Management Discussion and Analysis

Macquarie Group

Half-year ended 30 September 2017

NOTICE TO READERS

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Interim Financial Report ("the Financial Report") for the half-year ended 30 September 2017, including further detail in relation to key elements of Macquarie Group Limited and its subsidiaries' ("Macquarie", "the Consolidated Entity") financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

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

DATE OF THIS REPORT

This report has been prepared for the half-year ended 30 September 2017 and is current as at 27 October 2017.

COMPARATIVE INFORMATION AND CONVENTIONS

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

References to the prior corresponding period are to the six months ended 30 September 2016.

References to the prior period are to the six months ended 31 March 2017.

References to the current period and current half-year are to the six months ended 30 September 2017.

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

INDEPENDENT AUDITOR'S REVIEW REPORT

This document should be read in conjunction with the Financial Report for the half-year ended 30 September 2017, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 27 October 2017 was unqualified.

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

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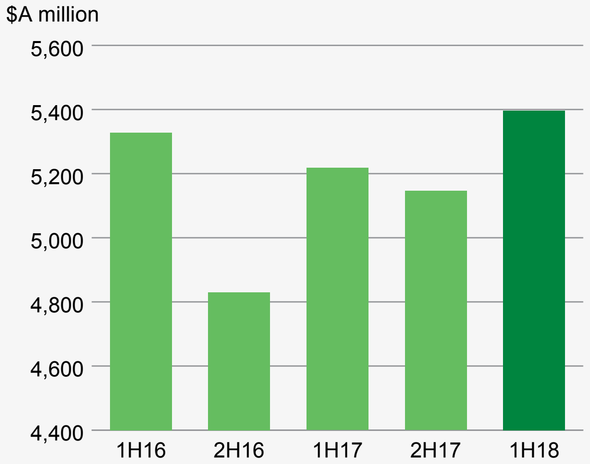
1.1 EXECUTIVE SUMMARY

1H18 Net operating income

$A5,397m

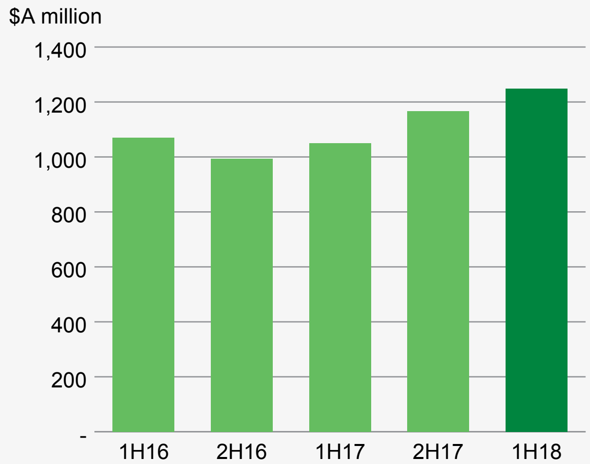
↑3% on 1H17



1H18 Net profit

$A1,248m

↑19% on 1H17



1H18 Return on equity

16.7%

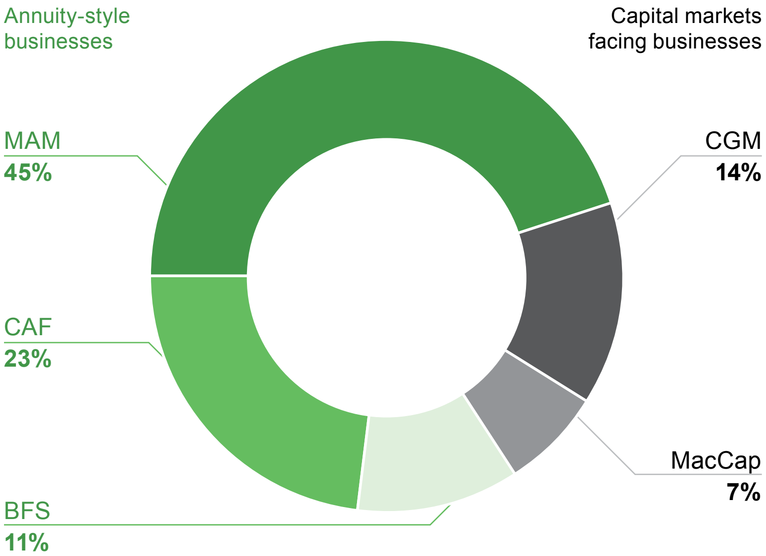
↑from 14.6% in 1H17

1H18 Operating expenses

$A3,693m

↓1% on 1H17

1H18 Net profit contribution[1] by operating group



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

1.1 EXECUTIVE SUMMARY CONTINUED

Macquarie's annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and **Banking and Financial Services** (**BFS)** generated a combined net profit contribution for the half-year ended 30 September 2017 of $A2,094 million, up 28% on the prior corresponding period.

Key drivers included:

MAM ↑39% on 1H17

- base fees broadly in line
- increased performance fee income
- investment-related income broadly in line.

CAF ↑19% on 1H17

- increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
- Asset Finance portfolio continued to perform well
- lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios.

Partially offset by:

- lower interest income as a result of the reduction in the Principal Finance portfolio size.

BFS ↑10% on 1H17

- volume growth in loan and deposit portfolios and improved margins
- the non-recurrence of expenses recognised in the prior corresponding period, including impairment charges predominately on certain equity positions and intangible assets and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

Partially offset by:

- net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio in the prior corresponding period.

Macquarie's capital markets facing businesses

Commodities and Global Markets (CGM) and **Macquarie Capital** delivered a combined net profit contribution for the half-year ended 30 September 2017 of $A568 million, down 18% on the prior corresponding period.

Key drivers included:

CGM ↓23% on 1H17

- reduced income from the sale of investments, mainly in energy and related sectors
- lower volatility across the commodities platform resulting in reduced client activity and trading opportunities.

Partially offset by:

- strong client flows and revenues from interest rates and foreign exchange
- improved results across the equities platform
- lower operating expenses reflecting reduced commodity-related trading activity, reduced average headcount and associated activity, and realisation of benefits from cost synergies following the merger of Commodities and Financial Markets (CFM) and Macquarie Securities Group (MSG).

Macquarie Capital ↓7% on 1H17

- reduced investment-related income due to lower gains on sale of investments as well as lower interest income from the debt investment portfolio and higher funding costs for principal investments including the acquisition of Green Investment Group (GIG)
- lower mergers and acquisitions fee income in the US and Asia.

Partially offset by:

- higher fee income from debt capital markets in the US due to increased client activity as well as mergers and acquisitions fee income in Australia
- lower provisions and impairment charges compared to the prior corresponding period.

1.1 EXECUTIVE SUMMARY CONTINUED

Profit attributable to ordinary equity holders

$A1,248m

19% on 1H17

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Financial performance summary					
Net interest income	**1,011**	1,087	1,098	*(7)*	*(8)*
Fee and commission income	**2,568**	2,128	2,203	*21*	*17*
Net trading income	**881**	982	776	*(10)*	*14*
Net operating lease income	**469**	445	476	*5*	*(1)*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**103**	59	(8)	*75*	*
Other operating income and charges	**365**	445	673	*(18)*	*(46)*
Net operating income	**5,397**	5,146	5,218	*5*	*3*
Employment expenses	**(2,261)**	(2,089)	(2,290)	*8*	*(1)*
Brokerage, commission and trading-related expenses	**(422)**	(434)	(418)	*(3)*	*1*
Occupancy expenses	**(199)**	(191)	(201)	*4*	*(1)*
Non-salary technology expenses	**(295)**	(300)	(344)	*(2)*	*(14)*
Other operating expenses	**(516)**	(513)	(480)	*1*	*8*
Total operating expenses	**(3,693)**	(3,527)	(3,733)	*5*	*(1)*
Operating profit before income tax	**1,704**	1,619	1,485	*5*	*15*
Income tax expense	**(448)**	(430)	(438)	*4*	*2*
Profit after income tax	**1,256**	1,189	1,047	*6*	*20*
(Profit)/loss attributable to non-controlling interests	**(8)**	(22)	3	*(64)*	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**1,248**	1,167	1,050	*7*	*19*
Key metrics					
Expense to income ratio (%)	**68.4**	68.5	71.5		
Compensation ratio (%)	**39.5**	38.5	41.0		
Effective tax rate (%)	**26.4**	26.9	29.4		
Basic earnings per share (cents per share)	**370.4**	345.8	311.8		
Diluted earnings per share (cents per share)	**360.2**	337.2	304.8		
Ordinary dividends per share (cents per share)	**205.0**	280.0	190.0		
Ordinary dividend payout ratio (%)	**55.9**	81.5	61.5		
Annualised return on equity (%)	**16.7**	15.8	14.6		

1.1 EXECUTIVE SUMMARY CONTINUED

Net operating income

Net operating income of $A5,397 million for the half-year ended 30 September 2017 increased 3% from $A5,218 million in the prior corresponding period. Increases across fee and commission income, equity accounted income and net interest and trading income as well as reduced charges for provisions and impairments were partially offset by lower other income.

Key drivers included:

Net interest and trading income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
1,892	2,069	1,874

↑ 1% on prior corresponding period

– volume growth in loan and deposit portfolios and improved margins in BFS
– reduced cost of holding long-term liquidity in Corporate.

Partially offset by:

– reduced interest income from Macquarie Capital's debt investment portfolio and higher funding costs associated with an increase in principal investments, including the acquisition of GIG
– lower trading income in CGM as a result of lower market volatility.

Fee and commission income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
2,568	2,128	2,203

↑ 17% on prior corresponding period

– increased performance fee income in MAM
– higher fee income from the US debt capital markets business in Macquarie Capital due to increased client activity.

Partially offset by:

– reduced Life Insurance income in BFS after Macquarie Life's risk insurance business was sold to Zurich Australia Limited in September 2016
– lower mergers and acquisitions fee income in the US and Asia in Macquarie Capital
– reduced CGM brokerage and commissions income, mainly in equities due to continued low volatility across global equity markets and reduced brokerage commission rates due to the trend towards lower margin platforms.

Net operating lease income

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
469	445	476

↓ 1% on prior corresponding period

– improved underlying income in CAF from the Aviation, Energy and Technology portfolios offset by foreign exchange movements.

Other operating income and charges

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
365	445	673

↓ 46% on prior corresponding period

– lower principal gains in Macquarie Capital and CGM
– the prior corresponding period included BFS' gain on sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

Partially offset by:

– lower charges for provisions and impairments across most Operating Groups.

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

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
103	59	(8)

↑ significantly on prior corresponding period

– increase was primarily due to the improved underlying performance of investments held in Macquarie Capital.

1.1 EXECUTIVE SUMMARY CONTINUED

Operating expenses

Total operating expenses of $A3,693 million for the half-year ended 30 September 2017 decreased 1% from $A3,733 million in the prior corresponding period.

Key drivers included:

Employment expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
2,261	2,089	2,290

↓1% on prior corresponding period

- lower average headcount
- favourable foreign currency movements.

Partially offset by:

- higher performance-related profit share expense, driven by the improved overall performance of the Operating Groups.

Brokerage, commission and trading-related expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
422	434	418

↑1% on prior corresponding period

- broadly in line with the prior corresponding period.

Non-salary technology expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
295	300	344

↓14% on prior corresponding period

- the prior corresponding period included elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

Occupancy and Other operating expenses

HALF-YEAR TO		
Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
715	704	681

↑5% on prior corresponding period

- transaction, integration and ongoing costs associated with the acquisition of GIG in Macquarie Capital
- occupancy expenses broadly in line with prior corresponding period.

Income tax expense

Income tax expense for the half-year ended 30 September 2017 was $A448 million, a 2% increase from $A438 million in the prior corresponding period. The increase was mainly due to higher profit before tax.

The effective tax rate for the half-year ended 30 September 2017 was 26.4%, down from 29.4% in the prior corresponding period and broadly in line with the prior period rate of 26.9% reflecting the geographic mix and nature of earnings.

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FINANCIAL PERFORMANCE ANALYSIS

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2.1 NET INTEREST AND TRADING INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest income	**1,011**	1,087	1,098	*(7)*	*(8)*
Net trading income	**881**	982	776	*(10)*	*14*
Net interest and trading income	**1,892**	2,069	1,874	*(9)*	*1*

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

For CGM, which predominately earns income from trading-related activities, the relative contribution of net interest income and net trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by the Consolidated Entity and its clients.

For businesses that predominately earn income from lending activities (CAF and BFS), 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 Consolidated Entity 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 Consolidated Entity 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 CAF, 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 Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
MAM	**(17)**	(20)	(22)	*(15)*	*(23)*
CAF	**336**	358	354	*(6)*	*(5)*
BFS	**584**	551	498	*6*	*17*
CGM					
Commodities					
Risk management products	**285**	427	321	*(33)*	*(11)*
Lending and financing	**108**	118	142	*(8)*	*(24)*
Inventory management, transport and storage	**42**	82	42	*(49)*	*–*
Credit, interest rates and foreign exchange	**283**	352	269	*(20)*	*5*
Equities	**186**	146	161	*27*	*16*
Macquarie Capital	**(57)**	(8)	11	*	*
Corporate	**142**	63	98	*125*	*45*
Net interest and trading income	**1,892**	2,069	1,874	*(9)*	*1*

2.1 NET INTEREST AND TRADING INCOME CONTINUED

Net interest and trading income of $A1,892 million for the half-year ended 30 September 2017 was broadly in line with $A1,874 million in the prior corresponding period.

MAM

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

Net interest and trading expense of $A17 million for the half-year ended 30 September 2017 decreased from an expense of $A22 million in the prior corresponding period.

CAF

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

Net interest and trading income of $A336 million for the half-year ended 30 September 2017 decreased 5% from $A354 million in the prior corresponding period.

The decrease was a result of the reduction in the Principal Finance portfolio size, partially offset by increased income from prepayments and realisations.

The loan and finance lease portfolio was $A25.6 billion at 30 September 2017, a decrease of 3% from $A26.5 billion at 31 March 2017. The decrease was mainly in Principal Finance.

BFS

Net interest and trading income in BFS 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. BFS 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 Consolidated Entity.

Net interest and trading income of $A584 million for the half-year ended 30 September 2017 increased 17% from $A498 million in the prior corresponding period due to a 3% growth in average Australian loan volumes, an 11% growth in the average deposit portfolio balance and improved margins across Australian mortgages, business lending and BFS deposits, compared to the prior corresponding period.

At 30 September 2017 the Australian loan and deposit portfolios included:

- Australian mortgage volumes of $A29.9 billion, up 4% from $A28.7 billion at 31 March 2017;
- business lending volumes of $A7.1 billion, up 9% from $A6.5 billion at 31 March 2017; and
- BFS deposits of $A46.4 billion, up 4% from $A44.5 billion at 31 March 2017.

The sale of the Canadian mortgages portfolio during the period has resulted in no remaining legacy loan portfolio at 30 September 2017 ($A0.5 billion at 31 March 2017).

2.1 NET INTEREST AND TRADING INCOME CONTINUED

CGM

Commodities

1. 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 $A285 million for the half-year ended 30 September 2017 decreased 11% from $A321 million in the prior corresponding period. The current period included mixed results across the platform. Volatility was lower in comparison to the prior corresponding period which impacted client hedging activity and trading opportunities across Global Oil, North American Gas and Metals. These were partially offset by stronger results in North American Power, Bulk Commodities, Investor Products and Agriculture.

2. 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 $A108 million for the half-year ended 30 September 2017 decreased 24% from $A142 million in the prior corresponding period largely due to a reduction in average loan balances in the oil and gas sectors due to the wind down of residual Metals, Energy Capital and other legacy portfolios.

3. Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some volatility with timing of reported income.

Inventory management, transport and storage income of $A42 million for the half-year ended 30 September 2017 was in line with the prior corresponding period.

Credit, interest rates and foreign exchange

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A283 million for the half-year ended 30 September 2017 increased 5% from $A269 million in the prior corresponding period. Increased income in the current half-year was underpinned by strong contributions from foreign exchange and interest rates markets in Japan, EMEA and North America. Credit remains subdued.

Equities

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

Equities net interest and trading income of $A186 million for the half-year ended 30 September 2017 increased 16% from $A161 million in the prior corresponding period, reflecting improvements in Asia following challenging conditions in the prior corresponding period and strong demand for structured client capital solutions.

Macquarie Capital

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

Net interest and trading expense of $A57 million for the half-year ended 30 September 2017 compared to net income of $A11 million in the prior corresponding period. This was primarily due to lower interest income from the debt investment portfolio and higher funding costs for principal investments, including the acquisition of GIG.

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 $A142 million for the half-year ended 30 September 2017 increased 45% from $A98 million in the prior corresponding period primarily due to lower costs of holding long-term liquidity and higher earnings on capital mainly driven by increased average capital volumes and higher USD interest rates.

2.2 FEE AND COMMISSION INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Base fees	**804**	786	794	*2*	*1*
Performance fees	**537**	94	170	*	*216*
Mergers and acquisitions, advisory and underwriting fees	**458**	492	471	*(7)*	*(3)*
Brokerage and commissions	**386**	394	419	*(2)*	*(8)*
Other fee and commission income	**383**	362	349	*6*	*10*
Total fee and commission income	**2,568**	2,128	2,203	*21*	*17*

Total fee and commission income of $A2,568 million for the half-year ended 30 September 2017 increased 17% from $A2,203 million in the prior corresponding period largely due to higher performance fees from MIRA managed funds and assets outperforming their respective benchmarks. This was partially offset by lower brokerage and commissions fee income due to the continued low volatility across global equity markets and reduced brokerage commission rates due to the trend towards lower margin platforms.

Base and performance fees

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Base fees					
MAM					
MIM	**450**	443	448	*2*	*<1*
MIRA	**325**	319	325	*2*	–
MSIS	**20**	22	17	*(9)*	*18*
Total MAM	**795**	784	790	*1*	*1*
Other Operating Groups	**9**	2	4	*	*125*
Total base fee income	**804**	786	794	*2*	*1*
Performance fees					
MAM					
MIM	**7**	5	5	*40*	*40*
MIRA	**530**	89	165	*	*221*
Total MAM	**537**	94	170	*	*216*
Total performance fee income	**537**	94	170	*	*216*

2.2 FEE AND COMMISSION INCOME CONTINUED

Base fees

Base fees of $A804 million for the half-year ended 30 September 2017 increased 1% from $A794 million in the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM, where base fees of $A795 million for the half-year ended 30 September 2017 increased 1% from $A790 million in the prior corresponding period. Base fee income benefited from investments made by MIRA-managed funds, growth in the MSIS Infrastructure Debt business and positive market movements in MIM AUM, partially offset by asset realisations by MIRA-managed funds, net flow impacts in the MIM business and foreign exchange impacts.

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

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A537 million for the half-year ended 30 September 2017 increased from $A170 million in the prior corresponding period. The half-year ended 30 September 2017 included performance fees from Macquarie European Infrastructure Fund 3 (MEIF3), Macquarie Atlas Roads (MQA), and other MIRA-managed accounts and co-investors. The half-year ended 30 September 2016 included performance fees from MQA, Macquarie Korea Infrastructure Fund (MKIF), Australian managed accounts and from co-investors in respect of infrastructure assets.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A458 million for the half-year ended 30 September 2017 decreased 3% from $A471 million in the prior corresponding period.

Mergers and acquisitions, advisory and underwriting fees are mainly attributable to Macquarie Capital which increased to $A436 million for the half-year ended 30 September 2017 from $A416 million in the prior corresponding period. Debt capital markets benefited from increased client activity in the US, leading to higher fee income for the business.

This was partially offset by lower fee income from mergers and acquisitions and equity capital markets. Mergers and acquisitions fee income was higher in Australia offset by declines in the US and Asia. Fee income from equity capital markets reflected subdued conditions in Australia.

Brokerage and commissions

Brokerage and commissions income of $A386 million for the half-year ended 30 September 2017 decreased 8% from $A419 million in the prior corresponding period.

The decrease was mainly in fee and commission income from equities-related activities driven by continued low volatility across global equity markets and reduced brokerage commission rates due to the trend towards lower margin platforms.

Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits, provision of wealth services in Australia, mortgages, credit cards and business loans as well as distribution service fees, structuring fees, capital protection fees and income from True Index products in MAM.

Other fee and commission income of $A383 million for the half-year ended 30 September 2017 increased 10% from $A349 million in the prior corresponding period due to increased platform commissions from higher funds on the Wrap and Vision platforms, partially offset by lower Life insurance income due to the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in September 2016 by BFS. The increase was further driven by higher MSIS Retail and True Index income.

2.3 NET OPERATING LEASE INCOME

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Rental income	**900**	813	833	*11*	*8*
Depreciation on operating lease assets	**(431)**	(368)	(357)	*17*	*21*
Net operating lease income	**469**	445	476	*5*	*(1)*

Net operating lease income, which is predominately earned by CAF, totalled $A469 million for the half-year ended 30 September 2017, down 1% from $A476 million in the prior corresponding period due to improved underlying income from the Aviation, Energy and Technology portfolios offset by foreign exchange movements.

CAF's operating lease portfolio was $A9.9 billion at 30 September 2017, broadly in line with $A10.0 billion at 31 March 2017 with depreciation and sales in the Aviation portfolio partially offset by growth in the Technology and Energy portfolios.

2.4 SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**103**	59	(8)	*75*	*

Share of net profits of associates and joint ventures of $A103 million for the half-year ended 30 September 2017 compares to a loss of $A8 million in the prior corresponding period. The movement was primarily due to the improved underlying performance of investments in Macquarie Capital.

2.5 OTHER OPERATING INCOME AND CHARGES

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Investment income					
Net gains on sale of investment securities available for sale	**38**	74	345	*(49)*	*(89)*
Net (losses)/gains on sale of interests in associates and joint ventures	**(17)**	30	256	*	*
Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale	**304**	374	239	*(19)*	*27*
Net gain on financial instruments designated at fair value	**91**	11	–	*	*
Dividends/distributions received/receivable from investment securities available for sale	**30**	50	45	*(40)*	*(33)*
Total investment income	**446**	539	885	*(17)*	*(50)*
Impairment charges					
Impairment charge on investment securities available for sale	**(10)**	(11)	(36)	*(9)*	*(72)*
Impairment charge on interests in associates and joint ventures	**(15)**	(7)	(20)	*114*	*(25)*
Impairment charge on intangibles and other non-financial assets	**(45)**	(24)	(75)	*88*	*(40)*
Total impairment charges	**(70)**	(42)	(131)	*67*	*(47)*
Provisions					
Individually assessed provisions for impairments	**(42)**	(73)	(99)	*(42)*	*(58)*
Collective allowance for credit losses provided for during the period	**21**	19	(14)	*11*	*
Loans written off	**(68)**	(97)	(51)	*(30)*	*33*
Recovery of loans previously written off	**17**	29	15	*(41)*	*13*
Total loan impairments and provisions	**(72)**	(122)	(149)	*(41)*	*(52)*
Other income	**61**	70	68	*(13)*	*(10)*
Total other operating income and charges	**365**	445	673	*(18)*	*(46)*

2.5 OTHER OPERATING INCOME AND CHARGES CONTINUED

Total other operating income and charges of $A365 million for the half-year ended 30 September 2017 decreased from $A673 million in the prior corresponding period, mainly driven by lower investment income, partially offset by reduced charges for provisions and impairments across most Operating Groups.

Investment income

Investment income totalled $A446 million for the half-year ended 30 September 2017, down from $A885 million in the prior corresponding period.

The prior corresponding period included gains on sale of a number of investments and businesses across all Operating Groups. These included BFS' sale of Macquarie Life's risk insurance business to Zurich Australia Limited, the partial sale of MAM's holding in MQA, the sale of a number of listed and unlisted investments in Macquarie Capital mainly in technology, infrastructure and renewable energy sectors as well as the sale of a number of investments in CGM in energy and related sectors.

Investment income in the current period included gains on reclassification of certain infrastructure investments in MAM and an investment in a toll road in the UK by the CAF Principal Finance business. Macquarie Capital generated principal gains mainly across unlisted investments in insurance, technology and renewable energy sectors.

Impairment charges

Impairment charges totalled $A70 million for the half-year ended 30 September 2017, a decrease of 47% from $A131 million in the prior corresponding period. The decrease predominately relates to the non-recurrence of impairment charges in BFS, with the prior corresponding period impacted by the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform, and a small number of underperforming principal investments in Macquarie Capital in the prior corresponding period.

Provisions

Provisions for credit losses and write-offs of $A72 million for the half-year ended 30 September 2017 decreased 52% from $A149 million in the prior corresponding period. The decrease, which was recognised across most Operating Groups, was largest in CAF which included the partial reversal of collective provisions driven by net loan repayments, and the improved credit performance of underlying portfolios.

2.6 OPERATING EXPENSES

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,908)**	(1,795)	(1,896)	*6*	*1*
Share-based payments	**(208)**	(185)	(231)	*12*	*(10)*
Provision for long service leave and annual leave	**(14)**	–	(14)	*	–
Total compensation expenses	**(2,130)**	(1,980)	(2,141)	*8*	*(1)*
Other employment expenses including on-costs, staff procurement and staff training	**(131)**	(109)	(149)	*20*	*(12)*
Total employment expenses	**(2,261)**	(2,089)	(2,290)	*8*	*(1)*
Brokerage, commission and trading-related expenses	**(422)**	(434)	(418)	*(3)*	*1*
Occupancy expenses	**(199)**	(191)	(201)	*4*	*(1)*
Non-salary technology expenses	**(295)**	(300)	(344)	*(2)*	*(14)*
Other operating expenses					
Professional fees	**(191)**	(215)	(170)	*(11)*	*12*
Auditor's remuneration	**(17)**	(19)	(17)	*(11)*	–
Travel and entertainment expenses	**(74)**	(77)	(77)	*(4)*	*(4)*
Advertising and communication expenses	**(59)**	(57)	(58)	*4*	*2*
Amortisation of intangible assets	**(21)**	(18)	(17)	*17*	*24*
Other expenses	**(154)**	(127)	(141)	*21*	*9*
Total other operating expenses	**(516)**	(513)	(480)	*1*	*8*
Total operating expenses	**(3,693)**	(3,527)	(3,733)	*5*	*(1)*

Total operating expenses of $A3,693 million for the half-year ended 30 September 2017 decreased 1% from $A3,733 million in the prior corresponding period mainly due to reduced project activity in BFS, lower average headcount across the Consolidated Entity and the impact of favourable foreign currency movements, partially offset by costs associated with the acquisition of GIG in Macquarie Capital during the period.

Key drivers of the movement included:

– Total employment expenses of $A2,261 million for the half-year ended 30 September 2017 decreased 1% from $A2,290 million in the prior corresponding period mainly due to lower average headcount across the Consolidated Entity and favourable foreign currency movements, partially offset by higher performance-related profit share expense driven by improved overall performance of the Operating Groups.

– Non-salary technology expenses of $A295 million for the half-year ended 30 September 2017 decreased 14% from $A344 million in the prior corresponding period, which was impacted by elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

– Total other operating expenses of $A516 million for the half-year ended 30 September 2017 increased 8% from $A480 million in the prior corresponding period mainly due to transaction, integration and ongoing costs associated with the acquisition of GIG in Macquarie Capital.

2.7 HEADCOUNT

	AS AT			MOVEMENT	
	Sep 17	Mar 17	Sep 16	Mar 17 %	Sep 16 %
Headcount by Operating Group					
MAM	**1,581**	1,559	1,517	*1*	*4*
CAF	**1,263**	1,258	1,347	*<1*	*(6)*
BFS	**2,077**	1,992	2,056	*4*	*1*
CGM	**1,986**	1,888	1,922	*5*	*3*
Macquarie Capital	**1,177**	1,136	1,149	*4*	*2*
Total headcount - Operating Groups	**8,084**	7,833	7,991	*3*	*1*
Total headcount - Corporate	**5,882**	5,764	5,825	*2*	*1*
Total headcount	**13,966**	13,597	13,816	*3*	*1*
Headcount by region					
Australia[1]	**6,241**	6,136	6,288	*2*	*(1)*
International:					
Americas	**2,586**	2,502	2,544	*3*	*2*
Asia	**3,445**	3,450	3,474	*(<1)*	*(1)*
Europe, Middle East and Africa	**1,694**	1,509	1,510	*12*	*12*
Total headcount - International	**7,725**	7,461	7,528	*4*	*3*
Total headcount	**13,966**	13,597	13,816	*3*	*1*
International headcount ratio (%)	**55**	55	54		

1. Includes New Zealand

Total headcount increased 1% to 13,966 at 30 September 2017 from 13,816 at 30 September 2016 mainly due to the acquisitions of Cargill by CGM and GIG by Macquarie Capital, and an increase in MAM and BFS to support business growth. This was partially offset by headcount reductions resulting from the realisation of efficiencies in the Consolidated Entity.

2.8 INCOME TAX EXPENSE

	HALF-YEAR TO		
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am
Operating profit before income tax	**1,704**	1,619	1,485
Prima facie tax @ 30%	**511**	485	446
Income tax permanent differences	**(63)**	(55)	(8)
Income tax expense	**448**	430	438
Effective tax rate[1]	**26.4%**	26.9%	29.4%

1. The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests reduced operating profit before income tax by $A8 million for the half-year ended 30 September 2017 (30 September 2016: increased operating profit before income tax by $A3 million).

Income tax expense for the half-year ended 30 September 2017 was $A448 million, a 2% increase from $A438 million in the prior corresponding period. The increase was mainly due to higher profit before tax.

The effective tax rate for the half-year ended 30 September 2017 was 26.4%, down from 29.4% in the prior corresponding period and broadly in line with the prior period rate of 26.9% reflecting the geographic mix and nature of earnings.

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SEGMENT ANALYSIS

3

3.1 BASIS OF PREPARATION

Operating Segments

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

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into five Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously six Operating Groups, and during the prior period Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

- **MAM** provides clients with access to a diverse range of capabilities and products, including infrastructure, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions
- **CAF** operates in selected international markets, providing specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment
- **BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients
- **CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities
- **Macquarie Capital** provides global corporate finance services, including mergers and acquisitions, debt and equity capital markets and principal investments, which are aligned with specialised sectors including: Infrastructure, Utilities and Renewables; Real Estate; Telecommunications, Media, Entertainment & Technology; Resources; Industrials; Financial Institutions.

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 the Consolidated Entity, 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 Consolidated Entity'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 or expense. These transactions eliminate on aggregation/consolidation.

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

Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Consolidated Entity, and Operating Groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs 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 Consolidated Entity.

Deposits are a funding source for the Consolidated Entity. BFS 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 Consolidated Entity's Chief Executive Officer or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions.

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

Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (CAF and BFS), 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 Consolidated Entity 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 Consolidated Entity level.

Central service groups

Central service groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. central service groups include 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.

3.1 BASIS OF PREPARATION CONTINUED

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/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 the Consolidated Entity's financial performance. The financial information disclosed relates to ordinary activities.

3.1 BASIS OF PREPARATION CONTINUED

	MAM $Am	CAF $Am	BFS $Am	Annuity-Style Businesses $Am
Half-year ended 30 September 2017				
Net interest and trading (expense)/income	(17)	336	584	**903**
Fee and commission income/(expense)	1,446	22	234	**1,702**
Net operating lease income	3	465	–	**468**
Share of net profits of associates and joint ventures accounted for using the equity method	42	–	1	**43**
Other operating income and charges				
Impairment charges, write-offs and provisions, net of recoveries	(1)	1	(8)	**(8)**
Other operating income and charges	257	106	8	**371**
Internal management revenue/(charge)	–	1	3	**4**
Net operating income	1,730	931	822	**3,483**
Total operating expenses	(543)	(312)	(536)	**(1,391)**
Operating profit/(loss) before income tax	1,187	619	286	**2,092**
Income tax expense	–	–	–	**–**
Loss/(profit) attributable to non-controlling interests	2	–	–	**2**
Net profit/(loss) contribution	**1,189**	**619**	**286**	**2,094**
Half-year ended 31 March 2017				
Net interest and trading (expense)/income	(20)	358	551	889
Fee and commission income/(expense)	1,002	32	216	1,250
Net operating lease income	8	437	–	445
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	4	–	5	9
Other operating income and charges				
Impairment charges, write-offs and provisions, net of recoveries	–	(50)	(13)	(63)
Other operating income and charges	199	182	6	387
Internal management revenue/(charge)	30	37	4	71
Net operating income	1,223	996	769	2,988
Total operating expenses	(541)	(319)	(517)	(1,377)
Operating profit/(loss) before income tax	682	677	252	1,611
Income tax expense	–	–	–	–
Profit attributable to non-controlling interests	(1)	–	–	(1)
Net profit/(loss) contribution	**681**	**677**	**252**	**1,610**
Half-year ended 30 September 2016				
Net interest and trading (expense)/income	(22)	354	498	830
Fee and commission income/(expense)	1,065	21	256	1,342
Net operating lease income	6	467	–	473
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	41	–	1	42
Other operating income and charges				
Impairment charges, write-offs and provisions, net of recoveries	14	(61)	(78)	(125)
Other operating income and charges	255	51	201	507
Internal management revenue/(charge)	14	3	1	18
Net operating income	1,373	835	879	3,087
Total operating expenses	(516)	(315)	(618)	(1,449)
Operating profit/(loss) before income tax	857	520	261	1,638
Income tax expense	–	–	–	–
Loss/(profit) attributable to non-controlling interests	–	1	–	1
Net profit/(loss) contribution	**857**	**521**	**261**	**1,639**

CGM $Am	Macquarie Capital $Am	**Capital Markets Facing Businesses $Am**	Corporate $Am	**Total $Am**
904	(57)	**847**	142	**1,892**
436	436	**872**	(6)	**2,568**
–	–	**–**	1	**469**
8	52	**60**	–	**103**
(56)	(20)	**(76)**	(58)	**(142)**
22	170	**192**	(56)	**507**
7	1	**8**	(12)	**–**
1,321	582	**1,903**	11	**5,397**
(943)	(390)	**(1,333)**	(969)	**(3,693)**
378	192	**570**	(958)	**1,704**
–	–	**–**	(448)	**(448)**
–	(2)	**(2)**	(8)	**(8)**
378	**190**	**568**	**(1,414)**	**1,248**
1,125	(8)	1,117	63	2,069
410	471	881	(3)	2,128
–	–	–	–	445
10	48	58	(8)	59
(98)	(5)	(103)	2	(164)
25	135	160	62	609
(9)	(4)	(13)	(58)	–
1,463	637	2,100	58	5,146
(982)	(347)	(1,329)	(821)	(3,527)
481	290	771	(763)	1,619
–	–	–	(430)	(430)
–	(12)	(12)	(9)	(22)
481	**278**	**759**	**(1,202)**	**1,167**
935	11	946	98	1,874
447	416	863	(2)	2,203
–	–	–	3	476
(10)	(20)	(30)	(20)	(8)
(51)	(92)	(143)	(12)	(280)
156	244	400	46	953
8	10	18	(36)	–
1,485	569	2,054	77	5,218
(994)	(375)	(1,369)	(915)	(3,733)
491	194	685	(838)	1,485
–	–	–	(438)	(438)
(1)	11	10	(8)	3
490	**205**	**695**	**(1,284)**	**1,050**

3.2 MAM

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest and trading expense	**(17)**	(20)	(22)	*(15)*	*(23)*
Fee and commission income					
Base fees	**795**	784	790	*1*	*1*
Performance fees	**537**	94	170	*	*216*
Other fee and commission income	**114**	124	105	*(8)*	*9*
Total fee and commission income	**1,446**	1,002	1,065	*44*	*36*
Net operating lease income	**3**	8	6	*(63)*	*(50)*
Share of net profits of associates and joint ventures accounted for using the equity method	**42**	4	41	*	*2*
Other operating income and charges					
Net gains on sale and reclassification of debt and equity investments and non-financial assets	**210**	163	203	*29*	*3*
Other income	**46**	36	66	*28*	*(30)*
Total other operating income and charges	**256**	199	269	*29*	*(5)*
Internal management revenue	**–**	30	14	*(100)*	*(100)*
Net operating income	**1,730**	1,223	1,373	*41*	*26*
Operating expenses					
Employment expenses	**(188)**	(190)	(182)	*(1)*	*3*
Brokerage, commission and trading-related expenses	**(123)**	(103)	(97)	*19*	*27*
Other operating expenses	**(232)**	(248)	(237)	*(6)*	*(2)*
Total operating expenses	**(543)**	(541)	(516)	*<1*	*5*
Non-controlling interests[1]	**2**	(1)	–	*	*
Net profit contribution	**1,189**	681	857	*75*	*39*
Non-GAAP metrics					
MAM (including MIRA) assets under management ($A billion)	**471.9**	480.0	491.3	*(2)*	*(4)*
MIRA equity under management ($A billion)	**79.5**	77.2	72.0	*3*	*10*
Headcount	**1,581**	1,559	1,517	*1*	*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.

Net profit contribution of $A1,189 million for the half-year ended 30 September 2017, up 39% from the prior corresponding period:
- Base fees broadly in line
- Increased performance fee income
- Investment-related income broadly in line

3.2 MAM CONTINUED

Base fees

Base fee income of $A795 million for the half-year ended 30 September 2017 increased 1% from $A790 million in the prior corresponding period. Base fee income benefited from investments made by MIRA-managed funds, growth in the MSIS Infrastructure Debt business and positive market movements in MIM AUM, partially offset by asset realisations by MIRA-managed funds, net flow impacts in the MIM business and foreign exchange impacts.

Performance fees

Performance fee income of $A537 million for the half-year ended 30 September 2017 was higher than the prior corresponding period of $A170 million. The half-year ended 30 September 2017 included performance fees from MEIF3, MQA, and other MIRA-managed funds and co-investors. The half-year ended 30 September 2016 included performance fees from MQA, MKIF, Australian managed accounts and from co-investors in respect of infrastructure assets.

Other fee and commission income

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

Other fee and commission income of $A114 million for the half-year ended 30 September 2017 is 9% higher than $A105 million in the prior corresponding period due to higher MSIS Retail and True Index income.

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

Share of net profits of associates and joint ventures of $A42 million for the half-year ended 30 September 2017 was in line with $A41 million in the prior corresponding period. The result includes the share of net profits from the sale of a number of underlying assets within equity accounted investments.

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

Net gains on sale and reclassification of debt and equity investments and non-financial assets of $A210 million for the half-year ended 30 September 2017 was 3% higher than $A203 million in the prior corresponding period. The current period included gains on reclassification of certain infrastructure investments from Available for sale to Investment in associates. The prior corresponding period included gains from the partial sale of MIRA's holding in MQA, gains on sale of unlisted real estate holdings in MIRA and a gain on sell down of infrastructure debt in MSIS.

Other income

Other income of $A46 million for the half-year ended 30 September 2017 decreased from $A66 million in the prior corresponding period. The current period included distribution income from MIRA's investment in MIC and income from MSIS Retail. The prior corresponding period included distribution income from MIC and other MIRA investments.

Operating expenses

Total operating expenses of $A543 million for the half-year ended 30 September 2017 increased 5% from $A516 million in the prior corresponding period. The current period included higher brokerage and commission expense in MSIS Retail.

3.3 CAF

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	Mar 17 %	Sep 16 %
Net interest and trading income	**336**	358	354	*(6)*	*(5)*
Fee and commission income	**22**	32	21	*(31)*	*5*
Net operating lease income	**465**	437	467	*6*	*(<1)*
Share of net profits of associates and joint ventures accounted for using the equity method	**–**	–	–	–	–
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	**(11)**	(11)	(17)	–	*(35)*
Gain on disposal of operating lease assets	**6**	1	15	*	*(60)*
Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale	**66**	140	–	*(53)*	*
Provisions for impairment, write-offs and collective allowance for credit losses	**12**	(39)	(44)	*	*
Other income	**34**	41	36	*(17)*	*(6)*
Total other operating income and charges	**107**	132	(10)	*(19)*	*
Internal management revenue	**1**	37	3	*(97)*	*(67)*
Net operating income	**931**	996	835	*(7)*	*11*
Operating expenses					
Employment expenses	**(132)**	(132)	(135)	–	*(2)*
Brokerage, commission and trading-related expenses	**(3)**	(5)	(4)	*(40)*	*(25)*
Other operating expenses	**(177)**	(182)	(176)	*(3)*	*1*
Total operating expenses	**(312)**	(319)	(315)	*(2)*	*(1)*
Non-controlling interests[1]	**–**	–	1	–	*(100)*
Net profit contribution	**619**	677	521	*(9)*	*19*
Non-GAAP metrics					
Loan and finance lease portfolio[2] ($A billion)	**25.6**	26.5	28.1	*(3)*	*(9)*
Operating lease portfolio ($A billion)	**9.9**	10.0	10.0	*(1)*	*(1)*
Headcount	**1,263**	1,258	1,347	*<1*	*(6)*

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 $A0.4 billion (March 2017: $A0.4 billion, September 2016: $A0.3 billion).

Net profit contribution of $A619 million for the half-year ended 30 September 2017, up 19% on the prior corresponding period:

– Increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
– Asset Finance portfolio continued to perform well
– Lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios

Partially offset by:

– Lower interest income as a result of the reduction in the Principal Finance portfolio size

3.3 CAF CONTINUED

Net interest and trading income

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

Net interest and trading income of $A336 million for the half-year ended 30 September 2017 decreased 5% from $A354 million in the prior corresponding period.

The decrease was a result of the reduction in the Principal Finance portfolio size, partially offset by increased income from prepayments and realisations.

The loan and finance lease portfolio was $A25.6 billion at 30 September 2017, a decrease of 3% from $A26.5 billion at 31 March 2017. The decrease was mainly in Principal Finance.

Net operating lease income

Net operating lease income of $A465 million for the half-year ended 30 September 2017 was broadly in line with $A467 million in the prior corresponding period. Improved underlying income from the Aviation, Energy and Technology portfolios was offset by foreign exchange movements.

The operating lease portfolio was $A9.9 billion at 30 September 2017, broadly in line with $A10.0 billion at 31 March 2017 with depreciation and sales in the Aviation portfolio partially offset by growth in the Technology and Energy portfolios.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A11 million for the half-year ended 30 September 2017 predominately related to the impairment of a legacy Asset Finance business.

Gain on disposal of operating lease assets

The gain on disposal of operating lease assets of $A6 million for the half-year ended 30 September 2017 predominately related to gains recognised on the sale of three aircraft.

Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale

The gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale of $A66 million for the half-year ended 30 September 2017 primarily related to a gain on reclassification of an investment in a UK toll road following an increase in ownership by the Principal Finance business. The prior period result of $A140 million primarily related to a gain realised on the sale of an interest in a toll road in the US by the Principal Finance business.

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

Provisions for impairment, write-offs and collective allowance for credit losses was a gain of $A12 million for the half-year ended 30 September 2017. The improvement from the $A44 million provision expense in the prior corresponding period was due to the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios.

Operating expenses

Total operating expenses of $A312 million for the half-year ended 30 September 2017 decreased 1% from $A315 million in the prior corresponding period.

3.4 BFS

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest and trading income	**584**	551	498	*6*	*17*
Fee and commission income					
Wealth management fee income	**168**	154	159	*9*	*6*
Banking fee income	**66**	62	70	*6*	*(6)*
Life insurance income	**–**	–	27	–	*(100)*
Total fee and commission income	**234**	216	256	*8*	*(9)*
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	5	1	*(80)*	–
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	**–**	(7)	(46)	*(100)*	*(100)*
Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale	**1**	–	192	*	*(99)*
Provisions for impairment, write-offs and collective allowance for credit losses	**(8)**	(6)	(32)	*33*	*(75)*
Other income	**7**	6	9	*17*	*(22)*
Total other operating income and charges	**–**	(7)	123	*(100)*	*(100)*
Internal management revenue	**3**	4	1	*(25)*	*200*
Net operating income	**822**	769	879	*7*	*(6)*
Operating expenses					
Employment expenses	**(158)**	(155)	(171)	*2*	*(8)*
Brokerage, commission and trading-related expenses	**(104)**	(103)	(105)	*1*	*(1)*
Technology expenses[1]	**(136)**	(132)	(189)	*3*	*(28)*
Other operating expenses	**(138)**	(127)	(153)	*9*	*(10)*
Total operating expenses	**(536)**	(517)	(618)	*4*	*(13)*
Net profit contribution	**286**	252	261	*13*	*10*
Non-GAAP metrics					
Funds on platform[2] ($A billion)	**78.9**	72.2	62.1	*9*	*27*
Australian loan portfolio[3] ($A billion)	**37.6**	35.8	35.6	*5*	*6*
Legacy loan portfolios[4] ($A billion)	**–**	0.5	0.6	*(100)*	*(100)*
BFS deposits[5] ($A billion)	**46.4**	44.5	42.2	*4*	*10*
Headcount[6]	**2,077**	1,992	1,959	*4*	*6*

1. Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
2. Funds on platform includes Macquarie Wrap and Vision.
3. The 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. BFS Deposits excludes corporate/wholesale deposits.
6. Headcount at 30 September 2016 excludes 97 staff relating to the sale of the Macquarie Life business.

Net profit contribution of $A286 million for the half-year ended 30 September 2017, up 10% from the prior corresponding period:

- Volume growth in loan and deposit portfolios and improved margins
- The non-recurrence of expenses recognised in the prior corresponding period, including impairment charges predominately on certain equity positions and intangible assets and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform

Partially offset by:

- Net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio in the prior corresponding period

3.4 BFS CONTINUED

Net interest and trading income

Net interest and trading income of $A584 million for the half-year ended 30 September 2017 increased 17% from $A498 million in the prior corresponding period due to a 3% growth in average Australian loan volumes, an 11% growth in the average deposit portfolio balance and improved margins across Australian mortgages, business lending and BFS deposits, compared to the prior corresponding period.

At 30 September 2017 the Australian loan and deposit portfolios included:

- Australian mortgage volumes of $A29.9 billion, up 4% from $A28.7 billion at 31 March 2017;
- business lending volumes of $A7.1 billion, up 9% from $A6.5 billion at 31 March 2017; and
- BFS deposits of $A46.4 billion, up 4% from $A44.5 billion at 31 March 2017.

The sale of the Canadian mortgages portfolio during the period has resulted in no remaining legacy loan portfolio at 30 September 2017 ($A0.5 billion at 31 March 2017).

Wealth management fee income

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

Wealth management fee income of $A168 million for the half-year ended 30 September 2017 increased 6% from $A159 million in the prior corresponding period mainly due to increased platform commissions from higher funds on the Wrap and Vision platforms. Advice fees remained broadly in line.

Funds on platform closed at $A78.9 billion at 30 September 2017, an increase of 9% from $A72.2 billion at 31 March 2017 largely due to the successful migration of full service broking accounts onto the Vision platform.

Banking fee income

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

Banking fee income of $A66 million for the half-year ended 30 September 2017 decreased 6% from $A70 million in the prior corresponding period.

Life insurance income

Macquarie Life's risk insurance business was sold to Zurich Australia Limited in September 2016.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A46 million in the prior corresponding period related to the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform. There were no impairment charges for the half-year ended 30 September 2017.

Net gain on acquiring, disposing, reclassification and change in ownership interests of investments, subsidiaries and businesses held for sale

The gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A1 million for the half-year ended 30 September 2017 decreased from $A192 million in the prior corresponding period, which included the sale of Macquarie Life's risk insurance business to Zurich Australia Limited, partially offset by losses on the sale of the US mortgages portfolio. There were no significant items in the current period.

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

Provisions for impairment, write-offs and collective allowance for credit losses of $A8 million for the half-year ended 30 September 2017 decreased 75% from $A32 million in the prior corresponding period, which included higher business lending provisions on a small number of loans.

Operating expenses

Total operating expenses of $A536 million for the half-year ended 30 September 2017 decreased 13% from $A618 million in the prior corresponding period.

Employment expenses of $A158 million for the half-year ended 30 September 2017 decreased 8% from $A171 million in the prior corresponding period driven by lower average headcount from the realisation of efficiencies and the sale of Macquarie Life's risk insurance business.

Brokerage, commission and trading-related expenses of $A104 million for the half-year ended 30 September 2017 were broadly in line with the prior corresponding period.

Technology expenses of $A136 million for the half-year ended 30 September 2017 decreased 28% from $A189 million in the prior corresponding period. The prior corresponding period included elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

Other operating expenses of $A138 million for the half-year ended 30 September 2017 decreased 10% from $A153 million in the prior corresponding period driven by lower professional fees and occupancy costs.

3.5 CGM

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest and trading income					
Commodities					
Risk management products	**285**	427	321	*(33)*	*(11)*
Lending and financing	**108**	118	142	*(8)*	*(24)*
Inventory management, transport and storage	**42**	82	42	*(49)*	–
Total commodities	**435**	627	505	*(31)*	*(14)*
Credit, interest rates and foreign exchange	**283**	352	269	*(20)*	*5*
Equities	**186**	146	161	*27*	*16*
Net interest and trading income	**904**	1,125	935	*(20)*	*(3)*
Fee and commission income					
Brokerage and commissions	**341**	349	355	*(2)*	*(4)*
Other fee and commission income	**95**	61	92	*56*	*3*
Total fee and commission income	**436**	410	447	*6*	*(2)*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**8**	10	(10)	*(20)*	*
Other operating income and charges					
Net gains on sale of equity and debt investments	**12**	17	141	*(29)*	*(91)*
Impairment charge on equity investments, intangibles and other non-financial assets	**(11)**	(10)	(10)	*10*	*10*
Provisions for impairment and collective allowance for credit losses	**(45)**	(88)	(41)	*(49)*	*10*
Other income	**10**	8	15	*25*	*(33)*
Total other operating income and charges	**(34)**	(73)	105	*(53)*	*
Internal management revenue/(charge)	**7**	(9)	8	*	*(13)*
Net operating income	**1,321**	1,463	1,485	*(10)*	*(11)*
Operating expenses					
Employment expenses	**(278)**	(275)	(290)	*1*	*(4)*
Brokerage, commission and trading-related expenses	**(190)**	(218)	(205)	*(13)*	*(7)*
Other operating expenses	**(475)**	(489)	(499)	*(3)*	*(5)*
Total operating expenses	**(943)**	(982)	(994)	*(4)*	*(5)*
Non-controlling interests[1]	**–**	–	(1)	–	*(100)*
Net profit contribution	**378**	481	490	*(21)*	*(23)*
Non-GAAP metrics					
Headcount	**1,986**	1,888	1,922	*5*	*3*

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

Net profit contribution of $A378 million for the half-year ended 30 September 2017, down 23% from the prior corresponding period:

- Reduced income from the sale of investments, mainly in energy and related sectors
- Lower volatility across the commodities platform resulting in reduced client activity and trading opportunities

Partially offset by:

- Strong client flows and revenues from interest rates and foreign exchange
- Improved results across the equities platform
- Lower operating expenses reflecting reduced commodity-related trading activity, reduced average headcount and associated activity, and realisation of benefits from cost synergies following the merger of CFM and MSG

3.5 CGM CONTINUED

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 $A285 million for the half-year ended 30 September 2017 decreased 11% from $A321 million in the prior corresponding period. The current period included mixed results across the commodities platform. Volatility was lower in comparison to the prior corresponding period which impacted client hedging activity and trading opportunities across Global Oil, North American Gas and Metals. These were partially offset by stronger results in North American Power, Bulk Commodities, Investor Products and Agriculture.

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 $A108 million for the half-year ended 30 September 2017 decreased 24% from $A142 million in the prior corresponding period largely due to a reduction in average loan balances in the oil and gas sectors due to the wind down of residual Metals, Energy Capital and other legacy portfolios.

iii) Inventory management, transport and storage

CGM enters into a number of tolling agreements, storage contracts and transportation agreements in order to facilitate client flow transactions as part of its commodities platform. These arrangements also provide CGM with the ability to maximise opportunities where there is dislocation between the supply and demand for energy. Tolling agreements, storage contracts and transportation agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some volatility with timing of reported income.

Inventory management, transport and storage income of $A42 million for the half-year ended 30 September 2017 was in line with the prior corresponding period.

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

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A283 million for the half-year ended 30 September 2017 increased 5% from $A269 million in the prior corresponding period. Increased income in the current half-year was underpinned by strong contributions from foreign exchange and interest rates markets in Japan, EMEA and North America. Credit remains subdued.

Equities net interest and trading income

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

Equities net interest and trading income of $A186 million for the half-year ended 30 September 2017 increased 16% from $A161 million in the prior corresponding period, reflecting improvements in Asia following challenging conditions in the prior corresponding period and strong demand for structured client capital solutions.

Fee and commission income

Fee and commission income of $A436 million for the half-year ended 30 September 2017 decreased 2% from $A447 million in the prior corresponding period.

The decrease was mainly in fee and commission income from equities-related activities driven by continued low volatility across global equity markets and reduced brokerage commission rates due to the trend towards lower margin platforms.

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of $A12 million for the half-year ended 30 September 2017 decreased 91% from $A141 million in the prior corresponding period, which included gains on the sale of a number of investments in energy and related sectors.

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

The impairment charge on equity investments, intangibles and other non-financial assets of $A11 million for the half-year ended 30 September 2017 increased 10% from $A10 million in the prior corresponding period. Impairments in the current half-year relates to certain metals and mining positions.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of $A45 million for the half-year ended 30 September 2017 increased 10% from $A41 million in the prior corresponding period with further write downs recognised on previously impaired underperforming commodity-related loans.

Operating expenses

Total operating expenses of $A943 million for the half-year ended 30 September 2017 decreased 5% from $A994 million in the prior corresponding period.

Employment expenses of $A278 million for the half-year ended 30 September 2017 decreased 4% from $A290 million in the prior corresponding period mainly due to lower average headcount.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of $A190 million for the half-year ended 30 September 2017 decreased 7% from $A205 million in the prior corresponding period mainly due to reduced commodities-related trading activity.

Other operating expenses of $A475 million for the half-year ended 30 September 2017 decreased 5% from $A499 million in the prior corresponding period, reflecting realisation of benefits from cost synergies following the merger of CFM and MSG.

3.6 MACQUARIE CAPITAL

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest and trading (expense)/income	**(57)**	(8)	11	*	*
Fee and commission income	**436**	471	416	*(7)*	*5*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**52**	48	(20)	*8*	*
Other operating income and charges					
Net gains on sale, reclassification and revaluation of equity and debt investments	**127**	131	244	*(3)*	*(48)*
Impairment charge on equity and debt investments and non-financial assets	**(1)**	(8)	(37)	*(88)*	*(97)*
Provisions for impairment and collective allowance for credit losses	**(19)**	3	(55)	*	*(65)*
Other income	**43**	4	–	*	*
Total other operating income and charges	**150**	130	152	*15*	*(1)*
Internal management revenue/(charge)	**1**	(4)	10	*	*(90)*
Net operating income	**582**	637	569	*(9)*	*2*
Operating expenses					
Employment expenses	**(172)**	(151)	(178)	*14*	*(3)*
Brokerage, commission and trading-related expenses	**(3)**	(4)	(4)	*(25)*	*(25)*
Other operating expenses	**(215)**	(192)	(193)	*12*	*11*
Total operating expenses	**(390)**	(347)	(375)	*12*	*4*
Non-controlling interests[1]	**(2)**	(12)	11	*(83)*	*
Net profit contribution	**190**	278	205	*(32)*	*(7)*
Non-GAAP metrics					
Headcount	**1,177**	1,136	1,149	*4*	*2*

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

Net profit contribution of $A190 million for the half-year ended 30 September 2017, down 7% from the prior corresponding period:

- Reduced investment-related income due to lower gains on sale of investments as well as lower interest income from the debt investment portfolio and higher funding costs for principal investments including the acquisition of GIG
- Lower mergers and acquisitions fee income in the US and Asia

Partially offset by:

- Higher fee income from debt capital markets in the US due to increased client activity as well as mergers and acquisitions fee income in Australia
- Lower provisions and impairment charges compared to the prior corresponding period

3.6 MACQUARIE CAPITAL CONTINUED

Net interest and trading (expense)/income

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

Net interest and trading expense of $A57 million for the half-year ended 30 September 2017 compared to net income of $A11 million in the prior corresponding period. This was primarily due to lower interest income from the debt investment portfolio and higher funding costs for principal investments, including the acquisition of GIG.

Fee and commission income

Fee income includes fees from mergers and acquisitions, debt and equity capital markets.

Fee and commission income of $A436 million for the half-year ended 30 September 2017 increased 5% from $A416 million in the prior corresponding period.

Debt capital markets benefited from increased client activity in the US, leading to higher fee income for the business. This was partially offset by lower fee income from mergers and acquisitions and equity capital markets. Mergers and acquisitions fee income was higher in Australia offset by declines in the US and Asia. Fee income from equity capital markets reflected subdued conditions in Australia.

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

Share of net profits of associates and joint ventures of $A52 million for the half-year ended 30 September 2017 increased from a loss of $A20 million in the prior corresponding period. The movement was primarily due to the improved underlying performance of investments.

Net gains on sale, reclassification and revaluation of equity and debt investments

Net gains on sale, reclassification and revaluation of equity and debt investments of $A127 million for the half-year ended 30 September 2017 decreased 48% from $A244 million in the prior corresponding period.

Gains were mainly generated in the US and Europe, primarily across unlisted investments in insurance, technology and renewable energy sectors. The gains generated in the prior corresponding period were primarily in Australia and Europe, across listed and unlisted investments in technology, infrastructure and renewable energy sectors.

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 $A20 million for the half-year ended 30 September 2017 decreased 78% from $A92 million in the prior corresponding period.

Provisions recognised in the current period primarily relate to the collective allowance for credit losses. Impairment charges recognised in the prior corresponding period related to a small number of underperforming principal investments.

Other income

Other income of $A43 million for the half-year ended 30 September 2017 comprised income from principal activities.

Operating expenses

Total operating expenses of $A390 million for the half-year ended 30 September 2017 increased 4% from $A375 million in the prior corresponding period. This increase primarily reflects transaction, integration and ongoing costs associated with the acquisition of GIG and higher operating expenses from increased principal activity.

3.7 CORPORATE

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Net interest and trading income	**142**	63	98	*125*	*45*
Fee and commission expense	**(6)**	(3)	(2)	*100*	*200*
Net operating lease income	**1**	–	3	*	*(67)*
Share of net losses of associates and joint ventures accounted for using the equity method	**–**	(8)	(20)	*(100)*	*(100)*
Other operating income and charges					
Net gains on sale and reclassification of debt and equity securities	**2**	51	46	*(96)*	*(96)*
Impairment (charge)/write back on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses	**(58)**	2	(12)	*	*
Other income and charges	**(58)**	11	–	*	*
Total other operating income and charges	**(114)**	64	34	*	*
Internal management charge	**(12)**	(58)	(36)	*(79)*	*(67)*
Net operating income	**11**	58	77	*(81)*	*(86)*
Operating expenses					
Employment expenses	**(1,332)**	(1,186)	(1,334)	*12*	*(<1)*
Brokerage, commission and trading-related expenses	**(1)**	(1)	(3)	–	*(67)*
Other operating expenses	**364**	366	422	*(1)*	*(14)*
Total operating expenses	**(969)**	(821)	(915)	*18*	*6*
Income tax expense	**(448)**	(430)	(438)	*4*	*2*
Macquarie Income Securities	**(7)**	(7)	(8)	–	*(13)*
Non-controlling interests[1]	**(1)**	(2)	–	*(50)*	*
Net loss contribution	**(1,414)**	(1,202)	(1,284)	*18*	*10*
Non-GAAP metrics					
Headcount	**5,882**	5,764	5,825	*2*	*1*

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

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

3.7 CORPORATE CONTINUED

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 $A142 million for the half-year ended 30 September 2017 increased 45% from $A98 million in the prior corresponding period primarily due to lower costs of holding long-term liquidity and higher earnings on capital mainly driven by increased average capital volumes and higher USD interest rates.

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

Share of net losses of associates and joint ventures was nil for the half-year ended 30 September 2017, up from a net loss of $A20 million in the prior corresponding period. The movement reflects the reclassification of non-core assets to investments held for sale.

Net gains on sale and reclassification of debt and equity securities

Net gains on sale and reclassification of debt and equity securities were $A2 million for the half-year ended 30 September 2017, down from net gains of $A46 million in the prior corresponding period. The gain in the prior corresponding period related to the disposal of legacy assets.

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

Impairment charges on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses was $A58 million for the half-year ended 30 September 2017, compared to a charge of $A12 million in the prior corresponding period. The current period includes impairments relating to legacy assets.

Other income and charges

The expense of $A58 million for the half-year ended 30 September 2017 included inter-segment elimination and other charges.

Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Consolidated Entity'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 Consolidated Entity and the impact of fair value adjustments to Directors' Profit Share liabilities.

Employment expenses of $A1,332 million for the half-year ended 30 September 2017 was broadly in line with the prior corresponding period. The impact of higher performance-related profit share expense, which was driven by the improved overall performance of the Operating Groups, was offset by the realisation of operating efficiencies.

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 groups costs (including employment-related costs) from the Operating Groups.

The net recovery from the Operating Groups of $A364 million for the half-year ended 30 September 2017 decreased 14% from $A422 million in the prior corresponding period. This decrease mainly reflects the recovery of lower technology and employment expenses driven by operating efficiencies.

3.8 INTERNATIONAL INCOME

International income by region

	HALF-YEAR TO			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Americas	**1,305**	1,555	1,156	*(16)*	*13*
Asia	**548**	670	568	*(18)*	*(4)*
Europe, Middle East and Africa	**1,496**	1,189	1,295	*26*	*16*
Total international income	**3,349**	3,414	3,019	*(2)*	*11*
Australia[1]	**2,025**	1,616	2,086	*25*	*(3)*
Total income (excluding earnings on capital and other corporate items)	**5,374**	5,030	5,105	*7*	*5*
Earnings on capital and other corporate items	**23**	116	113	*(80)*	*(80)*
Net operating income (as reported)	**5,397**	5,146	5,218	*5*	*3*
International income (excluding earnings on capital and other corporate items) ratio (%)	**62**	68	59		

1. Includes New Zealand.

International income by Operating Group and region

	HALF-YEAR TO SEP 17						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	**Total International $Am**	Australia[1] $Am	**Total Income[2] $Am**	**Total International %**
MAM	591	86	575	**1,252**	478	**1,730**	**72**
CAF	174	8	505	**687**	243	**930**	**74**
BFS	1	–	–	**1**	818	**819**	**<1**
CGM	299	446	268	**1,013**	301	**1,314**	**77**
Macquarie Capital	240	8	148	**396**	185	**581**	**68**
Total	**1,305**	**548**	**1,496**	**3,349**	**2,025**	**5,374**	**62**

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

Total international income was $A3,349 million for the half-year ended 30 September 2017, an increase of 11% from $A3,019 million in the prior corresponding period. Total international income represented 62% of total income (excluding earnings on capital and other corporate items), up from 59% in the prior corresponding period.

Income from the Americas of $A1,305 million for the half-year ended 30 September 2017 increased 13% from $A1,156 million in the prior corresponding period mainly due to higher investment-related income primarily from gains across unlisted investments in Macquarie Capital, lower provisions for collective allowance for credit losses in CAF due to the partial reversal of collective provisions driven by net loan repayments and the improved credit performance of underlying portfolios. The prior corresponding period also included a loss on the sale of the US mortgages portfolio by BFS.

In Asia, income of $A548 million for the half-year ended 30 September 2017 decreased 4% from $A568 million in the prior corresponding period. The decrease was primarily in MAM due to lower base and performance fees, partially offset by higher income in CGM reflecting improved equities net interest and trading income in Asia following challenging conditions in the prior corresponding period and strong demand for structured client capital solutions.

Income from Europe, Middle East and Africa of $A1,496 million for the half-year ended 30 September 2017 increased 16% from $A1,295 million in the prior corresponding period. The increase was primarily driven by higher performance fees in MAM including from MEIF3, and a gain on reclassification in CAF following an increase in ownership of a UK toll road, partially offset by the non-recurrence of gains on sale of investments in CGM in the prior corresponding period.

In Australia, income of $A2,025 million for the half-year ended 30 September 2017 decreased 3% from $A2,086 million in the prior corresponding period, which included the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in BFS. The decrease was partially offset by an increase in income in BFS from a 3% growth in average Australian loan volumes and an 11% growth in the average deposit portfolio balance.

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BALANCE SHEET

4

4.1 STATEMENT OF FINANCIAL POSITION

	AS AT			MOVEMENT	
	Sep 17 $Am	Mar 17 $Am	Sep 16 $Am	*Mar 17 %*	*Sep 16 %*
Assets					
Receivables from financial institutions	**40,345**	27,471	33,260	*47*	*21*
Trading portfolio assets	**18,634**	26,933	27,207	*(31)*	*(32)*
Derivative assets	**12,360**	12,106	15,233	*2*	*(19)*
Investment securities available for sale	**4,752**	6,893	7,857	*(31)*	*(40)*
Other assets	**19,008**	16,558	15,421	*15*	*23*
Loan assets held at amortised cost	**76,889**	76,663	77,976	*<1*	*(1)*
Other financial assets at fair value through profit or loss	**1,510**	1,502	1,378	*1*	*10*
Property, plant and equipment	**10,960**	11,009	10,957	*(<1)*	*<1*
Interests in associates and joint ventures accounted for using the equity method	**3,622**	2,095	2,048	*73*	*77*
Intangible assets	**991**	1,009	993	*(2)*	*(<1)*
Deferred tax assets	**689**	638	763	*8*	*(10)*
Total assets	**189,760**	182,877	193,093	*4*	*(2)*
Liabilities					
Trading portfolio liabilities	**7,451**	5,067	5,714	*47*	*30*
Derivative liabilities	**10,717**	11,128	12,949	*(4)*	*(17)*
Deposits	**59,006**	57,708	55,438	*2*	*6*
Other liabilities	**15,745**	15,031	13,676	*5*	*15*
Payables to financial institutions	**19,065**	17,072	23,736	*12*	*(20)*
Debt issued at amortised cost	**52,283**	50,828	57,617	*3*	*(9)*
Other financial liabilities at fair value through profit or loss	**2,268**	2,404	3,018	*(6)*	*(25)*
Deferred tax liabilities	**746**	621	540	*20*	*38*
Total liabilities excluding loan capital	**167,281**	159,859	172,688	*5*	*(3)*
Loan capital	**5,380**	5,748	4,942	*(6)*	*9*
Total liabilities	**172,661**	165,607	177,630	*4*	*(3)*
Net assets	**17,099**	17,270	15,463	*(1)*	*11*
Equity					
Contributed equity	**6,188**	6,290	6,234	*(2)*	*(1)*
Reserves	**999**	1,396	1,295	*(28)*	*(23)*
Retained earnings	**8,170**	7,877	7,392	*4*	*11*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**15,357**	15,563	14,921	*(1)*	*3*
Non-controlling interests	**1,742**	1,707	542	*2*	*221*
Total equity	**17,099**	17,270	15,463	*(1)*	*11*

4.1 STATEMENT OF FINANCIAL POSITION CONTINUED

The Consolidated Entity's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2017.

Assets

Total assets of $A189.8 billion at 30 September 2017 increased 4% from $A182.9 billion at 31 March 2017 mainly due to an increase in Receivables from financial institutions, Other assets and Interests in associates and joint ventures accounted for using the equity method. These increases were partially offset by decreases in Trading portfolio assets and Investment securities available for sale.

- Receivables from financial institutions of $A40.3 billion at 30 September 2017 increased 47% from $A27.5 billion at 31 March 2017 mainly due to an increase in reverse repurchase and stock borrowing trades in CGM, and Treasury's funding and liquidity management activities during the half-year ended 30 September 2017
- Other assets of $A19.0 billion at 30 September 2017 increased 15% from $A16.6 billion at 31 March 2017 mainly due to an increase in Held for sale investments in MAM and Macquarie Capital, partially offset by the sale of the Canadian mortgages portfolio in BFS
- Interests in associates and joint ventures accounted for using the equity method of $A3.6 billion increased 73% from $A2.1 billion at 31 March 2017 mainly due to the reclassification of several investments in MAM and CAF from Available for sale to Associates
- Trading portfolio assets of $A18.6 billion at 30 September 2017 decreased 31% from $A26.9 billion at 31 March 2017 mainly due to a decline in long equity positions and a reduction in the holdings of physical commodities, particularly metals
- Investment securities available for sale of $A4.8 billion at 30 September 2017 decreased 31% from $A6.9 billion at 31 March 2017 mainly due to the reclassification of investments in MAM and CAF from Available for sale to Associates
- Loan assets held at amortised cost of $A76.9 billion at 30 September 2017 slightly increased from $A76.7 billion at 31 March 2017 mainly due to net new loans written in BFS' mortgages and business lending portfolios, partially offset by a reduction in volumes in:
  - CGM's short and long term lending in structured commodity finance and reduced positions held with exchanges and clearing institutions; and
  - CAF's loan and finance lease portfolio decreasing 3% to $A25.6 billion at 30 September 2017 from $A26.5 billion at 31 March 2017 primarily due to repayments in Principal Finance transactions.

Liabilities

Total liabilities of $A172.7 billion at 30 September 2017 increased 4% from $A165.6 billion at 31 March 2017 mainly driven by an increase in Trading portfolio liabilities, Payables to financial institutions, Debt Issued at amortised cost and Deposits. These increases were partially offset by a decrease in Loan capital.

- Trading portfolio liabilities of $A7.5 billion at 30 September 2017 increased 47% from $A5.1 billion at 31 March 2017 mainly due to an increase in short equity positions and the revaluation of hedge positions
- Payables to financial institutions of $A19.1 billion at 30 September 2017 increased 12% from $A17.1 billion at 31 March 2017 mainly due to an increase in stock lending activity, partially offset by repayment of funding facilities
- Debt issued at amortised cost of $A52.3 billion at 30 September 2017 increased 3% from $A50.8 billion at 31 March 2017, mainly driven by Treasury's funding and liquidity management activities which included new commercial paper issuances, partially offset by the repayment of long-term debt
- Deposits of $A59.0 billion at 30 September 2017 increased 2% from $A57.7 billion at 31 March 2017 mainly due to an increase in retail cash management deposits in BFS
- Loan capital of $A5.4 billion decreased 6% from $A5.7 billion mainly due to the redemption of Exchangeable Capital Securities notes during the period.

Equity

Total equity decreased 1% to $A17.1 billion at 30 September 2017 from $A17.3 billion at 31 March 2017.

The decrease was mainly due to the payment of the 2017 final dividend of $A1.0 billion and the on-market purchase of shares for the 2017 Macquarie Group Employee Retained Equity Plan of $A0.4 billion, partially offset by the profit of the half-year 30 September 2017.

4.2 LOAN ASSETS

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

	AS AT			MOVEMENT	
	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	Mar 17 %	Sep 16 %
Loan assets at amortised cost per the statement of financial position	**76.9**	76.7	78.0	*<1*	*(1)*
Other loans held at fair value[1]	**0.4**	0.4	0.2	–	*100*
Operating lease assets	**9.9**	10.0	9.9	*(1)*	–
Other reclassifications[2]	**1.2**	1.2	1.7	–	*(29)*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3]	**(11.4)**	(13.4)	(14.7)	*(15)*	*(22)*
Less: segregated funds[4]	**(5.2)**	(4.6)	(5.0)	*13*	*4*
Less: margin balances (reclassed to trading)[5]	**(1.7)**	(2.8)	(1.9)	*(39)*	*(11)*
Total loan assets including operating lease assets per the funded balance sheet[6]	**70.1**	67.5	68.2	*4*	*3*

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 including operating lease assets per the funded balance sheet includes self-securitised assets.

4.2 LOAN ASSETS CONTINUED

Loan assets[1] including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

		AS AT			MOVEMENT	
	Notes	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	Mar 17 %	Sep 16 %
CAF						
Asset Finance:	1					
Finance lease assets		**13.6**	12.2	13.2	*11*	*3*
Operating lease assets		**9.9**	10.0	9.9	*(1)*	–
Total Asset Finance		**23.5**	22.2	23.1	*6*	*2*
Principal Finance	2	**5.7**	6.6	8.0	*(14)*	*(29)*
Total CAF		**29.2**	28.8	31.1	*1*	*(6)*
BFS						
Retail Mortgages:	3					
Australia[2]		**25.4**	23.0	22.0	*10*	*15*
Canada, US and Other		**–**	0.5	0.6	*(100)*	*(100)*
Total Retail Mortgages		**25.4**	23.5	22.6	*8*	*12*
Business banking[2]	4	**7.7**	7.1	6.9	*8*	*12*
Total BFS		**33.1**	30.6	29.5	*8*	*12*
CGM						
Resources and commodities	5	**2.6**	2.5	2.4	*4*	*8*
Other	6	**2.3**	2.8	3.0	*(18)*	*(23)*
Total CGM		**4.9**	5.3	5.4	*(8)*	*(9)*
MAM						
Structured investments	7	**2.2**	2.0	1.4	*10*	*57*
Macquarie Capital						
Corporate and other lending	8	**0.7**	0.8	0.8	*(13)*	*(13)*
Total		**70.1**	67.5	68.2	*4*	*3*

1. Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.
2. Securitised business banking portfolio with underlying residential mortgages was included in Retail Mortgages: Australia and has been reclassed to business banking and restated accordingly in September 2016 and March 2017.

4.2 LOAN ASSETS CONTINUED

Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

Secured by underlying financed assets.

2. Principal Finance

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 predominately supported by mortgage insurance.

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. CGM 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 diversified secured corporate lending.

4.3 EQUITY INVESTMENTS

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

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

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

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

Equity investments reconciliation

	AS AT			MOVEMENT	
	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	*Mar 17 %*	*Sep 16 %*
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	**0.9**	0.9	0.8	*–*	*13*
Equity investments within investment securities available for sale	**0.7**	2.0	2.3	*(65)*	*(70)*
Interests in associates and joint ventures accounted for using the equity method	**3.6**	2.1	2.0	*71*	*80*
Held for sale equity investments within other assets	**4.1**	2.2	0.6	*86*	*
Total equity investments per statement of financial position	**9.3**	7.2	5.7	*29*	*63*
Adjustment for funded balance sheet					
Equity hedge positions[1]	**(0.2)**	(0.4)	(0.4)	*(50)*	*(50)*
Non-controlling interests[2]	**(1.4)**	(1.3)	(0.2)	*8*	*
Total funded equity investments	**7.7**	5.5	5.1	*40*	*51*
Adjustments for equity investments analysis					
Available for sale and associates' reserves[3]	**(0.1)**	(0.5)	(0.6)	*(80)*	*(83)*
Total adjusted equity investments[4]	**7.6**	5.0	4.5	*52*	*69*

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. These represent the portion of ownership in equity investments not attributable to Macquarie. As this is not a position that Macquarie is required to fund it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.
3. 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.
4. The adjusted book value represents the total net exposure to Macquarie.

4.3 EQUITY INVESTMENTS CONTINUED

Equity investments by category

	AS AT			MOVEMENT	
	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	*Mar 17 %*	*Sep 16 %*
Macquarie-managed funds					
Listed MIRA managed funds	**1.0**	0.7	0.9	*43*	*11*
Unlisted MIRA managed funds	**0.9**	0.9	0.9	–	–
Other Macquarie-managed funds	**0.5**	0.5	0.5	–	–
Total Macquarie-managed funds	**2.4**	2.1	2.3	*14*	*4*
Other investments					
Investments acquired to seed new MIRA products and mandates	**1.4**	0.6	0.2	*133*	*
Transport, industrial and infrastructure	**0.9**	0.6	0.6	*50*	*50*
Telecommunications, information technology, media and entertainment	**0.7**	0.6	0.5	*17*	*40*
Energy, resources and commodities	**1.7**	0.6	0.4	*183*	*
Real estate investment, property and funds management	**0.1**	0.1	0.1	-	-
Finance, wealth management and exchanges	**0.4**	0.4	0.4	-	-
Total other investments	**5.2**	2.9	2.2	*79*	*136*
Total equity investments	**7.6**	5.0	4.5	*52*	*69*

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FUNDING AND LIQUIDITY

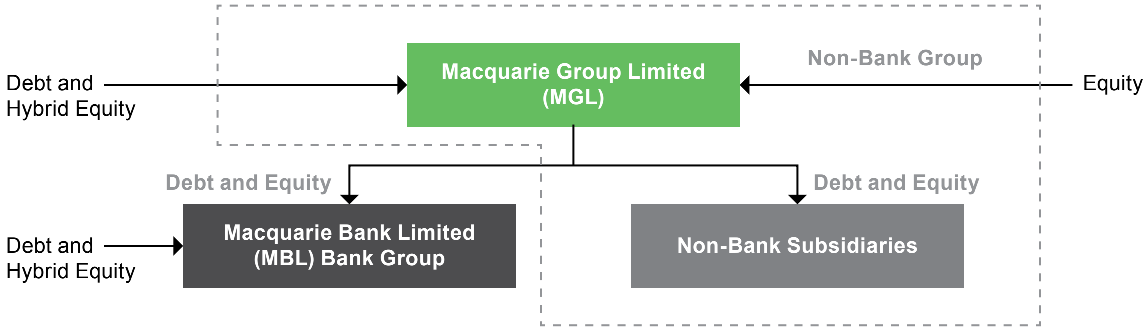
5

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK

Governance and oversight

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

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



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

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

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

Liquidity policy and risk appetite

Macquarie maintains two key liquidity policies:

– The MGL liquidity policy: applies to all Macquarie entities except the Bank Group.
– The MBL liquidity policy: applies to the Bank Group.

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

Macquarie establishes a liquidity risk appetite for both MGL and MBL, which are defined within each of the respective liquidity policies. Each risk appetite is approved by the respective 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 the Non-Bank Group is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period, with no access to funding markets and with only a limited reduction in 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 ensures that the Bank Group is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period, with constrained access to funding markets and with only a limited reduction in franchise businesses.

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

5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK CONTINUED

Liquidity risk tolerance and principles

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

Risk tolerances

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

Liquidity management principles

- Macquarie has a centralised approach to liquidity management;
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities;
- a regional liquidity framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches;
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis;
- a liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis';
- a funding strategy is prepared annually and monitored on a regular basis;
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them;
- strong relationships are maintained to assist with managing confidence and liquidity; and
- the MGL and MBL 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. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

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

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

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

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

Funding strategy

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

5.2 MANAGEMENT OF LIQUIDITY RISK

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Macquarie 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 the corresponding scenarios;
- 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, the Non-Bank Group and the Consolidated Entity. 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 Macquarie name specific crisis over a twelve 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 the Consolidated Entity 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. Certain other business units also hold cash and liquid assets as part of their operations. Macquarie had $A24.6 billion of cash and liquid assets as at 30 September 2017 (31 March 2017: $A21.7 billion), of which $A22.8 billion was held by Macquarie Bank (31 March 2017: $A20.0 billion).

Funds transfer pricing

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

5.2 MANAGEMENT OF LIQUIDITY RISK CONTINUED

Credit ratings[1] at 30 September 2017 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	Negative	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 (APS210) details the local implementation of the Basel III liquidity framework for Australian banks. The current standard incorporates the Liquidity Coverage Ratio (LCR) as well as a range of additional qualitative requirements. APRA have also finalised a revised APS210 which incorporates the Net Stable Funding Ratio (NSFR) rules and will come into effect from 1 January 2018.

As the regulated ADI in the Consolidated Entity, the LCR and associated regulatory requirements apply specifically to Macquarie Bank.

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 Macquarie Bank's regulatory minimum required level of liquid assets.

Macquarie Bank's 3-month average LCR to 30 September 2017 was 153% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

Net stable funding ratio

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 twelve months. The NSFR will become a regulatory requirement on 1 January, 2018. Macquarie Bank's NSFR at 30 September 2017 was 109%.

5.3 FUNDED BALANCE SHEET

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

The table below reconciles the reported assets of Macquarie to the net funded assets as at 30 September 2017. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

		AS AT		
	Notes	**Sep 17 $Ab**	Mar 17 $Ab	Sep 16 $Ab
Total assets per Macquarie's statement of financial position		**189.8**	182.9	193.1
Accounting deductions:				
Self-funded trading assets	1	**(20.1)**	(14.6)	(21.1)
Derivative revaluation accounting gross-ups	2	**(10.4)**	(10.7)	(12.5)
Life investment contracts and other segregated assets	3	**(9.0)**	(9.6)	(9.4)
Outstanding trade settlement balances	4	**(7.5)**	(6.6)	(7.0)
Short term working capital assets	5	**(6.2)**	(5.8)	(7.0)
Non-controlling interests	6	**(1.4)**	(1.3)	(0.1)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	7	**(11.3)**	(13.5)	(13.7)
Net funded assets		**123.9**	120.8	122.3

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 do 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. Non-controlling interests

These represent the portion of equity ownership in subsidiaries not attributable to Macquarie. As this is not a position that Macquarie is required to fund, it is netted against the consolidated assets and liabilities in preparing the funded balance sheet. The netted amount excludes Macquarie Income Securities which are included in Equity and hybrids in the funded balance sheet.

7. 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 MACQUARIE

Funded balance sheet

	Notes	AS AT Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		**0.8**	0.9	0.5
Commercial paper		**11.6**	5.7	6.8
Net trade creditors	2	**2.0**	2.4	–
Structured notes	3	**2.6**	3.1	3.7
Secured funding	4	**4.5**	4.6	4.7
Bonds	5	**27.5**	29.3	34.6
Other loans	6	**0.5**	0.5	0.7
Syndicated loan facilities	7	**3.9**	4.8	4.9
Customer deposits	8	**49.4**	47.8	46.1
Loan capital	9	**5.4**	5.7	4.9
Equity and hybrid[1]	10	**15.7**	16.0	15.4
Total		**123.9**	120.8	122.3
Funded assets				
Cash and liquid assets	11	**24.6**	21.7	20.4
Self-securitisation	12	**16.7**	16.5	15.4
Net trading assets	13	**18.1**	22.1	23.8
Loan assets including operating lease assets less than one year	14	**13.8**	13.9	14.9
Loan assets including operating lease assets greater than one year	14	**39.6**	37.1	37.9
Debt investment securities	15	**1.7**	2.3	2.7
Co-investment in Macquarie-managed funds and other equity investments[1]	16	**7.7**	5.5	5.2
Property, plant and equipment and intangibles		**1.7**	1.7	1.6
Net trade debtors		**-**	-	0.4
Total		**123.9**	120.8	122.3

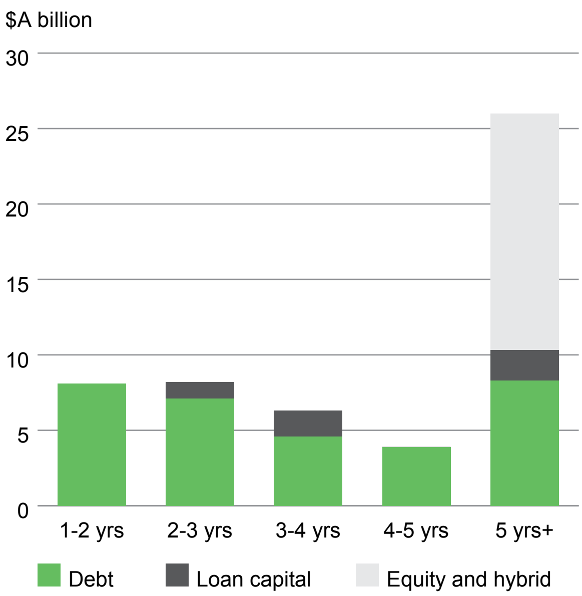
1. Non-controlling interests have been netted down in 'Equity and hybrid' and 'Co-investments in Macquarie-managed funds and other equity investments'.

See Section 5.7 for notes 1–16.

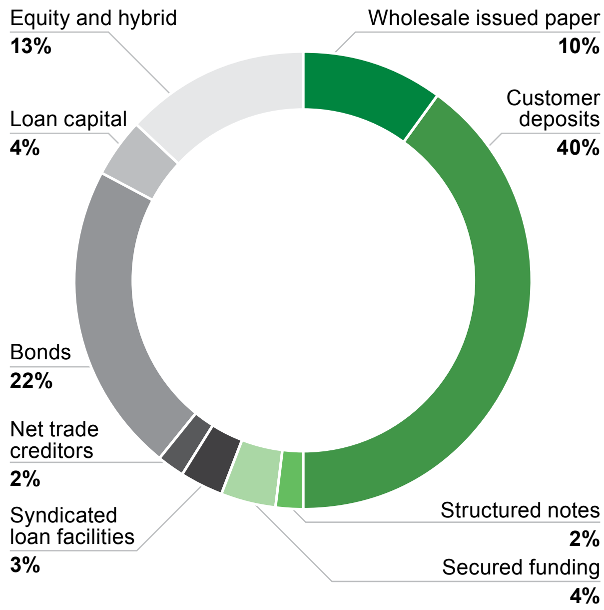
5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



	AS AT SEP 17					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes[1]	-	0.1	0.1	-	1.6	**1.8**
Secured funding	0.3	0.2	0.9	0.2	1.6	**3.2**
Bonds	7.8	6.0	2.9	1.3	5.1	**23.1**
Other loans	-	-	-	-	-	**-**
Syndicated loan facilities	-	0.8	0.7	2.4	-	**3.9**
Total debt	**8.1**	**7.1**	**4.6**	**3.9**	**8.3**	**32.0**
Loan capital[2]	-	1.1	1.7	-	2.0	**4.8**
Equity and hybrid	-	-	-	-	15.7	**15.7**
Total funding sources drawn	**8.1**	**8.2**	**6.3**	**3.9**	**26.0**	**52.5**
Undrawn	0.2	-	-	1.6	-	**1.8**
Total funding sources drawn and undrawn	**8.3**	**8.2**	**6.3**	**5.5**	**26.0**	**54.3**

1. Structured notes are profiled using a behavioural maturity profile.
2. Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

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

At 30 September 2017, Macquarie'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 4.2 years at 30 September 2017.

As at 30 September 2017, customer deposits represented $A49.4 billion, or 40% of Macquarie's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A12.4 billion, or 10% of total funding, and other debt funding maturing within 12 months represented $A9.6 billion, or 7% of total funding.

5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

Term funding initiatives

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2017, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2017 and 30 September 2017:

		Bank Group $Ab	Non-Bank Group $Ab	**Total $Ab**
Secured Funding	– Term securitisation and other secured finance	2.2	0.8	**3.0**
Issued paper	– Senior and subordinated	1.9	-	**1.9**
Loan facilities	– MGL and MBL loan facilities	-	3.3	**3.3**
Total		**4.1**	**4.1**	**8.2**

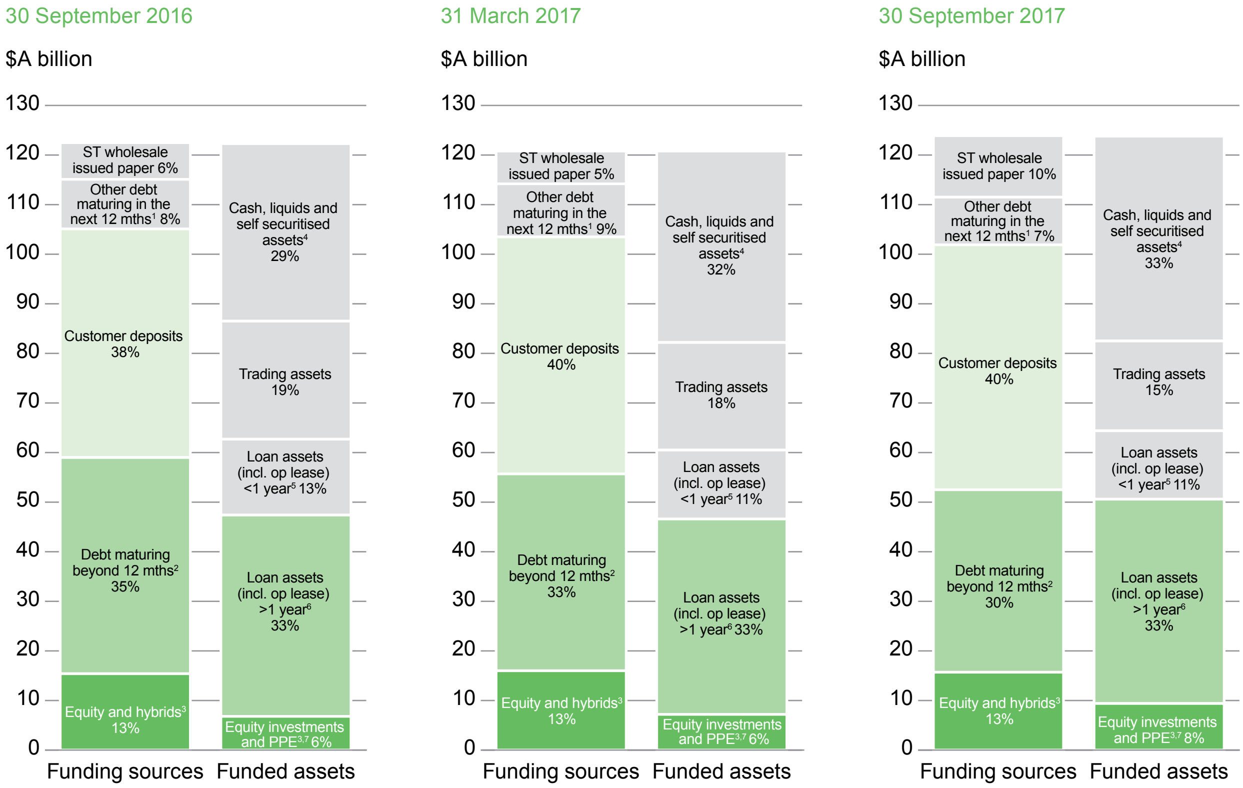
Macquarie has continued to develop its major funding markets and products during the half year ended 30 September 2017.

From 1 April 2017 to 30 September 2017, Macquarie raised $A8.2 billion of term funding including:

– $A3.0 billion of term secured finance comprising of $A1.2 billion of SMART auto and equipment ABS, $A1.0 billion of PUMA RMBS and $A0.8 billion of other secured funding facilities
– $A1.9 billion of term wholesale issued paper comprising of $A1.9 billion in private placements
– $A3.3 billion of MGL loan facilities comprising of $A3.2 billion refinance and upsize of the Senior Credit Facility and $A0.1 billion addition to the existing MGL Asian Bank Facility refinanced in FY17.

5.4 FUNDING PROFILE FOR MACQUARIE CONTINUED

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



1. 'Other debt maturing in the next 12 months' includes Structured Notes, Secured Funding, Bonds, Other Loans, Loan Capital maturing within the next 12 months and Net Trade Creditors.
2. 'Debt maturing beyond 12 months' includes Loan Capital not maturing within the next 12 months.
3. Non-controlling interests netted down in 'Equity and hybrids' and 'Equity investments and PPE'.
4. 'Cash, liquids and self-securitised assets' includes self-securitisation of repo eligible Australian mortgages originated by Macquarie.
5. 'Loan Assets (incl. op lease) < 1 year' includes Net Trade Debtors.
6. 'Loan Assets (incl. op lease) > 1 year' includes Debt Investment Securities.
7. 'Equity investments and PPE' includes the Group's co-investments in Macquarie-managed funds and equity investments.

5.5 FUNDING PROFILE FOR THE BANK GROUP

Funded balance sheet

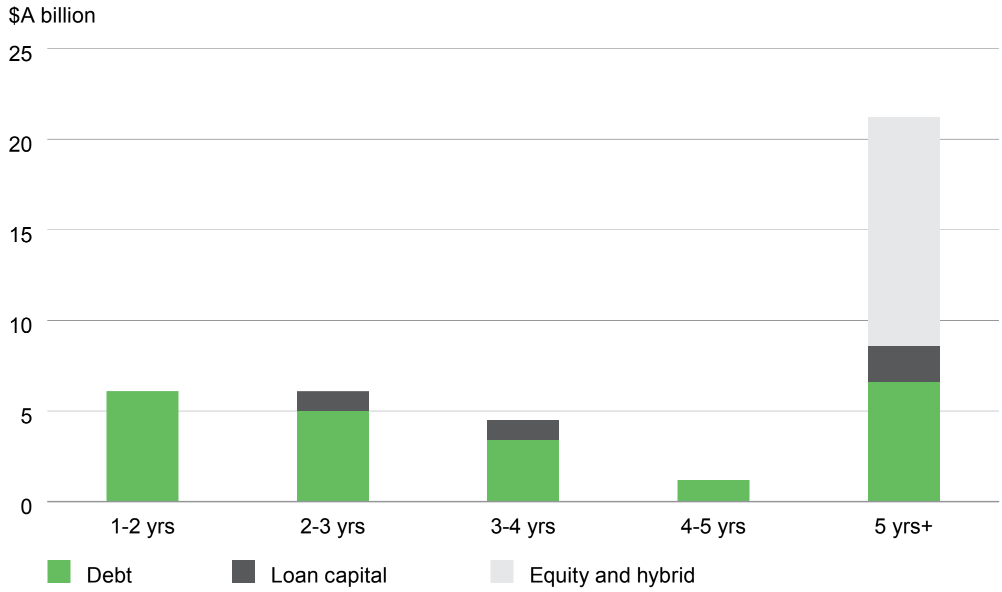
	Notes	AS AT Sep 17 $Ab	 Mar 17 $Ab	 Sep 16 $Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		**0.8**	0.9	0.5
Commercial paper		**11.6**	5.7	6.8
Net trade creditors	2	**1.2**	1.6	0.5
Structured notes	3	**2.1**	2.6	3.3
Secured funding	4	**4.0**	4.4	4.6
Bonds	5	**20.9**	21.7	26.1
Other loans	6	**0.4**	0.3	0.4
Syndicated loan facilities	7	**0.7**	2.4	2.5
Customer deposits	8	**49.4**	47.8	46.1
Loan capital	9	**4.2**	4.6	3.8
Equity and hybrid	10	**12.6**	12.6	12.5
Total		**107.9**	104.6	107.1
Funded assets				
Cash and liquid assets	11	**22.8**	20.0	18.7
Self-securitisation	12	**16.7**	16.5	15.4
Net trading assets	13	**17.4**	21.8	23.3
Loan assets including operating lease assets less than one year	14	**13.3**	13.6	14.4
Loan assets including operating lease assets greater than one year	14	**39.0**	36.1	37.1
Debt investment securities	15	**1.4**	1.9	2.0
Non-Bank Group deposit with MBL		**(4.2)**	(6.7)	(5.2)
Co-investment in Macquarie-managed funds and other equity investments	16	**0.8**	0.8	0.8
Property, plant and equipment and intangibles		**0.7**	0.6	0.6
Total		**107.9**	104.6	107.1

See Section 5.7 for notes 1–16.

5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

Term funding profile

Detail of drawn term funding maturing beyond one year



	AS AT SEP 17					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	**Total $Ab**
Structured notes[1]	-	0.1	0.1	-	1.6	**1.8**
Secured funding	0.3	0.2	0.9	0.2	1.6	**3.2**
Bonds	5.8	4.7	1.7	1.0	3.4	**16.6**
Syndicated loan facilities	-	-	0.7	-	-	**0.7**
Total debt	**6.1**	**5.0**	**3.4**	**1.2**	**6.6**	**22.3**
Loan capital[2]	-	1.1	1.1	-	2.0	**4.2**
Equity and hybrid	-	-	-	-	12.6	**12.6**
Total funding sources drawn	**6.1**	**6.1**	**4.5**	**1.2**	**21.2**	**39.1**
Undrawn	-	-	-	-	-	**-**
Total funding sources drawn and undrawn	**6.1**	**6.1**	**4.5**	**1.2**	**21.2**	**39.1**

1. Structured notes are profiled using a behavioural maturity profile.
2. Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.2 years at 30 September 2017.

As at 30 September 2017, customer deposits represented $A49.4 billion, or 46% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A12.4 billion, or 12% of total funding, and other debt funding maturing within 12 months represented $A7.0 billion, or 6% of total funding.

5.5 FUNDING PROFILE FOR THE BANK GROUP CONTINUED

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US8.9 billion debt securities outstanding at 30 September 2017;
- $US10 billion Commercial Paper Program under which $US8.9 billion of debt securities were outstanding at 30 September 2017;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US10.1 billion of issuances were outstanding at 30 September 2017;
- $US5 billion Structured Note Program under which $US1.7 billion of funding from structured notes was outstanding at 30 September 2017;
- £0.4 billion Sterling Facility under which £0.4 billion was outstanding at 30 September 2017;
- $A5 billion Covered Bond Programme under which $A0.7 billion of debt securities were outstanding at 30 September 2017; and
- $US1.5 billion AWAS term loan under which $US1.5 billion of secured funding was outstanding at 30 September 2017.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. At 30 September 2017, Macquarie Bank had $A0.8 billion of these securities outstanding.

At 30 September 2017, Macquarie Bank had internally securitised $A16.7 billion of its own mortgages.

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

Deposit strategy

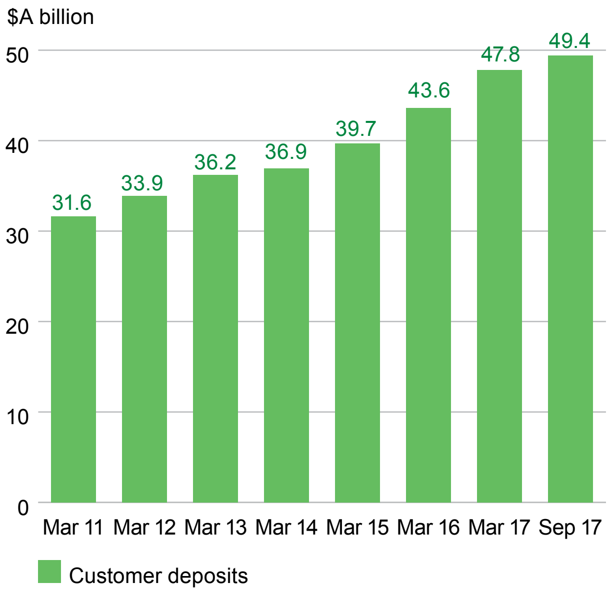
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the Banking and Financial Services Group deposit base, which represents a stable and reliable source of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

In particular, MBL 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 MBL'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 2011.

Deposit trend



5.6 FUNDING PROFILE FOR THE NON-BANK GROUP

Funded balance sheet

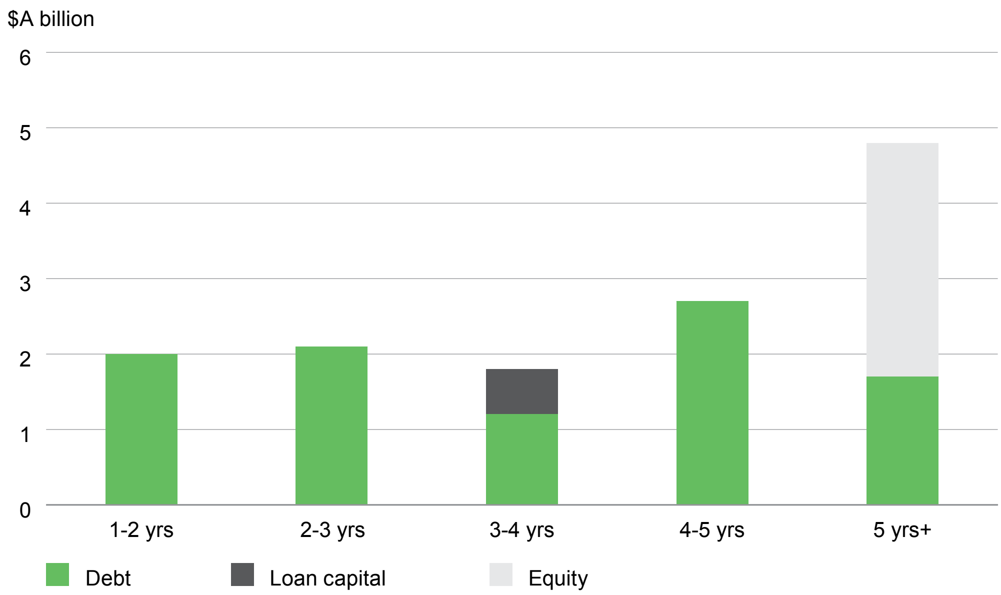
	Notes	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab
		AS AT		
Funding sources				
Net trade creditors	2	**0.8**	0.8	–
Structured notes	3	**0.5**	0.5	0.4
Secured funding	4	**0.5**	0.2	0.1
Bonds	5	**6.6**	7.6	8.5
Other loans	6	**0.1**	0.2	0.3
Syndicated loan facilities	7	**3.2**	2.4	2.4
Loan capital	9	**1.2**	1.1	1.1
Equity[1]	10	**3.1**	3.4	2.9
Total		**16.0**	16.2	15.7
Funded assets				
Cash and liquid assets	11	**1.8**	1.7	1.7
Non-Bank Group deposit with MBL		**4.2**	6.7	5.2
Net trading assets	13	**0.7**	0.3	0.5
Loan assets less than one year	14	**0.6**	0.3	0.5
Loan assets greater than one year	14	**0.5**	1.0	0.8
Debt investment securities	15	**0.3**	0.4	0.7
Co-investment in Macquarie-managed funds and other equity investments[1]	16	**6.9**	4.7	4.4
Property, plant and equipment and intangibles		**1.0**	1.1	1.0
Net trade debtors		**-**	-	0.9
Total		**16.0**	16.2	15.7

1. Non-controlling interests have been netted down in 'Equity' and 'Co-investment in Macquarie-managed funds and other equity investments'.

See Section 5.7 for notes 2–16.

Term funding profile

Detail of drawn term funding maturing beyond one year



5.6 FUNDING PROFILE FOR THE NON-BANK GROUP CONTINUED

	AS AT SEP 17					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	**Total $Ab**
Structured notes	-	-	-	-	-	**-**
Secured funding	-	-	-	-	-	**-**
Bonds	2.0	1.3	1.2	0.3	1.7	**6.5**
Other loans	-	-	-	-	-	**-**
Syndicated loan facilities	-	0.8	-	2.4	-	**3.2**
Total debt	**2.0**	**2.1**	**1.2**	**2.7**	**1.7**	**9.7**
Loan capital[1]	-	-	0.6	-	-	**0.6**
Equity	-	-	-	-	3.1	**3.1**
Total funding sources drawn	**2.0**	**2.1**	**1.8**	**2.7**	**4.8**	**13.4**
Undrawn	0.2	-	-	1.6	-	**1.8**
Total funding sources drawn and undrawn	**2.2**	**2.1**	**1.8**	**4.3**	**4.8**	**15.2**

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) was 4.4 years at 30 September 2017.

As at 30 September 2017, other debt funding maturing within 12 months represented $A2.6 billion, or 16% of total funding.

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

- $US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US3.3 billion was outstanding at 30 September 2017
- $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 30 September 2017
- $US4.6 billion Syndicated Loan Facilities of which $US2.5 billion was drawn at 30 September 2017
- $US0.6 billion Secured Trade Finance Facility of which $US0.3 billion was drawn at 30 September 2017.

5.7 EXPLANATORY NOTES CONCERNING FUNDING SOURCES AND FUNDED ASSETS

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Loan capital

Long term subordinated debt, Macquarie Additional Capital Securities, 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 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.

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CAPITAL

6

6.1 OVERVIEW

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

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

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

Eligible regulatory capital of Macquarie consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2017 include the Macquarie Income Securities (MIS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), 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 ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

6.1 OVERVIEW CONTINUED

Macquarie Basel III regulatory capital surplus calculation

	AS AT SEP 17		AS AT MAR 17		MOVEMENT	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Macquarie eligible capital:						
Bank Group Gross Tier 1 capital	**13,845**	**13,845**	14,255	14,255	(3)	(3)
Non-Bank Group eligible capital	**4,303**	**4,303**	4,415	4,415	(3)	(3)
Eligible capital	**18,148**	**18,148**	18,670	18,670	(3)	(3)
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[1]	**86,886**	**88,880**	88,183	89,568	(1)	(1)
Capital required to cover RWA at 8.5%[2]	**7,385**	**7,555**	7,496	7,613	(1)	(1)
Tier 1 deductions	**549**	**2,327**	460	2,261	19	3
Total Bank Group capital requirement	**7,934**	**9,882**	7,956	9,874	(<1)	<1
Total Non-Bank Group capital requirement	**4,038**	**4,038**	3,301	3,301	22	22
Total Macquarie capital requirement (at 8.5%[2] of the Bank Group RWA)	**11,972**	**13,920**	11,257	13,175	6	6
Macquarie regulatory capital surplus (at 8.5%[2] of Bank Group RWA)	**6,176**	**4,228**	7,413	5,495	(17)	(23)

1. In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (30 September 2017: $A745 million; 31 March 2017: $A448 million).
2. Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is required by APRA from January 2016 and by BIS from January 2019.

6.2 BANK GROUP CAPITAL

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2017 consists of MIS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

MIS are a perpetual instrument with no 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.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that MACS are eligible for inclusion as Additional Tier 1 capital.

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Tier 1 Capital

	AS AT SEP 17		AS AT MAR 17		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	**9,523**	**9,523**	9,520	9,520	*<1*	*<1*
Retained earnings	**2,348**	**2,348**	2,354	2,354	*(<1)*	*(<1)*
Reserves	**355**	**355**	411	411	*(14)*	*(14)*
Gross Common Equity Tier 1 capital	**12,226**	**12,226**	12,285	12,285	*(<1)*	*(<1)*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**39**	**39**	37	37	*5*	*5*
Deferred tax assets	**54**	**167**	57	157	*(5)*	*6*
Net other fair value adjustments	**(86)**	**(86)**	(104)	(104)	*(17)*	*(17)*
Intangible component of investments in subsidiaries and other entities	**51**	**51**	51	51	–	–
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**384**	–	349	–	*10*
Shortfall in provisions for credit losses	**339**	**364**	316	338	*7*	*8*
Equity exposures	**–**	**1,137**	–	1,179	–	*(4)*
Other Common Equity Tier 1 capital deductions	**152**	**271**	103	254	*48*	*7*
Total Common Equity Tier 1 capital deductions	**549**	**2,327**	460	2,261	*19*	*3*
Net Common Equity Tier 1 capital	**11,677**	**9,899**	11,825	10,024	*(1)*	*(1)*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**1,619**	**1,619**	1,970	1,970	*(18)*	*(18)*
Gross Additional Tier 1 capital	**1,619**	**1,619**	1,970	1,970	*(18)*	*(18)*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	–	–
Net Additional Tier 1 capital	**1,619**	**1,619**	1,970	1,970	*(18)*	*(18)*
Total Net Tier 1 capital	**13,296**	**11,518**	13,795	11,994	*(4)*	*(4)*

6.2 BANK GROUP CAPITAL CONTINUED

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 17		AS AT MAR 17		*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	**26,736**	**26,736**	27,473	27,473	*(3)*	*(3)*
SME Corporate	**2,962**	**2,962**	2,830	2,830	*5*	*5*
Sovereign	**226**	**226**	227	227	*(<1)*	*(<1)*
Bank	**1,315**	**1,315**	1,175	1,175	*12*	*12*
Residential mortgage	**5,228**	**11,597**	4,886	10,545	*7*	*10*
Other retail	**4,093**	**4,093**	3,642	3,642	*12*	*12*
Retail SME	**3,040**	**3,056**	2,885	2,961	*5*	*3*
Total RWA subject to IRB approach	**43,600**	**49,985**	43,118	48,853	*1*	*2*
Specialised lending exposures subject to slotting criteria	**4,939**	**4,939**	6,277	6,277	*(21)*	*(21)*
Subject to Standardised approach:						
Corporate	**938**	**938**	794	794	*18*	*18*
Residential mortgage	**1,635**	**1,635**	1,634	1,634	*<1*	*<1*
Other Retail	**4,847**	**4,847**	5,755	5,755	*(16)*	*(16)*
Total RWA subject to Standardised approach	**7,420**	**7,420**	8,183	8,183	*(9)*	*(9)*
Credit risk RWA for securitisation exposures	**529**	**529**	573	441	*(8)*	*20*
Credit Valuation Adjustment RWA	**3,014**	**3,014**	2,457	2,457	*23*	*23*
Exposures to Central Counterparties RWA	**1,059**	**1,423**	706	1,232	*50*	*16*
RWA for Other Assets	**9,674**	**8,976**	9,156	8,554	*6*	*5*
Total Credit risk RWA	**70,235**	**76,286**	70,470	75,997	*(<1)*	*<1*
Equity risk exposures RWA	**4,057**	**–**	4,224	–	*(4)*	–
Market risk RWA	**3,314**	**3,314**	3,958	3,958	*(16)*	*(16)*
Operational risk RWA	**10,025**	**10,025**	9,979	9,979	*<1*	*<1*
Interest rate risk in banking book RWA	**–**	**–**	–	82	–	*(100)*
Total Bank Group RWA	**87,631**	**89,625**	88,631	90,016	*(1)*	*(<1)*
Capital ratios						
Bank Group Common Equity Tier 1 capital ratio (%)	**13.3**	**11.0**	13.3	11.1		
Bank Group Tier 1 capital ratio (%)	**15.2**	**12.9**	15.6	13.3		

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 47%
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, and non-traded interest rate risk and the risk on assets held as part of business operations, including: fixed assets, goodwill, intangible assets and capitalised expenses.
2. Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

6.3 NON-BANK GROUP CAPITAL CONTINUED

Non-Bank Group capital requirement

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

	AS AT SEP 17		
	Assets $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	22	15%
Loan assets[1]	1.1	117	132%
Debt investment securities	0.3	85	356%
Co-investments in Macquarie-managed funds and other equity investments	6.6	2,715	518%
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	275	344%
Non-Bank Group deposit with MBL	4.2		
Net trading assets	0.7		
Total funded assets	**16.0**	**3,214**	
Self-funded and non-recourse assets			
Self-funded trading assets	0.3		
Outstanding trade settlement balances	3.2		
Derivative revaluation accounting gross ups	0.0		
Short-term working capital assets	3.8		
Non-Controlling interests	1.4		
Total self-funded and non-recourse assets	**8.7**		
Total Non-Bank Group assets	**24.7**		
Off balance sheet exposures, operational, market and other risks and diversification offset[2]		824	
Non-Bank Group capital requirement		**4,038**	

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

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FUNDS MANAGEMENT

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7.1 ASSETS UNDER MANAGEMENT

	AS AT			MOVEMENT	
	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	*Mar 17 %*	*Sep 16 %*
Assets under Management by type					
MIM					
Fixed Income	**194.4**	191.3	228.8	*2*	*(15)*
Equities	**118.6**	115.2	105.0	*3*	*13*
Alternatives and Multi-asset	**12.2**	13.8	17.3	*(12)*	*(29)*
Total MIM	**325.2**	320.3	351.1	*2*	*(7)*
MIRA					
Infrastructure	**133.9**	146.9	129.3	*(9)*	*4*
Agriculture	**1.7**	1.7	1.5	*–*	*13*
Real Estate	**5.8**	5.6	5.2	*4*	*12*
Total MIRA	**141.4**	154.2	136.0	*(8)*	*4*
MSIS	**5.3**	5.5	4.2	*(4)*	*26*
Total MAM	**471.9**	480.0	491.3	*(2)*	*(4)*
Other Operating Groups	**1.7**	1.7	1.8	*–*	*(6)*
Total Assets under Management	**473.6**	481.7	493.1	*(2)*	*(4)*
Assets under Management by region					
Americas	**249.3**	244.7	278.5	*2*	*(10)*
Europe, Middle East and Africa	**88.9**	103.5	88.5	*(14)*	*<1*
Australia	**89.8**	84.4	80.2	*6*	*12*
Asia	**45.6**	49.1	45.9	*(7)*	*(1)*
Total Assets under Management	**473.6**	481.7	493.1	*(2)*	*(4)*

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

AUM of $A473.6 billion at 30 September 2017 decreased 2% from $A481.7 billion at 31 March 2017. The decrease in AUM over the period was largely due to net asset realisations in MIRA and unfavourable currency movements in MIM, partially offset by positive market movements.

7.2 EQUITY UNDER MANAGEMENT

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

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

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

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

Equity under Management by type and region

	AS AT[1,2]			MOVEMENT	
	Sep 17 $Ab	Mar 17 $Ab	Sep 16 $Ab	*Mar 17 %*	*Sep 16 %*
Equity under Management by type					
Listed equity	**16.1**	16.6	17.0	*(3)*	*(5)*
Unlisted equity	**63.4**	60.6	55.0	*5*	*15*
Total EUM	**79.5**	77.2	72.0	*3*	*10*
Equity under Management by region[3]					
Australia	**10.0**	8.2	7.4	*22*	*35*
Europe, Middle East and Africa	**30.9**	32.1	27.0	*(4)*	*14*
Americas	**24.9**	22.3	22.5	*12*	*11*
Asia	**13.7**	14.6	15.1	*(6)*	*(9)*
Total EUM	**79.5**	77.2	72.0	*3*	*10*

1. Excludes equity invested by Macquarie 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 $A79.5 billion at 30 September 2017 increased 3% from $A77.2 billion at 31 March 2017. The increase was primarily due to equity raised for unlisted infrastructure funds, infrastructure co-investments and listed infrastructure funds as well as assuming the management of GIG funds. This was partially offset by equity returned by unlisted infrastructure funds and to infrastructure co-investments due to divestment of underlying assets.

GLOSSARY

8.1 Glossary

8

8.1 GLOSSARY

1H17	The half-year ended 30 September 2016.
1H18	The half-year ended 30 September 2017.
AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
Bank Group	MBL and its subsidiaries.
Banking Group	The Banking Group comprises BFS, CAF, and some activities of CGM and MAM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.

8.1 GLOSSARY CONTINUED

BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
BIS	Bank for International Settlements.
CAF	Corporate and Asset Finance.
CCB	Capital Conservation Buffer.
Central service groups	The central service groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Committed Liquidity Facility.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. – Common Equity Tier 1 Capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Compensation ratio	The ratio of Compensation Expense to Net Operating Income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were due directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 'Earnings Per Share'.
ECAM	Economic Capital Adequacy Model.
ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). ECS were subordinated, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. ECS were bought back on 20 June 2017.
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.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.

8.1 GLOSSARY CONTINUED

Financial Report	Macquarie Group Limited Interim Financial Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
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.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie, the Consolidated Entity	Macquarie Group Limited and its subsidiaries.
Macquarie Bank	MBL and its subsidiaries.
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.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5 anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAM	Macquarie Asset Management.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MCN	On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of $A100 each. MCN are subordinated, non-cumulative, unsecured notes that that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 7 June 2021; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN2	On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of $A100 each. MCN2 are subordinated, non-cumulative, unsecured notes that that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.

8.1 GLOSSARY CONTINUED

MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
MIM	Macquarie Investment Management.
MIRA	Macquarie Infrastructure and Real Assets.
MSIS	Macquarie Specialised Investment Solutions.
Net loan losses	The impact on the income statement of loan amounts provided for or written off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital and some business activities of MAM and CGM that use certain offshore regulated entities of the Non-Banking Group.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital.
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of 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 in 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.
UK	The United Kingdom.
US	The United States of America.

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