
Contents

1.0	Result overview	3
1.1	Executive summary	3
2.0	Financial performance analysis	6
2.1	Net interest and trading income	6
2.2	Fee and commission income	10
2.3	Share of net profits of associates and joint ventures	12
2.4	Other operating income and charges	13
2.5	Operating expenses	15
2.6	Headcount	16
2.7	Income tax expense	17
3.0	Segment analysis	18
3.1	Basis of preparation	18
3.2	Macquarie Asset Management	22
3.3	Corporate and Asset Finance	24
3.4	Banking and Financial Services	26
3.5	Macquarie Securities	28
3.6	Macquarie Capital	30
3.7	Commodities and Financial Markets	32
3.8	Corporate	35
3.9	International income	37
4.0	Balance sheet	39
4.1	Statement of financial position	39
4.2	Loan assets	41
4.3	Equity investments	44
5.0	Funding and liquidity	46
5.1	Liquidity Risk Governance and Management Framework	46
5.2	Management of Liquidity Risk	48
5.3	Funded balance sheet	50
5.4	Funding profile for consolidated MGL Group	51
5.5	Funding profile for Bank Group	54
5.6	Funding profile for Non-Bank Group	57
5.7	Explanatory notes concerning funding sources and funded assets	59
6.0	Capital	60
6.1	Overview	60
6.2	Bank Group capital	62
6.3	Non-Bank Group capital	65
7.0	Funds management	67
7.1	Assets under Management	67
7.2	Equity under Management	68
8.0	Glossary	69

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the year ended 31 March 2016, including further detail in relation to key elements of Macquarie Group Limited's ("MGL", "Macquarie", "the Group") financial performance and financial position. The report also outlines the funding and capital profile of the Group.

Certain financial information in this report is prepared on a different basis to that contained in the Macquarie Group Limited 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 year ended 31 March 2016 and is current as at 6 May 2016.

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2015.

References to the first half are to the six months ended 30 September 2015.

References to the second half are to the six months ended 31 March 2016.

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

Independent auditor's report

This document should be read in conjunction with the Macquarie Group Limited Financial Report for the year ended 31 March 2016, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Group Limited dated 6 May 2016 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 audit by PricewaterhouseCoopers.

Disclaimer

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

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

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

1.0 Result overview

1.1 Executive summary

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Financial performance summary						
Net interest income	1,114	1,165	(4)	2,279	2,092	9
Fee and commission income	2,068	2,794	(26)	4,862	4,739	3
Net trading income	959	1,108	(13)	2,067	1,727	20
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	67	(63)	*	4	5	(20)
Other operating income and charges	609	314	94	923	699	32
Net operating income	4,817	5,318	(9)	10,135	9,262	9
Employment expenses	(1,981)	(2,263)	(12)	(4,244)	(4,143)	2
Brokerage, commission and trading-related expenses	(448)	(444)	1	(892)	(824)	8
Occupancy expenses	(195)	(202)	(3)	(397)	(374)	6
Non-salary technology expenses	(300)	(287)	5	(587)	(437)	34
Other operating expenses	(497)	(503)	(1)	(1,000)	(962)	4
Total operating expenses	(3,421)	(3,699)	(8)	(7,120)	(6,740)	6
Operating profit before income tax	1,396	1,619	(14)	3,015	2,522	20
Income tax expense	(397)	(530)	(25)	(927)	(899)	3
Profit after income tax	999	1,089	(8)	2,088	1,623	29
Profit attributable to non-controlling interests	(6)	(19)	(68)	(25)	(19)	32
Profit attributable to ordinary equity holders of Macquarie Group Limited	993	1,070	(7)	2,063	1,604	29
Key metrics						
Expense to income ratio (%)	71.0	69.6		70.3	72.8	
Compensation ratio (%)	38.2	39.8		39.0	42.0	
Effective tax rate (%)	28.6	33.1		31.0	35.9	
Basic earnings per share (cents per share)	295.4	324.5		619.2	502.3	
Diluted earnings per share (cents per share)	286.7	310.0		600.1	484.2	
Ordinary dividends per share (cents per share)	240.0	160.0		400.0	330.0	
Ordinary dividend payout ratio (%)	82.1	50.6		65.7	67.6	
Annualised return on equity (%)	13.7	15.8		14.7	14.0	

Profit attributable to ordinary equity holders was \$A2,063 million for the year ended 31 March 2016, an increase of 29% from \$A1,604 million in the prior year.

Macquarie's annuity-style businesses – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2016 of \$A3,124 million, an increase of 10% on the prior year, with both Macquarie Asset Management and Corporate and Asset Finance favourably impacted by the depreciation of the Australian dollar relative to the prior year¹. Macquarie Asset Management benefited from increased gains on disposal of investments and growth in underlying base fee income, while Corporate and Asset Finance's higher net profit contribution was driven by the accretion of interest income on loans acquired at a discount and higher net operating lease income due to the acquisition of an aircraft portfolio. Banking and Financial Services reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

1. The impact of the movement in average FX rates is estimated to be approx. 9% of FY16 NPAT. The calculation reflects the movement in NPAT based on the conversion of FY15 NPAT using FY16 average FX rates.

1.0 Result overview

continued

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets – delivered a combined net profit contribution for the year ended 31 March 2016 of \$A1,295 million, a decrease of 3% on the prior year. All of these businesses were favourably impacted by the depreciation of the Australian dollar relative to the prior year¹. Macquarie Securities' net profit contribution increased significantly on the prior year due to increased income from improved trading opportunities, particularly in China in the first half of the year, while Macquarie Capital benefited from a higher net contribution from principal assets. Commodities and Financial Markets reported a lower net profit contribution driven by a decline in trading activity in the fourth quarter. The prior year benefited from fee income from the Freeport LNG Terminal transaction, while the current year was impacted by challenging credit market conditions particularly in the northern hemisphere. These were partially offset by a strong contribution from the commodities platform driven by increased client activity resulting from price volatility during the year.

Net operating income of \$A10,135 million for the year ended 31 March 2016 increased 9% from \$A9,262 million in the prior year. Key drivers of the changes from the prior year were:

- A 14% increase in combined net interest and trading income to \$A4,346 million for the year ended 31 March 2016 from \$A3,819 million in the prior year. Most operating groups contributed to the increase, with key drivers of the result being:
 - improved trading opportunities in Macquarie Securities driven by increased market volatility, particularly in China in the first half of the year;
 - the impact of the depreciation of the Australian dollar, growth of the motor vehicle portfolio and the accretion of interest income on loans acquired at a discount in Corporate and Asset Finance;
 - strong volume growth in Australian mortgages, business lending and deposits in Banking and Financial Services; and
 - a strong contribution from the commodities platform in Commodities and Financial Markets with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rates markets due to ongoing market volatility, partially offset by lower income as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets.
- A 3% increase in fee and commission income to \$A4,862 million for the year ended 31 March 2016 from \$A4,739 million in the prior year primarily driven by:
 - a 14% increase in base fees to \$A1,582 million for the year ended 31 March 2016 from \$A1,388 million in the prior year, largely driven by the impact of the depreciation of the Australian dollar, market movements, raisings and investments and positive prior year flows, partially offset by lower fee revenue from insurance assets;
 - a 6% increase in brokerage and commissions income to \$A888 million for the year ended 31 March 2016 from \$A836 million in the prior year, mainly due to the impact of the depreciation of the Australian dollar in Macquarie Securities;
 - a 7% increase in performance fees to \$A714 million for the year ended 31 March 2016 from \$A667 million in the prior year, including performance fees recognised from Macquarie European Infrastructure Fund 1 (MEIF1) and Macquarie Infrastructure Company LLC (MIC), as well as performance fee income in respect of a UK asset; partially offset by
 - an 18% decrease in other fee and commission income to \$A716 million for the year ended 31 March 2016 from \$A875 million in the prior year, which benefited from fee income from the Freeport LNG Terminal transaction.
- A 32% increase in other operating income and charges to \$A923 million for the year ended 31 March 2016 from \$A699 million in the prior year primarily driven by:
 - a 43% increase in net operating lease income to \$A894 million for the year ended 31 March 2016 from \$A627 million in the prior year primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015;

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- a 27% increase in net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) to \$A410 million for the year ended 31 March 2016 from \$A324 million in the prior year mainly driven by gains in Macquarie Asset Management, including the partial sale of a holding in MIC, and gains in Macquarie Capital on listed and unlisted investments;
 - a 38% decrease in aggregate impairment charges on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets to \$A222 million for the year ended 31 March 2016 from \$A356 million in the prior year primarily due to the non-recurrence of impairments recognised in the prior year relating to goodwill on legacy acquisitions in Corporate, partially offset by increased charges in Macquarie Capital in relation to the underperformance of a number of non-related principal investments; partially offset by
 - the non-recurrence of gains recognised in the prior year in Corporate and Asset Finance relating to the disposal of the North American railcar operating lease portfolio in January 2015, the restructure of a railcar logistics operating lease facility in August 2014 and the sale of the Macquarie Equipment Finance US operations in March 2015; and
 - a 23% increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to \$A574 million for the year ended 31 March 2016 from \$A467 million in the prior year mainly due to the underperformance of certain commodity related loans in Commodities and Financial Markets, the underperformance of a number of non-related loans in Macquarie Capital and portfolio growth and the underperformance of certain credits in Corporate and Asset Finance.

Total operating expenses increased 6% to \$A7,120 million for the year ended 31 March 2016 from \$A6,740 million in the prior year mainly due to the following key drivers:

- a 2% increase in employment expenses to \$A4,244 million for the year ended 31 March 2016 from \$A4,143 million in the prior year primarily due to the impact of the depreciation of the Australian dollar on offshore expenses partially offset by the impact of lower average headcount. The compensation ratio of 39.0% for the year ended 31 March 2016 decreased from 42.0% in the prior year;
- an 8% increase in brokerage, commission and trading-related expenses to \$A892 million for the year ended 31 March 2016 from \$A824 million in the prior year mainly driven by increased trading-related activity in Macquarie Securities;
- a 34% increase in non-salary technology expenses to \$A587 million for the year ended 31 March 2016 from \$A437 million in the prior year mainly due to the investment in technology projects to support business growth, particularly the Core Banking program in Banking and Financial Services; and
- a 4% increase in total other operating expenses to \$A1,000 million for the year ended 31 March 2016 from \$A962 million in the prior year largely driven by the impact of the depreciation of the Australian dollar on offshore expenses.

Income tax expense for the year ended 31 March 2016 was \$A927 million, a 3% increase from \$A899 million in the prior year. The increase was mainly driven by a 20% increase in operating profit before income tax to \$A3,015 million in the year ended 31 March 2016 from \$A2,522 million in the prior year, partly offset by a decrease in income tax permanent differences. The effective tax rate for the year ended 31 March 2016 was 31.0%, a decrease from 35.9% in the prior year.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest income	1,114	1,165	(4)	2,279	2,092	9
Net trading income	959	1,108	(13)	2,067	1,727	20
Net interest and trading income	2,073	2,273	(9)	4,346	3,819	14

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

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

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

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

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Macquarie Asset Management	(24)	9	*	(15)	11	*
Corporate and Asset Finance	388	460	(16)	848	737	15
Banking and Financial Services	485	456	6	941	825	14
Macquarie Securities	165	375	(56)	540	289	87
Macquarie Capital	(15)	31	*	16	(24)	*
Commodities and Financial Markets						
Commodities						
Risk management products	474	345	37	819	594	38
Lending and financing	144	148	(3)	292	318	(8)
Inventory management, transport and storage	114	90	27	204	213	(4)
Credit, interest rates and foreign exchange	184	246	(25)	430	568	(24)
Corporate	158	113	40	271	288	(6)
Net interest and trading income	2,073	2,273	(9)	4,346	3,819	14

Net interest and trading income of \$A4,346 million for the year ended 31 March 2016 increased 14% from \$A3,819 million in the prior year. Most operating groups contributed to the increase with key drivers being the impact of the depreciation of the Australian dollar, a strong contribution from the commodities platform in Commodities and Financial Markets with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rate markets due to ongoing market volatility, improved trading opportunities driven by increased market volatility in Macquarie Securities, accretion of interest income on loans acquired at a discount, growth of the motor vehicle portfolio in Corporate and Asset Finance and growth in lending and deposit volumes in Banking and Financial Services. These were partially offset by lower income from credit activities in Commodities and Financial Markets as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets.

Macquarie Asset Management

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

Net interest and trading (expense)/income was a net expense of \$A15 million for the year ended 31 March 2016 compared to net income of \$A11 million in the prior year, mostly due to the non-recurrence of income items recognised in the prior year in the Macquarie Specialised Investment Solutions (MSIS) business and the impact of the depreciation of the Australian dollar on offshore funding expenses.

Corporate and Asset Finance

Net interest and trading income in Corporate and Asset Finance predominately relates to net income from the loan and finance lease portfolio, partially offset by the funding costs associated with operating lease portfolio.

Net interest and trading income of \$A848 million for the year ended 31 March 2016 increased 15% from \$A737 million in the prior year. The increase was mainly due to the impact of the depreciation of the Australian dollar, the growth in the motor vehicle portfolio due to the acquisition of the Esanda dealer finance portfolio in November 2015, the accretion of interest income on loans acquired at a discount in the Lending portfolio and lower funding costs as a result of the sale of the North American railcar operating lease portfolio in January 2015.

The impact of these was partially offset by increased funding costs driven by the growth of the aircraft operating lease portfolio and lower income due to the sale of the Macquarie Equipment Finance US operations in March 2015.

The loan and finance lease portfolio of \$A28.8 billion at 31 March 2016 increased 28% from \$A22.5 billion in the prior year mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015.

Banking and Financial Services

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

Net interest and trading income of \$A941 million for the year ended 31 March 2016 increased 14% from \$A825 million in the prior year primarily due to growth in lending and deposit volumes, including:

- a 16% increase in Australian mortgage volumes to \$A28.5 billion at 31 March 2016 from \$A24.5 billion at 31 March 2015, including the acquisition of a residential mortgage portfolio totaling \$A1.2 billion during the year;
- a 15% increase in business lending volumes to \$A6.0 billion at 31 March 2016 from \$A5.2 billion at 31 March 2015; and
- an 8% increase in Banking and Financial Services deposits to \$A40.4 billion at 31 March 2016 from \$A37.3 billion at 31 March 2015.

Increased net interest and trading income primarily from volume growth was partially offset by lower deposit margins. Average net interest margins on deposits were impacted by the Reserve Bank of Australia interest rate cuts made in February 2015 and May 2015.

2.0 Financial performance analysis continued

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined \$A1.6 billion at 31 March 2016, a decrease of 58% from \$A3.8 billion at 31 March 2015.

Macquarie Securities

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

Net interest and trading income of \$A540 million for the year ended 31 March 2016 increased significantly from \$A289 million in the prior year. In the first half of the year, the business benefited from increased market volatility, particularly in China, while in the second half of the year, trading opportunities were limited as regulatory changes in China and macro concerns impacted equity markets and liquidity.

Macquarie Capital

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

Net interest and trading income of \$A16 million for the year ended 31 March 2016 increased from an expense of \$A24 million in the prior year primarily due to the accretion of interest income on loans acquired at a discount, partially offset by higher funding costs from increased debt and equity investments.

Commodities and Financial Markets

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

Commodities

i) Risk management products

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

Risk management products income of \$A819 million for the year ended 31 March 2016 increased 38% from \$A594 million in the prior year.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in North American Gas and Power and Global Oil. Continued volatility in global commodity prices underpinned increased customer flow, notably in North American Gas and Power, which resulted in increased income compared with the prior year.

Income from activities in other commodity markets, including base metals, precious metals and agricultural commodities, benefited from increased client activity and continued business growth compared to the prior year.

ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including base and precious metals, energy and agriculture.

Lending and financing income of \$A292 million for the year ended 31 March 2016 decreased 8% from \$A318 million in the prior year.

The prior year included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognised in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was broadly in line with the prior year with the impact of the depreciation of the Australian dollar offset by a decrease in physical metals financing driven by reduced customer appetite.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of \$A204 million for the year ended 31 March 2016 decreased 4% from \$A213 million in the prior year.

Tolling agreements and capacity contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which has resulted in some volatility with timing of reported income.

Credit, interest rates and foreign exchange

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

Net interest and trading income from credit, interest rates and foreign exchange products of \$A430 million for the year ended 31 March 2016 decreased 24% from \$A568 million in the prior year.

Reduced operating income in the current year was largely driven by challenging market conditions, particularly in high yield credit markets and asset backed securitisations, and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets. This was partially offset by strong client flows in foreign exchange and interest rates markets due to ongoing market volatility.

Corporate

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

Net interest and trading income of \$A271 million for the year ended 31 March 2016 decreased 6% from \$A288 million in the prior year primarily due to a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior year to a direct recovery through operating expenses in the current year, partially offset by increased income from higher capital balances.

2.0 Financial performance analysis continued

2.2 Fee and commission income

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Base fees	791	791	–	1,582	1,388	14
Performance fees	85	629	(86)	714	667	7
Mergers and acquisitions, advisory and underwriting fees	425	537	(21)	962	973	(1)
Brokerage and commissions	427	461	(7)	888	836	6
Other fee and commission income	340	376	(10)	716	875	(18)
Total fee and commission income	2,068	2,794	(26)	4,862	4,739	3

Total fee and commission income of \$A4,862 million for the year ended 31 March 2016 increased 3% from \$A4,739 million in the prior year largely due to the growth in base fee income and higher performance fees, which are driven by funds and assets outperforming their respective benchmarks, partly offset by decreased other fee and commission income due to the non-recurrence of fee income from the Freeport LNG Terminal transaction recognised in the prior year in Commodities and Financial Markets.

Base and performance fees

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Base fees						
Macquarie Asset Management						
Macquarie Investment Management	447	472	(5)	919	826	11
Macquarie Infrastructure and Real Assets	314	303	4	617	522	18
Macquarie Specialist Investment Solutions	24	9	167	33	24	38
Total Macquarie Asset Management	785	784	<1	1,569	1,372	14
Other operating groups	6	7	(14)	13	16	(19)
Total base fee income	791	791	–	1,582	1,388	14
Performance fees						
Macquarie Asset Management						
Macquarie Investment Management	24	9	167	33	87	(62)
Macquarie Infrastructure and Real Assets	60	600	(90)	660	580	14
Total Macquarie Asset Management	84	609	(86)	693	667	4
Other operating groups	1	20	(95)	21	–	*
Total performance fee income	85	629	(86)	714	667	7

Base fees of \$A1,582 million for the year ended 31 March 2016 increased 14% from \$A1,388 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Asset Management where base fees increased 14% to \$A1,569 million for the year ended 31 March 2016 from \$A1,372 million in the prior year. Base fee growth reflects the impact of the depreciation of the Australian dollar, market movements, raisings and investments in the Macquarie Infrastructure and Real Assets (MIRA) business and positive prior year flows in the Macquarie Investment Management (MIM) business, partially offset by lower fee revenue from insurance assets in the MIM business.

Assets under management of \$A478.6 billion at 31 March 2016 decreased 2% from \$A486.3 billion at 31 March 2015 primarily due to a decrease in insurance assets in the MIM business and asset realisations by funds in the MIRA business, partially offset by higher asset valuations, additional investments by funds in the MIRA business and positive flows into Australian Fixed Income and US Equities. Refer to Section 7 for further details of Macquarie Asset Management's Assets under Management and Equity under Management.

Performance fees, which are mainly attributable to Macquarie Asset Management and typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A714 million for the year ended 31 March 2016 increased 7% from \$A667 million in the prior year. The year ended 31 March 2016 included performance fees from MEIF1, MIC, Macquarie Korean Infrastructure Fund (MKIF), Macquarie International Infrastructure Fund (MIIF), Macquarie Atlas Roads (MQA), Listed Equities, Delaware and Hedge Funds as well as performance fee income in respect of a UK asset that was partially recognised in Banking and Financial Services.

Performance fees in the prior year primarily related to MIC, MEIF1, Hedge Funds and MQA.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of \$A962 million for the year ended 31 March 2016 decreased 1% from \$A973 million in the prior year.

Macquarie Capital's Australian business was the largest contributor to its mergers and acquisitions, advisory and underwriting fee income during the year ended 31 March 2016, generating increased fee income compared to the prior year driven by client activity. Increased advisory fee income was also generated by the European business in the current year. This was partly offset by a decline in fee income in the US business.

Macquarie Securities reported increased underwriting fee income primarily due to increased equity capital markets activity in Australia.

Brokerage and commissions

Brokerage and commissions income of \$A888 million for the year ended 31 March 2016 increased 6% from \$A836 million in the prior year.

Macquarie Securities reported higher brokerage and commissions income mainly driven by the impact of the depreciation of the Australian dollar. Market results were mixed, with macro uncertainty in the second half of the year resulting in reduced client trading activity across all regions. Increased activity in Australia and the consolidation of the Macquarie First South joint venture in South Africa in November 2015 were offset by reduced income across the Americas and Europe.

Commodities and Financial Markets also reported higher brokerage and commissions income due to increased market volumes traded in offshore commodity futures markets driven by ongoing volatility. These increases were partially offset by a decrease in Banking and Financial Services mainly due to a reduction in adviser headcount.

Other fee and commission income

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

Other fee and commission income of \$A716 million for the year ended 31 March 2016 decreased 18% from \$A875 million in the prior year largely due to the non-recurrence of fee income from the Freeport LNG Terminal transaction recognised in the prior year in Commodities and Financial Markets. This was partly offset by an increase in fee income in Macquarie Asset Management primarily due to the impact of the depreciation of the Australian dollar and increased income from True Index products.

Banking and Financial Services reported increased platform commissions resulting from higher funds on the Wrap platform. Funds on platform closed at \$A58.4 billion on 31 March 2016, an increase of 22% from \$A48.0 billion at 31 March 2015 mainly driven by \$A9.2 billion in CHESS holdings and \$A0.9 billion of CMA Cash holdings associated with platform ready full service broking accounts migrating to the Vision Platform in December 2015.

2.0 Financial performance analysis continued

2.3 Share of net profits of associates and joint ventures

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	67	(63)	*	4	5	(20)

Share of net profits/(losses) of associates and joint ventures of \$A4 million for the year ended 31 March 2016 decreased 20% from \$A5 million in the prior year. The current year included higher equity accounted income in Corporate, which reflects changes in the underlying performance of central investments. This was offset by higher equity accounted losses in Macquarie Asset Management, mainly on MIRA investments in the UK and Korea and lower income from MEIF1, and decreased equity accounted income in Macquarie Capital reflecting both changes in the composition of investments in the portfolio as well as the underlying performance of those investments.

2.4 Other operating income and charges

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net gains on sale of investment securities available for sale	58	130	(55)	188	215	(13)
Impairment charge on investment securities available for sale	(46)	(75)	(39)	(121)	(67)	81
Net gains on sale of associates and joint ventures	134	88	52	222	109	104
Impairment charge on interests in associates and joint ventures	(8)	(16)	(50)	(24)	(121)	(80)
Gain on disposal of operating lease assets	5	3	67	8	231	(97)
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	147	5	*	152	203	(25)
Impairment charge on intangibles and other non-financial assets	(60)	(17)	253	(77)	(168)	(54)
Net operating lease income						
Rental income	862	693	24	1,555	1,067	46
Depreciation on operating lease assets	(371)	(290)	28	(661)	(440)	50
Dividends/distributions received/receivable	78	78	–	156	102	53
Collective allowance for credit losses provided for during the financial year	(6)	(20)	(70)	(26)	(104)	(75)
Individually assessed provisions for impairment and write-offs	(232)	(316)	(27)	(548)	(363)	51
Other income	48	51	(6)	99	35	183
Total other operating income and charges	609	314	94	923	699	32

Total other operating income and charges of \$A923 million for the year ended 31 March 2016 increased 32% from \$A699 million in the prior year, mainly driven by increased net operating lease income in Corporate and Asset Finance, and net investment income in Macquarie Capital and Macquarie Asset Management including gains on sale and dividends received. This was partially offset by the non-recurrence of gains in the prior year from asset and business sales in Corporate and Asset Finance and increased credit impairments.

Net gains on sale of investments

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totalled \$A410 million for the year ended 31 March 2016, an increase of 27% from \$A324 million in the prior year. The increase predominately relates to gains in Macquarie Asset Management from the partial sale of a holding in MIC, the sale of management rights in a fund manager and the sale of unlisted infrastructure holdings and gains in Macquarie Capital in respect of both listed and unlisted investments across all regions. This was partially offset by the non-recurrence of gains in the prior year in Corporate on the disposal of securities undertaken in managing the Group's liquidity and on disposal of legacy investments.

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

Impairment charge on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets totalled \$A222 million for the year ended 31 March 2016, a decrease of 38% from \$A356 million in the prior year. The decrease predominately relates to the non-recurrence of impairments recognised in the prior year relating to goodwill on legacy acquisitions in Corporate, partially offset by increased charges in Macquarie Capital in relation to the underperformance of a number of non-related principal investments.

2.0 Financial performance analysis continued

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of \$A8 million for the year ended 31 March 2016 decreased significantly from \$A231 million in the prior year. The gain in the prior year predominately related to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable in Corporate and Asset Finance. There were no significant transactions during the year ended 31 March 2016.

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

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of \$A152 million for the year ended 31 March 2016 decreased 25% from \$A203 million in the prior year primarily due to the non-recurrence of the gain on the sale of the Macquarie Equipment Finance US operations recognised in the prior year in Corporate and Asset Finance, partially offset by gains in the current year in Macquarie Capital from both listed and unlisted investments across all regions.

Net operating lease income

Net operating lease income, which is predominately earned by Corporate and Asset Finance, totalled \$A894 million for the year ended 31 March 2016, an increase of 43% from \$A627 million in the prior year. The increase was primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

The operating lease portfolio was \$A10.6 billion at 31 March 2016, an increase of 68% from \$A6.3 billion at 31 March 2015, mainly due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited.

Dividends/distributions received/receivable

Dividends/distributions received/receivable of \$A156 million for the year ended 31 March 2016 increased 53% from \$A102 million in the prior year predominately driven by increased distribution income from MIRA's investments in MIC and other assets in Macquarie Asset Management and higher dividends in Banking and Financial Services, which included a one-off dividend on disposal of an investment in a UK asset.

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

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses of \$A574 million for the year ended 31 March 2016 increased 23% from \$A467 million in the prior year. The growth was mainly due to the underperformance of certain commodity-related loans in Commodities and Financial Markets, the underperformance of a number of non-related loans in Macquarie Capital and portfolio growth and the underperformance of certain credits in Corporate and Asset Finance, partially offset by reduced collective provisions reflecting the changing mix of assets in the lending and finance lease portfolios and repayments during the year.

Other income

Other income of \$A99 million for the year ended 31 March 2016 increased significantly from \$A35 million in the prior year. The increase was primarily due to a gain on the sale of an investment in an almond orchard in Macquarie Asset Management and ancillary financing and service income earned on plant and equipment acquired during the year in Corporate and Asset Finance.

2.5 Operating expenses

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Employment expenses						
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,688)	(1,923)	(12)	(3,611)	(3,541)	2
Share-based payments	(155)	(184)	(16)	(339)	(340)	(<1)
Provision for long service leave and annual leave	4	(11)	*	(7)	(10)	(30)
Total compensation expenses	(1,839)	(2,118)	(13)	(3,957)	(3,891)	2
Other employment expenses including on-costs, staff procurement and staff training	(142)	(145)	(2)	(287)	(252)	14
Total employment expenses	(1,981)	(2,263)	(12)	(4,244)	(4,143)	2
Brokerage, commission and trading-related expenses	(448)	(444)	1	(892)	(824)	8
Occupancy expenses	(195)	(202)	(3)	(397)	(374)	6
Non-salary technology expenses	(300)	(287)	5	(587)	(437)	34
Other operating expenses						
Professional fees	(194)	(157)	24	(351)	(315)	11
Auditor's remuneration	(21)	(13)	62	(34)	(27)	26
Travel and entertainment expenses	(90)	(83)	8	(173)	(158)	9
Advertising and communication expenses	(63)	(56)	13	(119)	(112)	6
Amortisation of intangibles	(20)	(41)	(51)	(61)	(95)	(36)
Other expenses	(109)	(153)	(29)	(262)	(255)	3
Total other operating expenses	(497)	(503)	(1)	(1,000)	(962)	4
Total operating expenses	(3,421)	(3,699)	(8)	(7,120)	(6,740)	6

Total operating expenses of \$A7,120 million for the year ended 31 March 2016 increased 6% from \$A6,740 million in the prior year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and investment in technology projects to support business growth, particularly the Core Banking program in Banking and Financial Services.

Other than the impact of the depreciation of the Australian dollar on offshore expenses, key drivers of the change in total operating expenses include:

- Total employment expenses of \$A4,244 million for the year ended 31 March 2016 increased 2% from \$A4,143 million in the prior year mainly reflecting the impact of business acquisitions in Corporate and Asset Finance, partially offset by the impact of lower average headcount mainly driven by lower headcount in Banking and Financial Services as the business realised efficiencies and the sale of the Macquarie Equipment Finance US operations in Corporate and Asset Finance.
- Brokerage, commission and trading-related expenses of \$A892 million increased 8% from \$A824 million in the prior year mainly driven by increased trading-related activity in Macquarie Securities, partially offset by a reduction in storage costs for physical commodities in Commodities and Financial Markets.
- Occupancy expenses of \$A397 million increased 6% from \$A374 million in the prior year mainly due to business acquisitions in Corporate and Asset Finance.
- Non-salary technology expenses of \$A587 million increased 34% from \$A437 million in the prior year mainly due to the investment in technology projects to support business growth, particularly the Core Banking program in Banking and Financial Services.
- Total other operating expenses of \$A1,000 million increased 4% from \$A962 million in the prior year reflecting the costs of the acquisition and management of the Esanda dealer finance portfolio in Corporate and Asset Finance.

2.0 Financial performance analysis continued

2.6 Headcount

	As at			Movement	
	Mar 16	Sep 15	Mar 15	Sep 15 %	Mar 15 %
Headcount by group					
Macquarie Asset Management	1,498	1,480	1,488	1	1
Corporate and Asset Finance	1,353	903	1,033	50	31
Banking and Financial Services	2,182	2,250	2,505	(3)	(13)
Macquarie Securities	1,054	980	998	8	6
Macquarie Capital	1,213	1,157	1,202	5	1
Commodities and Financial Markets	958	986	984	(3)	(3)
Total headcount — Operating Groups	8,258	7,756	8,210	6	1
Total headcount — Corporate	6,114	5,826	5,875	5	4
Total headcount	14,372	13,582	14,085	6	2
Headcount by region					
Australia ⁽¹⁾	6,676	6,232	6,547	7	2
International:					
Americas	2,589	2,508	2,685	3	(4)
Asia	3,599	3,482	3,524	3	2
Europe, Middle East and Africa	1,508	1,360	1,329	11	13
Total headcount — International	7,696	7,350	7,538	5	2
Total headcount	14,372	13,582	14,085	6	2
International headcount ratio (%)	54	54	54		

⁽¹⁾ Includes New Zealand.

Total headcount increased 2% to 14,372 at 31 March 2016 from 14,085 at 31 March 2015 mainly due to the acquisition of the Esanda dealer finance portfolio in November 2015 in Corporate and Asset Finance and higher headcount in Corporate to support business growth. This was partially offset by lower headcount as a result of the sale of the Macquarie Equipment Finance US operations in March 2015 in Corporate and Asset Finance, as well as the realisation of efficiencies in Banking and Financial Services.

2.7 Income tax expense

	Full-year to	
	Mar 16	Mar 15
	\$Am	\$Am
Operating profit before income tax	3,015	2,522
Prima facie tax @ 30%	905	757
Income tax permanent differences	22	142
Income tax expense	927	899
Effective tax rate⁽¹⁾	31.0%	35.9%

⁽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 \$A25 million for the year ended 31 March 2016 (31 March 2015: \$A19 million).

Income tax expense for the year ended 31 March 2016 was \$A927 million, an increase of 3% from \$A899 million in the prior year, with an effective tax rate of 31.0%.

The increase in income tax was mainly driven by a 20% increase in operating profit before income tax to \$A3,015 million for the year ended 31 March 2016 from \$A2,522 million in the prior year. This was partly offset by an 85% decrease in income tax permanent differences to \$A22 million in the year ended 31 March 2016 from \$A142 million in the prior year. The reduction in income tax permanent differences compared to the prior year was mainly due to a lower offshore tax rate differential with a decrease in the relative contribution of earnings from the US and an increase in the relative contribution of earnings from the UK.

The effective tax rate relative to the Australian corporate tax rate of 30% reflects the nature and geographic mix of income, as well as tax uncertainties.

3.0 Segment analysis

3.1 Basis of preparation

Operating Segments

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

For internal reporting, performance measurement and risk management purposes, Macquarie is divided into six operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The operating groups comprise:

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

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

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

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

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

Internal funding arrangements

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

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

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

Transactions between operating groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central service groups

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

Performance-related profit share and share based payments expense

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

Income tax

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

Presentation of segment income statements

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

3.0 Segment analysis

continued

	Macquarie Asset Management \$Am	Corporate and Asset Finance \$Am	Banking and Financial Services \$Am
Full-year ended 31 March 2016			
Net interest and trading (expense)/income	(15)	848	941
Fee and commission income/(expense)	2,504	43	526
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(16)	7	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(14)	(167)	(43)
Other operating income and charges	251	932	35
Internal management revenue/(charge)	–	60	4
Net operating income	2,710	1,723	1,464
Total operating expenses	(1,053)	(594)	(1,114)
Profit/(loss) before tax	1,657	1,129	350
Tax expense	–	–	–
(Profit)/loss attributable to non-controlling interests	(13)	1	–
Net profit/(loss) contribution	1,644	1,130	350
Full-year ended 31 March 2015			
Net interest and trading income/(expense)	11	737	825
Fee and commission income/(expense)	2,272	33	532
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	13	3	3
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(36)	(153)	(35)
Other operating income and charges	154	977	17
Internal management revenue/(charge)	2	(3)	3
Net operating income	2,416	1,594	1,345
Total operating expenses	(966)	(482)	(1,060)
Profit/(loss) before tax	1,450	1,112	285
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	1,450	1,112	285

Macquarie Securities \$Am	Macquarie Capital \$Am	Commodities and Financial Markets \$Am	Corporate \$Am	Total \$Am
540	16	1,745	271	4,346
694	870	228	(3)	4,862
(1)	(11)	2	22	4
(16)	(187)	(330)	(39)	(796)
8	452	48	(7)	1,719
(5)	15	2	(76)	–
1,220	1,155	1,695	168	10,135
(952)	(709)	(1,119)	(1,579)	(7,120)
268	446	576	(1,411)	3,015
–	–	–	(927)	(927)
–	5	–	(18)	(25)
268	451	576	(2,356)	2,063
289	(24)	1,693	288	3,819
652	860	418	(28)	4,739
–	13	(1)	(26)	5
(4)	(58)	(334)	(203)	(823)
(9)	258	65	60	1,522
(10)	5	(10)	13	–
918	1,054	1,831	104	9,262
(854)	(629)	(996)	(1,753)	(6,740)
64	425	835	(1,649)	2,522
–	–	–	(899)	(899)
–	5	–	(24)	(19)
64	430	835	(2,572)	1,604

3.0 Segment analysis continued

3.2 Macquarie Asset Management

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading (expense)/income	(24)	9	*	(15)	11	*
Fee and commission income						
Base fees	785	784	<1	1,569	1,372	14
Performance fees	84	609	(86)	693	667	4
Other fee and commission income	118	124	(5)	242	233	4
Total fee and commission income	987	1,517	(35)	2,504	2,272	10
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	22	(38)	*	(16)	13	*
Other operating income and charges						
Net gains on sale of equity investments and non-financial assets	37	129	(71)	166	51	225
Other income	19	52	(63)	71	67	6
Total other operating income and charges	56	181	(69)	237	118	101
Internal management revenue	–	–	–	–	2	(100)
Net operating income	1,041	1,669	(38)	2,710	2,416	12
Operating expenses						
Employment expenses	(180)	(175)	3	(355)	(337)	5
Brokerage, commission and trading-related expenses	(115)	(104)	11	(219)	(188)	16
Other operating expenses	(241)	(238)	1	(479)	(441)	9
Total operating expenses	(536)	(517)	4	(1,053)	(966)	9
Non-controlling interests ⁽¹⁾	–	(13)	(100)	(13)	–	*
Net profit contribution	505	1,139	(56)	1,644	1,450	13
Non-GAAP metrics						
MAM (including MIRA) assets under management (\$A billion)	476.9	502.3	(5)	476.9	484.0	(1)
MIRA equity under management (\$A billion)	66.5	71.6	(7)	66.5	66.2	<1
Headcount	1,498	1,480	1	1,498	1,488	1

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

Macquarie Asset Management's net profit contribution of \$A1,644 million for the year ended 31 March 2016 increased 13% from \$A1,450 million in the prior year. This increase was primarily driven by the impact of the depreciation of the Australian dollar, increased gains on disposal of investments and growth in underlying base fee income.

Base fees

Base fee income of \$A1,569 million for the year ended 31 March 2016 increased 14% from \$A1,372 million in the prior year. This was mainly driven by the impact of the depreciation of the Australian dollar, market movements, raisings and investments in the MIRA business and positive prior year flows in the MIM business. These were partially offset by lower fee revenue from insurance assets in the MIM business.

Performance fees

Performance fee income of \$A693 million for the year ended 31 March 2016 increased 4% from \$A667 million in the prior year. The year ended 31 March 2016 included performance fees from MEIF1, MIC, MKIF, MIIF, MQA, Listed Equities, Delaware and Hedge Funds as well as performance fee income from MIRA co-investors in respect of a UK asset. Performance fees in the prior year primarily related to MIC, MEIF1, Hedge Funds and MQA.

Other fee and commission income

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

Other fee and commission income of \$A242 million for the year ended 31 March 2016 increased 4% from \$A233 million in the prior year primarily due to the impact of the depreciation of the Australian dollar and increased income from True Index products, partially offset by a reduction in fee revenue in MSIS upon sale of an investment in an almond orchard.

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

Share of net profits/(losses) of associates and joint ventures was a net loss of \$A16 million for the year ended 31 March 2016 compared to a net gain of \$A13 million in the prior year. The current year included higher equity accounted losses on MIRA investments in the UK and Korea, as well as lower income from MEIF1, partially offset by lower equity accounted losses on MIRA investments in Russia and higher equity accounted income from MIM's investment in Jackson Square Partners (JSP).

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

Net gains on sale of equity investments and non-financial assets of \$A166 million for the year ended 31 March 2016 mainly relate to gains from the partial sale of holdings in MIC and MQA, a gain on the sale of management rights in a fund manager, gains on sale of unlisted infrastructure holdings and a gain on the sale of an investment in an almond orchard in MSIS. The prior year included a gain on the partial sale of a holding in MQA and a gain on the sale of an investment in an unlisted wholesale property fund.

Other income

Other income of \$A71 million for the year ended 31 March 2016 increased 6% from \$A67 million in the prior year primarily driven by increased distribution income from MIRA's investments in MIC and other assets, as well as the impact of the depreciation of the Australian dollar, partially offset by the non-recurrence of gains in the prior year on the JSP and MIM Private Markets transactions.

Operating expenses

Total operating expenses of \$A1,053 million for the year ended 31 March 2016 increased 9% from \$A966 million in the prior year. The increase was largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis continued

3.3 Corporate and Asset Finance

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading income	388	460	(16)	848	737	15
Fee and commission income	30	13	131	43	33	30
Share of net profits of associates and joint ventures accounted for using the equity method	5	2	150	7	3	133
Other operating income and charges						
Impairment charge on equity investments, intangibles and other non-financial assets	(41)	(4)	*	(45)	(49)	(8)
Gain on disposal of operating lease assets	5	3	67	8	231	(97)
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	–	6	(100)	6	141	(96)
Net operating lease income	494	385	28	879	603	46
Provisions for impairment, write-offs and collective allowance for credit losses	(103)	(19)	*	(122)	(104)	17
Other income	24	15	60	39	2	*
Total other operating income and charges	379	386	(2)	765	824	(7)
Internal management revenue/(charge)	58	2	*	60	(3)	*
Net operating income	860	863	(<1)	1,723	1,594	8
Operating expenses						
Employment expenses	(131)	(108)	21	(239)	(213)	12
Brokerage, commission and trading-related expenses	(4)	(3)	33	(7)	(11)	(36)
Other operating expenses	(207)	(141)	47	(348)	(258)	35
Total operating expenses	(342)	(252)	36	(594)	(482)	23
Non-controlling interests ⁽¹⁾	1	–	*	1	–	*
Net profit contribution	519	611	(15)	1,130	1,112	2
Non-GAAP metrics						
Loan and finance lease portfolio (\$A billion) ⁽²⁾	28.8	23.3	24	28.8	22.5	28
Operating lease portfolio (\$A billion)	10.6	9.2	15	10.6	6.3	68
Headcount ⁽³⁾	1,353	903	50	1,353	1,033	31

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

(2) Includes equity portfolio of \$A0.3 billion (FY15: \$A0.1 billion)

(3) Headcount at 31 March 2015 includes 149 staff who transferred with the sale of the Macquarie Equipment Finance US operations.

Corporate and Asset Finance's net profit contribution of \$A1,130 million for the year ended 31 March 2016 increased 2% from \$A1,112 million in the prior year. The improved result was largely driven by the impact of the depreciation of the Australian dollar, the accretion of interest income on loans acquired at a discount in the Lending portfolio and the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year. These increases were partially offset by the non-recurrence of gains in the prior year on the restructure of a railcar logistics operating lease facility, the disposal of the North American railcar operating lease portfolio and the sale of the Macquarie Equipment Finance US Operations.

Net interest and trading income

Net interest and trading income in Corporate and Asset Finance predominately relates to net income from the loan and finance lease portfolio, partially offset by the funding costs associated with the operating lease portfolio.

Net interest and trading income of \$A848 million for the year ended 31 March 2016 increased 15% from \$A737 million in the prior year. The increase was mainly due to the impact of the depreciation of the Australian dollar, the growth in the motor vehicle portfolio due to the acquisition of the Esanda dealer finance portfolio in November 2015, the accretion of interest income on loans acquired at a discount in the Lending portfolio and lower funding costs as a result of the sale of the North American railcar operating lease portfolio in January 2015.

The impact of these was partially offset by increased funding costs driven by the growth of the aircraft operating lease portfolio and lower income due to the sale of the Macquarie Equipment Finance US operations in March 2015.

The loan and finance lease portfolio of \$A28.8 billion at 31 March 2016 increased 28% from \$A22.5 billion in the prior year mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015.

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

Impairment charge on equity investments, intangibles and other non-financial assets of \$A45 million for the year ended 31 March 2016 largely reflected the impairment of Aviation assets impacted by the decline in the oil price. The prior year included the impairment of a number of aircraft in the Aviation portfolio and the write-off of certain assets realised through the restructure of a railcar logistics operating lease facility.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets in the prior year of \$A231 million predominately related to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. There were no significant transactions during the year ended 31 March 2016.

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

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of \$A141 million in the prior year primarily related to the gain on the sale of the Macquarie Equipment Finance US operations in March 2015. There were no significant transactions during the year ended 31 March 2016.

Net operating lease income

Net operating lease income of \$A879 million for the year ended 31 March 2016 increased 46% from \$A603 million in the prior year. The increase was primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

The operating lease portfolio was \$A10.6 billion at 31 March 2016, an increase of 68% from \$A6.3 billion at 31 March 2015, mainly due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited.

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

Provisions for impairment, write-offs and collective allowance for credit losses of \$A122 million increased 17% from \$A104 million in the prior year due to portfolio growth primarily from the acquisition of the Esanda dealer finance portfolio in November 2015 and the underperformance of certain credits. This was partially offset by reduced collective provisions reflecting the changing mix of assets in the lending and finance lease portfolios and repayments during the year.

Other income

Other income of \$A39 million for the year ended 31 March 2016 increased significantly from \$A2 million in the prior year primarily due to ancillary financing and service income earned on plant and equipment acquired during the year.

Operating expenses

Total operating expenses of \$A594 million for the year ended 31 March 2016 increased 23% from \$A482 million in the prior year. This was primarily driven by the costs of the acquisition and management of the Esanda dealer finance portfolio in November 2015 and the impact of the depreciation of the Australian dollar on offshore expenses. These were partially offset by a reduction in operating expenses due to the sale of Macquarie Equipment Finance US operations in March 2015.

3.0 Segment analysis continued

3.4 Banking and Financial Services

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading income	485	456	6	941	825	14
Fee and commission income						
Base fees	4	6	(33)	10	12	(17)
Brokerage and commissions	39	50	(22)	89	122	(27)
Other fee and commission income	201	226	(11)	427	398	7
Total fee and commission income	244	282	(13)	526	532	(1)
Share of net profits of associates and joint ventures accounted for using the equity method	1	–	*	1	3	(67)
Other operating income and charges						
Impairment charge on equity investments and non-financial assets	(6)	(2)	200	(8)	(5)	60
Provisions for impairment, write-offs and collective allowance for credit losses	(23)	(12)	92	(35)	(30)	17
Other income	23	12	92	35	17	106
Total other operating income and charges	(6)	(2)	200	(8)	(18)	(56)
Internal management revenue	4	–	*	4	3	33
Net operating income	728	736	(1)	1,464	1,345	9
Operating expenses						
Employment expenses	(168)	(177)	(5)	(345)	(372)	(7)
Brokerage, commission and trading-related expenses	(105)	(102)	3	(207)	(198)	5
Technology expenses ⁽¹⁾	(143)	(139)	3	(282)	(211)	34
Other operating expenses	(132)	(148)	(11)	(280)	(279)	<1
Total operating expenses	(548)	(566)	(3)	(1,114)	(1,060)	5
Net profit contribution	180	170	6	350	285	23
Non-GAAP metrics						
Funds on platform ⁽²⁾ (\$A billion)	58.4	46.7	25	58.4	48.0	22
Australian loan portfolio ⁽³⁾ (\$A billion)	35.1	34.2	3	35.1	30.4	15
Legacy loan portfolios ⁽⁴⁾ (\$A billion)	1.6	2.6	(38)	1.6	3.8	(58)
BFS deposits ⁽⁵⁾ (\$A billion)	40.4	38.7	4	40.4	37.3	8
Headcount	2,182	2,250	(3)	2,182	2,505	(13)

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.

(2) Funds on platform includes Macquarie Wrap, Vision, Equity Portfolio Services and Industry Super Funds.

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

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

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

Banking and Financial Services' net profit contribution of \$A350 million for the year ended 31 March 2016 increased 23% from \$A285 million in the prior year.

In the year ended 31 March 2016, Banking and Financial Services benefited from increased income as a result of strong volume growth in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased costs associated with the investment in technology projects to support growth in the business, including the Core Banking program.

Net interest and trading income

Net interest and trading income of \$A941 million for the year ended 31 March 2016 increased 14% from \$A825 million in the prior year primarily due to growth in lending and deposit volumes, including:

- a 16% increase in Australian mortgage volumes to \$A28.5 billion at 31 March 2016 from \$A24.5 billion at 31 March 2015, including the acquisition of a residential mortgage portfolio totaling \$A1.2 billion during the year;
- a 15% increase in business lending volumes to \$A6.0 billion at 31 March 2016 from \$A5.2 billion at 31 March 2015; and
- an 8% increase in Banking and Financial Services deposits to \$A40.4 billion at 31 March 2016 from \$A37.3 billion at 31 March 2015.

Increased net interest and trading income primarily from volume growth was partially offset by lower deposit margins. Average net interest margins on deposits were impacted by the Reserve Bank of Australia interest rate cuts made in February 2015 and May 2015.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined \$A1.6 billion at 31 March 2016, a decrease of 58% from \$A3.8 billion at 31 March 2015.

Brokerage and commissions

Brokerage and commissions income is largely derived from the provision of retail equities broking services in Australia. Brokerage and commissions income of \$A89 million for the year ended 31 March 2016 decreased 27% from \$A122 million in the prior year mainly due to a reduction in adviser headcount.

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 Wrap platform, insurance, business lending, credit cards and mortgages.

Other fee and commission income of \$A427 million for the year ended 31 March 2016 increased 7% from \$A398 million in the prior year primarily driven by a performance fee in respect of a UK asset and increased platform commissions from higher funds on the Wrap platform.

Funds on platform closed at \$A58.4 billion on 31 March 2016, an increase of 22% from \$A48.0 billion at 31 March 2015 mainly driven by \$A9.2 billion in CHESS holdings and \$A0.9 billion of CMA Cash holdings associated with platform ready full service broking accounts migrating to the Vision Platform in December 2015.

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

Provisions for impairment, write-offs and collective allowance for credit losses of \$A35 million for the year ended 31 March 2016 increased 17% from \$A30 million in the prior year due to increased business lending provisions from a small number of loans.

Other income

Other income of \$A35 million for the year ended 31 March 2016 increased significantly from \$A17 million in the prior year mainly due to higher dividends received including a one-off dividend on disposal of an investment in a UK asset.

Operating expenses

Total operating expenses of \$A1,114 million for the year ended 31 March 2016 increased 5% from \$A1,060 million in the prior year primarily due to increased technology project costs.

Employment expenses of \$A345 million for the year ended 31 March 2016 decreased 7% from \$A372 million in the prior year driven by lower headcount as the business realised efficiencies.

Brokerage, commission and trading-related expenses are mainly amounts paid to external advisers for product distribution, and the cost of credit cards partner and rewards programs. Brokerage, commission and trading-related expenses of \$A207 million for the year ended 31 March 2016 increased 5% from \$A198 million in the prior year primarily due to increased lending and deposit volumes that are largely introduced by external advisers.

Technology expenses of \$A282 million for the year ended 31 March 2016 increased 34% from \$A211 million in the prior year due to higher project activity and the Core Banking program.

3.0 Segment analysis

continued

3.5 Macquarie Securities

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading income	165	375	(56)	540	289	87
Fee and commission income						
Brokerage and commissions	284	311	(9)	595	542	10
Underwriting income	47	60	(22)	107	92	16
Other fee and commission (expense)/income	(6)	(2)	200	(8)	18	*
Total fee and commission income	325	369	(12)	694	652	6
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	–	(1)	(100)	(1)	–	*
Other operating income and charges	11	(19)	*	(8)	(13)	(38)
Internal management revenue/(charge)	1	(6)	*	(5)	(10)	(50)
Net operating income	502	718	(30)	1,220	918	33
Operating expenses						
Employment expenses	(143)	(127)	13	(270)	(251)	8
Brokerage, commission and trading-related expenses	(93)	(115)	(19)	(208)	(158)	32
Other operating expenses	(238)	(236)	1	(474)	(445)	7
Total operating expenses	(474)	(478)	(1)	(952)	(854)	11
Net profit contribution	28	240	(88)	268	64	*
Non-GAAP metrics						
Headcount	1,054	980	8	1,054	998	6

Macquarie Securities' net profit contribution of \$A268 million for the year ended 31 March 2016 increased significantly from \$A64 million in the prior year. In the first half of the year, Macquarie Securities benefited from favourable market and trading conditions in Australia and Asia, driving strong growth in trading revenues. In the second half of the year, market concerns regarding increasing US interest rates, continued falls in commodity prices and a Chinese-led slowdown in global growth negatively impacted the levels of client activity and trading opportunities within markets. Operating expenses increased largely due to the increase in volume of trading-related activity and the impact of the depreciation of the Australian dollar.

Net interest and trading income

Net interest and trading income of \$A540 million for the year ended 31 March 2016 increased significantly from \$A289 million in the prior year. In the first half of the year, the business benefited from increased market volatility, particularly in China, while in the second half of the year, trading opportunities were limited as regulatory changes in China and macro concerns impacted equity markets and liquidity.

Brokerage and commissions

Brokerage and commissions income of \$A595 million for the year ended 31 March 2016 increased 10% from \$A542 million in the prior year. The increase was mainly driven by the impact of the depreciation of the Australian dollar. Market results were mixed, with macro uncertainty in the second half of the year resulting in reduced client trading activity across all regions. Increased activity in Australia and the consolidation of the Macquarie First South joint venture in South Africa in November 2015 were offset by reduced income across the Americas and Europe.

Underwriting income

Underwriting income of \$A107 million for the year ended 31 March 2016 increased 16% from \$A92 million in the prior year primarily due to increased equity capital markets activity in Australia.

Operating expenses

Total operating expenses of \$A952 million for the year ended 31 March 2016 increased 11% from \$A854 million in the prior year.

Employment expenses of \$A270 million for the year ended 31 March 2016 increased 8% from \$A251 million in the prior year. This was primarily due to the impact of the depreciation of the Australian dollar on offshore expenses and the consolidation of the Macquarie First South joint venture in South Africa, partially offset by the non-recurrence of restructuring costs recognised in the prior year associated with the exit from the Structured Products business.

Brokerage, commissions and trading-related expenses of \$A208 million for the year ended 31 March 2016 increased 32% from \$A158 million in the prior year due to increased trading-related activity and the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses of \$A474 million for the year ended 31 March 2016 increased 7% from \$A445 million in the prior year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and the consolidation of the Macquarie First South joint venture in South Africa in November 2015.

3.0 Segment analysis

continued

3.6 Macquarie Capital

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading (expense)/income	(15)	31	*	16	(24)	*
Fee and commission income						
Mergers and acquisitions, advisory and underwriting fees	351	448	(22)	799	797	<1
Brokerage and commissions	16	32	(50)	48	43	12
Other fee and commission income	2	21	(90)	23	20	15
Total fee and commission income	369	501	(26)	870	860	1
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	1	(12)	*	(11)	13	*
Other operating income and charges						
Net gains on sale and reclassification of equity and debt investments	307	106	190	413	238	74
Impairment charge on equity and debt investments and non-financial assets	(43)	(68)	(37)	(111)	(29)	283
Provisions for impairment and collective allowance for credit losses	(15)	(61)	(75)	(76)	(29)	162
Other income	20	19	5	39	20	95
Total other operating income and charges	269	(4)	*	265	200	33
Internal management revenue	15	–	*	15	5	200
Net operating income	639	516	24	1,155	1,054	10
Operating expenses						
Employment expenses	(173)	(163)	6	(336)	(308)	9
Brokerage, commission and trading-related expenses	(4)	(3)	33	(7)	(4)	75
Other operating expenses	(186)	(180)	3	(366)	(317)	15
Total operating expenses	(363)	(346)	5	(709)	(629)	13
Non-controlling interests ⁽¹⁾	5	–	*	5	5	–
Net profit contribution	281	170	65	451	430	5
Non-GAAP metrics						
Headcount	1,213	1,157	5	1,213	1,202	1

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

Macquarie Capital's net profit contribution of \$A451 million for the year ended 31 March 2016 increased 5% from \$A430 million in the prior year predominately due to a higher net contribution from principal assets, partially offset by increased operating expenses.

Net interest and trading (expense)/income

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

Net interest and trading income of \$A16 million for the year ended 31 March 2016 increased from an expense of \$A24 million in the prior year primarily due to the accretion of interest income on loans acquired at a discount, partially offset by higher funding costs from increased debt and equity investments.

Fee and commission income

Fee and commission income of \$A870 million for the year ended 31 March 2016 was broadly in line with \$A860 million in the prior year.

The Australian business was the largest contributor to fee and commission income for the year ended 31 March 2016, generating increased mergers and acquisitions, advisory and underwriting fee income compared to the prior year driven by client activity. Increased advisory fee income was also generated by the European business in the current year. This was partly offset by a decline in fee income in the US business.

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 \$A11 million for the year ended 31 March 2016 decreased from a profit of \$A13 million in the prior year. The movement reflected both changes in the composition of investments in the portfolio as well as the underlying performance of those investments.

Net gains on sale and reclassification of equity and debt investments

Net gains on sale and reclassification of equity and debt investments of \$A413 million for the year ended 31 March 2016 increased 74% from \$A238 million in the prior year. Gains were generated during the year in respect of both listed and unlisted investments across all regions. The European business performed particularly strongly generating approximately half of the total net gains, predominately from the realisation of infrastructure and renewable energy assets.

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

The aggregate impairment charge on equity and debt investments, non-financial assets and provisions for impairment and collective allowance for credit losses of \$A187 million for the year ended 31 March 2016 increased from \$A58 million in the prior year. Impairment charges recognised in the current year reflected the underperformance of a number of non-related principal investments and loans across a range of sectors and regions.

Other income

Other income of \$A39 million for the year ended 31 March 2016 increased from \$A20 million in the prior year predominately reflecting higher dividend income from principal investments. The increase in dividend income was the result of both a change in the composition of investments in the portfolio and the underlying performance of those investments.

Operating expenses

Total operating expenses of \$A709 million for the year ended 31 March 2016 increased 13% from \$A629 million in the prior year. The increase was predominately driven by the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis

continued

3.7 Commodities and Financial Markets

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest and trading income						
Commodities						
Risk management products	474	345	37	819	594	38
Lending and financing	144	148	(3)	292	318	(8)
Inventory management, transport and storage	114	90	27	204	213	(4)
Total commodities	732	583	26	1,315	1,125	17
Credit, interest rates and foreign exchange	184	246	(25)	430	568	(24)
Net interest and trading income	916	829	10	1,745	1,693	3
Fee and commission income						
Brokerage and commissions	74	69	7	143	116	23
Other fee and commission income	37	48	(23)	85	302	(72)
Total fee and commission income	111	117	(5)	228	418	(45)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	8	(6)	*	2	(1)	*
Other operating income and charges						
Impairment charge on equity investments, intangibles and other non-financial assets	(34)	(10)	240	(44)	(99)	(56)
Provisions for impairment and collective allowance for credit losses	(120)	(166)	(28)	(286)	(235)	22
Other income	3	45	(93)	48	65	(26)
Total other operating income and charges	(151)	(131)	15	(282)	(269)	5
Internal management revenue/ (charge)	–	2	(100)	2	(10)	*
Net operating income	884	811	9	1,695	1,831	(7)
Operating expenses						
Employment expenses	(178)	(166)	7	(344)	(283)	22
Brokerage, commission and trading-related expenses	(123)	(112)	10	(235)	(258)	(9)
Other operating expenses	(289)	(251)	15	(540)	(455)	19
Total operating expenses	(590)	(529)	12	(1,119)	(996)	12
Net profit contribution	294	282	4	576	835	(31)
Non-GAAP metrics						
Headcount	958	986	(3)	958	984	(3)

Commodities and Financial Markets' net profit contribution for the year ended 31 March 2016 was \$A576 million, a decrease of 31% from \$A835 million in the prior year driven by a decline in trading activity in the fourth quarter. The result for the year reflected the impact of the depreciation of the Australian dollar, a strong contribution from the commodities platform, challenging credit market conditions particularly in the northern hemisphere and non-recurrence of fee income from the Freeport LNG Terminal transaction recognised in the prior year.

Commodities net interest and trading income

i) Risk management products

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

Risk management products income of \$A819 million for the year ended 31 March 2016 increased 38% from \$A594 million in the prior year.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in North American Gas and Power and Global Oil. Continued volatility in global commodity prices underpinned increased customer flow, notably in North American Gas and Power, which resulted in increased income compared with the prior year.

Income from activities in other commodity markets, including base metals, precious metals and agricultural commodities, benefited from increased client activity and continued business growth compared to the prior year.

ii) Lending and financing

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including base and precious metals, energy and agriculture.

Lending and financing income of \$A292 million for the year ended 31 March 2016 decreased 8% from \$A318 million in the prior year.

The prior year included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognised in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was broadly in line with the prior year with the impact of the depreciation of the Australian dollar offset by a decrease in physical metals financing driven by reduced customer appetite.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of \$A204 million for the year ended 31 March 2016 decreased 4% from \$A213 million in the prior year.

Tolling agreements and capacity contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which has resulted in some volatility with timing of reported income.

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

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

Net interest and trading income from credit, interest rates and foreign exchange products of \$A430 million for the year ended 31 March 2016 decreased 24% from \$A568 million in the prior year.

Reduced operating income in the current year was largely driven by challenging market conditions, particularly in high yield credit markets and asset backed securitisations, and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets. This was partially offset by strong client flows in foreign exchange and interest rates markets due to ongoing market volatility.

3.0 Segment analysis

continued

Brokerage, commissions and other fee income

Brokerage, commissions and other fee income of \$A228 million for the year ended 31 March 2016 decreased 45% from \$A418 million in the prior year mainly due to the non-recurrence of fee income from the Freeport LNG Terminal transaction recognised in the prior year, partly offset by increased market volumes traded in offshore commodity futures markets driven by ongoing volatility.

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

Impairment charge on equity investments, intangibles and other non-financial assets of \$A44 million for the year ended 31 March 2016 decreased 56% from \$A99 million in the prior year mainly due to the improved performance of the residual equity investment portfolio.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of \$A286 million for the year ended 31 March 2016 increased 22% from \$A235 million in the prior year due to the underperformance of certain commodity related loans.

Other income

Other income of \$A48 million for the year ended 31 March 2016 decreased 26% from \$A65 million in the prior year due to a decrease in gains recognised on the sale of equity investments.

Operating expenses

Total operating expenses of \$A1,119 million for the year ended 31 March 2016, increased 12% from \$A996 million in the prior year.

Employment expenses of \$A344 million for the year ended 31 March 2016 increased 22% from \$A283 million in the prior year, largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

Brokerage, commission and trading-related expenses includes fees paid in relation to trading-related activities and storage costs of physical metals and other commodities. On certain client financing arrangements storage costs are paid by Macquarie and recovered from clients as higher financing margins, which is included within commodities lending and financing income. Brokerage, commission and trading-related expenses of \$A235 million for the year ended 31 March 2016 decreased 9% from \$A258 million in the prior year mainly due to a reduction in storage costs for physical commodities as a result of a change in storage arrangements, with clients now largely paying for storage costs directly. This was partially offset by the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses of \$A540 million for the year ended 31 March 2016 increased 19% from \$A455 million in the prior year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and business operations.

3.8 Corporate

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Net interest income and trading income	158	113	40	271	288	(6)
Fee and commission income/(expense)	2	(5)	*	(3)	(28)	(89)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	30	(8)	*	22	(26)	*
Other operating income and charges						
Net (losses)/gains on sale and reclassification of debt and equity securities	(2)	(23)	(91)	(25)	43	*
Impairment write back/(charge) on investments, intangibles and other non-financial assets	17	(25)	*	(8)	(151)	(95)
Provisions for impairment and collective allowance for credit losses	30	(61)	*	(31)	(52)	(40)
Other income	6	12	(50)	18	17	6
Total other operating income and charges	51	(97)	*	(46)	(143)	(68)
Internal management (charge)/revenue	(78)	2	*	(76)	13	*
Net operating income	163	5	*	168	104	62
Operating expenses						
Employment expenses	(1,008)	(1,347)	(25)	(2,355)	(2,379)	(1)
Brokerage, commission and trading-related expenses	(4)	(5)	(20)	(9)	(7)	29
Other operating expenses	444	341	30	785	633	24
Total operating expenses	(568)	(1,011)	(44)	(1,579)	(1,753)	(10)
Income tax expense	(397)	(530)	(25)	(927)	(899)	3
Macquarie Income Preferred Securities	–	(1)	(100)	(1)	(5)	(80)
Macquarie Income Securities	(8)	(8)	–	(16)	(19)	(16)
Non-controlling interests ⁽¹⁾	(4)	3	*	(1)	–	*
Net loss contribution	(814)	(1,542)	(47)	(2,356)	(2,572)	(8)
Non-GAAP metrics						
Headcount	6,114	5,826	5	6,114	5,875	4

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

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

Net interest and trading income

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

Net interest and trading income of \$A271 million for the year ended 31 March 2016 decreased 6% from \$A288 million in the prior year primarily due to a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior year to a direct recovery through operating expenses in the current year, partially offset by increased income from higher capital balances.

3.0 Segment analysis

continued

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

Share of net profits/(losses) of associates and joint ventures was a net profit of \$A22 million for the year ended 31 March 2016 compared to a net loss of \$A26 million in the prior year. The movement reflects changes in the underlying performance of central investments, which include certain legacy and other non-core assets.

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

Net losses on sale and reclassification of debt and equity securities were \$A25 million for the year ended 31 March 2016, compared to net gains of \$A43 million in the prior year. The loss in the current year largely resulted from the reclassification of legacy assets that are no longer held for strategic purposes. The prior year included gains from the disposal of securities undertaken in managing the Group's liquidity and gains on disposal of legacy investments.

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

Impairment charges on investments, intangibles and other non-financial assets of \$A8 million for the year ended 31 March 2016 decreased from \$A151 million in the prior year. The prior year included balances that related to legacy assets that are no longer held for strategic purposes and included the impairment of goodwill relating to legacy acquisitions.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of \$A31 million for the year ended 31 March 2016 decreased from \$A52 million in the prior year mainly due to lower provisions for impairment charges on legacy debt investments.

Employment expenses

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

Employment expenses of \$A2,355 million for the year ended 31 March 2016 decreased 1% from \$A2,379 million in the prior year primarily due to retention levels and a decrease in fair value adjustments to Directors' Profit Share liabilities. Overall lower employment expenses were partly offset by the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central service groups, offset by the recovery of central service group costs from the operating groups. Net recoveries from the operating groups of \$A785 million for the year ended 31 March 2016 increased 24% from \$A633 million in the prior year. The increase reflects an increased cost base of central service groups driven by the impact of the depreciation of the Australian dollar on offshore expenses and investment in technology platforms together with the impact of a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior year to a direct recovery through operating expenses in the current year.

3.9 International income

International income by region

	Half-year to			Full-year to		
	Mar 16 \$Am	Sep 15 \$Am	Movement %	Mar 16 \$Am	Mar 15 \$Am	Movement %
Americas	1,249	1,677	(26)	2,926	3,355	(13)
Asia	582	850	(32)	1,432	1,113	29
Europe, Middle East and Africa	1,114	1,262	(12)	2,376	1,993	19
Total international income	2,945	3,789	(22)	6,734	6,461	4
Australia ⁽¹⁾	1,631	1,526	7	3,157	2,710	16
Total income (excluding earnings on capital and other corporate items)	4,576	5,315	(14)	9,891	9,171	8
Earnings on capital and other corporate items	241	3	*	244	91	168
Net operating income (as reported)	4,817	5,318	(9)	10,135	9,262	9
International income (excluding earnings on capital and other corporate items) ratio (%)	64	71		68	70	

(1) Includes New Zealand.

International income by group and region

	Full-year to Mar 16						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽²⁾ \$Am	Total Income ⁽³⁾ \$Am	Total International %
Macquarie Asset Management	1,336	267	686	2,289	421	2,710	84
Corporate and Asset Finance	380	23	813	1,216	447	1,663	73
Banking and Financial Services	3	–	–	3	1,457	1,460	<1
Macquarie Securities	111	810	90	1,011	214	1,225	83
Macquarie Capital	290	95	265	650	490	1,140	57
Commodities and Financial Markets	806	237	522	1,565	128	1,693	92
Total	2,926	1,432	2,376	6,734	3,157	9,891	68

(2) Includes New Zealand.

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

3.0 Segment analysis

continued

Total international income was \$A6,734 million for the year ended 31 March 2016, an increase of 4% from \$A6,461 million in the prior year. Total international income represented 68% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior year.

Income from the Americas of \$A2,926 million for the year ended 31 March 2016 decreased 13% from \$A3,355 million in the prior year. This was mainly driven by the non-recurrence of gains in the prior year on the restructure of a railcar logistics operating lease facility, the disposal of the North American railcar operating lease portfolio and the sale of the Macquarie Equipment Finance US Operations in Corporate and Asset Finance. The non-recurrence of fee income from the Freeport LNG Terminal transaction and the impact of challenging credit market conditions in Commodities and Financial Markets, together with the decline in fee income in Macquarie Capital's US business, were partially offset by the impact of the depreciation of the Australian dollar and increased customer flow in the North American Gas and Power business in Commodities and Financial Markets.

In Asia, income of \$A1,432 million for the year ended 31 March 2016 increased 29% from \$A1,113 million in the prior year. The increase was primarily driven by trading revenues in Macquarie Securities, which benefited from favourable market and trading conditions particularly in China in the first half of the year, while Macquarie Asset Management benefited from higher base fees as a result of raisings and market movements and performance fees including MIIF and MKIF.

Income from Europe, Middle East and Africa of \$A2,376 million for the year ended 31 March 2016 increased 19% from \$A1,993 million in the prior year. The increase was mainly in Corporate and Asset Finance, primarily driven by the impact of the depreciation of the Australian dollar and the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year. Macquarie Asset Management's contribution to the region increased due to significant performance fee income from MIRA co-investors in respect of a UK asset.

In Australia, income of \$A3,157 million for the year ended 31 March 2016 increased 16% from \$A2,710 million in the prior year. Key drivers included growth in mergers and acquisitions, advisory and underwriting fee income in Macquarie Capital, volume growth in Australian mortgages, business lending, deposits and the Wrap platform in Banking and Financial Services, and the accretion of interest income on loans acquired at a discount and the growth in the motor vehicle portfolio due to the acquisition of the Esanda dealer finance portfolio in Corporate and Asset Finance.

4.0 Balance sheet

4.1 Statement of financial position

	As at			Movement	
	Mar 16 \$Am	Sep 15 \$Am	Mar 15 \$Am	Sep 15 %	Mar 15 %
Assets					
Receivables from financial institutions	33,128	36,954	28,705	(10)	15
Trading portfolio assets	23,537	31,337	30,406	(25)	(23)
Derivative assets	17,983	22,307	20,080	(19)	(10)
Investment securities available for sale	11,456	10,707	8,896	7	29
Other assets	12,496	13,742	13,557	(9)	(8)
Loan assets held at amortised cost	80,366	76,690	72,762	5	10
Other financial assets at fair value through profit or loss	1,649	2,101	2,125	(22)	(22)
Property, plant and equipment	11,521	10,383	7,079	11	63
Interests in associates and joint ventures accounted for using the equity method	2,691	2,779	2,328	(3)	16
Intangible assets	1,078	1,182	1,164	(9)	(7)
Deferred tax assets	850	908	874	(6)	(3)
Total assets	196,755	209,090	187,976	(6)	5
Liabilities					
Trading portfolio liabilities	5,030	8,702	5,295	(42)	(5)
Derivative liabilities	14,744	20,018	18,267	(26)	(19)
Deposits	52,245	51,915	47,386	1	10
Other liabilities	13,103	15,610	16,050	(16)	(18)
Payables to financial institutions	23,860	23,525	18,645	1	28
Debt issued at amortised cost	63,685	65,466	61,463	(3)	4
Other financial liabilities at fair value through profit or loss	2,672	2,309	1,626	16	64
Deferred tax liabilities	543	546	464	(1)	17
Total liabilities excluding loan capital	175,882	188,091	169,196	(6)	4
Loan capital					
Subordinated debt at amortised cost	5,209	5,782	4,384	(10)	19
Total loan capital	5,209	5,782	4,384	(10)	19
Total liabilities	181,091	193,873	173,580	(7)	4
Net assets	15,664	15,217	14,396	3	9
Equity					
Contributed equity	6,422	5,836	5,947	10	8
Reserves	1,536	2,090	1,656	(27)	(7)
Retained earnings	7,158	6,705	6,306	7	14
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	15,116	14,631	13,909	3	9
Non-controlling interests	548	586	487	(6)	13
Total equity	15,664	15,217	14,396	3	9

4.0 Balance sheet continued

Growth in the Group's balance sheet since 31 March 2015 has largely been driven by increased business activity across lending and asset financing and Treasury management initiatives. Total assets of \$A196.8 billion at 31 March 2016 increased 5% from \$A188.0 billion at 31 March 2015, while total liabilities increased 4% to \$A181.1 billion at 31 March 2016 from \$A173.6 billion at 31 March 2015.

The key drivers of the movement in the balance sheet include:

- Treasury funding and liquidity management initiatives during the year ended 31 March 2016 including new issuances of long term debt issued at amortised cost (partially offset by a decrease in short term debt);
- a decline in market conditions in the second half of the year that led to decreased trading opportunities, mainly in China, resulted in a reduction in trading portfolio assets in Macquarie Securities and a reduction in payables to financial institutions due to reduced stock lending activity;
- increased lending and asset financing activity across the Group, leading to growth in loan assets held at amortised cost, including:
 - Corporate and Asset Finance's loan and finance lease portfolio, which increased 28% to \$A28.8 billion at 31 March 2016 from \$A22.5 billion at 31 March 2015 mainly driven by the acquisitions of the Esanda dealer finance portfolio in November 2015. The acquisition of the Esanda dealer finance portfolio resulted in an associated increase in payables to financial institutions as a result of funding requirements;
 - Banking and Financial Services' Australian mortgage portfolio, which increased 16% to \$A28.5 billion at 31 March 2016 from \$A24.5 billion at 31 March 2015 and included the acquisition of a residential mortgage portfolio of \$A1.2 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined \$A1.6 billion at 31 March 2016, a decrease of 58% from \$A3.8 billion at 31 March 2015;
- aircraft acquired during the year from AWAS Aviation Capital Limited resulted in growth of the operating lease portfolio within Corporate and Asset Finance of 68% to \$A10.6 billion at 31 March 2016 from \$A6.3 billion at 31 March 2015. The acquisition of aircraft from AWAS Aviation Capital Limited resulted in an associated increase in payables to financial institutions as a result of funding requirements;
- increased deposits in Banking and Financial Services mainly due to organic growth; and
- increased loan capital primarily due to a \$US750 million subordinated debt issuance that qualifies as Tier 2 capital under Basel III rules and the issuance of \$A531 million of Macquarie Group Capital Notes 2 in December 2015 partially offset by the redemption of the Preferred Membership Interests in December 2015.

Total equity increased 9% to \$A15.7 billion at 31 March 2016 from \$A14.4 billion at 31 March 2015, largely due to net retained earnings generated during the year and new share issuances including the institutional private placement of \$A400 million in October 2015 and the share purchase plan of \$A137 million in November 2015.

4.2 Loan assets

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

	As at			Movement	
	Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Loan assets at amortised cost per statement of financial position	80.4	76.7	72.8	5	10
Other loans held at fair value ⁽¹⁾	0.3	0.4	0.5	(25)	(40)
Operating lease assets	10.6	9.2	6.3	15	68
Other reclassifications ⁽²⁾	1.6	1.8	1.4	(11)	14
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽³⁾	(15.8)	(17.2)	(16.6)	(8)	(5)
Less: segregated funds ⁽⁴⁾	(4.4)	(4.2)	(3.8)	5	16
Less: margin balances (reclassified to trading) ⁽⁵⁾	(3.6)	(5.4)	(5.3)	(33)	(32)
Total loan assets per funded balance sheet⁽⁶⁾	69.1	61.3	55.3	13	25

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

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

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

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

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

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

4.0 Balance sheet continued

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

	Notes	As at			Movement	
		Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Corporate and Asset Finance						
Asset Finance:	1					
Finance lease assets		12.7	5.8	4.9	119	159
Operating lease assets		10.6	9.2	6.3	15	68
Total Asset Finance		23.3	15.0	11.2	55	108
Lending	2	9.0	10.6	9.7	(15)	(7)
Total Corporate and Asset Finance		32.3	25.6	20.9	26	55
Banking and Financial Services						
Retail Mortgages:	3					
Australia		21.6	19.1	16.4	13	32
Canada, US and Other		1.5	2.5	4.5	(40)	(67)
Total Retail Mortgages		23.1	21.6	20.9	7	11
Business banking	4	5.8	5.9	5.2	(2)	12
Total Banking and Financial Services		28.9	27.5	26.1	5	11
Commodities and Financial Markets						
Resources and commodities	5	3.0	3.2	3.0	(6)	-
Other	6	1.8	1.7	2.0	6	(10)
Total Commodities and Financial Markets		4.8	4.9	5.0	(2)	(4)
Macquarie Asset Management						
Structured investments	7	1.6	1.8	2.1	(11)	(24)
Other Operating Groups						
Corporate and other lending	8	1.5	1.5	1.2	-	25
Total		69.1	61.3	55.3	13	25

Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

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

2. Lending

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

3. Retail Mortgages

Secured by residential property and supported by mortgage insurance:

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

4. Business banking

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

5. Resources and commodities

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

6. Other

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

7. Structured investments

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

8. Corporate lending and other lending

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

4.0 Balance sheet continued

4.3 Equity investments

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

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

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

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

Equity investments reconciliation

	As at		Movement		
	Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	1.1	1.2	1.1	(8)	–
Equity investments within investment securities available for sale	2.4	2.5	2.4	(4)	–
Interests in associates and joint ventures accounted for using the equity method	2.7	2.8	2.3	(4)	17
Held for sale equity investments within other assets	0.6	0.5	–	20	*
Total equity investments per statement of financial position	6.8	7.0	5.8	(3)	17
Adjustment for funded balance sheet					
Equity hedge positions ⁽¹⁾	(0.8)	(0.8)	(0.7)	–	14
Total funded equity investments	6.0	6.2	5.1	(3)	18
Adjustments for equity investments analysis					
Available for sale and associates' reserves and other assets ⁽²⁾	(0.8)	(0.7)	(0.7)	14	14
Total adjusted equity investments⁽³⁾	5.2	5.5	4.4	(5)	18

⁽¹⁾ These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity linked instruments. Consequently, these have been excluded from the analysis of equity investment exposures.

⁽²⁾ Available for sale reserve on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realisation of the investment; Other assets include equity investments which do not fall within the categories per the statement of financial position.

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

Equity investments by category

	As at			Movement	
	Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Macquarie-managed funds					
Listed MIRA managed funds	0.8	0.8	0.7	-	14
Unlisted MIRA managed funds	0.8	0.9	0.8	(11)	-
Other Macquarie-managed funds	0.7	0.6	0.5	17	40
Total Macquarie-managed funds	2.3	2.3	2.0	-	15
Other investments					
Transport, industrial and infrastructure	1.2	0.7	0.4	71	200
Telecommunications, information technology, media and entertainment	0.7	1.2	0.8	(42)	(13)
Energy, resources and commodities	0.5	0.6	0.4	(17)	25
Real estate investment, property and funds management	0.1	0.2	0.3	(50)	(67)
Finance, wealth management and exchanges	0.4	0.5	0.5	(20)	(20)
Total other investments	2.9	3.2	2.4	(9)	21
Total equity investments	5.2	5.5	4.4	(5)	18

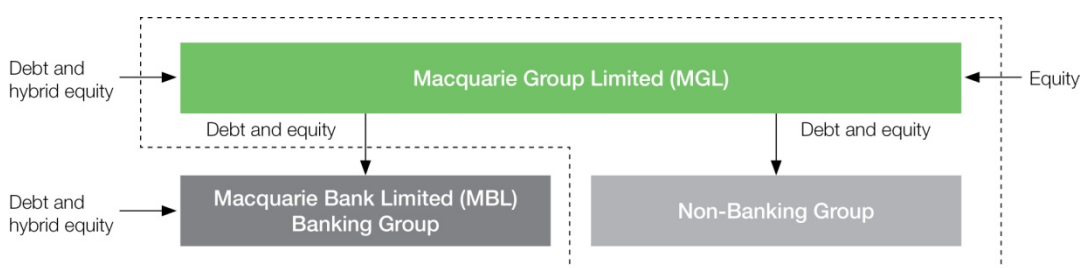
5.0 Funding and liquidity

5.1 Liquidity Risk Governance and Management Framework

Governance and Oversight

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

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



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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and the Risk Management Group (RMG). The respective boards approve the MGL and MBL liquidity policies after endorsement by ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. ALCO includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer, Head of Balance Sheet Management and Group Heads.

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

Liquidity Policy and Risk Appetite

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

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

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

Macquarie establishes a liquidity risk appetite for both MBL and MGL, which is defined within each of the respective liquidity policies. The risk appetite is approved by each Board and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie's strategic objectives.

Macquarie Group Limited

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

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

Macquarie Bank Limited

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

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

Liquidity Risk Tolerance and Principles

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

Risk Tolerances

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

Liquidity Management Principles

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

Liquidity Contingency Plan

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

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

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

The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

Funding Strategy

Macquarie prepares a funding strategy on an annual basis and monitors progress against the strategy throughout the year. The funding strategy aims to maintain Macquarie's diversity of current and projected funding sources, ensure

5.0 Funding and liquidity continued

ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The funding strategy is reviewed by ALCO and approved by the respective Boards.

5.2 Management of Liquidity Risk

Scenario analysis

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

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

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

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

Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. MGL Group had \$A30.4 billion cash and liquid assets as at 31 March 2016 (31 March 2015: \$A25.7 billion), of which \$A28.9 billion was held by the MBL Group (31 March 2015: \$A23.8 billion).

Funds transfer pricing

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

Credit ratings

Credit ratings⁽¹⁾ at 31 March are detailed below.

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

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

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

Regulatory developments

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

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

Liquidity Coverage Ratio

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

Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on 1 January 2015. MBL's 3-month average LCR to 31 March 2016 was 173% (average based on month end observations). For a detailed breakdown of Macquarie's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is a 12-month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement in 2018. APRA have released a discussion paper on the NSFR, which is yet to be incorporated into local standards.

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 impact will remain uncertain until the ratio is implemented into local standards.

Macquarie continues to monitor developing liquidity regulations.

5.0 Funding and liquidity continued

5.3 Funded balance sheet

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

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 31 March 2016. The following pages split this between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

The growth in Macquarie's funded balance sheet over the last year was largely driven by the acquisitions of the Esanda dealer finance portfolio and an aircraft portfolio from AWAS Aviation Capital Limited, and growth in the Australian mortgage portfolio.

	Notes	As at	
		Mar 16 \$Ab	Mar 15 \$Ab
Total assets per MGL statement of financial position		196.8	188.0
Accounting deductions:			
Self funded trading assets	1	(16.6)	(19.3)
Derivative revaluation accounting gross-ups	2	(14.4)	(17.9)
Life investment contracts and other segregated assets	3	(8.4)	(7.5)
Outstanding trade settlement balances	4	(5.8)	(7.7)
Short term working capital assets	5	(5.6)	(6.2)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	6	(15.0)	(16.2)
Net funded assets		131.0	113.2

Explanatory notes concerning net funded assets

1. Self funded trading assets

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

2. Derivative revaluation accounting gross-ups

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

3. Life investment contracts and other segregated assets

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

4. Outstanding trade settlement balances

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

5. Short term working capital assets

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

6. Securitised assets and other non-recourse funding

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

5.4 Funding profile for consolidated MGL Group

Funded balance sheet

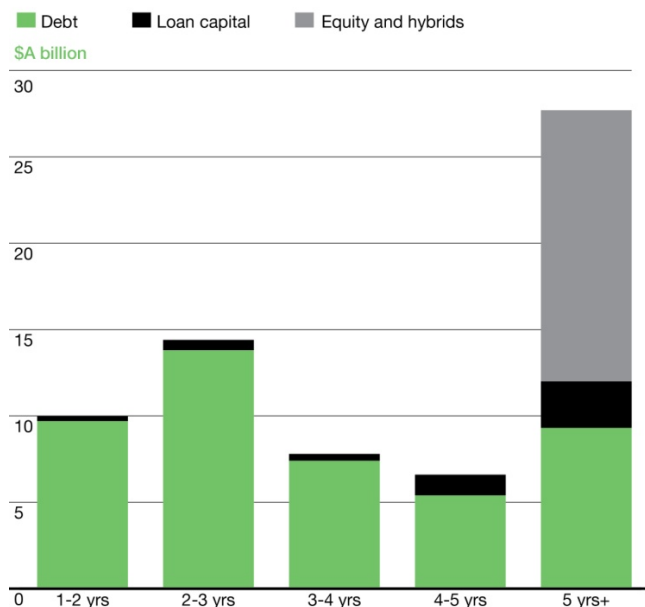
	Notes	As at	
		Mar 16 \$Ab	Mar 15 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		0.4	1.4
Commercial paper		8.9	11.1
Net trade creditors	2	1.7	2.0
Structured notes	3	3.4	2.5
Secured funding	4	4.6	4.8
Bonds	5	38.2	29.8
Other loans	6	0.4	0.5
Syndicated loan facilities	7	8.9	2.6
Customer deposits	8	43.6	39.7
Loan capital	9	5.2	4.4
Equity and hybrid	10	15.7	14.4
Total		131.0	113.2
Funded assets			
Cash and liquid assets	11	30.4	25.7
Self securitisation	12	13.9	9.5
Net trading assets	13	21.1	21.5
Loan assets including operating lease assets less than one year	14	13.1	11.2
Loan assets including operating lease assets greater than one year	14	42.1	34.6
Debt investment securities	15	2.7	3.7
Co-investment in Macquarie-managed funds and other equity investments	16	6.0	5.1
Property, plant and equipment and intangibles		1.7	1.9
Total		131.0	113.2

See Section 5.7 for notes 1–16.

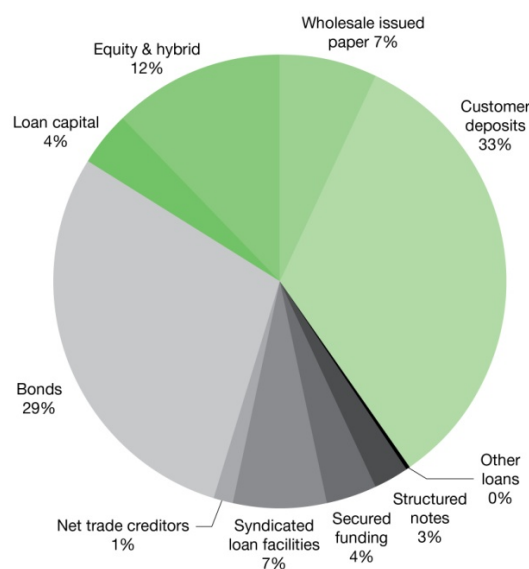
5.0 Funding and liquidity continued

Term funding profile

Detail of drawn term funding maturing beyond one year



Diversity of funding sources



As at Mar 16

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	0.6	0.2	0.1	0.1	2.1	3.1
Secured funding	0.1	2.4	0.1	–	0.4	3.0
Bonds	6.0	5.2	7.2	5.3	6.8	30.5
Other loans	–	0.1	–	–	–	0.1
Syndicated loan facilities ⁽²⁾	3.0	5.9	–	–	–	8.9
Total debt	9.7	13.8	7.4	5.4	9.3	45.6
Loan capital ⁽³⁾	0.3	0.6	0.4	1.2	2.7	5.2
Equity and hybrid	–	–	–	–	15.7	15.7
Total funding sources drawn	10.0	14.4	7.8	6.6	27.7	66.5
Undrawn	–	2.7	–	0.7	–	3.4
Total funding sources drawn and undrawn	10.0	17.1	7.8	7.3	27.7	69.9

(1) Structured notes with a contractual maturity of >5yrs are profiled using a behavioural maturity profile

(2) Post 31 March 2016, Macquarie exercised its right to repay early \$A3.0 billion of syndicated loan facilities that was contractually due to mature more than 12 months after balance date.

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

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

At 31 March 2016, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.3 years at 31 March 2016. During April 2016, the AWAS acquisition debt facility was refinanced in full with a maturity profile greater than 5 years. In addition, \$A3.0 billion of the Esanda acquisition debt facility was repaid during April 2016. Taking these transactions into account, the adjusted weighted average term to maturity of term funding maturing beyond one year increased to 4.7 years.

As at 31 March 2016, customer deposits represented \$A43.6 billion, or 33% of MGL Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented \$A9.3 billion, or 7% of total funding, and other debt funding maturing within 12 months represented \$A11.6 billion, or 9% of total funding.

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 31 March 2015, MGL and MBL have continued to raise term wholesale funding across various products and currencies.

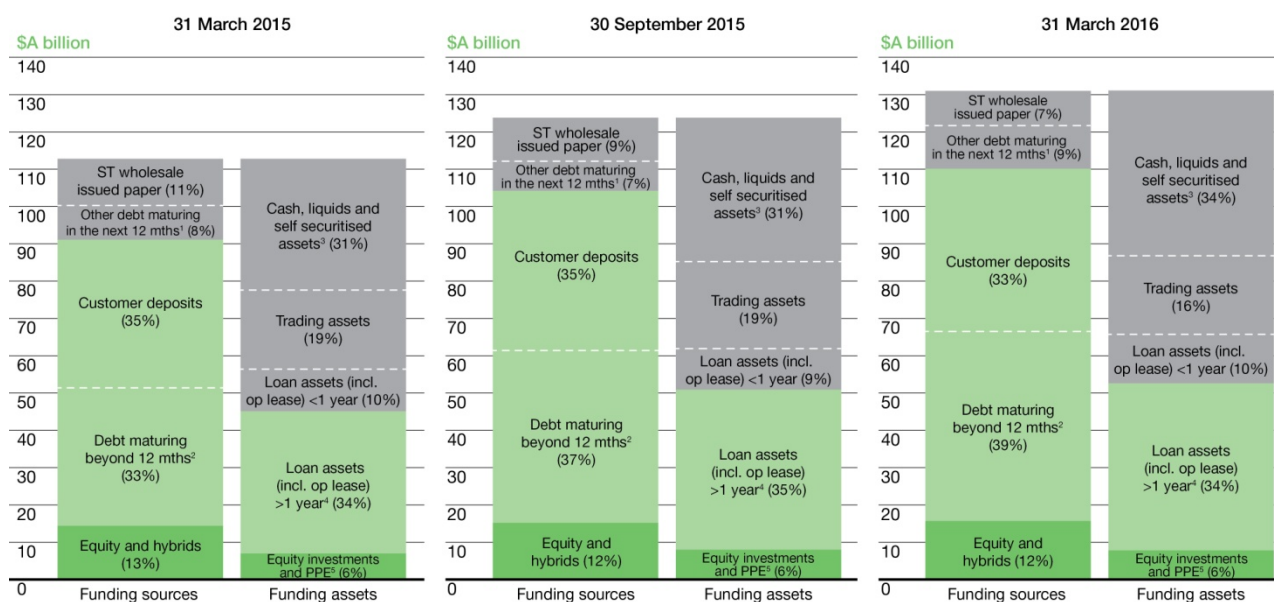
Details of term funding raised between 1 April 2015 and 31 March 2016:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured Funding	– Term securitisation and other secured finance	4.4	–	4.4
Issued paper	– Senior and subordinated	12.6	0.3	12.9
MCN2	– Subordinated notes	–	0.5	0.5
Covered Bond	– Covered Bond	0.8	–	0.8
Syndicated loan facilities	– MGL and MBL loan facilities	2.7	1.2	3.9
Total		20.5	2.0	22.5

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

From 1 April 2015 to 31 March 2016, MGL Group raised \$A22.5 billion of term funding, including \$A12.9 billion of term wholesale funding, \$A4.4 billion of term secured finance, \$A3.9 billion of syndicated loan facilities, \$A0.8 billion of covered bond issuance and \$A0.5 billion of MCN2 issuance. Wholesale term issuance of \$A12.9 billion includes \$A6.9 billion in unsecured debt issuance in the US market, \$A4.8 billion in private placements and structured notes, and \$A1.2 billion in unsecured debt issuance in Swiss and Australian markets. Syndicated loan facilities of \$A3.9 billion includes a \$A2.7 billion Sterling Facility and a \$A1.2 billion Asian Bank Facility. Term secured finance of \$A4.4 billion includes \$A2.3 billion of SMART auto and equipment ABS, \$A1.9 billion of PUMA RMBS, and \$A0.2 billion of other secured funding.

Macquarie also raised \$A6.0 billion through the Esanda acquisition debt facility, of which \$A3.0 billion was repaid in April 2016 and \$A2.4 billion through the AWAS acquisition debt facility, which was refinanced in April 2016 with a 7 year term loan. The change in composition of the funded balance sheet is illustrated in the chart below.



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

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

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

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

5.0 Funding and liquidity continued

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

5.5 Funding profile for Bank Group

Funded balance sheet

	Notes	As at	
		Mar 16 \$Ab	Mar 15 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		0.4	1.4
Commercial paper		8.9	11.1
Net trade creditors	2	1.4	1.9
Structured notes	3	3.0	2.0
Secured funding	4	4.5	4.7
Bonds	5	29.8	21.7
Other loans	6	0.2	0.2
Syndicated loan facilities	7	6.0	–
Customer deposits	8	43.6	39.7
Loan capital	9	4.1	3.2
Equity and hybrid	10	12.7	11.6
Total		114.6	97.5
Funded assets			
Cash and liquid assets	11	28.9	23.8
Self securitisation	12	13.9	9.5
Net trading assets	13	20.4	20.6
Loan assets including operating lease assets less than one year	14	12.5	11.0
Loan assets including operating lease assets greater than one year	14	41.1	33.6
Debt investment securities	15	2.2	3.1
Non-Bank Group deposit with MBL		(6.2)	(6.4)
Co-investment in Macquarie-managed funds and other equity investments	16	1.1	1.1
Property, plant and equipment and intangibles		0.7	1.2
Total		114.6	97.5

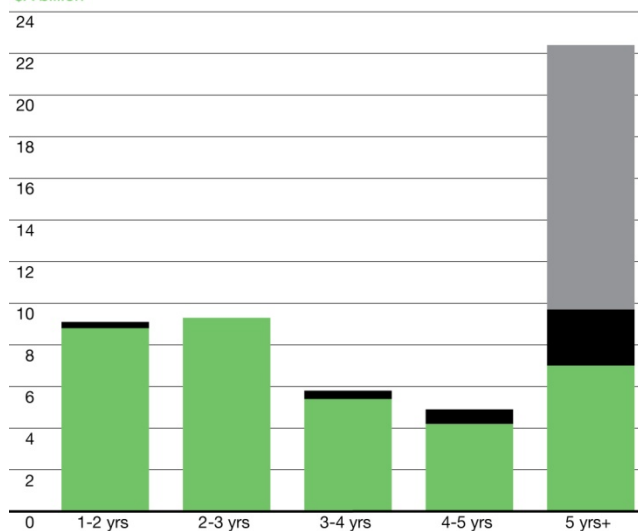
See Section 5.7 for notes 1–16.

Term funding profile

Detail of drawn term funding maturing beyond one year

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



As at Mar 16

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	0.5	0.1	0.1	0.1	2.1	2.9
Secured funding	0.1	2.4	0.1	–	0.4	3.0
Bonds	5.2	3.8	5.2	4.1	4.5	22.8
Other loans	–	–	–	–	–	–
Syndicated loan facilities ⁽²⁾	3.0	3.0	–	–	–	6.0
Total debt	8.8	9.3	5.4	4.2	7.0	34.7
Loan capital ⁽³⁾	0.3	–	0.4	0.7	2.7	4.1
Equity and hybrid	–	–	–	–	12.7	12.7
Total funding sources drawn	9.1	9.3	5.8	4.9	22.4	51.5
Undrawn	–	1.8	–	0.7	–	2.5
Total funding sources drawn and undrawn	9.1	11.1	5.8	5.6	22.4	54.0

(1) Structured notes with a contractual maturity of >5yrs are profiled using a behavioural maturity profile

(2) Post 31 March 2016, Macquarie exercised its right to repay early \$A3.0 billion of syndicated loan facilities that was contractually due to mature more than 12 months after balance date.

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

The Bank Group has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.1 years at 31 March 2016. During April 2016, the AWAS acquisition debt facility was refinanced in full with a maturity profile greater than 5 years. In addition, \$A3.0 billion of the Esanda acquisition debt facility was repaid during April 2016. Taking these transactions into account, the adjusted weighted average term to maturity of term funding maturing beyond one year increased to 4.7 years.

As at 31 March 2016, customer deposits represented \$A43.6 billion, or 38% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented \$A9.3 billion, or 8% of total funding, and

5.0 Funding and liquidity continued

other debt funding maturing within 12 months represented \$A10.2 billion, or 9% of total funding.

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

- \$US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US13.9 billion debt securities outstanding at 31 March 2016;
- \$US10 billion Commercial Paper Program under which \$US4.8 billion of debt securities were outstanding at 31 March 2016;
- \$US20 billion US Rule 144A/Regulation S Medium Term Note Program under which \$US13.0 billion of issuances were outstanding at 31 March 2016;
- \$US5 billion Structured Note Program under which \$US2.1 billion of funding from structured notes was outstanding at 31 March 2016;
- \$US1.8 billion AWAS Acquisition Debt Facility under which \$US1.8 billion of secured funding was outstanding at 31 March 2016⁽¹⁾;
- \$A6 billion Esanda Acquisition Debt Facility under which \$A6 billion was outstanding at 31 March 2016⁽²⁾;
- £1.3 billion Sterling Facility which was undrawn at 31 March 2016; and
- \$A5 billion Covered Bond Programme under which \$A0.7 billion of debt securities were outstanding at 31 March 2016.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 31 March 2016, MBL Group had \$A0.4 billion of these securities outstanding.

At 31 March 2016, MBL Group had internally securitised \$A13.9 billion of its own mortgages.

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

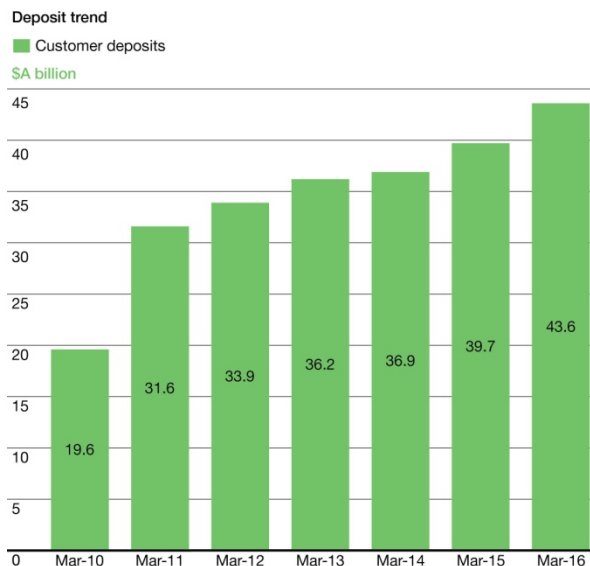
Deposit strategy

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

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

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

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



(1) The AWAS acquisition debt facility was reduced to \$US1.8 billion from \$US3.0 billion during the year ended 31 March 2016, and was

5.0 Funding and liquidity continued

refinanced into a term loan facility in April 2016.

- (2) \$A3.0 billion of the Esanda acquisition debt facility was repaid in April 2016.

5.6 Funding profile for Non-Bank Group

Funded balance sheet

		As at	
	Notes	Mar 16 \$Ab	Mar 15 \$Ab
Funding sources			
Net trade creditors	2	0.3	0.1
Structured notes	3	0.4	0.5
Secured funding	4	0.1	0.1
Bonds	5	8.4	8.1
Other loans	6	0.2	0.3
Syndicated loan facilities	7	2.9	2.6
Loan capital	9	1.1	1.2
Equity	10	3.0	2.8
Total		16.4	15.7
Funded assets			
Cash and liquid assets	11	1.5	1.9
Non-Bank Group deposit with MBL		6.2	6.4
Net trading assets	13	0.7	0.9
Loan assets less than one year	14	0.6	0.2
Loan assets greater than one year	14	1.0	1.0
Debt investment securities	15	0.5	0.6
Co-investment in Macquarie-managed funds and other equity investments	16	4.9	4.0
Property, plant and equipment and intangibles		1.0	0.7
Total		16.4	15.7

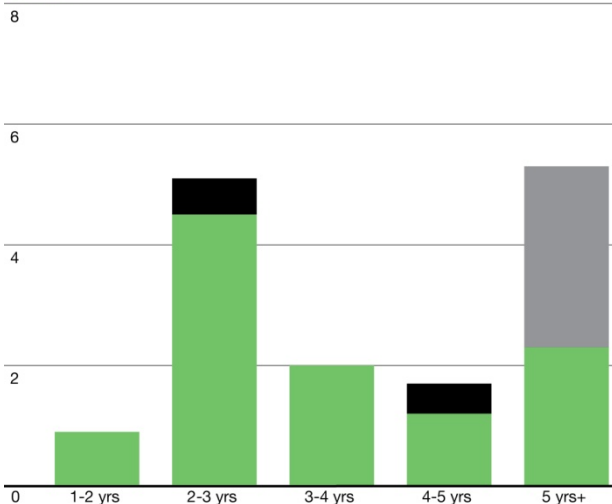
See Section 5.7 for notes 2–16.

5.0 Funding and liquidity continued

Term funding profile

Detail of drawn term funding maturing beyond one year

■ Debt ■ Loan capital ■ Equity and hybrids
\$A billion



As at Mar 16

	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	0.8	1.4	2.0	1.2	2.3	7.7
Other loans	–	0.1	–	–	–	0.1
Syndicated loan facilities	–	2.9	–	–	–	2.9
Total debt	0.9	4.5	2.0	1.2	2.3	10.9
Loan capital ⁽¹⁾	–	0.6	–	0.5	–	1.1
Equity	–	–	–	–	3.0	3.0
Total funding sources drawn	0.9	5.1	2.0	1.7	5.3	15.0
Undrawn	–	0.9	–	–	–	0.9
Total funding sources drawn and undrawn	0.9	6.0	2.0	1.7	5.3	15.9

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

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 5.4 years at 31 March 2015 to 4.7 years at 31 March 2016.

As at 31 March 2016, other debt funding maturing within 12 months represented \$A1.4 billion, or 9% of total funding.

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

- \$US2.9 billion Syndicated Loan Facilities, of which \$US2.2 billion was drawn at 31 March 2016;
- \$US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which \$US4.3 billion was outstanding at 31 March 2016; and
- \$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 \$US0.4 billion debt securities outstanding at 31 March 2016.

5.7 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

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

2. Net trade creditors

Short term working capital balances (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

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

4. Secured funding

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

5. Bonds

Unsecured long term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Loan capital

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

10. Equity and hybrid

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

11. Cash and liquid assets

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

12. Self securitisation

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

13. Net trading assets

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

14. Loan assets including operating lease assets

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

15. Debt investment securities

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

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

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

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's capital requirement, calculated using Macquarie's ECAM. Transactions internal to the Macquarie Group are eliminated.

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2016 include the Macquarie Income Securities (MIS), Exchangeable Capital Securities (ECS), Macquarie Bank Capital Notes (BCN), Macquarie Group Capital Notes (MCN) and Macquarie Group Capital Notes 2 (MCN2).

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

Pillar 3

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

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

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

Macquarie Group Basel III regulatory capital surplus calculation

	As at Mar 16		As at Sep 15		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Macquarie Group eligible capital:						
Bank Group Gross Tier 1 capital	13,465	13,465	12,668	12,668	6	6
Non-Bank Group eligible capital	3,783	3,783	4,244	4,244	(11)	(11)
Eligible capital	17,248	17,248	16,912	16,912	2	2
Macquarie Group capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA) ⁽¹⁾	95,248	93,528	94,515	91,299	1	2
Capital required to cover RWA at 8.5% ⁽²⁾	8,096	7,950	8,034	7,760	1	2
Tier 1 deductions	516	2,354	481	2,488	7	(5)
Total Bank Group capital requirement	8,612	10,304	8,515	10,248	1	1
Total Non-Bank Group capital requirement	3,016	3,016	3,592	3,592	(16)	(16)
Total capital requirement	11,628	13,320	12,107	13,840	(4)	(4)
Macquarie Group regulatory capital surplus (at 8.5%⁽²⁾ of Bank Group RWA)	5,620	3,928	4,805	3,072	17	28

⁽¹⁾ In calculating the Bank Group's contribution to MGL's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (31 March 2016: \$A296 million; 30 September 2015: \$A613 million).

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

6.0 Capital continued

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2016 consists of MIS, ECS and BCN. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

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

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 330 basis points margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

Bank Group Basel III Tier 1 Capital

	As at Mar 16		As at Sep 15		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Common Equity Tier 1 capital						
Paid-up ordinary share capital	9,491	9,491	8,692	8,692	9	9
Retained earnings	2,410	2,410	1,751	1,751	38	38
Reserves	529	529	1,113	1,113	(52)	(52)
Gross Common Equity Tier 1 capital	12,430	12,430	11,556	11,556	8	8
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	46	46	51	51	(10)	(10)
Deferred tax assets	74	173	115	241	(36)	(28)
Net other fair value adjustments	(31)	(31)	(40)	(40)	(23)	(23)
Intangible component of investments in subsidiaries and other entities	36	36	42	42	(14)	(14)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	-	278	-	265	-	5
Shortfall in provisions for credit losses	248	267	221	259	12	3
Equity exposures	-	1,345	-	1,474	-	(9)
Other Common Equity Tier 1 capital deductions	143	240	92	196	55	22
Total Common Equity Tier 1 capital deductions	516	2,354	481	2,488	7	(5)
Net Common Equity Tier 1 capital	11,914	10,076	11,075	9,068	8	11
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	1,035	1,035	1,112	1,112	(7)	(7)
Gross Additional Tier 1 capital	1,035	1,035	1,112	1,112	(7)	(7)
Deduction from Additional Tier 1 capital	-	-	-	-	-	-
Net Additional Tier 1 capital	1,035	1,035	1,112	1,112	(7)	(7)
Total Net Tier 1 capital	12,949	11,111	12,187	10,180	6	9

6.0 Capital continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Mar 16		As at Sep 15		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Credit risk						
Subject to IRB approach:						
Corporate	29,628	29,628	28,592	28,592	4	4
SME Corporate	2,498	2,498	2,466	2,466	1	1
Sovereign	363	363	371	371	(2)	(2)
Bank	1,350	1,350	1,792	1,792	(25)	(25)
Residential mortgage	4,485	6,562	4,394	6,150	2	7
Other retail	3,677	3,677	3,502	3,502	5	5
Retail SME	2,508	2,582	2,555	2,624	(2)	(2)
Total RWA subject to IRB approach	44,509	46,660	43,672	45,497	2	3
Specialised lending exposures subject to slotting criteria	7,234	7,234	7,902	7,902	(8)	(8)
Subject to Standardised approach:						
Corporate	755	755	892	892	(15)	(15)
Residential mortgage	3,271	3,271	3,259	3,259	<1	<1
Other Retail	8,130	8,130	1,690	1,690	*	*
Total RWA subject to Standardised approach	12,156	12,156	5,841	5,841	108	108
Credit risk RWA for securitisation exposures	440	324	943	783	(53)	(59)
Credit Valuation Adjustment RWA	2,853	2,853	3,153	3,153	(10)	(10)
Exposures to Central Counterparties RWA	623	1,390	1,490	1,490	(58)	(7)
RWA for Other Assets	9,607	9,081	11,143	10,558	(14)	(14)
Total Credit risk RWA	77,422	79,698	74,144	75,224	4	6
Equity risk exposures RWA	4,572	–	5,108	–	(10)	–
Market risk RWA	3,926	3,926	5,487	5,487	(28)	(28)
Operational risk RWA	9,624	9,624	10,389	10,389	(7)	(7)
Interest rate risk in banking book RWA	–	576	–	812	–	(29)
Total Bank Group RWA	95,544	93,824	95,128	91,912	<1	2
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	12.5	10.7	11.6	9.9		
Macquarie Bank Group Tier 1 capital ratio (%)	13.6	11.8	12.8	11.1		

6.3 Non-Bank Group capital

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

Risk ⁽¹⁾	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment ⁽²⁾ Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 49%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

⁽¹⁾ The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, 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.

6.0 Capital continued

Non-Bank Group capital requirement

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

	As at Mar 16		
	Asset \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.5	18	15%
Loan assets ⁽¹⁾	1.6	120	94%
Debt investment securities	0.5	68	169%
Co-investments in Macquarie-managed funds and other equity investments	4.6	2,114	574%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.3		
Property, plant and equipment and intangibles	1.0	249	312%
Non-Bank Group deposit with MBL	6.2		
Net trading assets	0.7		
Total funded assets	16.4	2,569	
Self-funded and non-recourse assets			
Self-funded trading assets	0.5		
Outstanding trade settlement balances	3.7		
Short term working capital assets	3.7		
Total self-funded and non-recourse assets	7.9		
Total Non-Bank Group assets	24.3		
Off balance sheet exposures, operational, market and other risks and diversification offset ⁽²⁾		447	
Non-Bank Group capital requirement		3,016	

(1) Includes leases.

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

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Assets under Management by type					
Macquarie Investment Management					
Fixed Income	222.2	231.7	224.7	(4)	(1)
Equities	97.6	100.8	102.7	(3)	(5)
Alternatives and Multi-asset	17.3	18.7	20.6	(7)	(16)
Total Macquarie Investment Management	337.1	351.2	348.0	(4)	(3)
Macquarie Infrastructure and Real Assets					
Infrastructure	128.1	140.6	126.7	(9)	1
Agriculture	1.2	1.1	0.9	9	33
Real estate	6.9	6.1	6.1	13	13
Total Macquarie Infrastructure and Real Assets	136.2	147.8	133.7	(8)	2
Macquarie Specialised Investment Solutions	3.6	3.3	2.3	9	57
Total Macquarie Asset Management	476.9	502.3	484.0	(5)	(1)
Other Operating Groups	1.7	2.0	2.3	(15)	(26)
Total Assets under Management	478.6	504.3	486.3	(5)	(2)
Assets under Management by region					
Americas	267.6	286.0	289.0	(6)	(7)
Europe, Middle East and Africa	89.9	98.9	86.7	(9)	4
Australia	76.8	76.8	81.7	–	(6)
Asia	44.3	42.6	28.9	4	53
Total Assets under Management	478.6	504.3	486.3	(5)	(2)

Assets under Management (AUM) of \$A478.6 billion at 31 March 2016 decreased 2% from \$A486.3 billion at 31 March 2015. The decrease in AUM over the period was primarily due to a decrease in insurance assets in the MIM business and asset realisations by funds in the MIRA business, partially offset by higher asset valuations, additional investments by funds in the MIRA business and positive flows into Australian Fixed Income and US Equities.

Macquarie Investment Management

Macquarie Investment Management's AUM of \$A337.1 billion at 31 March 2016 decreased 3% from \$A348.0 billion at 31 March 2015, largely due to a decrease in insurance assets, partially offset by positive flows into Australian Fixed Income and US Equities.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Assets' AUM of \$A136.2 billion at 31 March 2016 increased 2% from \$A133.7 billion at 31 March 2015, largely due to higher asset valuations and additional investments by funds, partially offset by asset realisations by funds.

7.0 Funds management continued

7.2 Equity under Management

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

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

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

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

Equity under Management by type and region

	As at ⁽¹⁾⁽²⁾		Movement		
	Mar 16 \$Ab	Sep 15 \$Ab	Mar 15 \$Ab	Sep 15 %	Mar 15 %
Equity under Management by type					
Listed equity	14.9	16.3	16.1	(9)	(7)
Unlisted equity	51.6	55.3	50.1	(7)	3
Total EUM	66.5	71.6	66.2	(7)	<1
Equity under Management by region⁽³⁾					
Australia	6.9	5.7	5.0	21	38
Europe, Middle East and Africa	22.9	25.8	23.2	(11)	(1)
Americas	21.2	24.2	23.5	(12)	(10)
Asia	15.5	15.9	14.5	(3)	7
Total EUM	66.5	71.6	66.2	(7)	<1

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

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

⁽³⁾ By location of fund management team.

EUM of \$A66.5 billion at 31 March 2016 increased by less than 1% from \$A66.2 billion at 31 March 2015.

The increase was primarily due to equity raisings for funds including Macquarie Asia Infrastructure Fund, Macquarie Australian Infrastructure Trust and Macquarie Korea Opportunities Fund 3, partially offset by returns of capital that primarily resulted from asset realisations and unfavourable market movements.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	<p>A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics:</p> <ul style="list-style-type: none">– provide a permanent and unrestricted commitment of funds;– are freely available to absorb losses;– rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and– provide for fully discretionary capital distributions.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	<p>Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.</p>
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	<p>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.</p>
BCN	<p>On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>

8.0 Glossary

continued

BBSW	Bank Bill Swap Rate.
BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> – 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 <i>'Provisions, Contingent Liabilities and Contingent Assets'</i> 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 percent 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 <i>'Earnings Per Share'</i> .
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.

ECS	On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of Exchangeable Capital Securities (ECS). ECS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions. Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Jackson Square Partners (JSP)	JSP, a Delaware limited liability company, is an entity formed by the former members of the Delaware Investments Focus Growth team. JSP serves as a sub-advisor to certain Delaware Investments mutual funds, and an investment adviser or sub-advisor to other pooled vehicles (including other mutual funds) and separately managed accounts. Delaware Investments owns 49.9% of the total outstanding units of JSP.
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.

8.0 Glossary

continued

Macquarie Income Securities (MIS)	Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million \$A100 face value MIS on issue.
MBI	Macquarie Bank International Limited.
MBL	Macquarie Bank Limited.
MCN	<p>On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of \$A100 each. MCN are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>MCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 7 June 2021; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
MCN2	<p>On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of \$A100 each. MCN2 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances.</p> <p>MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
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	On 2 December 2010, Macquarie PMI LLC, a subsidiary of MGL, issued \$US400 million of US Dollar denominated Preferred Membership Interests (PMI). These instruments were subordinated, non-cumulative and unsecured equity interests in the issuer. They were redeemed on 2 December 2015.
REIT	Real Estate Investment Trust.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS, share of associate and cash flow hedging reserves.

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