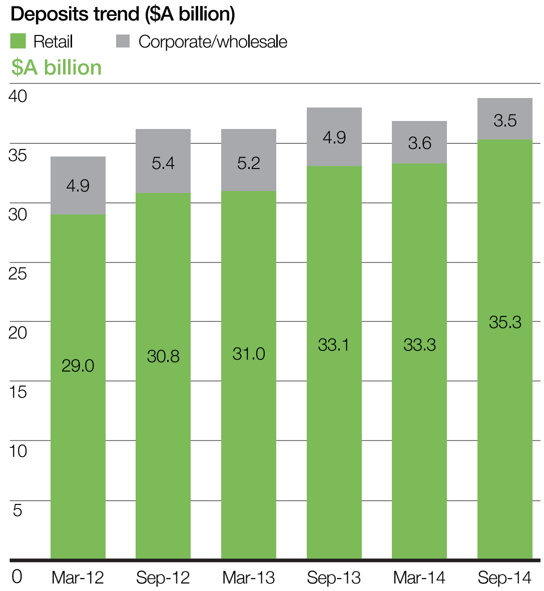
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy is focused on growing the retail deposit base which represents a stable and reliable source of funding and reduces Macquarie's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

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

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

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

Deposits trend ($A billion)



5.0 Funding and liquidity
continued

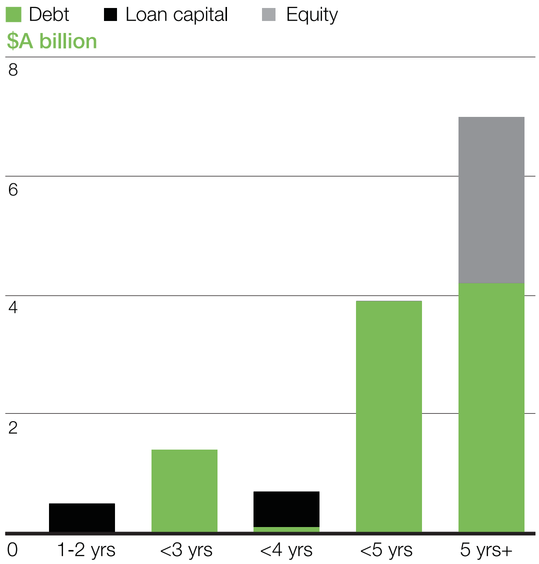
5.5 Funding profile for Non-Bank Group

Funded balance sheet

		As at		
	Notes	**Sep 14 $Ab**	Mar 14 $Ab	Sep 13 $Ab
Funding sources				
Net trade creditors	2	**(0.7)**	0.3	–
Structured notes	3	**0.5**	0.7	0.7
Secured funding	4	**0.1**	0.1	0.3
Bonds	5	**7.3**	8.0	6.4
Other loans	6	**0.7**	0.4	0.3
Senior credit facility	7	**1.4**	1.3	2.6
Loan capital	9	**1.1**	1.0	1.0
Equity	10	**2.8**	2.4	3.3
Total		**13.2**	14.2	14.6
Funded assets				
Cash and liquid assets	11	**1.7**	1.8	2.1
Non-Bank Group deposit with MBL		**3.7**	5.0	3.6
Net trading assets	13	**1.4**	1.3	1.2
Loan assets less than one year	14	**0.2**	0.2	0.4
Loan assets greater than one year	14	**1.0**	1.0	1.0
Debt investment securities	15	**0.9**	0.5	0.1
Co-investment in Macquarie-managed funds and other equity investments	16	**3.6**	3.7	5.0
Property, plant and equipment and intangibles		**0.7**	0.7	0.6
Net trade debtors	17	**–**	–	0.6
Total		**13.2**	14.2	14.6

See Section 5.6 for notes 2-17.

Detail of term funding (drawn & committed but undrawn) maturing beyond one year



	As at Sep 14					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	—	0.1	—	—	0.1	**0.2**
Secured funding	—	—	—	—	—	**—**
Bonds	—	1.3	0.1	1.8	4.0	**7.2**
Other loans	—	—	—	—	0.1	0.1
Senior credit facility	—	—	—	1.4	—	1.4
Total debt	**—**	**1.4**	**0.1**	**3.2**	**4.2**	**8.9**
Loan capital	0.5	—	0.6	—	—	**1.1**
Equity	—	—	—	—	2.8	**2.8**
Total funding sources drawn	**0.5**	**1.4**	**0.7**	**3.2**	**7.0**	**12.8**
Undrawn	—	—	—	0.7	—	**0.7**
Total funding sources drawn and undrawn	**0.5**	**1.4**	**0.7**	**3.9**	**7.0**	**13.5**

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 6.2 years at 31 March 2014 to 5.8 years at 30 September 2014.

As at 30 September 2014, other debt funding maturing within 12 months represented $0.4 billion, or 3% of total funding.

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

– Senior Credit Facility was $US1.8 billion[1] at 30 September 2014
– $US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US4.3 billion was outstanding at 30 September 2014
– $US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had $US0.5 billion debt securities outstanding at 30 September 2014.

(1) Includes both drawn and undrawn facility.

5.0 Funding and liquidity
continued

5.6 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper
Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

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

3. Structured notes
Debt instruments on which the return is linked to commodities, equities, currencies or other assets. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

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

5. Bonds
Unsecured long-term wholesale funding.

6. Other loans
Unsecured loans provided by financial institutions and other counterparties.

7. Senior credit facility
MGL's Senior Credit Facility provided by a syndicate of wholesale lenders.

8. Deposits
Unsecured funding from retail, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in MBL.

9. Loan capital
Long-term subordinated debt, MCN, PMI and ECS.

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

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

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

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

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

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

16. Co-investment in Macquarie-managed funds and other equity investments
These equity securities include co-investments in Macquarie managed funds.

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

6.0 Capital

6.1 Overview

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

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

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

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2014 include the Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Exchangeable Capital Securities (ECS), Macquarie Group Capital Notes (MCN) and Preferred Membership Interests (PMI).

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

Pillar 3

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

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

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

6.0 Capital
continued

Macquarie Group Basel III regulatory capital surplus calculation[1]

	As at Sep 14		As at Mar 14		*Movement*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Macquarie Group eligible capital:						
Bank Group Gross Tier 1 capital[1]	**9,650**	**9,650**	9,682	9,682	*(<1)*	*(<1)*
Non-Bank Group eligible capital	**3,586**	**3,586**	3,197	3,197	*12*	*12*
Eligible capital[1]	**13,236**	**13,236**	12,879	12,879	*3*	*3*
Macquarie Group capital requirement:						
Bank Group						
Risk-Weighted Assets (RWA)	**73,346**	**69,943**	68,655	65,698	*7*	*6*
Capital required to cover RWA at 7%[2]	**5,134**	**4,896**	4,806	4,599	*7*	*6*
Tier 1 deductions	**1,059**	**2,885**	1,182	2,721	*(10)*	*6*
Total Bank Group capital requirement	**6,193**	**7,781**	5,988	7,320	*3*	*6*
Total Non-Bank Group capital requirement	**2,988**	**2,988**	2,823	2,823	*6*	*6*
Total capital requirement	**9,181**	**10,769**	8,811	10,143	*4*	*6*
Macquarie Group regulatory capital surplus (at 7%[2] of Bank Group RWA)[1]	**4,055**	**2,467**	4,068	2,736	*(<1)*	*(10)*
Additional capital requirement required to maintain 8.5%[3] of Tier 1 ratio in Bank Group	**1,100**	**1,049**	1,030	985	*7*	*6*
Macquarie Group regulatory capital surplus (at 8.5%[3] of Bank Group RWA)[1]	**2,955**	**1,418**	3,038	1,751	*(3)*	*(19)*

(1) Impact of BCN ($A429m) issued on 8 October 2014 not included.
(2) Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.
(3) Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB), per the minimum requirements in the APRA Prudential Standard APS 110 and BIS respectively. The 2.5% CCB is not required by APRA until 2016 and by BIS until 2019.

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2014 consists of MIS, MIPS and ECS. MBL periodically pays dividends to MGL, and is recapitalised by MGL as required to support projected business growth.

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

MIPS were issued when the London Branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% per annum until April 2020. As at 30 September 2014, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie. MIPS are eligible for transitional arrangements under Basel III rules.

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

6.0 Capital
continued

Bank Group Basel III Tier 1 Capital

	As at Sep 14		As at Mar 14		*Movement*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Common Equity Tier 1 capital						
Paid-up ordinary share capital	**7,709**	**7,709**	7,710	7,710	*(<1)*	*(<1)*
Retained earnings	**1,113**	**1,113**	1,371	1,371	*(19)*	*(19)*
Reserves	**169**	**169**	(42)	(42)	*	*
Gross Common Equity Tier 1 capital	**8,991**	**8,991**	9,039	9,039	*(1)*	*(1)*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**109**	**109**	104	104	*5*	*5*
Deferred tax assets	**105**	**201**	98	189	*7*	*6*
Net other fair value adjustments	**(30)**	**(30)**	(9)	(9)	*233*	*233*
Intangible component of investments in subsidiaries and other entities	**438**	**438**	443	443	*(1)*	*(1)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**—**	**173**	—	115	—	*50*
Equity exposures	**—**	**1,361**	—	1,307	—	*4*
Shortfall in provisions for credit losses	**317**	**348**	380	380	*(17)*	*(8)*
Other Common Equity Tier 1 capital deductions	**120**	**285**	166	192	*(28)*	*48*
Total Common Equity Tier 1 capital deductions	**1,059**	**2,885**	1,182	2,721	*(10)*	*6*
Net Common Equity Tier 1 capital	**7,932**	**6,106**	7,857	6,318	*1*	*(3)*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments[(1)]	**659**	**659**	643	643	*2*	*2*
Gross Additional Tier 1 capital	**659**	**659**	643	643	*2*	*2*
Deduction from Additional Tier 1 capital	**—**	**—**	—	—	—	—
Net Additional Tier 1 capital	**659**	**659**	643	643	*2*	*2*
Total Net Tier 1 capital	**8,591**	**6,765**	8,500	6,961	*1*	*(3)*

(1) Impact of BCN ($A429m) issued on 8 October 2014 not included.

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Sep 14		As at Mar 14		*Movement*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Credit risk						
Subject to IRB approach:						
Corporate	**19,768**	**19,768**	18,295	18,295	*8*	*8*
SME Corporate	**1,822**	**1,822**	1,727	1,727	*6*	*6*
Sovereign	**487**	**487**	591	591	*(18)*	*(18)*
Bank	**1,454**	**1,454**	1,680	1,680	*(13)*	*(13)*
Residential mortgage	**3,629**	**4,913**	2,504	4,075	*45*	*21*
Other Retail	**5,258**	**5,258**	4,923	4,923	*7*	*7*
Total RWA subject to IRB approach	**32,418**	**33,702**	29,720	31,291	*9*	*8*
Specialised lending exposures subject to slotting criteria	**5,227**	**5,227**	4,891	4,891	*7*	*7*
Subject to Standardised approach:						
Corporate	**763**	**763**	920	920	*(17)*	*(17)*
Residential mortgage	**1,783**	**1,783**	1,479	1,479	*21*	*21*
Other Retail	**1,324**	**1,324**	953	953	*39*	*39*
Total RWA subject to Standardised approach	**3,870**	**3,870**	3,352	3,352	*15*	*15*
Credit risk RWA for securitisation exposures	**1,104**	**1,038**	874	874	*26*	*19*
Credit Valuation Adjustment RWA	**2,455**	**2,455**	2,325	2,325	*6*	*6*
Exposures to Central Counterparties RWA	**1,830**	**1,830**	1,595	1,595	*15*	*15*
RWA for Other Assets	**7,207**	**6,763**	6,751	6,395	*7*	*6*
Total Credit risk RWA	**54,111**	**54,885**	49,508	50,723	*9*	*8*
Equity risk exposures RWA	**4,254**	**—**	4,266	—	*(<1)*	—
Market risk RWA	**4,659**	**4,659**	4,567	4,567	*2*	*2*
Operational risk RWA	**8,377**	**8,377**	8,531	8,531	*(2)*	*(2)*
Interest rate risk in banking book RWA	**—**	**—**	—	—	—	—
Scaling factor (6%) applied to RWA subject to IRB approach	**1,945**	**2,022**	1,783	1,877	*9*	*8*
Total Bank Group RWA	**73,346**	**69,943**	68,655	65,698	*7*	*6*
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	**10.8**	**8.7**	11.4	9.6		
Macquarie Bank Group Tier 1 capital ratio (%)(1)	**11.7**	**9.7**	12.4	10.6		

(1) Impact of BCN ($A429m) issued on 8 October 2014 not included.

6.0 Capital
continued

6.3 Non-Bank Group capital

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

Risk[1]	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of some parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2] Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 39% and 82% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

(1) The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

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

Non-Bank Group capital requirement

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

	As at Sep 14		
	Asset $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.7	23	17%
Loan assets[1]	1.2	137	142%
Debt investment securities	0.9	85	119%
Co-investments in Macquarie-managed funds and equity investments	3.4	1,662	620%
Co-investments in Macquarie-managed funds and equity investments (relating to investments that hedge DPS plan liabilities)	0.2		
Property, plant and equipment and intangibles[2]	0.7	310	554%
Non Bank Group deposit with MBL	3.7		
Net trading assets	1.4		
Total funded assets	**13.2**	**2,217**	
Self-funded and non-recourse assets			
Self funded trading assets	2.3		
Outstanding trade settlement balances	4.2		
Derivative revaluation accounting gross-ups	0.1		
Non-recourse funding	0.1		
Short-term working capital assets	3.5		
Total self-funded and non-recourse assets	**10.2**		
Total Non-Bank Group assets	**23.4**		
Off balance sheets exposures, operational, market and other risk and diversification offset[3]		771	
Non-Bank Group capital requirement		**2,988**	

(1) Includes leases.

(2) A component of the intangibles relating to the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. are supported 100% by exchangeable shares. These exchangeable shares have not been included in eligible regulatory capital.

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

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Sep 14 $Ab	Mar 14 $Ab	Sep 13 $Ab	*Mar 14 %*	*Sep 13 %*
Assets under Management					
Macquarie Investment Management	**307.3**	310.5	264.7	*(1)*	*16*
Macquarie Infrastructure and Real Assets	**114.2**	112.8	114.3	*1*	*(<1)*
Macquarie Specialised Investment Solutions	**1.8**	1.5	1.7	*20*	*6*
Total Macquarie Funds	**423.3**	424.8	380.7	*(<1)*	*11*
Other Operating Groups	**2.1**	2.1	4.1	*-*	*(49)*
Total Assets under Management	**425.4**	426.9	384.8	*(<1)*	*11*
Assets under Management by region					
Americas	**242.3**	236.3	226.2	*3*	*7*
Europe, Middle East and Africa	**77.7**	79.7	78.9	*(3)*	*(2)*
Australia	**66.8**	70.5	62.1	*(5)*	*8*
Asia	**38.6**	40.4	17.6	*(4)*	*119*
Total Assets under Management	**425.4**	426.9	384.8	*(<1)*	*11*
Assets under Management by type					
Fixed income	**183.7**	174.2	147.0	*5*	*25*
Direct infrastructure	**107.1**	105.3	101.7	*2*	*5*
Equities	**90.9**	99.1	89.4	*(8)*	*2*
Cash	**17.3**	16.7	16.7	*4*	*4*
Direct real estate	**4.3**	4.7	10.6	*(9)*	*(59)*
Alternatives	**3.9**	7.9	6.9	*(51)*	*(43)*
Currency	**8.3**	8.1	5.8	*2*	*43*
Multi-asset allocation solutions	**8.1**	9.4	4.5	*(14)*	*80*
Specialist investments	**1.8**	1.5	2.2	*20*	*(18)*
Total Assets under Management	**425.4**	426.9	384.8	*(<1)*	*11*

AUM of $A425.4 billion at 30 September 2014 increased 11% from $A384.8 billion at 30 September 2013. The increase in AUM was mainly due to favourable currency and market movements across Macquarie Funds, the acquisition of ING Investment Management Korea, positive net flows in the securities investment management business and investments in the infrastructure and real assets business, partly offset by asset transfers and disposals including the formation of the JSP joint venture and the management buyout of the MIM Private Markets business.

Macquarie Investment Management

Macquarie Investment Management's AUM was $A307.3 billion at 30 September 2014, an increase of 16% from $A264.7 billion at 30 September 2013 primarily due to the acquisition of ING Investment Management Korea, the favourable impact of the depreciation of the Australian dollar since 30 September 2013, positive market and valuation movements and positive net flows in the Delaware business, primarily into higher margin products. These were offset by the formation of the JSP joint venture and the management buyout of the MIM Private Markets business.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Asset's AUM was $A114.2 billion at 30 September 2014, largely unchanged from $A114.3 billion at 30 September 2013 due to investments and the favourable impact of the depreciation of the Australian dollar since 30 September 2013, offset by divestments.

7.2 Equity under Management

The Macquarie Infrastructure and Real Assets division of Macquarie Funds tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

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

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

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

Equity under Management by type and region

	As at[1][2]			Movement	
	Sep 14 $Ab	Mar 14 $Ab	Sep 13 $Ab	*Mar 14 %*	*Sep 13 %*
Equity under Management by type					
Listed equity	**12.2**	9.4	8.6	*30*	*42*
Unlisted equity	**46.3**	43.1	41.0	*7*	*13*
Total EUM	**58.5**	52.5	49.6	*11*	*18*
Equity under Management by region[3]					
Australia	**4.9**	4.8	4.2	*2*	*17*
Europe, Middle East and Africa	**23.0**	23.3	22.3	*(1)*	*3*
Americas	**19.8**	16.0	14.4	*24*	*38*
Asia	**10.8**	8.4	8.7	*29*	*24*
Total EUM	**58.5**	52.5	49.6	*11*	*18*

(1) Excludes equity invested by Macquarie Group in businesses managed by MIRA.
(2) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.
(3) By location of fund management team.

EUM of $A58.5 billion at 30 September 2014 increased 18% from $A49.6 billion at 30 September 2013. The increase was primarily due to equity raisings for funds including Macquarie Infrastructure Company LLC, Macquarie Infrastructure Partners III and managed account and co-investment capital, as well as the favourable impact of the depreciation of the Australian dollar since 30 September 2013. These increases were partially offset by returns of capital that resulted from asset divestments during the year.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions. As at 30 September 2014, additional Tier 1 Capital consists of MIS, MIPS and ECS.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS investments are those that have a high probability of being sold within 12 month to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes ("BCN") at face value of $100 each. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 330bps margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

BBSW	Bank Bill Swap Rate.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Compensation ratio	The ratio of Compensation Expense to Net Operating Income.
Contingent liabilities	Defined in AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*' as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including structured entities that are not consolidated for the APRA regulatory reporting group.
Directors' Profit Share (DPS)	The pre-2009 remuneration agreement in which 20 per cent of each Executive Director's annual gross profit share allocation is withheld and is subject to restrictions through the DPS Plan. The DPS Plan is a tool in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements. The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after ten years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or at the end of a ten year period.
Dividend reinvestment plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in Macquarie, with no transaction costs.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 '*Earnings Per Share*'.
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.

8.0 Glossary
continued

ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 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 MGL), 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).
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
Fair value through profit or loss	Fair value through profit or loss financial assets or financial liabilities are designated as such on initial reocgnition and subsequently measured at fair value, with any movements in fair value recognised in the income statement.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
FX	Foreign exchange.
Headcount	Headcount includes both permanent staff (full time, part time and fixed term hires), casual staff and contractors (including consultants and secondees). It excludes staff on leave without pay and staff on parental leave.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Level 2 Bank Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor
Macquarie Income Preferred Securities (MIPS)	MIPS were issued when the London branch of MBL issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital. They are treated as equity in the statement of financial positon. There are four million $A100 face value MIS on issue.
MBI	Macquarie Bank International Limited.
MBL	Macquarie Bank Limited.
MCN	On June 7, 2013, MGL issued six million Macquarie Group Capital Notes ("MCN") at a face value of $A100 each. The MCNs are fully paid, subordinated, non-cumulative, unsecured notes that mandatorily convert into the ordinary shares of MGL in June 2021 (subject to certain conditions), unless earlier redeemed, exchanged or written off in accordance with its terms.
MGL	Macquarie Group Limited.
Net loan losses	The impact on the income statement of loan amounts provided for or written off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net Profit Interests	A share of production or proceeds from production derived from rights to various commodity assets (without the obligation to pay any of the costs of explorations and development).
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
PMI	Preferred Membership Interests. On 2 December 2010, Macquarie PMI LLC, a subsidiary of MGL, issued $US400 million of US Dollar denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at MGL's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The PMI bears fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.
REIT	Real Estate Investment Trust.
Retail deposits	Retail deposits are those placed with the Banking and Financial Services Group and includes products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Retail counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
SPEs	Special purpose entities.

8.0 Glossary
continued

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

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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 8232 4330