MACQUARIE

Management Discussion and Analysis

Macquarie Group
Half-year ended 30 September 2015

Contents

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Interim Financial Report for the half-year ended 30 September 2015, including further detail in relation to key elements of Macquarie Group Limited's ("MGL", "Macquarie", "the Group") financial performance and financial position. The report also outlines the funding and capital profile of the Group.

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

Date of this report

This report has been prepared for the half-year ended 30 September 2015 and is current as at 30 October 2015.

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 2014.

References to the prior period are to the six months ended 31 March 2015.

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

Independent auditor's review report

This document should be read in conjunction with the Macquarie Group Limited Interim Financial Report for the half-year ended 30 September 2015, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 30 October 2015 was unqualified.

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

Disclaimer

1.0 Result overview

1.1 Executive summary

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Financial performance summary					
Net interest income	**1,165**	1,136	956	*3*	*22*
Fee and commission income	**2,794**	2,572	2,167	*9*	*29*
Net trading income	**1,108**	1,040	687	*7*	*61*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(63)**	(14)	19	*	*
Other operating income and charges	**314**	244	455	*29*	*(31)*
Net operating income	**5,318**	4,978	4,284	*7*	*24*
Employment expenses	**(2,263)**	(2,199)	(1,944)	*3*	*16*
Brokerage, commission and trading-related expenses	**(444)**	(437)	(387)	*2*	*15*
Occupancy expenses	**(202)**	(201)	(178)	*<1*	*13*
Non-salary technology expenses	**(287)**	(231)	(206)	*24*	*39*
Other operating expenses	**(503)**	(509)	(448)	*(1)*	*12*
Total operating expenses	**(3,699)**	(3,577)	(3,163)	*3*	*17*
Operating profit before income tax	**1,619**	1,401	1,121	*16*	*44*
Income tax expense	**(530)**	(467)	(432)	*13*	*23*
Profit after income tax	**1,089**	934	689	*17*	*58*
Profit attributable to non-controlling interests	**(19)**	(8)	(11)	*138*	*73*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**1,070**	926	678	*16*	*58*
Key metrics					
Expense to income ratio (%)	**69.6**	71.9	73.8		
Compensation ratio (%)	**39.8**	41.6	42.5		
Effective tax rate (%)	**33.1**	33.5	38.9		
Basic earnings per share (cents per share)	**324.5**	288.1	213.3		
Diluted earnings per share (cents per share)	**310.0**	275.7	204.9		
Ordinary dividends per share (cents per share)	**160.0**	200.0	130.0		
Ordinary dividend payout ratio (%)	**50.6**	72.0	61.8		
Annualised return on equity (%)	**15.8**	15.4	12.5		

Profit attributable to ordinary equity holders was $A1,070 million for the half-year ended 30 September 2015, up 58% from $A678 million in the prior corresponding period.

All operating groups delivered an increased net profit contribution compared to the prior corresponding period.

Macquarie's annuity-style businesses – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – continued to perform well, generating a combined net profit contribution for the half-year ended 30 September 2015 of $A1,920 million, an increase of 38% on the prior corresponding period with most businesses favourably impacted by the depreciation of the Australian dollar relative to the prior corresponding period. Macquarie Asset Management also benefited from increased base and performance fees, while Corporate and Asset Finance's higher net profit contribution was in part driven by the accretion of interest income on loans acquired at a discount. Banking and Financial Services reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

1.0 Result overview
continued

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets – delivered a combined net profit contribution for the half-year ended 30 September 2015 of $A692 million, an increase of 66% on the prior corresponding period. In addition to the overall favorable impact of the depreciation of the Australian dollar on most businesses, Macquarie Securities' net profit contribution was up significantly on the prior corresponding period due to increased income from improved trading opportunities driven by increased market volatility, particularly in China, while Macquarie Capital benefited from increased mergers and acquisitions fee revenue, particularly in Australia and the US, partially offset by increased impairment charges on certain underperforming principal investments. Commodities and Financial Markets reported an increased net profit contribution in part driven by increased client activity resulting from price volatility during the period, partially offset by higher provisions for impairments taken on certain underperforming commodity related loans.

Net operating income of $A5,318 million for the half-year ended 30 September 2015 increased 24% from $A4,284 million in the prior corresponding period. Key drivers of the movements from the prior corresponding period were:

- A 38% increase in combined net interest and trading income to $A2,273 million for the half-year ended 30 September 2015 from $A1,643 million in the prior corresponding period. Most operating groups contributed to the increase, with the key drivers being:
  - improved trading opportunities in Macquarie Securities driven by increased market volatility, particularly in China;
  - increased client activity across most of the Commodities and Financial Markets platform as a result of price volatility;
  - the accretion of interest income on loans acquired at a discount, the favourable impact of the depreciation of the Australian dollar, growth of the motor vehicle lease portfolio and the acquisition of Advantage Funding, partially offset by lower income as a result of the sale of the Macquarie Equipment Finance US Operations and increased funding costs associated with growth of the operating lease portfolio in Corporate and Asset Finance; and
  - strong volume growth in Australian mortgages, business lending and deposits in Banking and Financial Services.
- A 29% increase in fee and commission income to $A2,794 million for the half-year ended 30 September 2015 from $A2,167 million in the prior corresponding period primarily driven by:
  - a 69% increase in performance fees to $A629 million for the half-year ended 30 September 2015 from $A373 million in the prior corresponding period, including performance fees from Macquarie European Infrastructure Fund 1 (MEIF1) and Macquarie Infrastructure Corporation (MIC), as well as performance fee income from co-investors in respect of a UK asset;
  - a 22% increase in base fees to $A791 million for the half-year ended 30 September 2015 from $A650 million in the prior corresponding period, largely due to higher AUM that benefited from favourable currency and market movements. Base fee growth also reflects fund raisings and investments in the Macquarie Infrastructure and Real Assets (MIRA) business, as well as net flows into higher fee margin products in the Macquarie Investment Management (MIM) business;
  - a 25% increase in mergers and acquisitions, advisory and underwriting fees to $A537 million for the half-year ended 30 September 2015 from $A429 million in the prior corresponding period, mainly due to an increase in mergers and acquisitions fee revenue in Macquarie Capital, particularly in the US and Australia; and
  - a 16% increase in brokerage and commissions income to $A461 million for the half-year ended 30 September 2015 from $A396 million in the prior corresponding period, mainly due to the favourable impact of the depreciation of the Australian dollar and improved market turnover in Macquarie Securities.
- A 31% decrease in other operating income and charges to $A314 million for the half-year ended 30 September 2015 from $A455 million in the prior corresponding period primarily driven by:
  - an increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to $A336 million for the half-year ended 30 September 2015 from $A104 million in the prior corresponding period mainly due to the underperformance of certain commodity related loans in Commodities and Financial Markets and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions;

- a 37% increase in aggregate impairment charges on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets to $A108 million for the half-year ended 30 September 2015 from $A79 million in the prior corresponding period primarily due to impairments on certain underperforming principal investments in Macquarie Capital; partially offset by
- a 34% increase in net operating lease income to $A381 million for the half-year ended 30 September 2015 from $A285 million in the prior corresponding period primarily due to the favourable impact of the depreciation of the Australian dollar and the contribution of aircraft acquired to date from AWAS Aviation Capital Limited, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

Total operating expenses increased 17% to $A3,699 million for the half-year ended 30 September 2015 from $A3,163 million in the prior corresponding period mainly due to the following key drivers:

- a 16% increase in employment expenses to $A2,263 million for the half-year ended 30 September 2015 from $A1,944 million in the prior corresponding period primarily due to higher staff compensation resulting from the improved performance of the Group and the impact of the depreciation of the Australian dollar on offshore expenses. This growth was partially offset by the effect of reduced headcount, down 4% from 14,138 at 30 September 2014 to 13,582 at 30 September 2015. The compensation ratio of 39.8% for the half-year ended 30 September 2015 decreased from 42.5% in the prior corresponding period;
- a 15% increase in brokerage, commission and trading-related expenses to $A444 million for the half-year ended 30 September 2015 from $A387 million in the prior corresponding period mainly driven by increased trading-related activity in Macquarie Securities;
- a 39% increase in non-salary technology expenses to $A287 million for the half-year ended 30 September 2015 from $A206 million in the prior corresponding period primarily due to ongoing investment in technology projects to support business growth, including the development of a new Core Banking system in Banking and Financial Services; and
- a 12% increase in total other operating expenses to $A503 million for the half-year ended 30 September 2015 from $A448 million in the prior corresponding period largely driven by increased activity across the Group, the impact of the depreciation of the Australian dollar on offshore expenses and the amortisation of capitalised technology costs.

Income tax expense for the half-year ended 30 September 2015 was $A530 million, up 23% from $A432 million in the prior corresponding period. The increase was mainly driven by a 44% increase in operating profit before income tax, to $A1,619 million in the half-year ended 30 September 2015 from $A1,121 million in the prior corresponding period, partly offset by a decrease in income tax permanent differences. The effective tax rate for the half-year ended 30 September 2015 was 33.1%, down from 38.9% in the prior corresponding period.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest income	**1,165**	1,136	956	*3*	*22*
Net trading income	**1,108**	1,040	687	*7*	*61*
Net interest and trading income	**2,273**	2,176	1,643	*4*	*38*

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

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

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

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

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Macquarie Asset Management	**9**	–	11	*	*(18)*
Corporate and Asset Finance	**460**	411	326	*12*	*41*
Banking and Financial Services	**456**	419	406	*9*	*12*
Macquarie Securities	**375**	176	113	*113*	*232*
Macquarie Capital	**31**	(11)	(13)	*	*
Commodities and Financial Markets					
Commodities					
Risk management products	**345**	323	271	*7*	*27*
Lending and financing	**148**	177	141	*(16)*	*5*
Inventory management, transport and storage	**90**	207	6	*(57)*	*
Credit, interest rates and foreign exchange	**246**	315	253	*(22)*	*(3)*
Corporate	**113**	159	129	*(29)*	*(12)*
Net interest and trading income	**2,273**	2,176	1,643	*4*	*38*

Net interest and trading income of $A2,273 million for the half-year ended 30 September 2015 increased 38% from $A1,643 million in the prior corresponding period. Most operating groups contributed to the increase with key drivers being the impact of the depreciation of the Australian dollar, improved trading opportunities driven by increased market volatility in Macquarie Securities, increased client activity for certain businesses in Commodities and Financial Markets, accretion of interest income on loans acquired at a discount in the Lending portfolio in Corporate and Asset Finance, and growth in lending and deposit volumes in Banking and Financial Services.

Macquarie Asset Management

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

Net interest and trading income of $A9 million for the half-year ended 30 September 2015 is broadly in line with prior corresponding period.

Corporate and Asset Finance

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

Net interest and trading income of $A460 million for the half-year ended 30 September 2015 increased 41% from $A326 million in the prior corresponding period. In the Lending portfolio, net interest and trading income increased mainly due to the accretion of interest income on loans acquired at a discount, the favourable impact of the depreciation of the Australian dollar and income earned from the sale of loan assets and early repayments.

In the Asset Finance portfolio, net interest and trading income from finance leases increased mainly due to growth in the motor vehicle lease portfolio and the acquisition of Advantage Funding in July 2015, partially offset by lower income as a result of the sale of the Macquarie Equipment Finance US operations in March 2015. The impact of these was offset by increased funding costs of the operating lease portfolio driven by foreign exchange movements and the acquisitions of aircraft from AWAS Aviation Capital Limited during the period.

Banking and Financial Services

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

Net interest and trading income of $A456 million for the half-year ended 30 September 2015 increased 12% from $A406 million in the prior corresponding period primarily due to growth in lending and deposit volumes, including:

– a 39% increase in Australian mortgage volumes from $A19.8 billion at 30 September 2014 to $A27.6 billion at 30 September 2015, including acquisitions of residential mortgage portfolios totaling $A3.7 billion since 30 September 2014;
– a 23% increase in business lending volumes from $A4.8 billion at 30 September 2014 to $A5.9 billion at 30 September 2015; and
– a 10% increase in Banking and Financial Services deposits from $A35.3 billion at 30 September 2014 to $A38.7 billion at 30 September 2015.

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

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined $A2.6 billion at 30 September 2015, down 43% from $A4.6 billion at 30 September 2014.

2.0 Financial performance analysis continued

Macquarie Securities

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

Net interest and trading income of $A375 million for the half-year ended 30 September 2015 increased significantly from $A113 million in the prior corresponding period.

In the half-year ended 30 September 2015 the business benefited from improved trading opportunities that resulted from increased market volatility as markets reacted to the Greek financial issues and the Chinese share market growth earlier in the period, followed by the later sell-off of Chinese equities. The increased market volatility also drove increased client demand for Asian retail derivative products in the half-year ended 30 September 2015.

Macquarie Capital

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

Net interest and trading income of $A31 million for the half-year ended 30 September 2015 increased from a $A13 million expense in the prior corresponding period primarily due to the accretion of interest income on loans acquired at a discount, growth of the debt investment portfolio and the depreciation of the Australian dollar. These increases were partially offset by increased funding costs from a larger principal investment portfolio.

Commodities and Financial Markets

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

Commodities

i) Risk management products

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

Risk management products income of $A345 million for the half-year ended 30 September 2015 increased 27% from $A271 million in the prior corresponding period.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in Global Oil and North American Gas and Power. Strong customer flow driven by price volatility, notably in the Global Oil business, resulted in increased income compared with the prior corresponding period.

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

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 $A148 million for the half-year ended 30 September 2015 increased 5% from $A141 million in the prior corresponding period. While lending and financing income was only up slightly on the prior corresponding period, the prior corresponding period included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognised in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was up 32% from the prior corresponding period mainly due to the impact of the depreciation of the Australian dollar and increased activity in Energy Markets' Global Oil business.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of $A90 million for the half-year ended 30 September 2015 increased significantly from $A6 million in the prior corresponding period.

Tolling agreements and capacity contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which has resulted in some volatility with timing of reported income. Notwithstanding this, the business has continued to experience increased client activity particularly in the North American gas market.

Credit, interest rates and foreign exchange

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A246 million for the half-year ended 30 September 2015 decreased 3% from the $A253 million in the prior corresponding period.

Increased volatility in foreign exchange markets led to increased client activity, which was offset by the impact of lower levels of confidence experienced in high yield US credit markets.

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 $A113 million for the half-year ended 30 September 2015 decreased 12% from $A129 million in the prior corresponding period mainly due to the non-recurrence of favourable accounting volatility recognised in the prior corresponding period on economically hedged positions that are unable to achieve designated hedge accounting.

2.0 Financial performance analysis
continued

2.2 Fee and commission income

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Base fees	**791**	738	650	*7*	*22*
Performance fees	**629**	294	373	*114*	*69*
Mergers and acquisitions, advisory and underwriting fees	**537**	544	429	*(1)*	*25*
Brokerage and commissions	**461**	440	396	*5*	*16*
Other fee and commission income	**376**	556	319	*(32)*	*18*
Total fee and commission income	**2,794**	2,572	2,167	*9*	*29*

Total fee and commission income of $A2,794 million for the half-year ended 30 September 2015 increased 29% from $A2,167 million in the prior corresponding period largely due to higher performance fees driven by funds and assets outperforming their respective benchmarks; growth in base fee income resulting from the impact of favorable currency and market movements and net flows into higher fee margin products; and increased mergers and acquisitions, advisory and underwriting fees across all product classes.

Base and performance fees

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Base fees					
Macquarie Asset Management					
Macquarie Investment Management	**472**	442	384	*7*	*23*
Macquarie Infrastructure and Real Assets	**303**	274	248	*11*	*22*
Macquarie Specialist Investment Solutions	**9**	15	9	*(40)*	–
Total Macquarie Asset Management	**784**	731	641	*7*	*22*
Other operating groups	**7**	7	9	–	*(22)*
Total base fee income	**791**	738	650	*7*	*22*
Performance fees					
Macquarie Asset Management					
Macquarie Investment Management	**9**	78	9	*(88)*	–
Macquarie Infrastructure and Real Assets	**600**	216	364	*178*	*65*
Total Macquarie Asset Management	**609**	294	373	*107*	*63*
Other operating groups	**20**	–	–	*	*
Total performance fee income	**629**	294	373	*114*	*69*

Base fees of $A791 million for the half-year ended 30 September 2015 increased 22% from $A650 million in the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Asset Management where base fees increased 22% to $A784 million for the half-year ended 30 September 2015 from $A641 million in the prior corresponding period. This was mainly due to an increase in AUM, up 19% from $A423.3 billion at 30 September 2014 to $A502.3 billion at 30 September 2015, which primarily benefited from favourable currency and market movements. Base fee growth also reflects fund raisings and investments in the MIRA business, as well as net flows into higher fee margin products in the MIM business. These were partially offset by the impact of asset realisations in the MIRA business.

For further details of AUM refer to Section 7.1.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A629 million for the half-year ended 30 September 2015 increased 69% from $A373 million in the prior corresponding period. The half-year ended 30 September 2015 included performance fees from MIC, MEIF1, Macquarie Atlas Roads (MQA), Macquarie International Infrastructure Fund (MIIF) and Macquarie Korean Infrastructure Fund (MKIF) as well as performance fee income from co-investors in respect of a UK asset that was partially recognised in Banking and Financial Services.

Performance fees in the prior corresponding period primarily related to MEIF1, MIC and MQA.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of $A537 million for the half-year ended 30 September 2015 increased 25% from $A429 million in the prior corresponding period.

Macquarie Capital's US and Australian businesses were the largest contributors to its mergers and acquisitions, advisory and underwriting fee income during the half-year ended 30 September 2015 with strong growth predominately driven by increased fee revenue from mergers and acquisitions transactions in Australia and the US, equity capital markets in Australia and debt capital markets in the US.

Brokerage and commissions

Brokerage and commissions income of $A461 million for the half-year ended 30 September 2015 increased 16% from $A396 million in the prior corresponding period.

Macquarie Securities reported higher brokerage and commissions income mainly driven by the favourable impact of the depreciation of the Australian dollar, improved market turnover in Asia and increased equity capital markets activity in Australia. Commodities and Financial Markets also reported higher brokerage and commissions income due to increased market volumes traded in offshore commodity futures markets driven by ongoing volatility.

Other fee and commission income

Other fee and commission income of $A376 million for the half-year ended 30 September 2015 increased 18% from $A319 million in the prior corresponding period. Other fee and commission income includes fees earned on Macquarie platform assets under administration (including the Wrap platform), insurance, business lending, credit cards and mortgages as well as distribution service fees, structuring fees, capital protection fees and income from Macquarie's True Index products.

Banking and Financial Services reported increased platform commissions resulting from higher assets under administration on the Wrap platform. Macquarie platform assets under administration closed at $A46.7 billion on 30 September 2015, an increase of 12% from $A41.7 billion at 30 September 2014 mainly driven by net flows.

2.0 Financial performance analysis
continued

2.3 Share of net profits of associates and joint ventures

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(63)**	(14)	19	*	*

Share of net (losses)/profits of associates and joint ventures was a loss of $A63 million for the half-year ended 30 September 2015 compared to a profit of $A19 million in the prior corresponding period. The decrease was largely driven by equity accounted losses in Macquarie Asset Management on MIRA investments in the UK and Korea, partially offset by higher equity accounted income from MIM's investment in Jackson Square Partners (JSP). The prior corresponding period included equity accounted gains arising from the sale of assets by unlisted infrastructure funds in which Macquarie has investments, primarily MEIF1.

2.4 Other operating income and charges

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net gains on sale of investment securities available for sale	**130**	69	146	*88*	*(11)*
Impairment charge on investment securities available for sale	**(75)**	(48)	(19)	*56*	*295*
Net gains on sale of associates and joint ventures	**88**	59	50	*49*	*76*
Impairment charge on interests in associates and joint ventures	**(16)**	(92)	(29)	*(83)*	*(45)*
Gain on disposal of operating lease assets	**3**	141	90	*(98)*	*(97)*
(Loss)/gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	**(2)**	187	3	*	*
Impairment charge on intangibles and other non-financial assets	**(17)**	(137)	(31)	*(88)*	*(45)*
Net operating lease income:					
Rental income	**671**	554	496	*21*	*35*
Depreciation on operating lease assets	**(290)**	(229)	(211)	*27*	*37*
Dividends/distributions received/receivable	**78**	76	26	*3*	*200*
Collective allowance for credit losses provided for during the period	**(20)**	(78)	(26)	*(74)*	*(23)*
Individually assessed provisions for impairment and write-offs	**(316)**	(285)	(78)	*11*	*
Other income	**80**	27	38	*196*	*111*
Total other operating income and charges	**314**	244	455	*29*	*(31)*

Total other operating income and charges of $A314 million for the half-year ended 30 September 2015 decreased 31% from $A455 million in the prior corresponding period, mainly driven by increased provisions and impairments recognised on underperforming assets in the half-year ended 30 September 2015, and the non-recurrence of a gain on the restructure of a railcar logistics operating lease facility in the prior corresponding period in Corporate and asset Finance. This was partially offset by increased net operating lease income primarily due to the favourable impact of the depreciation of the Australian dollar and the contribution of aircraft acquired to date from AWAS Aviation Capital Limited.

Net gains on sale of investments

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totaled $A218 million for the half-year ended 30 September 2015, an increase of 11% from $A196 million in the prior corresponding period. The increase predominately relates to gains from the partial sale of Macquarie Asset Management's holdings in MIC, as well as sales of unlisted infrastructure holdings.

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

Impairment charges on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets totaled $A108 million for the half-year ended 30 September 2015, an increase of 37% from $A79 million in the prior corresponding period. The increase predominately relates to impairments recognised on certain underperforming principal investments in Macquarie Capital.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of $A3 million for the half-year ended 30 September 2015 decreased significantly from $A90 million in the prior corresponding period. The gain in the prior corresponding period predominately relates to the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable in Corporate and Asset Finance. The gain on disposal of operating lease assets of $A141 million in the prior period predominately relates to the gain on disposal of the North American railcar operating lease portfolio in January 2015. There were no significant transactions during the half-year ended 30 September 2015.

2.0 Financial performance analysis
continued

(Loss)/gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates 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 $A187 million in the prior period primarily relates to the gain on the sale of the Macquarie Equipment Finance US operations in March 2015 in Corporate and Asset Finance. There were no significant transactions during the half-year ended 30 September 2015.

Net operating lease income

Net operating lease income which is predominately earned by Corporate and Asset Finance, totaled $A381 million for the half-year ended 30 September 2015, an increase of 34% from $A285 million in the prior corresponding period. The increase was primarily due to the favourable impact of the depreciation of the Australian dollar and the contribution of aircraft acquired to date from AWAS Aviation Capital Limited, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

Dividends/distributions received/receivable

Dividends/distributions received/receivable of $A78 million for the half-year ended 30 September 2015 increased significantly from $A26 million in the prior corresponding period predominately driven by increased dividends and distribution income from investments in Macquarie Asset Management and Macquarie Capital.

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

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses of $A336 million for the half-year ended 30 September 2015 increased significantly from $A104 million in the prior corresponding period, although were down from $A363 million in the prior period. The increase from the prior corresponding period was mainly due to the underperformance of certain commodity related loans in Commodities and Financial Markets and an increase to the central management overlay applied to the Group's collective provision in Corporate to account for changes in current economic conditions.

Other income

Other income of $A80 million for the half-year ended 30 September 2015 increased significantly from $A38 million in the prior corresponding period. The increase was primarily due to ancillary financing and service income earned on plant and equipment in Corporate and Asset Finance.

2.5 Operating expenses

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Employment expenses					
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,923)**	(1,915)	(1,626)	*<1*	*18*
Share-based payments	**(184)**	(160)	(180)	*15*	*2*
Provision for long service leave and annual leave	**(11)**	5	(15)	*	*(27)*
Total compensation expenses	**(2,118)**	(2,070)	(1,821)	*2*	*16*
Other employment expenses including on-costs, staff procurement and staff training	**(145)**	(129)	(123)	*12*	*18*
Total employment expenses	**(2,263)**	(2,199)	(1,944)	*3*	*16*
Brokerage, commission and trading-related expenses	**(444)**	(437)	(387)	*2*	*15*
Occupancy expenses	**(202)**	(201)	(178)	*<1*	*13*
Non-salary technology expenses	**(287)**	(231)	(206)	*24*	*39*
Other operating expenses					
Professional fees	**(157)**	(172)	(143)	*(9)*	*10*
Auditor's remuneration	**(13)**	(16)	(11)	*(19)*	*18*
Travel and entertainment expenses	**(83)**	(83)	(75)	-	*11*
Advertising and communication expenses	**(56)**	(63)	(49)	*(11)*	*14*
Amortisation of intangibles	**(41)**	(67)	(28)	*(39)*	*46*
Other expenses	**(153)**	(108)	(142)	*42*	*8*
Total other operating expenses	**(503)**	(509)	(448)	*(1)*	*12*
Total operating expenses	**(3,699)**	(3,577)	(3,163)	*3*	*17*

Total operating expenses of $A3,699 million for the half-year ended 30 September 2015 increased 17% from $A3,163 million in the prior corresponding period mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and higher compensation expenses driven by the improved performance of the Group.

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

– Total employment expenses of $A2,263 million for the half-year ended 30 September 2015 increased 16% from $A1,944 million in the prior corresponding period mainly reflecting higher staff compensation resulting from the improved performance of the Group, partly offset by a 4% reduction in headcount;
– Brokerage, commission and trading-related expenses of $A444 million increased 15% from $A387 million in the prior corresponding period mainly due to increased trading-related activity in Macquarie Securities, partly offset by a reduction in storage costs for physical commodities in Commodities and Financial Markets;
– Occupancy expenses of $A202 million increased 13% from $A178 million in the prior corresponding period, mainly due to the commencement of occupancy at 50 Martin Place, Sydney in September 2014;
– Non-salary technology expenses of $A287 million increased 39% from $A206 million in the prior corresponding period mainly due to ongoing investment in technology projects to support business growth, particularly the new Core Banking system in Banking and Financial Services; and
– Total other operating expenses of $A503 million increased 12% from $A448 million in the prior corresponding period reflecting increased business activity across the Group and the amortisation of capitalised costs on technology projects in Banking and Financial Services.

2.0 Financial performance analysis
continued

2.6 Headcount

	As at			Movement	
	Sep 15	Mar 15	Sep 14	*Mar 15 %*	*Sep 14 %*
Headcount by group					
Macquarie Asset Management	**1,480**	1,488	1,492	*(1)*	*(1)*
Corporate and Asset Finance	**903**	1,033	1,063	*(13)*	*(15)*
Banking and Financial Services	**2,250**	2,505	2,568	*(10)*	*(12)*
Macquarie Securities	**980**	998	1,013	*(2)*	*(3)*
Macquarie Capital	**1,157**	1,202	1,139	*(4)*	*2*
Commodities and Financial Markets	**986**	984	959	*<1*	*3*
Total headcount — Operating Groups	**7,756**	8,210	8,234	*(6)*	*(6)*
Total headcount — Corporate	**5,826**	5,875	5,904	*(1)*	*(1)*
Total headcount	**13,582**	14,085	14,138	*(4)*	*(4)*
Headcount by region					
Australia[1]	**6,232**	6,547	6,635	*(5)*	*(6)*
International:					
Americas	**2,508**	2,685	2,706	*(7)*	*(7)*
Asia	**3,482**	3,524	3,462	*(1)*	*1*
Europe, Middle East and Africa	**1,360**	1,329	1,335	*2*	*2*
Total headcount — International	**7,350**	7,538	7,503	*(2)*	*(2)*
Total headcount	**13,582**	14,085	14,138	*(4)*	*(4)*
International headcount ratio (%)	**54**	54	53		

(1) Includes New Zealand.

Total headcount of 13,582 at 30 September 2015 decreased 4% from 14,138 at 30 September 2014 mainly due to the realisation of efficiencies in Banking and Financial Services and the sale of the Macquarie Equipment Finance US operations in March 2015 by Corporate and Asset Finance.

2.7 Income tax expense

	Half-year to		
	Sep 15 $Am	**Mar 15 $Am**	**Sep 14 $Am**
Operating profit before income tax	**1,619**	1,401	1,121
Prima facie tax @ 30%	**486**	421	336
Income tax permanent differences	**44**	46	96
Income tax expense	**530**	467	432
Effective tax rate(1)	**33.1%**	33.5%	38.9%

(1) The effective tax rate is calculated on net profit before income tax and after non-controlling interests. Non-controlling interests reduced net profit before income tax by $A19 million for the half-year ended 30 September 2015 (30 September 2014: $A11 million).

Income tax expense for the half-year ended 30 September 2015 was $A530 million, up 23% from $A432 million in the prior corresponding period with an effective tax rate of 33.1%.

The increase in income tax was mainly driven by a 44% increase in operating profit before income tax, from $A1,121 million in the prior corresponding period to $A1,619 million in the half-year ended 30 September 2015. This was partly offset by a 54% decrease in income tax permanent differences from $A96 million in the prior corresponding period to $A44 million in the half-year ended 30 September 2015.

The reduction in income tax permanent differences compared to the prior corresponding period was mainly due to a change in the composition of earnings with an increase in the relative contribution of earnings from lower tax jurisdictions.

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

3.0 Segment analysis

3.1 Basis of preparation

Operating Segments

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

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

The operating groups comprise:

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

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

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

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

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

Internal funding arrangements

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

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

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

Transactions between operating groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central support functions

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

Performance-related profit share and share based payments expense

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

Income tax

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

Presentation of segment income statements

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

3.0 Segment analysis
continued

	Macquarie Asset Management $Am	Corporate and Asset Finance $Am	Banking and Financial Services $Am
Half-year ended 30 September 2015			
Net interest and trading income	9	460	456
Fee and commission income/(expense)	1,517	13	282
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(38)	2	–
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	5	(23)	(14)
Other operating income and charges	176	409	12
Internal management revenue/(charge)	–	2	–
Net operating income	1,669	863	736
Total operating expenses	(517)	(252)	(566)
Profit/(loss) before tax	1,152	611	170
Tax expense	–	–	–
Profit/(loss) attributable to non-controlling interests	(13)	–	–
Net profit/(loss) contribution	**1,139**	**611**	**170**
Half-year ended 31 March 2015			
Net interest and trading income/(expense)	–	411	419
Fee and commission income/(expense)	1,153	12	270
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(25)	2	2
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(19)	(119)	(20)
Other operating income and charges	77	607	6
Internal management revenue/(charge)	5	(7)	3
Net operating income	1,191	906	680
Total operating expenses	(526)	(262)	(536)
Profit/(loss) before tax	665	644	144
Tax expense	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	**665**	**644**	**144**
Half-year ended 30 September 2014			
Net interest and trading income/(expense)	11	326	406
Fee and commission income/(expense)	1,119	21	262
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	38	1	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(17)	(34)	(15)
Other operating income and charges	77	370	11
Internal management revenue/(charge)	(3)	4	–
Net operating income	1,225	688	665
Total operating expenses	(440)	(220)	(524)
Profit/(loss) before tax	785	468	141
Tax expense	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	**785**	**468**	**141**

Macquarie Securities $Am	Macquarie Capital $Am	Commodities and Financial Markets $Am	Corporate $Am	Total $Am
375	31	829	113	2,273
369	501	117	(5)	2,794
(1)	(12)	(6)	(8)	(63)
(21)	(129)	(176)	(86)	(444)
2	125	45	(11)	758
(6)	–	2	2	–
718	516	811	5	5,318
(478)	(346)	(529)	(1,011)	(3,699)
240	170	282	(1,006)	1,619
–	–	–	(530)	(530)
–	–	–	(6)	(19)
240	**170**	**282**	**(1,542)**	**1,070**
176	(11)	1,022	159	2,176
329	499	325	(16)	2,572
–	20	(3)	(10)	(14)
(3)	(41)	(262)	(176)	(640)
(10)	144	33	27	884
(5)	4	(9)	9	–
487	615	1,106	(7)	4,978
(440)	(339)	(521)	(953)	(3,577)
47	276	585	(960)	1,401
–	–	–	(467)	(467)
–	4	–	(12)	(8)
47	**280**	**585**	**(1,439)**	**926**
113	(13)	671	129	1,643
323	361	93	(12)	2,167
–	(7)	2	(16)	19
(1)	(17)	(72)	(27)	(183)
1	114	32	33	638
(5)	1	(1)	4	–
431	439	725	111	4,284
(414)	(290)	(475)	(800)	(3,163)
17	149	250	(689)	1,121
–	–	–	(432)	(432)
–	1	–	(12)	(11)
17	**150**	**250**	**(1,133)**	**678**

3.0 Segment analysis
continued

3.2 Macquarie Asset Management

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income	**9**	–	11	*	*(18)*
Fee and commission income					
Base fees	**784**	731	641	*7*	*22*
Performance fees	**609**	294	373	*107*	*63*
Other fee and commission income	**124**	128	105	*(3)*	*18*
Total fee and commission income	**1,517**	1,153	1,119	*32*	*36*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(38)**	(25)	38	*52*	*
Other operating income and charges					
Net gains on sale of equity investments and non-financial assets	**129**	17	34	*	*279*
Other income	**52**	41	26	*27*	*100*
Total other operating income and charges	**181**	58	60	*212*	*202*
Internal management revenue/(charge)	–	5	(3)	*(100)*	*(100)*
Net operating income	**1,669**	1,191	1,225	*40*	*36*
Operating expenses					
Employment expenses	**(175)**	(190)	(147)	*(8)*	*19*
Brokerage, commission and trading-related expenses	**(104)**	(100)	(88)	*4*	*18*
Other operating expenses	**(238)**	(236)	(205)	*1*	*16*
Total operating expenses	**(517)**	(526)	(440)	*(2)*	*18*
Non-controlling interests[1]	**(13)**	–	–	*	*
Net profit contribution	**1,139**	665	785	*71*	*45*
Non-GAAP metrics					
MAM (including MIRA) assets under management ($A billion)	**502.3**	484.0	423.3	*4*	*19*
MIRA equity under management ($A billion)	**71.6**	66.2	58.5	*8*	*22*
Headcount	**1,480**	1,488	1,492	*(1)*	*(1)*

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

Macquarie Asset Management's net profit contribution of $A1,139 million for the half-year ended 30 September 2015 increased 45% from $A785 million in the prior corresponding period, primarily driven by increased performance fee income and base fee income.

Base fees

Base fee income of $A784 million for the half-year ended 30 September 2015 increased 22% from $A641 million in the prior corresponding period. This was mainly due to an increase in AUM, up 19% from $A423.3 billion at 30 September 2014 to $A502.3 billion at 30 September 2015, which primarily benefited from favourable currency and market movements. Base fee growth also reflects fund raisings and investments in the MIRA business, as well as net flows into higher fee margin products in the MIM business. These were partially offset by the impact of asset realisations in the MIRA business.

Performance fees

Performance fee income of $A609 million for the half-year ended 30 September 2015 increased 63% from $A373 million in the prior corresponding period. The half-year ended 30 September 2015 included performance fees from MIC, MEIF1, MQA, MIIF and MKIF as well as performance fee income from co-investors in respect of a UK asset. Performance fees in the prior corresponding period primarily related to MEIF1, MIC and MQA.

Other fee and commission income

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

Other fee and commission income of $A124 million for the half-year ended 30 September 2015 increased 18% from $A105 million in the prior corresponding period primarily due to the impact of the depreciation of the Australian dollar and increased income from True Index products.

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

Share of net (losses)/profits of associates and joint ventures was a net loss of $A38 million for the half-year ended 30 September 2015 compared to a net gain of $A38 million in the prior corresponding period. The current period included equity accounted losses on MIRA investments in the UK and Korea, partially offset by higher equity accounted income from MIM's investment in JSP. The prior corresponding period included equity accounted gains arising from the sale of assets by unlisted infrastructure funds in which Macquarie has investments, primarily MEIF1.

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

Net gains on sale of equity investments and non-financial assets of $A129 million for the half-year ended 30 September 2015 mainly relate to gains from the partial sale of MIRA's holdings in MIC and MQA, as well as sales of unlisted infrastructure holdings in MIRA and the sale of the almond orchard in MSIS. The prior corresponding period included a gain on the partial sale of MQA.

Other income

Other income of $A52 million for the half-year ended 30 September 2015 increased 100% from $A26 million in the prior corresponding period primarily driven by increased distribution income from MIRA's investments in MIC and other assets.

Operating expenses

Total operating expenses of $A517 million for the half-year ended 30 September 2015 increased 18% from $A440 million in the prior corresponding period. The increase was largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis
continued

3.3 Corporate and Asset Finance

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income	**460**	411	326	*12*	*41*
Fee and commission income	**13**	12	21	*8*	*(38)*
Share of net profits of associates and joint ventures accounted for using the equity method	**2**	2	1	*–*	*100*
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	**(4)**	(34)	(15)	*(88)*	*(73)*
Gain on disposal of operating lease assets	**3**	141	90	*(98)*	*(97)*
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	**6**	141	–	*(96)*	*
Net operating lease income	**363**	309	278	*17*	*31*
Provisions for impairment, write-offs and collective allowance for credit losses	**(19)**	(85)	(19)	*(78)*	-
Other income	**37**	16	2	*131*	*
Total other operating income and charges	**386**	488	336	*(21)*	*15*
Internal management revenue/(charge)	**2**	(7)	4	*	*(50)*
Net operating income	**863**	906	688	*(5)*	*25*
Operating expenses					
Employment expenses	**(108)**	(116)	(97)	*(7)*	*11*
Brokerage, commission and trading-related expenses	**(3)**	(7)	(4)	*(57)*	*(25)*
Other operating expenses	**(141)**	(139)	(119)	*1*	*18*
Total operating expenses	**(252)**	(262)	(220)	*(4)*	*15*
Net profit contribution	**611**	644	468	*(5)*	*31*
Non-GAAP metrics					
Loan and finance lease portfolio ($A billion)	**23.1**	22.4	21.6	*3*	*7*
Operating lease portfolio ($A billion)	**9.2**	6.3	5.9	*46*	*56*
Headcount[1]	**903**	1,033	1,063	*(13)*	*(15)*

[1] Headcount at 31 March 2015 includes 149 staff who transferred with the sale of the Macquarie Equipment Finance US operations.

Corporate and Asset Finance's net profit contribution of $A611 million for the half-year ended 30 September 2015 increased 31% from $A468 million in the prior corresponding period. The improved result was largely driven by the favourable impact of the depreciation of the Australian dollar, and the accretion of interest income on loans acquired at a discount in the Lending portfolio. These increases were partially offset by the non-recurrence of the gain on restructure of a railcar logistics operating lease facility in the prior corresponding period.

Net interest and trading income

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

Net interest and trading income of $A460 million for the half-year ended 30 September 2015 increased 41% from $A326 million in the prior corresponding period. In the Lending portfolio, net interest and trading income increased mainly due to the accretion of interest income on loans acquired at a discount, the favourable impact of the depreciation of the Australian dollar and income earned from the sale of loan assets and early repayments.

In the Asset Finance portfolio, net interest and trading income from finance leases increased mainly due to growth in the motor vehicle lease portfolio and the acquisition of Advantage Funding in July 2015, partially offset by lower income as a result of the sale of the Macquarie Equipment Finance US operations in March 2015. The impact of these was offset by increased funding costs of the operating lease portfolio driven by foreign exchange movements and the acquisitions of aircraft from AWAS Aviation Capital Limited during the period.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets in the prior corresponding period of $A90 million predominately relates to the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. The gain on disposal of operating lease assets of $A141 million in the prior period predominately relates to the gain on disposal of the North American railcar operating lease portfolio in January 2015. There were no significant transactions during the half-year ended 30 September 2015.

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

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A141 million in the prior period primarily relates to the gain on the sale of the Macquarie Equipment Finance US operations in March 2015. There were no significant transactions during the half-year ended 30 September 2015.

Net operating lease income

Net operating lease income of $A363 million for the half-year ended 30 September 2015 increased 31% from $A278 million in the prior corresponding period. The increase was primarily due to the favourable impact of the depreciation of the Australian dollar and the contribution of aircraft acquired to date from AWAS Aviation Capital Limited, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

The operating lease portfolio was $A9.2 billion at 30 September 2015, up 56% from $A5.9 billion in the prior corresponding period.

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

Provisions for impairment, write-offs and collective allowance for credit losses of $A19 million were in line with the prior corresponding period. The prior period included additional collective provisions reflecting portfolio growth and the changing mix of assets in the Lending and finance lease portfolios.

Other income

Other income of $A37 million increased from $A2 million in the prior corresponding period primarily due to ancillary financing and service income earned on plant and equipment.

Operating expenses

Total operating expenses of $A252 million for the half-year ended 30 September 2015 increased 15% from $A220 million in the prior corresponding period. This was primarily driven by the impact of the depreciation of the Australian dollar on offshore expenses, partially offset by a reduction in operating expenses due to the sale of Macquarie Equipment Finance US operations in March 2015.

3.0 Segment analysis
continued

3.4 Banking and Financial Services

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income	**456**	419	406	*9*	*12*
Fee and commission income					
Base fees	**6**	6	6	*–*	*–*
Brokerage and commissions	**50**	58	64	*(14)*	*(22)*
Other fee and commission income	**226**	206	192	*10*	*18*
Total fee and commission income	**282**	270	262	*4*	*8*
Share of net profits of associates and joint ventures accounted for using the equity method	**–**	2	1	*(100)*	*(100)*
Other operating income and charges					
Impairment charge on equity investments and non-financial assets	**(2)**	(4)	(1)	*(50)*	*100*
Provisions for impairment, write-offs and collective allowance for credit losses	**(12)**	(16)	(14)	*(25)*	*(14)*
Other income	**12**	6	11	*100*	*9*
Total other operating income and charges	**(2)**	(14)	(4)	*(86)*	*(50)*
Internal management revenue	**–**	3	–	*(100)*	*–*
Net operating income	**736**	680	665	*8*	*11*
Operating expenses					
Employment expenses	**(177)**	(182)	(190)	*(3)*	*(7)*
Brokerage, commission and trading-related expenses	**(102)**	(103)	(95)	*(1)*	*7*
Technology expenses[(1)]	**(139)**	(105)	(106)	*32*	*31*
Other operating expenses	**(148)**	(146)	(133)	*1*	*11*
Total operating expenses	**(566)**	(536)	(524)	*6*	*8*
Net profit contribution	**170**	144	141	*18*	*21*
Non-GAAP metrics					
Macquarie platform assets under administration[(2)] ($A billion)	**46.7**	48.0	41.7	*(3)*	*12*
Australian loan portfolio[(3)] ($A billion)	**34.2**	30.4	25.3	*13*	*35*
Legacy loan portfolio[(4)] ($A billion)	**2.6**	3.8	4.6	*(32)*	*(43)*
BFS deposits[(5)] ($A billion)	**38.7**	37.3	35.3	*4*	*10*
Headcount	**2,250**	2,505	2,568	*(10)*	*(12)*

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
(2) Macquarie platform assets under administration includes Macquarie Wrap funds under administration (including Perpetual and Equity Portfolio Services), Retail Superannuation and Industry Super Funds.
(3) The Australian loan portfolio comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.
(4) The legacy loan portfolio primarily comprises residential mortgages in Canada and the US.
(5) Banking and Financial Services (BFS) Deposits excludes corporate/wholesale deposits.

Banking and Financial Services' net profit contribution of $A170 million for the half-year ended 30 September 2015 increased 21% from $A141 million in the prior corresponding period.

In the half-year ended 30 September 2015, Banking and Financial Services benefited from increased income as a result of strong volume growth in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased costs associated with investment in technology projects to support growth in the business, including the development of a new Core Banking system.

Net interest and trading income

Net interest and trading income of $A456 million for the half-year ended 30 September 2015 increased 12% from $A406 million in the prior corresponding period primarily due to growth in lending and deposit volumes, including:

- a 39% increase in Australian mortgage volumes from $A19.8 billion at 30 September 2014 to $A27.6 billion at 30 September 2015, including acquisitions of residential mortgage portfolios totaling $A3.7 billion since 30 September 2014;
- a 23% increase in business lending volumes from $A4.8 billion at 30 September 2014 to $A5.9 billion at 30 September 2015; and
- a 10% increase in Banking and Financial Services deposits from $A35.3 billion at 30 September 2014 to $A38.7 billion at 30 September 2015.

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

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined $A2.6 billion at 30 September 2015, down 43% from $A4.6 billion at 30 September 2014.

Brokerage and commissions

Brokerage and commissions income is largely derived from the provision of retail equities broking services in Australia. Brokerage and commissions income of $A50 million for the half-year ended 30 September 2015 decreased 22% from $A64 million in the prior corresponding period mainly due to a reduction in adviser headcount.

Other fee and commission income

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

Other fee and commission income of $A226 million for the half-year ended 30 September 2015 increased 18% from $A192 million in the prior corresponding period driven by increased platform commissions from higher assets under administration on the Wrap platform and a performance fee in respect of a UK asset.

Macquarie platform assets under administration closed at $A46.7 billion on 30 September 2015, an increase of 12% from $A41.7 billion at 30 September 2014 mainly driven by net flows.

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

Provisions for impairment, write-offs and collective allowance for credit losses of $A12 million for the half-year ended 30 September 2015 decreased 14% from $A14 million in the prior corresponding period due to lower credit losses in Credit Cards.

Operating expenses

Total operating expenses of $A566 million for the half-year ended 30 September 2015 increased 8% from $A524 million in the prior corresponding period primarily due to increased technology project costs.

Employment expenses of $A177 million for the half-year ended 30 September 2015 decreased 7% from $A190 million in the prior corresponding period driven by lower headcount as the business realised efficiencies.

Brokerage, commission and trading-related expenses are mainly amounts paid to external advisers for product distribution, and the cost of credit cards partner and rewards programs. Brokerage, commission and trading-related expenses of $A102 million for the half-year ended 30 September 2015 increased 7% from $A95 million in the prior corresponding period primarily due to increased lending and deposit volumes that are largely introduced by external advisers.

Technology expenses of $A139 million for the half-year ended 30 September 2015 increased 31% from $A106 million in the prior corresponding period due to higher project activity and commencement of amortisation of the Core Banking system.

Other operating expenses of $A148 million for the half-year ended 30 September 2015 increased 11% from $A133 million in the prior corresponding period driven by an increase in business activity.

3.0 Segment analysis
continued

3.5 Macquarie Securities

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income	**375**	176	113	*113*	*232*
Fee and commission income					
Brokerage and commissions	**311**	280	262	*11*	*19*
Underwriting income	**60**	37	55	*62*	*9*
Other fee and commission (expense)/income	**(2)**	12	6	*	*
Total fee and commission income	**369**	329	323	*12*	*14*
Share of net losses of associates and joint ventures accounted for using the equity method	**(1)**	–	–	*	*
Other operating income and charges	**(19)**	(13)	–	*46*	*
Internal management charge	**(6)**	(5)	(5)	*20*	*20*
Net operating income	**718**	487	431	*47*	*67*
Operating expenses					
Employment expenses	**(127)**	(124)	(127)	*2*	–
Brokerage, commission and trading-related expenses	**(115)**	(87)	(71)	*32*	*62*
Other operating expenses	**(236)**	(229)	(216)	*3*	*9*
Total operating expenses	**(478)**	(440)	(414)	*9*	*15*
Net profit contribution	**240**	47	17	*	*
Non-GAAP metrics					
Headcount	**980**	998	1,013	*(2)*	*(3)*

Macquarie Securities' net profit contribution of $A240 million for the half-year ended 30 September 2015 increased significantly from $A17 million in the prior corresponding period. Macquarie Securities benefited from improved market and trading conditions in Australia and Asia, particularly in China, driving strong growth in trading related income as well as increased brokerage and commissions income due to the impact of the depreciation of the Australian dollar. Operating expenses increased largely due to increased trading-related activity and foreign currency movements.

Net interest and trading income

Net interest and trading income of $A375 million for the half-year ended 30 September 2015 increased significantly from $A113 million in the prior corresponding period.

In the half-year ended 30 September 2015 the business benefited from improved trading opportunities that resulted from increased market volatility as markets reacted to the Greek financial issues and the Chinese share market growth earlier in the period, followed by the later sell-off of Chinese equities. The increased market volatility also drove increased client demand for Asian retail derivative products in the half-year ended 30 September 2015.

Brokerage and commissions

Brokerage and commissions income of $A311 million for the half-year ended 30 September 2015 increased 19% from $A262 million in the prior corresponding period. The increase was mainly driven by the favourable impact of the depreciation of the Australian dollar. Improved market turnover in Asia and increased equity capital markets activity in Australia was partially offset by reduced client activity in North America and Europe, Middle East and Africa.

Underwriting income

Underwriting income of $A60 million for the half-year ended 30 September 2015 increased 9% from $A55 million in the prior corresponding period driven by increased equity capital markets activity in Australia.

Operating expenses

Total operating expenses of $A478 million for the half-year ended 30 September 2015 increased 15% from $A414 million in the prior corresponding period.

Employment expenses of $A127 million for the half-year ended 30 September 2015 were in line with the prior corresponding period. A reduction in the underlying expense base due to lower headcount and the non-recurrence of restructuring costs recognised in the prior corresponding period associated with the exit of the Structured Products business was offset by the impact of the depreciation of the Australian dollar on offshore expenses.

Brokerage, commissions and trading-related expenses of $A115 million for the half-year ended 30 September 2015 increased 62% from $A71 million in the prior corresponding period primarily due to increased trading-related activity.

Other operating expenses of $A236 million for the half-year ended 30 September 2015 increased 9% from $A216 million in the prior corresponding period mainly due to the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis
continued

3.6 Macquarie Capital

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income /(expense)	**31**	(11)	(13)	*	*
Fee and commission income					
Mergers and acquisitions, advisory and underwriting fees	**448**	465	332	*(4)*	*35*
Brokerage and commissions	**32**	25	18	*28*	*78*
Other fee and commission income	**21**	9	11	*133*	*91*
Total fee and commission income	**501**	499	361	*<1*	*39*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(12)**	20	(7)	*	*71*
Other operating income and charges					
Net gains on sale of equity and debt investments	**106**	117	109	*(9)*	*(3)*
Impairment charge on equity and debt investments	**(68)**	(28)	(1)	*143*	*
Provisions for impairment and collective allowance for credit losses	**(61)**	(13)	(16)	*	*281*
Other income	**19**	27	5	*(30)*	*280*
Total other operating income and charges	**(4)**	103	97	*	*
Internal management revenue	–	4	1	*(100)*	*(100)*
Net operating income	**516**	615	439	*(16)*	*18*
Operating expenses					
Employment expenses	**(163)**	(168)	(140)	*(3)*	*16*
Brokerage, commission and trading-related expenses	**(3)**	(2)	(2)	*50*	*50*
Other operating expenses	**(180)**	(169)	(148)	*7*	*22*
Total operating expenses	**(346)**	(339)	(290)	*2*	*19*
Non-controlling interests[1]	–	4	1	*(100)*	*(100)*
Net profit contribution	**170**	280	150	*(39)*	*13*
Non-GAAP metrics					
Headcount	**1,157**	1,202	1,139	*(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.

Macquarie Capital's net profit contribution of $A170 million for the half-year ended 30 September 2015 increased 13% from $A150 million in the prior corresponding period predominately due to increased mergers and acquisitions fee revenue, particularly in Australia and the US, and the accretion of interest income on loans acquired at a discount, partially offset by increased impairment charges.

Net interest and trading income/(expense)

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

Net interest and trading income of $A31 million for the half-year ended 30 September 2015 increased from a $A13 million expense in the prior corresponding period primarily due to the accretion of interest income on loans acquired at a discount, growth of the debt investment portfolio and the depreciation of the Australian dollar. These increases were partially offset by increased funding costs from a larger principal investment portfolio.

Fee and commission income

Fee and commission income of $A501 million for the half-year ended 30 September 2015 increased 39% from $A361 million in the prior corresponding period. This increase was across all product classes.

The US and Australian businesses were the largest contributors to fee income during the half-year ended 30 September 2015 with strong growth predominately driven by increased fee revenue from mergers and acquisitions transactions in Australia and the US, equity capital markets in Australia and debt capital markets in the US.

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

Share of net losses of associates and joint ventures of $A12 million for the half-year ended 30 September 2015 increased from $A7 million in the prior corresponding period. The movement reflects changes in the composition and underlying performance of investments within the portfolio.

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of $A106 million for the half-year ended 30 September 2015 were broadly in line with $A109 million in the prior corresponding period. Gains were generated during the period from the realisation of both listed and unlisted principal investments in Europe, Australia and Asia.

Impairment charge on equity and debt investments and provisions for impairment and collective allowance for credit losses

The aggregate impairment charge on equity and debt investments and provisions for impairment and collective allowance for credit losses of $A129 million for the half-year ended 30 September 2015 increased from $A17 million in the prior corresponding period. The movement predominately relates to certain underperforming principal investments.

Other income

Other income of $A19 million for the half-year ended 30 September 2015 increased from $A5 million in the prior corresponding period predominately reflecting higher dividend income resulting from changes in the composition of principal investments within the portfolio.

Operating expenses

Total operating expenses of $A346 million for the half-year ended 30 September 2015 increased 19% from $A290 million in the prior corresponding period. The increase was mainly driven by the impact of the depreciation of the Australian dollar on offshore expenses and an increase in other operating expenses due to business operations.

3.0 Segment analysis
continued

3.7 Commodities and Financial Markets

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest and trading income					
Commodities					
Risk management products	**345**	323	271	*7*	*27*
Lending and financing	**148**	177	141	*(16)*	*5*
Inventory management, transport and storage	**90**	207	6	*(57)*	*
Total commodities	**583**	707	418	*(18)*	*39*
Credit, interest rates and foreign exchange	**246**	315	253	*(22)*	*(3)*
Net interest and trading income	**829**	1,022	671	*(19)*	*24*
Fee and commission income					
Brokerage and commissions	**69**	65	51	*6*	*35*
Other fee and commission income	**48**	260	42	*(82)*	*14*
Total fee and commission income	**117**	325	93	*(64)*	*26*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(6)**	(3)	2	*100*	*
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	**(10)**	(75)	(24)	*(87)*	*(58)*
Provisions for impairment and collective allowance for credit losses	**(166)**	(187)	(48)	*(11)*	*246*
Other income	**45**	33	32	*36*	*41*
Total other operating income and charges	**(131)**	(229)	(40)	*(43)*	*228*
Internal management revenue/(charge)	**2**	(9)	(1)	*	*
Net operating income	**811**	1,106	725	*(27)*	*12*
Operating expenses					
Employment expenses	**(166)**	(150)	(133)	*11*	*25*
Brokerage, commission and trading-related expenses	**(112)**	(134)	(124)	*(16)*	*(10)*
Other operating expenses	**(251)**	(237)	(218)	*6*	*15*
Total operating expenses	**(529)**	(521)	(475)	*2*	*11*
Net profit contribution	**282**	585	250	*(52)*	*13*
Non-GAAP metrics					
Headcount	**986**	984	959	*<1*	*3*

Commodities and Financial Markets' net profit contribution for the half-year ended 30 September 2015 was $A282 million, an increase of 13% from $A250 million in the prior corresponding period. The result reflected increased client activity driven by price volatility and the favourable impact of the depreciation in the Australian dollar, partially offset by higher provisions for impairments taken on certain underperforming commodity related loans.

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 $A345 million for the half-year ended 30 September 2015 increased 27% from $A271 million in the prior corresponding period.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in Global Oil and North American Gas and Power. Strong customer flow driven by price volatility, notably in the Global Oil business, resulted in increased income compared with the prior corresponding period.

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

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 $A148 million for the half-year ended 30 September 2015 increased 5% from $A141 million in the prior corresponding period. While lending and financing income was only up slightly on the prior corresponding period, the prior corresponding period included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognised in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was up 32% from the prior corresponding period mainly due to the impact of the depreciation of the Australian dollar and increased activity in Energy Markets' Global Oil business.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of $A90 million for the half-year ended 30 September 2015 increased significantly from $A6 million in the prior corresponding period.

Tolling agreements and capacity contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which has resulted in some volatility with timing of reported income. Notwithstanding this, the business has continued to experience increased client activity particularly in the North American gas market.

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

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

Net interest and trading income from credit, interest rates and foreign exchange products of $A246 million for the half-year ended 30 September 2015 decreased 3% from the $A253 million in the prior corresponding period.

Increased volatility in foreign exchange markets led to increased client activity, which was offset by the impact of lower levels of confidence experienced in high yield US credit markets.

3.0 Segment analysis
continued

Brokerage, commissions and other fee income

Brokerage, commissions and other fee income of $A117 million for the half-year ended 30 September 2015 increased 26% from $A93 million in the prior corresponding period due to increased market volumes traded in offshore commodity futures markets driven by ongoing volatility.

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

Impairment charges on equity investments, intangibles and other non-financial assets of $A10 million for the half-year ended 30 September 2015 decreased 58% from $A24 million in the prior corresponding period mainly due to the improved performance of the residual equity investment portfolio.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of $A166 million for the half-year ended 30 September 2015 increased significantly from $A48 million in the prior corresponding period mainly due to the underperformance of certain commodity related loans.

Other income

Other income of $A45 million for the half-year ended 30 September 2015 increased 41% from $A32 million in the prior corresponding period mainly due to increased gains on the sale of equity investments and dividend income.

Operating expenses

Total operating expenses of $A529 million for the half-year ended 30 September 2015, increased 11% from $A475 million in the prior corresponding period.

Employment expenses of $A166 million for the half-year ended 30 September 2015 increased 25% from $A133 million in the prior corresponding period, largely due to the impact of the depreciation of the Australian dollar on offshore expenses and an increase in headcount to support business growth.

Brokerage, commission and trading-related expenses includes fees paid in relation to trading-related activities and storage costs of physical metals and other commodities. On certain client financing arrangements storage costs are paid by Macquarie and recovered from clients as higher financing margins, which is included within commodities lending and financing income. Brokerage, commission and trading-related expenses of $A112 million for the half-year ended 30 September 2015 decreased 10% from $A124 million in the prior corresponding period mainly due to a reduction in storage costs for physical commodities as a result of a change in storage arrangements, with clients now largely paying for storage costs directly. This was partially offset by the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses of $A251 million for the half-year ended 30 September 2015 increased 15% from $A218 million in the prior corresponding period mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and continued business growth.

3.8 Corporate

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Net interest income and trading income	**113**	159	129	*(29)*	*(12)*
Fee and commission expense	**(5)**	(16)	(12)	*(69)*	*(58)*
Share of net losses of associates and joint ventures accounted for using the equity method	**(8)**	(10)	(16)	*(20)*	*(50)*
Other operating income and charges					
Net (losses)/gains on sale and reclassification of debt and equity securities	**(23)**	16	27	*	*
Impairment charge on investments, intangibles and other non-financial assets	**(25)**	(126)	(25)	*(80)*	–
Provisions for impairment and collective allowance for credit losses	**(61)**	(50)	(2)	*22*	*
Other income	**12**	11	6	*9*	*100*
Total other operating income and charges	**(97)**	(149)	6	*(35)*	*
Internal management revenue	**2**	9	4	*(78)*	*(50)*
Net operating income	**5**	(7)	111	*	*(95)*
Operating expenses					
Employment expenses	**(1,347)**	(1,269)	(1,110)	*6*	*21*
Brokerage, commission and trading-related expenses	**(5)**	(4)	(3)	*25*	*67*
Other operating expenses	**341**	320	313	*7*	*9*
Total operating expenses	**(1,011)**	(953)	(800)	*6*	*26*
Income tax expense	**(530)**	(467)	(432)	*13*	*23*
Macquarie Income Preferred Securities	**(1)**	(3)	(2)	*(67)*	*(50)*
Macquarie Income Securities	**(8)**	(10)	(9)	*(20)*	*(11)*
Non-controlling interests[1]	**3**	1	(1)	*200*	*
Net loss contribution	**(1,542)**	(1,439)	(1,133)	*7*	*36*
Non-GAAP metrics					
Headcount	**5,826**	5,875	5,904	*(1)*	*(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 support functions, 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.

The Corporate segment's result for the half-year ended 30 September 2015 was a net loss of $A1,542 million, an increase of 36% from a net loss of $A1,133 million in the prior corresponding period, mainly driven by higher staff compensation and tax expenses resulting from the improved performance of the Group.

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.

3.0 Segment analysis
continued

Net interest and trading income of $A113 million for the half-year ended 30 September 2015 decreased 12% from $A129 million in the prior corresponding period mainly due to the non-recurrence of favourable accounting volatility recognised in the prior corresponding period on economically hedged positions that are unable to achieve designated hedge accounting for accounting purposes.

Share of net losses of associates and joint ventures

Share of net losses of associates and joint ventures of $A8 million for the half-year ended 30 September 2015 decreased from $A16 million in the prior corresponding period. The movement reflects changes in the underlying performance of legacy investments. There were no individually significant items during the current period.

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

Net losses on sale and reclassification of debt and equity securities were $A23 million for the half-year ended 30 September 2015, compared to net gains of $A27 million in the prior corresponding period. The loss in the current period largely resulted from the reclassification of legacy assets that are no longer held for strategic purposes. The prior corresponding period included gains from the disposal of securities undertaken in managing the Group's liquidity.

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

Impairment charges on investments, intangibles and other non-financial assets of $A25 million for the half-year ended 30 September 2015 was in line with the prior corresponding period and related to legacy assets that are no longer strategic holdings. The prior period also included the impairment of goodwill relating to legacy acquisitions.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of $A61 million for the half-year ended 30 September 2015 increased from $A2 million in the prior corresponding period mainly due to an increase to the central management overlay applied to the Group's collective provision to account for changes in current economic conditions and other asset impairments.

Employment expenses

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

Employment expenses of $A1,347 million for the half-year ended 30 September 2015 increased 21% from $A1,110 million in the prior corresponding period. The increase was mainly attributable to higher staff compensation resulting from the improved performance of the Group and the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central support functions, offset by the recovery of central support function costs from the operating groups. Net recoveries from the operating groups of $A341 million for the half-year ended 30 September 2015 increased 9% from $A313 million in the prior corresponding period. The increase reflects an increased cost base of central support functions resulting from investment in technology platforms and the impact of the depreciation of the Australian dollar on offshore expenses.

3.9 International income

International income by region

	Half-year to			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Americas	**1,677**	2,081	1,274	*(19)*	*32*
Asia	**850**	690	423	*23*	*101*
Europe, Middle East and Africa	**1,262**	953	1,040	*32*	*21*
Total international income	**3,789**	3,724	2,737	*2*	*38*
Australia[1]	**1,526**	1,270	1,440	*20*	*6*
Total income (excluding earnings on capital and other corporate items)	**5,315**	4,994	4,177	*6*	*27*
Earnings on capital and other corporate items	**3**	(16)	107	*	*(97)*
Net operating income (as reported)	**5,318**	4,978	4,284	*7*	*24*
International income (excluding earnings on capital and other corporate items) ratio (%)	**71**	75	66		

(1) Includes New Zealand.

International income by group and region

	Half-year to Sep 15						
	Americas $Am	**Asia $Am**	**Europe, Middle East and Africa $Am**	**Total International $Am**	**Australia[2] $Am**	**Total Income[3] $Am**	**Total International %**
Macquarie Asset Management	788	150	491	**1,429**	240	**1,669**	**86**
Corporate and Asset Finance	228	13	413	**654**	207	**861**	**76**
Banking and Financial Services	3	–	–	**3**	733	**736**	**<1**
Macquarie Securities	57	514	44	**615**	109	**724**	**85**
Macquarie Capital	157	32	84	**273**	243	**516**	**53**
Commodities and Financial Markets	444	141	230	**815**	(6)	**809**	**101**
Total	**1,677**	**850**	**1,262**	**3,789**	**1,526**	**5,315**	**71**

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

3.0 Segment analysis
continued

Total international income was $A3,789 million for the half-year ended 30 September 2015 up 38% from $A2,737 million in the prior corresponding period. Total international income represented 71% of total income (excluding earnings on capital and other corporate items), up from 66% in the prior corresponding period.

Income from the Americas of $A1,677 million for the half-year ended 30 September 2015 increased 32% from $A1,274 million in the prior corresponding period, mainly driven by the impact of the depreciation of the Australian dollar. Income in the region also benefited from strong customer flows in Commodities and Financial Markets' Energy Markets business, particularly in the Global Oil business, an increase in underlying AUM driving higher base fee income in Macquarie Asset Management together with higher performance fees and income from the partial sale of an investment in MIC, and higher fee income in Macquarie Capital. These were partially offset by the impact of the divestments of Corporate and Asset Finance's North American railcar operating lease portfolio in January 2015 and Macquarie Equipment Finance US operations in March 2015.

In Asia, income of $A850 million for the half-year ended 30 September 2015 increased significantly from $A423 million in the prior corresponding period. The increase was mainly in Macquarie Securities driven by improved trading activity that resulted from increased market volatility, particularly in China, while Macquarie Asset Management benefited from higher performance fees including MIIF and MKIF.

Income from Europe, Middle East and Africa of $A1,262 million for the half-year ended 30 September 2015 increased 21% from $A1,040 million in the prior corresponding period. The increase was mainly in Macquarie Asset Management, which benefited from significant performance fee income from co-investors in respect of a UK asset. Corporate and Asset Finance's contribution to the region increased as a result of the favourable impact of the depreciation of the Australian dollar and growth in the aviation portfolio driven by aircraft acquired to date from AWAS Aviation Capital Limited.

In Australia, income of $A1,526 million for the half-year ended 30 September 2015 increased 6% from $A1,440 million in the prior corresponding period. Key drivers included growth in platforms, lending and deposit volumes in Banking and Financial Services partially offset by higher provisions for impairment due to the underperformance of certain commodity related loans in Commodities and Financial Markets.

4.0 Balance sheet

4.1 Statement of financial position

	As at			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Assets					
Receivables from financial institutions	**36,954**	28,705	20,775	*29*	*78*
Trading portfolio assets	**31,337**	30,406	26,310	*3*	*19*
Derivative assets	**22,307**	20,080	14,648	*11*	*52*
Investment securities available for sale	**10,707**	8,896	9,299	*20*	*15*
Other assets	**13,742**	13,557	13,024	*1*	*6*
Loan assets held at amortised cost	**76,690**	72,762	64,435	*5*	*19*
Other financial assets at fair value through profit or loss	**2,101**	2,125	2,752	*(1)*	*(24)*
Property, plant and equipment	**10,383**	7,079	6,636	*47*	*56*
Interests in associates and joint ventures accounted for using the equity method	**2,779**	2,328	2,483	*19*	*12*
Intangible assets	**1,182**	1,164	1,237	*2*	*(4)*
Deferred tax assets	**908**	874	733	*4*	*24*
Total assets	**209,090**	187,976	162,332	*11*	*29*
Liabilities					
Trading portfolio liabilities	**8,702**	5,295	4,118	*64*	*111*
Derivative liabilities	**20,018**	18,267	14,634	*10*	*37*
Deposits	**51,915**	47,386	44,216	*10*	*17*
Other liabilities	**15,372**	15,830	13,287	*(3)*	*16*
Payables to financial institutions	**23,525**	18,645	16,961	*26*	*39*
Other financial liabilities at fair value through profit or loss	**2,309**	1,626	1,364	*42*	*69*
Debt issued at amortised cost	**65,466**	61,463	51,076	*7*	*28*
Provisions	**238**	220	221	*8*	*8*
Deferred tax liabilities	**546**	464	635	*18*	*(14)*
Total liabilities excluding loan capital	**188,091**	169,196	146,512	*11*	*28*
Loan capital					
Subordinated debt issued at amortised cost	**5,782**	4,384	3,604	*32*	*60*
Total loan capital	**5,782**	4,384	3,604	*32*	*60*
Total liabilities	**193,873**	173,580	150,116	*12*	*29*
Net assets	**15,217**	14,396	12,216	*6*	*25*
Equity					
Contributed equity	**5,836**	5,947	5,063	*(2)*	*15*
Reserves	**2,090**	1,656	826	*26*	*153*
Retained earnings	**6,705**	6,306	5,801	*6*	*16*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**14,631**	13,909	11,690	*5*	*25*
Non-controlling interests	**586**	487	526	*20*	*11*
Total equity	**15,217**	14,396	12,216	*6*	*25*

4.0 Balance sheet
continued

Growth in the Group's balance sheet since 31 March 2015 has largely been driven by increased business activity across lending, asset financing and trading portfolios as well as the impact of the depreciation of the Australian dollar. Total assets of $A209.1 billion at 30 September 2015 increased 11% from $A188.0 billion at 31 March 2015, while total liabilities increased 12% from $A173.6 billion at 31 March 2015 to $A193.9 billion at 30 September 2015.

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

- Treasury funding and liquidity management initiatives during the half-year to 30 September 2015 including new issuances of long term debt issued at amortised cost (partially offset by a decrease in short term debt) that led to an increase in debt investments available for sale and cash and liquid asset holdings;
- Increased stock borrowing activity in Macquarie Securities, particularly in Europe, resulting in an increase in receivables from financial institutions and trading liabilities;
- Changes in interest rates, foreign exchange rates and commodity prices during the period resulted in an increase in derivative assets and liabilities in Commodities and Financial Markets;
- Increased lending and asset financing activity across the Group, leading to growth in loan assets held at amortised cost, including:
  - Banking and Financial Services' Australian mortgage portfolio, which increased 13% from $A24.5 billion at 31 March 2015 to $A27.6 billion at 30 September 2015 and included the acquisition of a residential mortgage portfolio of $A1.2 billion during the period. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined $A2.6 billion at 30 September 2015, down 32% from $A3.8 billion at 31 March 2015;
  - Corporate and Asset Finance's loan and finance lease portfolios, which increased 3% from $A22.4 billion at 31 March 2015 to $A23.1 billion at 30 September 2015 mainly driven by the impact of the depreciation of the Australian dollar and the acquisition of Advantage Funding in July 2015;
- Aircraft acquired to date from AWAS Aviation Capital Limited and the impact of the depreciation of the Australian dollar resulted in growth of the operating lease portfolios within Corporate and Asset Finance of 46% from $A6.3 billion at 31 March 2015 to $A9.2 billion at 30 September 2015. The acquisition of aircraft from AWAS Aviation Capital Limited also led to an increase in payables to financial institutions as a result of funding requirements;
- Increased deposits in Banking and Financial Services mainly due to organic growth; and
- Increased loan capital primarily due to a $US750 million subordinated debt issuance that qualifies as Tier 2 capital under Basel III rules.

Total equity increased 6% from $A14.4 billion at 31 March 2015 to $A15.2 billion at 30 September 2015, largely due to net retained earnings generated during the period and a net increase in the foreign currency translation reserve that resulted from the depreciation of the Australian dollar during the period.

4.2 Loan assets

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

	As at			Movement	
	Sep 15 $Ab	Mar 15 $Ab	Sep 14 $Ab	*Mar 15 %*	*Sep 14 %*
Loan assets at amortised cost per statement of financial position	**76.7**	72.8	64.4	*5*	*19*
Other loans held at fair value[(1)]	**0.4**	0.5	0.6	*(20)*	*(33)*
Operating lease assets	**9.2**	6.3	6.0	*46*	*53*
Other reclassifications[(2)]	**1.8**	1.4	0.5	*29*	*260*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[(3)]	**(17.2)**	(16.6)	(15.3)	*4*	*12*
Less: segregated funds[(4)]	**(4.2)**	(3.8)	(2.2)	*11*	*91*
Less: margin balances (reclassed to trading)[(5)]	**(5.4)**	(5.3)	(4.1)	*2*	*32*
Total loan assets per funded balance sheet[(6)]	**61.3**	55.3	49.9	*11*	*23*

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

4.0 Balance sheet
continued

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

		As at			Movement	
	Notes	**Sep 15 $Ab**	Mar 15 $Ab	Sep 14 $Ab	*Mar 15 %*	*Sep 14 %*
Mortgages:	1					
Australia		**19.3**	16.7	12.6	*16*	*53*
Canada, United States and Other		**3.0**	4.5	5.2	*(33)*	*(42)*
Total mortgages		**22.3**	21.2	17.8	*5*	*25*
Structured investments	2	**2.0**	2.3	2.3	*(13)*	*(13)*
Business banking	3	**5.8**	5.2	4.9	*12*	*18*
Real estate	4	**3.6**	3.5	2.9	*3*	*24*
Resources and commodities	5	**3.2**	3.0	2.6	*7*	*23*
Leasing (finance and operating)	6	**15.0**	11.1	10.7	*35*	*40*
Corporate lending	7	**7.6**	6.9	6.5	*10*	*17*
Other lending	8	**1.8**	2.1	2.2	*(14)*	*(18)*
Total		**61.3**	55.3	49.9	*11*	*23*

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential property and supported by mortgage insurance:

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

2. Structured investments

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

3. Business banking

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

4. Real estate

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

5. Resources and commodities

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

6. Leasing (finance and operating)

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

7. Corporate lending

Diversified secured corporate lending.

8. Other lending

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

4.3 Equity investments

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

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

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

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

Equity investments reconciliation

	As at			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	**1,239**	1,076	1,268	*15*	*(2)*
Equity investments within investment securities available for sale	**2,490**	2,444	2,024	*2*	*23*
Interests in associates and joint ventures accounted for using the equity method	**2,779**	2,328	2,483	*19*	*12*
Held for sale equity investments within other assets	**510**	–	–	*	*
Total equity investments per statement of financial position	**7,018**	5,848	5,775	*20*	*22*
Adjustment for funded balance sheet					
Equity hedge positions[1]	**(860)**	(787)	(1,038)	*9*	*(17)*
Total funded equity investments	**6,158**	5,061	4,737	*22*	*30*
Adjustments for equity investments analysis					
Other assets[2]	–	9	7	*(100)*	*(100)*
Available for sale reserves[3]	**(688)**	(688)	(509)	–	*35*
Associates reserves[4]	**(2)**	–	(15)	*	*(87)*
Total adjusted equity investments[5]	**5,468**	4,382	4,220	*25*	*30*

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

(2) Other assets include equity investments which do not fall within the categories per the statement of financial position.

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

(4) Associates reserves (gross of tax) that will be released to income upon realisation of the investment.

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

4.0 Balance sheet
continued

Equity investments by category

	As at			Movement	
	Sep 15 $Am	Mar 15 $Am	Sep 14 $Am	*Mar 15 %*	*Sep 14 %*
Macquarie-managed funds					
Listed MIRA managed funds	**787**	669	529	*18*	*49*
Unlisted MIRA managed funds	**866**	810	993	*7*	*(13)*
Other Macquarie-managed funds	**636**	554	481	*15*	*32*
Total Macquarie-managed funds	**2,289**	2,033	2,003	*13*	*14*
Other investments					
Transport, industrial and infrastructure	**730**	381	335	*92*	*118*
Telecommunications, information technology, media and entertainment	**1,176**	759	603	*55*	*95*
Energy, resources and commodities	**616**	372	416	*66*	*48*
Real estate investment, property and funds management	**156**	300	315	*(48)*	*(50)*
Finance, wealth management and exchanges	**501**	537	548	*(7)*	*(9)*
Total other investments	**3,179**	2,349	2,217	*35*	*43*
Total equity investments	**5,468**	4,382	4,220	*25*	*30*

5.0 Funding and liquidity

5.1 Liquidity Risk Governance and Management Framework

Governance and Oversight

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

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

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

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

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

Liquidity Policy and Risk Appetite

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

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

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

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

Macquarie Group Limited (MGL)

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

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

Macquarie Bank Limited (MBL)

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

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

5.0 Funding and liquidity
continued

Liquidity Risk Tolerance and Principles

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

Risk Tolerances

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

Liquidity Management Principles

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

Liquidity Contingency Plan

Group Treasury maintains a liquidity contingency plan (LCP), which outlines how a liquidity stress would be managed across the Macquarie Group. The LCP 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 LCP details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The LCP 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 LCP.

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

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

Funding Strategy

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

5.2 Management of Liquidity Risk

Scenario analysis

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

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

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

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

Liquid asset holdings

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

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

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

The cash and liquid asset portfolio is denominated and held in both Australian Dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. MGL Group had $A28.2 billion cash and liquid assets as at 30 September 2015 (31 March 2015: $A25.7 billion), of which $A26.5 billion was held by the MBL Group (31 March 2015: $A23.8 billion).

Funds transfer pricing

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

5.0 Funding and liquidity
continued

Credit ratings

Credit ratings[1] at 30 September 2015 are detailed below.

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

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.
(2) Standard and Poor's does not place outlook statements on short-term ratings.

Regulatory developments

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

As the regulated Authorised Deposit-taking Institution (ADI) in the Macquarie Group, the LCR and associated regulatory requirements apply specifically to MBL and its subsidiaries.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) requires sufficient levels of unencumbered, high-quality liquid assets (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 Committed Liquidity Facility (CLF) allocation. The LCR determines MBL's regulatory minimum required level of cash and liquid assets.

Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on 1 January 2015. MBL's 3-month average LCR to 30 September 2015 was 170% (average based on month end observations).

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is a 12-month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement in 2018, however APRA are yet to provide details as to how the ratio will be implemented into local standards.

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

Macquarie continues to monitor developing liquidity regulations.

5.3 Funded balance sheet

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

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 30 September 2015. The following pages split this between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

The growth in Macquarie's funded balance sheet over the last 6 months is largely driven by foreign currency movements (primarily the depreciation of the AUD/USD exchange rate), aircraft operating lease portfolio acquired to date from AWAS Aviation Capital Limited, growth in Australian mortgage lending and growth in the cash and liquid asset portfolio.

		As at		
	Notes	**Sep 15 $Ab**	Mar 15 $Ab	Sep 14 $Ab
Total assets per MGL statement of financial position		**209.1**	188.0	162.3
Accounting deductions:				
Self funded trading assets	1	**(25.9)**	(19.3)	(16.2)
Derivative revaluation accounting gross-ups	2	**(19.8)**	(17.9)	(14.3)
Life investment contracts and other segregated assets	3	**(8.5)**	(7.5)	(5.6)
Outstanding trade settlement balances	4	**(8.8)**	(7.7)	(7.1)
Short term working capital assets	5	**(5.8)**	(6.2)	(5.7)
Non-recourse funded assets:				
Securitised assets and other non-recourse funding	6	**(16.6)**	(16.2)	(15.5)
Net funded assets		**123.7**	113.2	97.9

Explanatory notes concerning net funded assets

1. Self funded trading assets

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

2. Derivative revaluation accounting gross-ups

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

3. Life investment contracts and other segregated assets

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

4. Outstanding trade settlement balances

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

5. Short term working capital assets

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

6. Securitised assets and other non-recourse funding

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

5.0 Funding and liquidity
continued

5.4 Funding profile for consolidated MGL Group

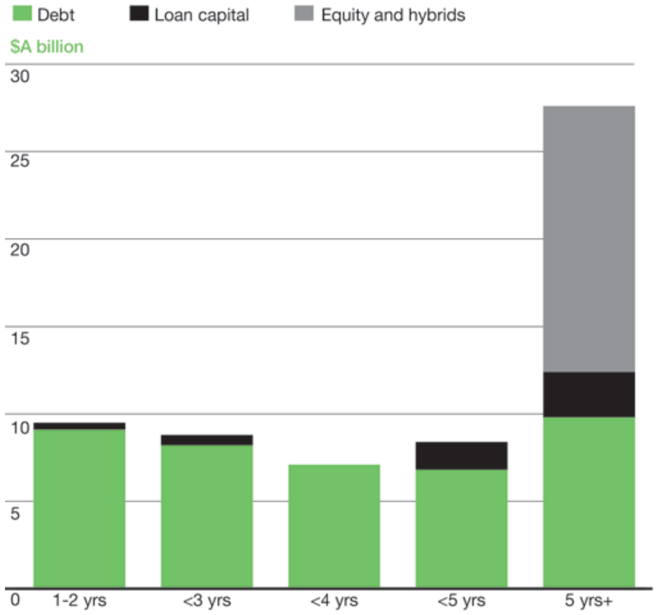
Funded balance sheet

	Notes	As at Sep 15 $Ab	Mar 15 $Ab	Sep 14 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		**0.7**	1.4	1.7
Commercial paper		**10.8**	11.1	10.0
Net trade creditors	2	**1.0**	2.0	0.3
Structured notes	3	**3.1**	2.5	2.2
Secured funding	4	**5.4**	4.8	6.1
Bonds	5	**35.2**	29.8	20.3
Other loans	6	**0.6**	0.5	1.3
Syndicated loan facilities	7	**3.1**	2.6	1.4
Customer deposits	8	**42.8**	39.7	38.8
Loan capital	9	**5.8**	4.4	3.6
Equity and hybrid	10	**15.2**	14.4	12.2
Total		**123.7**	113.2	97.9
Funded assets				
Cash and liquid assets	11	**28.2**	25.7	21.2
Self securitisation	12	**10.4**	9.5	7.9
Net trading assets	13	**23.3**	21.5	16.6
Loan assets less than one year	14	**11.0**	11.2	11.2
Loan assets greater than one year	14	**39.9**	34.6	30.8
Debt investment securities	15	**2.9**	3.7	3.6
Co-investment in Macquarie-managed funds and other equity investments	16	**6.2**	5.1	4.7
Property, plant and equipment and intangibles		**1.8**	1.9	1.9
Net trade debtors	17	**–**	–	–
Total		**123.7**	113.2	97.9

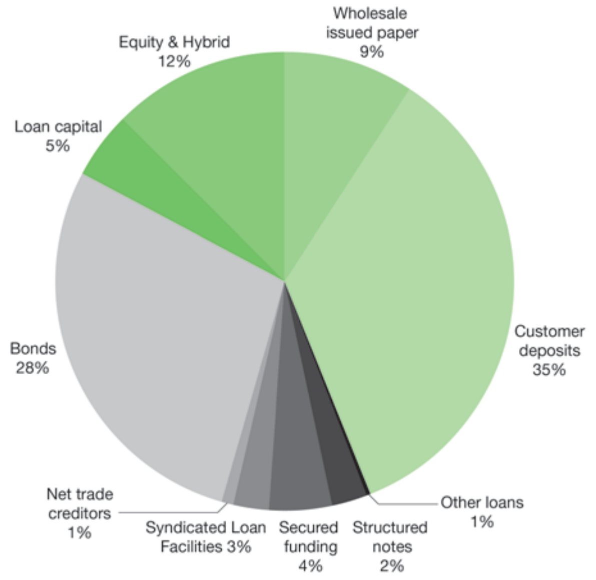
See Section 5.7 for notes 1–17.

Term funding profile

Detail of drawn term funding maturing beyond one year



Diversity of funding sources



	As at Sep 15					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.5	0.3	0.1	0.2	1.7	**2.8**
Secured funding	0.4	2.5	0.1	–	0.4	**3.4**
Bonds	8.2	3.9	5.1	6.6	7.7	**31.5**
Other loans	–	0.2	–	–	–	**0.2**
Syndicated loan facilities	–	1.3	1.8	–	–	**3.1**
Total debt	**9.1**	**8.2**	**7.1**	**6.8**	**9.8**	**41.0**
Loan capital	0.4	0.6	–	1.6	2.6	**5.2**
Equity and hybrid	–	–	–	–	15.2	**15.2**
Total funding sources drawn	**9.5**	**8.8**	**7.1**	**8.4**	**27.6**	**61.4**
Undrawn	–	2.2	1.0	–	–	**3.2**
Total funding sources drawn and undrawn	**9.5**	**11.0**	**8.1**	**8.4**	**27.6**	**64.6**

Macquarie has a stable funding base with minimal reliance on short term wholesale funding markets. At 30 September 2015, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) is 4.4 years at 30 September 2015, unchanged from 31 March 2015.

As at 30 September 2015, customer deposits represented $A42.8 billion, or 35% of MGL Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A11.5 billion, or 9% of total funding, and other debt funding maturing within 12 months represented $A8.0 billion, or 7% of total funding.

5.0 Funding and liquidity
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 31 March 2015, MGL and MBL have continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2015 and 30 September 2015:

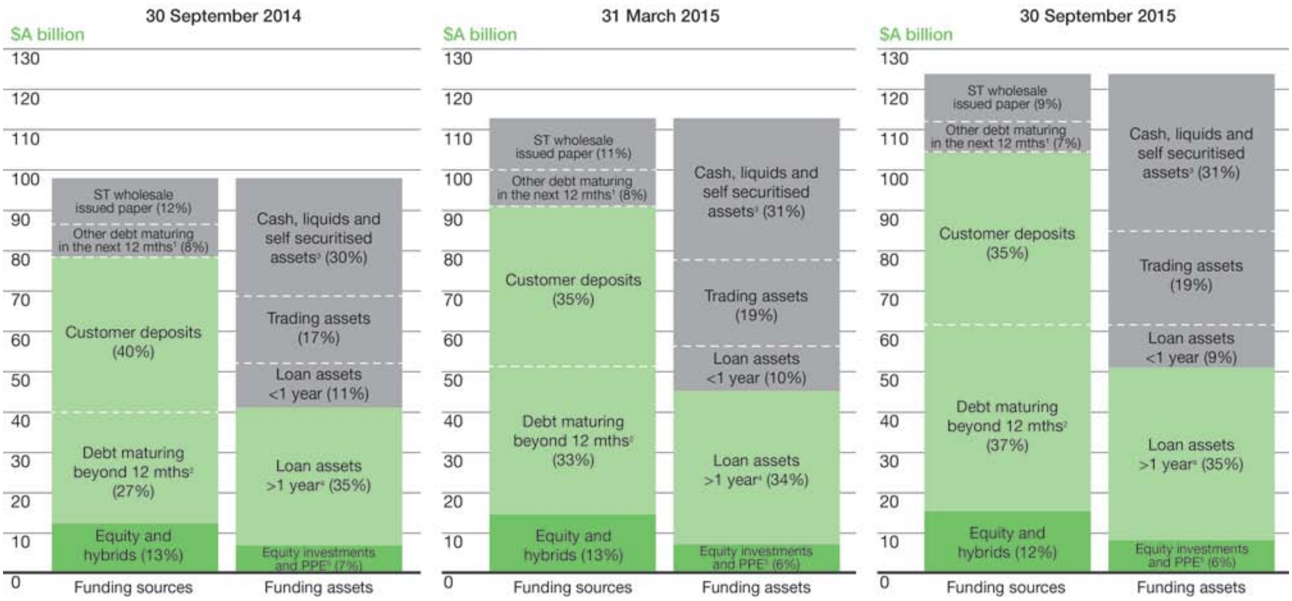
			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Secured Funding	–	Term securitisation and other secured finance	2.9	–	**2.9**
Issued paper	–	Senior and subordinated	6.1	0.1	**6.2**
Syndicated loan facilities	–	MGL Loan facilities	–	1.2	**1.2**
Total			**9.0**	**1.3**	**10.3**

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

Since 31 March 2015, MGL Group raised $A10.3 billion of term funding, including $A6.2 billion of term wholesale funding, $A2.9 billion of term secured finance and $A1.2 billion of syndicated loan facilities. Wholesale term issuance of $A6.2 billion includes $A3.4 billion in unsecured debt issuance in the US market and $A2.8 billion in private placements and structured notes. Term secured finance of $A2.9 billion includes $A1.9 billion of PUMA RMBS, $A0.8 billion of SMART auto and equipment ABS and $A0.2 billion other secured funding.

Macquarie also raised $A4.0 billion through the AWAS acquisition debt facility.

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



(1) 'Other debt maturing in the next 12 mths' includes Structured Notes, Secured Funding, Bonds, Other Loans and Loan Capital maturing within the next 12 months and Net Trade Creditors.
(2) 'Debt maturing beyond 12 mths' includes Loan Capital not maturing within next 12 months.
(3) 'Cash, liquids and self securitised assets' includes self securitisation of repo eligible Australian mortgages originated by Macquarie.
(4) 'Loan Assets > 1 yr' includes Debt Investment Securities and Operating Lease Assets.
(5) 'Equity Investments and PPE' includes the Group's co-investments in Macquarie-managed funds and equity investments.

5.5 Funding profile for Bank Group

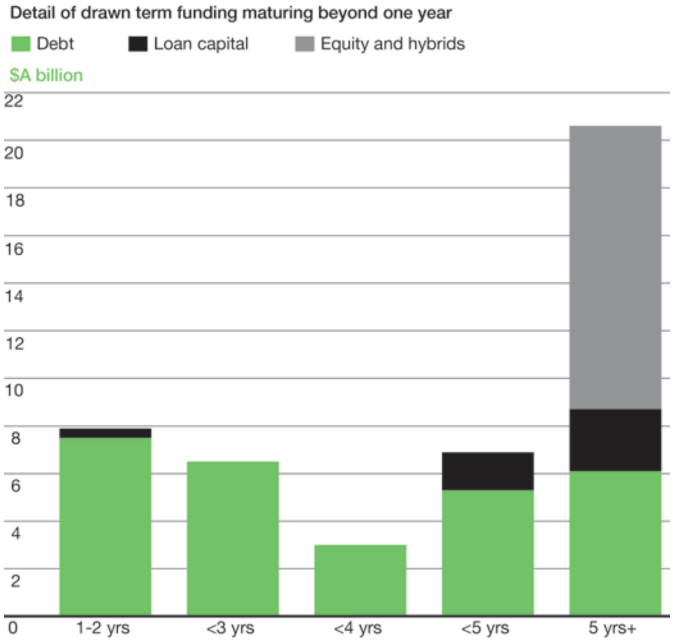
Funded balance sheet

	Notes	As at Sep 15 $Ab	Mar 15 $Ab	Sep 14 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		**0.7**	1.4	1.7
Commercial paper		**10.8**	11.1	10.0
Net trade creditors	2	**1.1**	1.9	1.0
Structured notes	3	**2.6**	2.0	1.7
Secured funding	4	**5.3**	4.7	6.0
Bonds	5	**26.2**	21.7	13.0
Other loans	6	**0.2**	0.2	0.6
Customer deposits	8	**42.8**	39.7	38.8
Loan capital	9	**4.6**	3.2	2.5
Equity and hybrid	10	**11.9**	11.6	9.4
Total		**106.2**	97.5	84.7
Funded assets				
Cash and liquid assets	11	**26.5**	23.8	19.5
Self securitisation	12	**10.4**	9.5	7.9
Net trading assets	13	**22.4**	20.6	15.2
Loan assets less than one year	14	**10.7**	11.0	11.0
Loan assets greater than one year	14	**38.4**	33.6	29.8
Debt investment securities	15	**2.4**	3.1	2.7
Non-Bank Group deposit with MBL		**(6.3)**	(6.4)	(3.7)
Co-investment in Macquarie-managed funds and other equity investments	16	**1.1**	1.1	1.1
Property, plant and equipment and intangibles		**0.6**	1.2	1.2
Net trade debtors	17	**–**	–	–
Total		**106.2**	97.5	84.7

See Section 5.7 for notes 1–17.

5.0 Funding and liquidity
continued

Term funding profile



	As at Sep 15					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.4	0.2	–	0.2	1.7	**2.5**
Secured funding	0.4	2.5	0.1	–	0.4	**3.4**
Bonds	6.7	3.8	2.9	5.1	4.0	**22.5**
Other loans	–	–	–	–	–	**–**
Total debt	**7.5**	**6.5**	**3.0**	**5.3**	**6.1**	**28.4**
Loan capital	0.4	–	–	1.6	2.6	**4.6**
Equity and hybrid	–	–	–	–	11.9	**11.9**
Total funding sources drawn	**7.9**	**6.5**	**3.0**	**6.9**	**20.6**	**44.9**
Undrawn	–	2.2	–	–	–	**2.2**
Total funding sources drawn and undrawn	**7.9**	**8.7**	**3.0**	**6.9**	**20.6**	**47.1**

The Bank Group has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) increased from 4.0 years at 31 March 2015 to 4.1 years at 30 September 2015.

As at 30 September 2015, customer deposits represented $A42.8 billion, or 40% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A11.5 billion, or 11% of total funding, and other debt funding maturing within 12 months represented $A7.0 billion, or 7% of total funding.

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

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US12.8 billion debt securities outstanding at 30 September 2015;
- $US10 billion Commercial Paper Program under which $US5.2 billion of debt securities were outstanding at 30 September 2015;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program. At 30 September 2015 issuances outstanding amounted to $US10.6 billion under the Rule 144A/Regulation S Medium Term Note Program;
- $US5 billion Structured Note Program under which $US1.7 billion of funding from structured notes was outstanding at 30 September 2015; and
- $US3 billion Acquisition Debt Facility under which US$1.5 billion of secured funding was outstanding at 30 September 2015.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 30 September 2015, MBL Group had $A0.7 billion of these securities outstanding.

At 30 September 2015, MBL Group had internally securitised $A10.4 billion of its own mortgages.

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

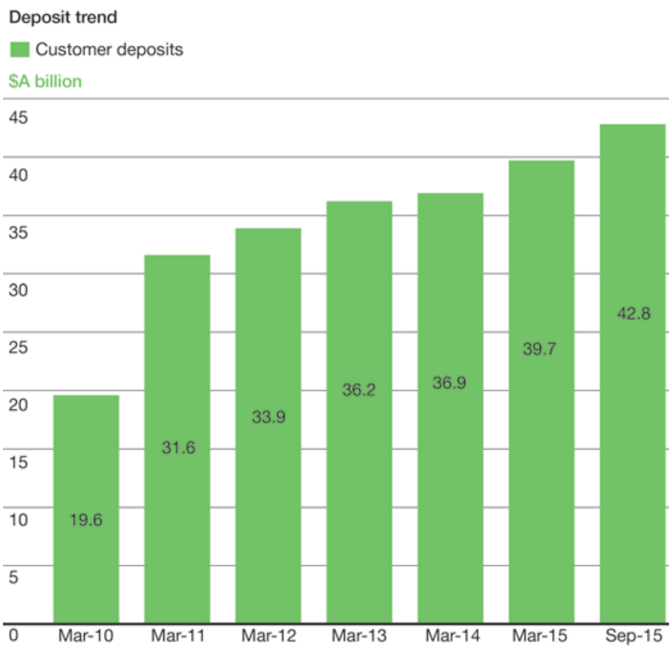
Deposit strategy

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

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

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

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



5.0 Funding and liquidity
continued

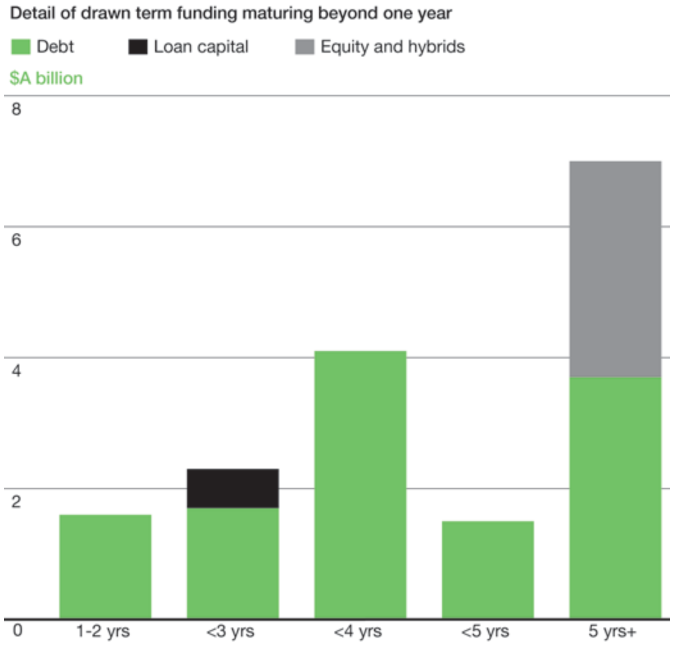
5.6 Funding profile for Non-Bank Group

Funded balance sheet

	Notes	As at Sep 15 $Ab	As at Mar 15 $Ab	As at Sep 14 $Ab
Funding sources				
Net trade creditors	2	**(0.1)**	0.1	(0.7)
Structured notes	3	**0.5**	0.5	0.5
Secured funding	4	**0.1**	0.1	0.1
Bonds	5	**9.0**	8.1	7.3
Other loans	6	**0.4**	0.3	0.7
Syndicated loan facilities	7	**3.1**	2.6	1.4
Loan capital	9	**1.2**	1.2	1.1
Equity	10	**3.3**	2.8	2.8
Total		**17.5**	15.7	13.2
Funded assets				
Cash and liquid assets	11	**1.7**	1.9	1.7
Non-Bank Group deposit with MBL		**6.3**	6.4	3.7
Net trading assets	13	**0.9**	0.9	1.4
Loan assets less than one year	14	**0.3**	0.2	0.2
Loan assets greater than one year	14	**1.5**	1.0	1.0
Debt investment securities	15	**0.5**	0.6	0.9
Co-investment in Macquarie-managed funds and other equity investments	16	**5.1**	4.0	3.6
Property, plant and equipment and intangibles		**1.2**	0.7	0.7
Net trade debtors	17	**–**	–	–
Total		**17.5**	15.7	13.2

See Section 5.7 for notes 2–17.

Term funding profile



	As at Sep 15					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.1	0.1	0.1	–	–	**0.3**
Secured funding	–	–	–	–	–	**–**
Bonds	1.5	0.1	2.2	1.5	3.7	**9.0**
Other loans	–	0.2	–	–	–	**0.2**
Syndicated loan facilities	–	1.3	1.8	–	–	**3.1**
Total debt	**1.6**	**1.7**	**4.1**	**1.5**	**3.7**	**12.6**
Loan capital	–	0.6	–	–	–	**0.6**
Equity	**–**	**–**	**–**	**–**	3.3	**3.3**
Total funding sources drawn	**1.6**	**2.3**	**4.1**	**1.5**	**7.0**	**16.5**
Undrawn	–	–	1.0	–	–	**1.0**
Total funding sources drawn and undrawn	**1.6**	**2.3**	**5.1**	**1.5**	**7.0**	**17.5**

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 5.4 years at 31 March 2015 to 5.0 years at 30 September 2015.

As at 30 September 2015, other debt funding maturing within 12 months represented $A1.0 billion, or 6% of total funding.

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

– $US2.9 billion Syndicated Loan Facilities, of which $US2.2 billion was drawn at 30 September 2015;
– $US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which $US4.3 billion was outstanding at 30 September 2015; and
– $US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had $US0.4 billion debt securities outstanding at 30 September 2015.

5.0 Funding and liquidity
continued

5.7 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Loan capital

Long term subordinated debt, Macquarie Capital Notes, Bank Capital Notes, Preferred Membership Interests and Exchangeable Capital Securities.

10. Equity and hybrid

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

11. Cash and liquid assets

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

12. Self securitisation

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

13. Net trading assets

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

14. Loan assets

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

15. Debt investment securities

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

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

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

17. Net trade debtors

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

6.0 Capital

6.1 Overview

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

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

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

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 30 September 2015 include the Macquarie Income Securities (MIS), Exchangeable Capital Securities (ECS), Macquarie Bank Capital Notes (BCN), Macquarie Group Capital Notes (MCN) and Preferred Membership Interests (PMI).

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

Pillar 3

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

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

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

6.0 Capital
continued

Macquarie Group Basel III regulatory capital surplus calculation

	As at Sep 15		As at Mar 15		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Macquarie Group eligible capital:						
Bank Group Gross Tier 1 capital	**12,668**	**12,668**	12,297	12,297	*3*	*3*
Non-Bank Group eligible capital	**4,244**	**4,244**	3,780	3,780	*12*	*12*
Eligible capital	**16,912**	**16,912**	16,077	16,077	*5*	*5*
Macquarie Group capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[1]	**94,515**	**91,299**	90,291	86,460	*5*	*6*
Capital required to cover RWA at 7%[2]	**6,616**	**6,391**	6,320	6,052	*5*	*6*
Tier 1 deductions	**481**	**2,488**	921	2,798	*(48)*	*(11)*
Total Bank Group capital requirement	**7,097**	**8,879**	7,241	8,850	*(2)*	*<1*
Total Non-Bank Group capital requirement	**3,592**	**3,592**	3,216	3,216	*12*	*12*
Total capital requirement	**10,689**	**12,471**	10,457	12,066	*2*	*3*
Macquarie Group regulatory capital surplus (at 7%[2] of Bank Group RWA)	**6,223**	**4,441**	5,620	4,011	*11*	*11*
Additional capital requirement required to maintain 8.5%[3] of Tier 1 ratio in Bank Group	**1,418**	**1,369**	1,355	1,297	*5*	*6*
Macquarie Group regulatory capital surplus (at 8.5%[3] of Bank Group RWA)	**4,805**	**3,072**	4,265	2,714	*13*	*13*

(1) In calculating the Bank Group's contribution to MGL's capital requirement, RWA associated with exposures to the Non-Bank Group are eliminated (30 September 2015: $A613 million; 31 March 2015: $A39 million).
(2) Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.
(3) Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is not required by APRA until 2016 and by BIS until 2019.

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2015 consists of MIS, ECS and BCN. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

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

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

6.0 Capital
continued

Bank Group Basel III Tier 1 Capital

	As at Sep 15		As at Mar 15		*Movement*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Common Equity Tier 1 capital						
Paid-up ordinary share capital	**8,692**	**8,692**	8,690	8,690	*<1*	*<1*
Retained earnings	**1,751**	**1,751**	1,884	1,884	*(7)*	*(7)*
Reserves	**1,113**	**1,113**	639	639	*74*	*74*
Gross Common Equity Tier 1 capital	**11,556**	**11,556**	11,213	11,213	*3*	*3*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**51**	**51**	50	50	*2*	*2*
Deferred tax assets	**115**	**241**	108	243	*6*	*(1)*
Net other fair value adjustments	**(40)**	**(40)**	(66)	(66)	*(39)*	*(39)*
Intangible component of investments in subsidiaries and other entities	**42**	**42**	479	479	*(91)*	*(91)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**265**	–	215	*–*	*23*
Shortfall in provisions for credit losses	**221**	**259**	230	263	*(4)*	*(2)*
Equity exposures	**–**	**1,474**	–	1,386	*–*	*6*
Other Common Equity Tier 1 capital deductions	**92**	**196**	120	228	*(23)*	*(14)*
Total Common Equity Tier 1 capital deductions	**481**	**2,488**	921	2,798	*(48)*	*(11)*
Net Common Equity Tier 1 capital	**11,075**	**9,068**	10,292	8,415	*8*	*8*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**1,112**	**1,112**	1,084	1,084	*3*	*3*
Gross Additional Tier 1 capital	**1,112**	**1,112**	1,084	1,084	*3*	*3*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	*–*	*–*
Net Additional Tier 1 capital	**1,112**	**1,112**	1,084	1,084	*3*	*3*
Total Net Tier 1 capital	**12,187**	**10,180**	11,376	9,499	*7*	*7*

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Sep 15		As at Mar 15		*Movement*	
	Harmonised Basel III $Am	**APRA Basel III $Am**	Harmonised Basel III $Am	APRA Basel III $Am	*Harmonised Basel III %*	*APRA Basel III %*
Credit risk						
Subject to IRB approach:						
Corporate	**28,592**	**28,592**	27,780	27,780	*3*	*3*
SME Corporate	**2,466**	**2,466**	2,211	2,211	*12*	*12*
Sovereign	**371**	**371**	350	350	*6*	*6*
Bank	**1,792**	**1,792**	1,726	1,726	*4*	*4*
Residential mortgage	**4,325**	**6,150**	3,905	5,418	*11*	*14*
Other retail	**3,502**	**3,502**	3,382	3,382	*4*	*4*
Retail SME	**2,624**	**2,624**	2,543	2,543	*3*	*3*
Total RWA subject to IRB approach	**43,672**	**45,497**	41,897	43,410	*4*	*5*
Specialised lending exposures subject to slotting criteria	**7,902**	**7,902**	7,044	7,044	*12*	*12*
Subject to Standardised approach:						
Corporate	**892**	**892**	659	659	*35*	*35*
Residential mortgage	**3,259**	**3,259**	3,008	3,008	*8*	*8*
Other Retail	**1,690**	**1,690**	1,265	1,265	*34*	*34*
Total RWA subject to Standardised approach	**5,841**	**5,841**	4,932	4,932	*18*	*18*
Credit risk RWA for securitisation exposures	**943**	**783**	809	729	*17*	*7*
Credit Valuation Adjustment RWA	**3,153**	**3,153**	2,769	2,769	*14*	*14*
Exposures to Central Counterparties RWA	**1,490**	**1,490**	1,776	1,776	*(16)*	*(16)*
RWA for Other Assets	**11,143**	**10,558**	10,597	9,790	*5*	*8*
Total Credit risk RWA	**74,144**	**75,224**	69,824	70,450	*6*	*7*
Equity risk exposures RWA	**5,108**	**–**	4,457	–	*15*	*–*
Market risk RWA	**5,487**	**5,487**	6,650	6,650	*(17)*	*(17)*
Operational risk RWA	**10,389**	**10,389**	9,399	9,399	*11*	*11*
Interest rate risk in banking book RWA	**–**	**812**	–	–	*–*	*–*
Total Bank Group RWA	**95,128**	**91,912**	90,330	86,499	*5*	*6*
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	**11.6**	**9.9**	11.4	9.7		
Macquarie Bank Group Tier 1 capital ratio (%)	**12.8**	**11.1**	12.6	11.0		

6.0 Capital
continued

6.3 Non-Bank Group capital

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

Risk[(1)]	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of 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 50%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

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

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

Non-Bank Group capital requirement

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

	As at Sep 15		
	Asset $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.7	19	14%
Loan assets[1]	1.8	169	117%
Debt investment securities	0.5	48	120%
Co-investments in Macquarie-managed funds and other equity investments	4.8	2,303	599%
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	1.2	337	350%
Non-Bank Group deposit with MBL	6.3		
Net trading assets	0.9		
Total funded assets	**17.5**	**2,876**	
Self-funded and non-recourse assets			
Self-funded trading assets	1.1		
Outstanding trade settlement balances	4.1		
Derivative revaluation accounting gross-ups	0.1		
Short term working capital assets	4.2		
Total self-funded and non-recourse assets	**9.5**		
Total Non-Bank Group assets	**27.0**		
Off balance sheet exposures, operational, market and other risks and diversification offset[2]		716	
Non-Bank Group capital requirement		**3,592**	

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

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Sep 15 $Ab	Mar 15 $Ab	Sep 14 $Ab	*Mar 15 %*	*Sep 14 %*
Assets under Management					
Macquarie Investment Management	**351.2**	348.0	307.3	*1*	*14*
Macquarie Infrastructure and Real Assets	**147.8**	133.7	114.2	*11*	*29*
Macquarie Specialised Investment Solutions	**3.3**	2.3	1.8	*43*	*83*
Total Macquarie Asset Management	**502.3**	484.0	423.3	*4*	*19*
Other Operating Groups	**2.0**	2.3	2.1	*(13)*	*(5)*
Total Assets under Management	**504.3**	486.3	425.4	*4*	*19*
Assets under Management by region					
Americas	**286.0**	289.0	242.3	*(1)*	*18*
Europe, Middle East and Africa	**98.9**	86.7	77.7	*14*	*27*
Australia	**76.8**	81.7	66.8	*(6)*	*15*
Asia	**42.6**	28.9	38.6	*47*	*10*
Total Assets under Management	**504.3**	486.3	425.4	*4*	*19*
Assets under Management by type					
Fixed income	**207.8**	202.9	183.7	*2*	*13*
Direct infrastructure	**138.8**	125.0	107.1	*11*	*30*
Equities	**110.0**	111.8	90.9	*(2)*	*21*
Cash	**19.1**	17.8	17.3	*7*	*10*
Direct real estate	**6.1**	6.1	4.3	*–*	*42*
Alternatives	**4.6**	4.2	3.9	*10*	*18*
Currency	**8.5**	7.9	8.3	*8*	*2*
Multi-asset allocation solutions	**6.1**	8.3	8.1	*(27)*	*(25)*
Specialist investments	**3.3**	2.3	1.8	*43*	*83*
Total Assets under Management	**504.3**	486.3	425.4	*4*	*19*

Assets under Management (AUM) of $A504.3 billion at 30 September 2015 increased 19% from $A425.4 billion at 30 September 2014. The increase in AUM over the period was mainly due to favourable currency and market movements and additional investments by funds in the MIRA business, partially offset by asset realisations by funds in the MIRA business.

Macquarie Investment Management

Macquarie Investment Management's AUM was $A351.2 billion at 30 September 2015, an increase of 14% from $A307.3 billion at 30 September 2014, largely due to favourable currency and market movements.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Assets' AUM was $A147.8 billion at 30 September 2015, an increase of 29% from $A114.2 billion at 30 September 2014, largely due to favourable currency and market movements and additional investments by funds, partially offset by asset realisations by funds.

7.2 Equity under Management

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

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

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

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

Equity under Management by type and region

	As at[1][2]			Movement	
	Sep 15 $Ab	Mar 15 $Ab	Sep 14 $Ab	*Mar 15 %*	*Sep 14 %*
Equity under Management by type					
Listed equity	**16.3**	16.1	12.2	*1*	*34*
Unlisted equity	**55.3**	50.1	46.3	*10*	*19*
Total EUM	**71.6**	66.2	58.5	*8*	*22*
Equity under Management by region[3]					
Australia	**5.7**	5.0	4.9	*14*	*16*
Europe, Middle East and Africa	**25.8**	23.2	23.0	*11*	*12*
Americas	**24.2**	23.5	19.8	*3*	*22*
Asia	**15.9**	14.5	10.8	*10*	*47*
Total EUM	**71.6**	66.2	58.5	*8*	*22*

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

EUM of $A71.6 billion at 30 September 2015 increased 22% from $A58.5 billion at 30 September 2014. The increase was primarily due to the favourable impact of the depreciation of the Australian dollar since 30 September 2014 as well as equity raisings for funds including Macquarie Asia Infrastructure Fund, MIC and the second China retail property fund and appreciation in the share price of listed equity. These increases were partially offset by returns of capital that resulted from asset realisations.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions. As at 30 Sep 2015, additional Tier 1 Capital consists of MIS, ECS and BCN.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes ("BCN") at face value of $A100 each. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 330bps margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

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

8.0 Glossary
continued

ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Jackson Square Partners (JSP)	JSP, a Delaware limited liability company, is an entity formed by the former members of the Delaware Investments Focus Growth team. JSP serves as a sub-advisor to certain Delaware Investments mutual funds, and an investment adviser or sub-adviser to other pooled vehicles (including other mutual funds) and separately managed accounts. Delaware Investments owns 49.9% of the total outstanding units of JSP.
Level 2 Bank Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.

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

8.0 Glossary
continued

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

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