Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2016

Dated: November 11, 2016

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2016 ("*2017 Interim U.S. Disclosure Report*" or this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*2016 Annual U.S. Disclosure Report*" means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2016 and the documents incorporated by reference therein;
- "*2016 Interim Directors' Report and Financial Report*" means our 2016 Interim Directors' Report and Financial Report;
- "*2017 interim financial statements*" means our unaudited financial statements for the half year ended September 30, 2016 contained in our 2016 Interim Directors' Report and Financial Report; and
- "*2017 Interim Directors' Report and Financial Report*" means our 2017 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain Definitions" beginning on page ii of our 2016 Annual U.S. Disclosure Report, which is posted on Macquarie Bank Limited's ("*MBL*") U.S. Investors' Website at www.macquarie.com/mgl/com/us/usinvestors/mbl ("*MBL's U.S. Investors' Website*").

Our fiscal year ends on March 31, so references to years such as "*2017*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operation and financial condition, references such as "half year" and like references are to the six months ending on September 30 of the preceding year.

In this Report, prior financial period amounts that have been reported in financial statements for or contained in the discussion of a subsequent financial period may differ from the amounts reported in the financial statements for or contained in the discussion of the financial statements for that prior financial period as the prior financial period amounts may have been adjusted to conform with changes in presentation in the subsequent financial period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "*forward-looking statements*" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- macroeconomic conditions in the global debt and equity markets;
- changes in market liquidity, volatility and investor confidence;
- inflation, and interest rate, exchange rate and other market fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of MBL;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our reputation;
- the performance and financial condition of Macquarie Group Limited ("*MGL*"), our indirect parent company;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the ability of MBL to attract and retain employees;
- changes in the credit quality of MBL's clients and counterparties;
- changes to the credit ratings assigned to each of MGL and MBL;

- the effectiveness of our risk management processes and strategies;
- the performance of funds and other assets we manage;
- the impact of asset sales on our long-term business prospects;
- the impact of catastrophic events on MBL and its operations;
- changes in political, social and economic conditions, including changes in consumer spending and saving and borrowing habits, in any of the major markets in which we conduct our operations or which we may enter in the future; and
- various other factors beyond our control.

The foregoing list of important factors is not exhaustive. Statements that include forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

When relying on forward-looking statements to make decisions with respect to MBL Group, investors and others should carefully consider the foregoing factors and other uncertainties and events and are cautioned not to place undue reliance on forward-looking statements.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

Significant risk factors applicable to MBL Group are described under “Risk Factors” beginning on page 1 of our 2016 Annual U.S. Disclosure Report. Other factors are discussed under “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition” in this Report and in the “Management’s Discussion and Analysis of Results of Operation and Financial Condition” in the 2016 Annual U.S. Disclosure Report.

EXCHANGE RATES

MBL Group publishes its consolidated financial statements in Australian dollars and its fiscal year ends on March 31 of each year. For your convenience, the following table sets forth, for MBL Group's fiscal years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in U.S. dollars per A$1.00.

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on September 30, 2016, which was US$0.7667 per A$1.00. The noon buying rate on November 4, 2016 was US$0.7669 per A$1.00.

Fiscal year	**Period End**	**Average Rate**[1]	**High**	**Low**
2012	1.0367	1.0456	1.1026	0.9453
2013	1.0409	1.0317	1.0591	0.9688
2014	0.9275	0.9339	1.0564	0.8715
2015	0.7625	0.8673	0.9488	0.7582
2016	0.7677	0.7353	0.8118	0.6855
Month	**Period End**		**High**	**Low**
May 2016	0.7242		0.7641	0.7184
June 2016	0.7432		0.7598	0.7225
July 2016	0.7599		0.7632	0.7453
August 2016	0.7519		0.7717	0.7516
September 2016	0.7667		0.7676	0.7470
October 2016	0.7578		0.7715	0.7545
November 2016 (through November 4, 2016)	0.7669		0.7681	0.7659

[1] The average of the noon buying rates on the last day of each month during the period.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into U.S. dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011 of Australia, the Charter of the United Nations Act 1945 of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the department's website at http://www.dfat.gov.au.

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under "Financial Information Presentation" beginning on page x of our 2016 Annual U.S. Disclosure Report.

Our financial information

In addition to this section, investors should refer to the discussion of our historical financial information included elsewhere in this Report and in the additional information posted on MBL's U.S. Investors' Website, including:

- the section of this Report under the heading "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition", which includes a discussion of operating conditions during the half year ended September 30, 2016 and the impact of such operating conditions on MBL Group, a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2016 compared to the half year ended September 30, 2015, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2016;

- our Pillar 3 Disclosure Document dated June 2016, which describes the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within the framework and which is posted on MBL's U.S. Investors' Website; and

- our historical financial statements, which are included in the extracts from our 2017 Interim Directors' Report and Financial Report posted on MBL's U.S. Investors' Website.

For further information on our historical financial information for the 2016 Fiscal Year and prior periods, refer to the discussion under the heading "Financial Information Presentation — Our historical financial statements" included in our 2016 Annual U.S. Disclosure Report.

Certain differences between Australian Accounting Standards and U.S. GAAP

For information on certain differences between Australian Accounting Standards and U.S. GAAP, see "Financial Information Presentation — Certain differences between Australian Accounting Standards and U.S. GAAP" beginning on page xi of our 2016 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments

For information on our critical accounting policies and significant judgments, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Critical accounting policies and significant judgments" beginning on page 45 of our 2016 Annual U.S. Disclosure Report.

Pending accounting standards changes

For a description of standards, interpretations and amendments to Australian Accounting Standards that are not yet effective, but could have a significant impact on our accounting policies see Note 1 to our 2017 interim financial statements.

Non-GAAP financial measures

We report our financial results in accordance with Australian Accounting Standards. However, we include certain financial measures and ratios that are not prepared in accordance with Australian Accounting Standards that we believe provide useful information to investors in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MBL's U.S. Investors' Website. For further information on our non-GAAP financial measures, see "Financial Information Presentation — Non-GAAP financial measures" beginning on page xi of our 2016 Annual U.S. Disclosure Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 37 to our 2016 annual financial statements.

The significant risk factors applicable to MBL Group are described under "Risk Factors" beginning on page 1 of our 2016 Annual U.S. Disclosure Report.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2016.

The information relating to MBL Group in the following table is based on our 2017 interim financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Sep 16	**Sep 16**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	22,299	29,085
Subordinated debt — due greater than 12 months	2,670	3,482
Total borrowings[3]	**24,969**	**32,567**
Equity		
Contributed equity		
Ordinary share capital	7,152	9,328
Equity contribution from ultimate parent entity	132	172
Macquarie Income Securities	300	391
Reserves	253	330
Retained earnings	1,740	2,270
Other non-controlling interests	3	4
Total equity	**9,580**	**12,495**
TOTAL CAPITALIZATION	**34,549**	**45,062**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2016, which was US$0.7667 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At September 30, 2016, we had A$3.1 billion of secured indebtedness due in greater than 12 months compared to A$3.4 billion at September 30, 2015.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$15.9 billion as at September 30, 2016 and securitizations totaled A$13.7 billion as at September 30, 2016 compared to A$18.5 billion and A$16.6 billion, respectively, as at September 30, 2015.

For details on our short-term debt position as at September 30, 2016, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Liquidity — Funding profile for the Banking Group" in this Report.

RECENT DEVELOPMENTS

The following are significant recent developments for MBL Group that have occurred since the release of our 2016 Annual U.S. Disclosure Report on May 20, 2016. Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under "Risk Factors" beginning on page 1 and under "Macquarie Bank Limited" beginning on page 13 of our 2016 Annual U.S. Disclosure Report and other information posted on MBL's U.S. Investors' Website.

Organizational structure

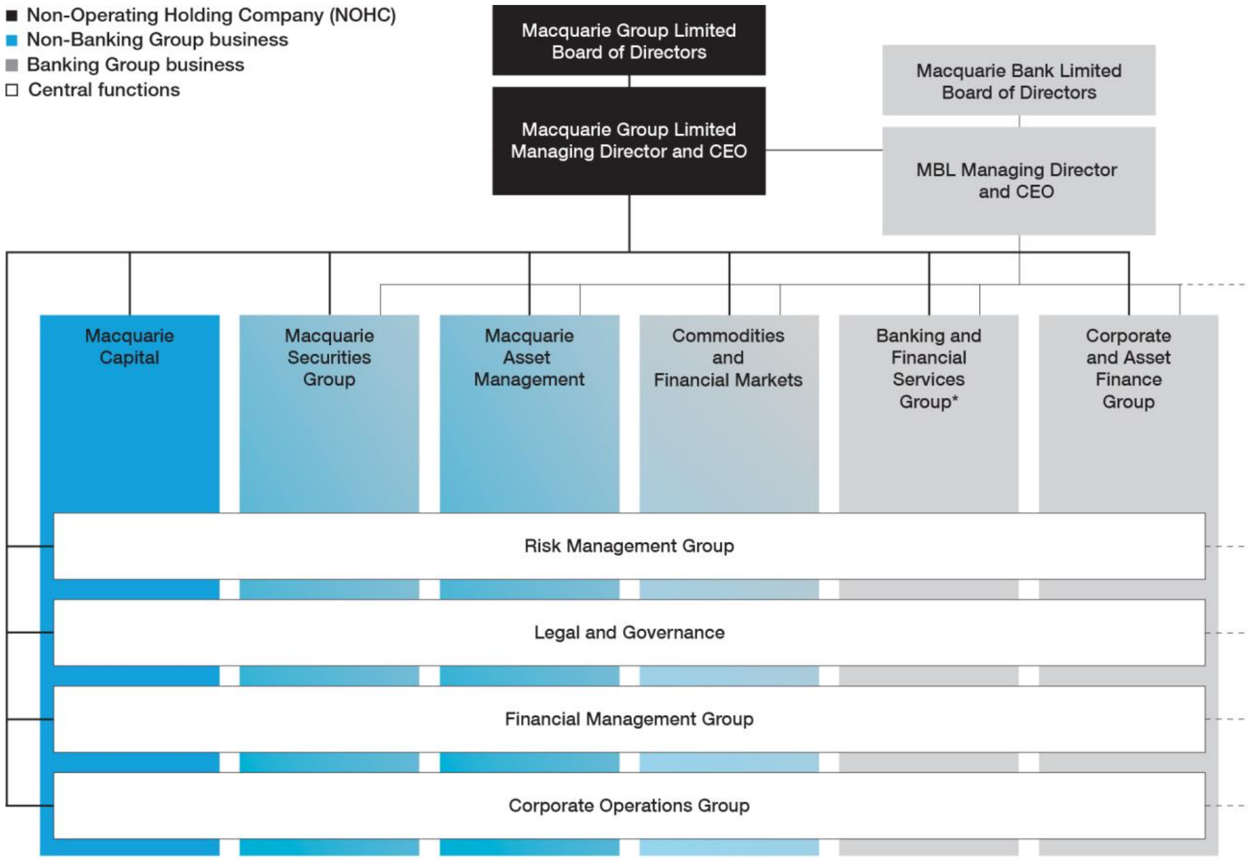
MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises five operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities); and Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions).

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

MBL and MGL have corporate governance and policy frameworks that meet the Australian Prudential Regulation Authority's ("*APRA*") requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion under "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Liquidity". Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

The following diagram shows our current organizational structure of MGL Group and reflects the composition of the Banking and Non-Banking Groups.



As at 8 May 2015
**The current Group Head of BFS is also the Deputy Group CEO.*

MGL and MBL will continue to monitor and review the appropriateness of the MGL structure, including the provision of shared services. From time to time, the optimal allocation of MGL's businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group may be adjusted and MGL and we may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

Our key strengths

For a description of our key strengths, see "Macquarie Bank Limited — Our key strengths" on page 16 of our 2016 Annual U.S. Disclosure Report.

MBL has met all of its capital requirements throughout the half year ended September 30, 2016. At September 30, 2016, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 12.6%, a Tier 1 capital ratio of 13.7% and a total capital ratio of 16%. The Banking Group's APRA Basel III Common Equity Tier 1 capital ratio was 10.4%, Tier 1 capital ratio was 11.5%, and total capital ratio was 13.7%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on regulation and supervision, refer to the discussion under the heading "Regulation and Supervision — APRA" on page 32 of our 2016 Annual U.S. Disclosure Report and for further information on our regulatory capital position as at September 30, 2016, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Capital analysis" in this Report.

Our strategy

Our strategy is set out under "Macquarie Bank Limited — Our strategy" on page 18 of our 2016 Annual U.S. Disclosure Report. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MBL Group in the medium term.

Across our international operations, the strategy focuses on building a global platform in our key areas of expertise, through both acquisitions and organic growth, which we believe will enable us to offer a comprehensive range of MBL products to clients around the world. See "— Overview of MBL Group — Regional activity" below for further information on MBL's performance across its key geographical regions.

Overview of MBL Group

At September 30, 2016, MBL had total assets of A$176.6 billion and total equity of A$12.5 billion. For the half year ended September 30, 2016, our net operating income from ordinary activities was A$2.9 billion and profit after tax attributable to ordinary equity holders was A$590 million. Of MBL Group's revenues from external customers, 48% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution from ordinary activities of each of our operating groups for the half years ended September 30, 2016 and 2015.

Net operating income from ordinary activities of MBL Group by operating group for the half years ended September 30, 2016 and 2015[1]

	Year ended		
	Sep 16	**Sep 15**	**Movement**
	A$m	**A$m**	**%**
Commodities & Financial Markets[2]	918	750	22
Macquarie Securities[3]	230	407	(43)
Banking & Financial Services	877	735	19
Macquarie Asset Management[4]	99	100	(1)
Corporate & Asset Finance	829	855	(3)
Total net operating income from operating groups	**2,953**	**2,847**	4
Corporate[5]	(78)	(65)	20
Total net operating income	**2,875**	**2,782**	3

1 For further information on our segment reporting, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment overview" and Note 3 to our 2017 interim financial statements.

2 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

4 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and Macquarie Investment Management divisions that are part of the Non-Banking Group.

5 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Profit from ordinary activities of MBL Group by operating group for the half years ended September 30, 2016 and 2015[1]

	Year ended		
	Sep 16	Sep 15	Movement
	A$m	A$m	%
Commodities & Financial Markets[2]	411	247	66
Macquarie Securities[3]	9	184	(95)
Banking & Financial Services	259	169	53
Macquarie Asset Management[4]	46	43	7
Corporate & Asset Finance	515	606	(15)
Total contribution to profit from operating groups	**1,240**	**1,249**	(1)
Corporate[5]	(657)	(838)	(22)
Net profit after tax	**583**	**411**	42

[1] For further information on our segment reporting, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment overview" and Note 3 to our 2017 interim financial statements.

[2] Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

[3] Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

[4] Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and Macquarie Investment Management divisions that are part of the Non-Banking Group.

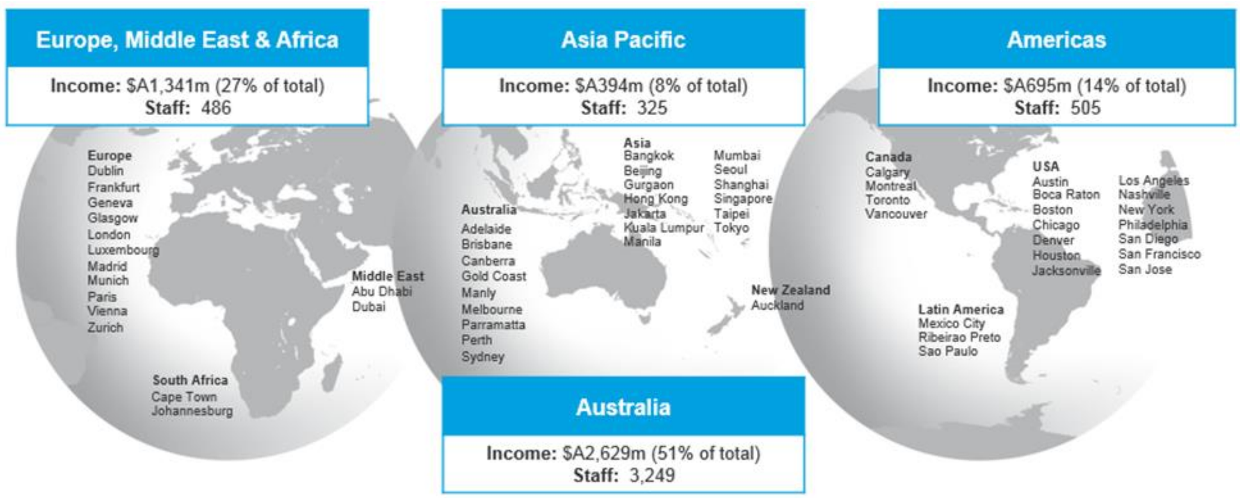
[5] The Corporate segment includes earnings from the net impact of managing liquidity for MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

Regional activity

At September 30, 2016, MBL Group employed over 4,500 staff globally and conducted its operations in 19 countries.

The chart below shows MBL Group's revenues from external customers by region in the half year ended September 30, 2016.

Revenues from external customers of MBL Group by region for the half year ended September 30, 2016



Australia. MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at September 30, 2016, MBL Group employed over 3,200 staff across Australia. In the half year ended September 30, 2016, Australia contributed A$2.6 billion (51%) of our revenues from external customers as compared to A$2.0 billion (39%) in the half year ended September 30, 2015.

Americas. MBL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions including Delaware Investments, and Constellation Energy. As at September 30, 2016, MBL Group employed over 500 staff across the United States, Canada and Brazil. In the half year ended September 30, 2016, the Americas contributed A$0.7 billion (14%) of our revenues from external customers as compared to A$1.3 billion (26%) in the half year ended September 30, 2015.

Asia Pacific. MBL Group has been active in Asia Pacific for more than 20 years, when we established our first office in Hong Kong in 1995. As at September 30, 2016, MBL Group employed over 300 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Singapore and Taiwan. MBL has expanded the regional investment and product platforms of Corporate & Asset Finance as well as Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities), which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the half year ended September 30, 2016, Asia Pacific (including New Zealand) contributed A$394 million (8%) of our revenues from external customers as compared to A$472 million (9%) in the half year ended September 30, 2015.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2016, MBL Group employed over 400 staff across the United Kingdom, Germany, Austria, Ireland, Switzerland, South Africa and Dubai. In the half year ended September 30, 2016, Europe, Middle East & Africa contributed A$1.3 billion (27%) of our revenues from external customers as compared to A$1.3 billion (26%) in the half year ended September 30, 2015.

For further information on our segment reporting, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment overview” and Note 3 to our 2017 interim financial statements.

Recent developments within MBL Group

Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)

Commodities & Financial Markets is primarily in the Banking Group, however, certain assets of the Credit Markets business and some other less financially significant activities are in the Non-Banking Group.

Commodities & Financial Markets contributed A$410 million to MBL Group’s net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 700 staff operating across 13 countries, with locations in Australia, Asia, the Middle East, North and South America, the United Kingdom and Europe. For further information on Commodities & Financial Markets’ results of operation and financial condition for the half year ended September 30, 2016, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)” in this Report.

There were no significant developments for Commodities & Financial Markets during the half year ended September 30, 2016.

For further information and a description of the divisions within Commodities & Financial Markets and their respective activities, see “Macquarie Bank Limited — Operating groups — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)” beginning on page 23 of our 2016 Annual U.S. Disclosure Report.

Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)

Macquarie Securities operates businesses both in the Banking Group and Non-Banking Group. The Cash division’s activities, which include cash equities broking and equity capital markets services, operate in both the Banking Group (in respect of the Cash division’s activities in Hong Kong and clearing and settlement services in Australia) and the Non-Banking Group (in respect of the Cash division’s activities in jurisdictions other than Hong Kong and Australia). Generally, the Derivatives and Trading division’s activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

Macquarie Securities contributed A$9 million to MBL Group’s net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 100 staff operating across 6 countries, including Australia, Hong Kong, India, Singapore, the United Kingdom and the United States. For further information on Macquarie Securities’ results of operation and financial condition for the half year ended September 30, 2016, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)” in this Report.

There were no significant developments for Macquarie Securities during the half year ended September 30, 2016.

For further information and a description of the divisions within Macquarie Securities and their respective activities, see “Macquarie Bank Limited — Operating groups — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)” beginning on page 25 of our 2016 Annual U.S. Disclosure Report.

Banking & Financial Services

Banking & Financial Services is in the Banking Group and comprises MBL Group’s retail banking and financial services businesses, providing a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients.

Banking & Financial Services contributed A$259 million to MBL Group’s net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,900 staff operating predominantly in Australia (headcount excludes 97 staff relating to the sale of Macquarie Life’s risk insurance business). For further information on Banking & Financial Services’ results of operation and financial condition for the half year ended September 30, 2016, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Banking & Financial Services” in this Report.

Banking & Financial Services’ Australian mortgage portfolio is broadly in line with the prior period, growing from A$28.5 billion at March 31, 2016, to A$28.6 billion at September 30, 2016, representing approximately 2% of the Australian mortgage market.

Banking & Financial Services’ funds on platform have grown from A$58.4 billion at March 31, 2016 to A$62.1 billion at September 30, 2016, due to net inflows.

Banking & Financial Services’ cash deposits have grown from A$40.4 billion at March 31, 2016 to A$42.2 billion at September 30, 2016. This was primarily due to increased Macquarie Cash Management Account and Business Banking at-call deposits.

During the half year ended September 30, 2016, Banking & Financial Services completed the sale of Macquarie Life’s risk insurance business to Zurich Australia Limited.

During the half year ended September 30, 2016, Banking & Financial Services continued to develop its intuitive new digital banking offering, unveiled market leading features in Australian banking and made Android Pay available for cardholders.

During the half year ended September 30, 2016, Banking & Financial Services has continued its investment in technology projects to improve client experience and the scalability of its operating model.

For further information and a description of the divisions within Banking & Financial Services and their respective activities, see “Macquarie Bank Limited — Operating groups — Banking & Financial Services” beginning on page 25 of our 2016 Annual U.S. Disclosure Report.

Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division)

Macquarie Asset Management operates businesses in both the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Asset Management offers a diverse range of tailored investment solutions over funds and listed equities. In the Non-Banking Group, Macquarie Asset Management offers a diverse range of securities investment management products and capabilities and manages alternative assets, specializing in infrastructure, energy, real estate and agriculture via public and private funds, co-investments, partnerships and separately managed accounts.

Macquarie Asset Management contributed A$46 million to MBL Group’s profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 200 staff operating across 9 countries across Australia, the Americas, Europe and Asia.

As at September 30, 2016, Macquarie Asset Management had Assets under Management of A$4.2 billion. For further information on Macquarie Asset Management's results of operation and financial condition for the half year ended September 30, 2016, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division)" in this Report. For further information on Macquarie Asset Management's Assets under Management, see "— Funds management business — Assets under Management" in this Report.

For further information and a description of the divisions within Macquarie Asset Management, see "Macquarie Bank Limited — Operating groups — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division)" beginning on page 26 of our 2016 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance operates businesses within the Banking Group and provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in corporate debt and asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$516 million to MBL Group's profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,300 staff operating across 16 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance's results of operation and financial condition for the half year ended September 30, 2016, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Corporate & Asset Finance" in this Report.

At September 30, 2016, Corporate & Asset Finance managed an asset and loan portfolio of A$37.9 billion, which represents a decrease of 4% from A$39.3 billion at March 31, 2016. The asset finance portfolio of A$29.6 billion is broadly in line with the A$29.8 billion at March 31, 2016.

The funded loan portfolio of A$8.3 billion at September 30, 2016 decreased 13% from A$9.5 billion at March 31, 2016, due to net repayments. Portfolio additions of A$0.8 billion comprised A$0.6 billion of new primary financings across corporate and real estate, weighted towards bespoke originations and A$0.2 billion of corporate and real estate loans and similar assets acquired in the secondary market. Notable transactions included the acquisition of a residential mortgage portfolio in the United Kingdom totaling £89 million and acting as the lead arranger of and participant in a €300 million debt refinancing for a leading private hospital in Ireland.

Corporate & Asset Finance's motor vehicle leasing portfolio continued to grow, with total contracts in excess of 600,000 following the successful migration of the Esanda portfolio acquired in November 2015. The AWAS and Esanda portfolios have been successfully integrated and continue to perform in line with expectations.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Bank Limited — Operating groups — Corporate & Asset Finance" beginning on page 27 of our 2016 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of MBL Group

The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Corporate contributed a net loss of A$658 million in the half year ended September 30, 2016.

For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2016, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment analysis — Corporate" in this Report.

Funds management business

For a description of MBL Group's funds management businesses, see "Macquarie Bank Limited — Funds management business" beginning on page 29 of our 2016 Annual U.S. Disclosure Report.

Assets under Management

MBL Group had an aggregate of A$6.0 billion of Assets under Management as at September 30, 2016, a 13% increase from A$5.3 billion at September 30, 2015. The increase was largely due to net flows in Macquarie Asset Management's infrastructure debt investment solutions business.

Legal proceedings and regulatory matters

Revenue authorities undertake risk reviews and audits as part of their normal activities. We have assessed those matters which have been identified in such reviews and audits as well as other taxation claims and litigation, including seeking advice where appropriate.

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 18 to our 2017 interim financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

For a description of the competition MBL Group faces in the markets in which it operates, see "Macquarie Bank Limited — Competition" beginning on page 30 of our 2016 Annual U.S. Disclosure Report.

Regulatory and supervision developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group, its businesses and the funds it manages in, and outside of, Australia, are subject to is set out under "Regulation and Supervision" beginning on page 32 of our 2016 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate", "Risk Factors — We may incur losses as a result of ineffective risk management processes and strategies" and "Risk Factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events" on pages 2, 7 and 9, respectively, of our 2016 Annual U.S. Disclosure Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia, the United States, the United Kingdom and other jurisdictions for MBL Group that have occurred since the release of our 2016 Annual U.S. Disclosure Report on May 20, 2016.

Australia

APRA consults further on the Net Stable Funding Ratio

On September 29, 2016, APRA released for consultation (i) its response to issues raised in submissions on the discussion paper *Basel III liquidity – the Net Stable Funding Ratio and liquid assets requirements for foreign ADIs* ("*March 2016 NSFR discussion paper*"); and (ii) draft Prudential Standard *APS 210 Liquidity and Prudential Practice Guide APG 210 Liquidity* ("*September 2016 NSFR Consultation Package*").

In APRA's March 2016 NSFR discussion paper, APRA proposed treating third-party CLF-eligible debt securities as being equivalent to high-quality liquid assets ("*HQLA*") in determining the NSFR and applying a required stable funding ("*RSF*") factor of 10%, but that self-securitized assets should have the same RSF factor as that attributable to the underlying loan (which can range from 65% to 100%). APRA now proposes to allow self-securitized assets to be treated on the same basis as third-party CLF eligible debt securities and allow an RSF of 10% to be applied to self-securitized assets.

APRA's September 2016 NSFR Consultation Package proposed that APRA should have the discretion to set an ADI's NSFR requirement above the minimum 100%. This would allow APRA to increase an ADI's minimum required NSFR where it has concerns about an ADI's liquidity risk management, or is of the view that an ADI needs to improve its funding or liquidity risk profile. APRA will set the NSFR on a bilateral basis with each ADI.

APRA expects to release its final position on the NSFR in late 2016, with the NSFR applying from January 1, 2018 for the 15 locally incorporated ADIs that are also currently subject to the Liquidity Coverage Ratio (which includes MBL).

APRA consults on proposed revisions to its counterparty credit risk framework for ADIs

On September 15, 2016, APRA released for consultation (i) its proposed revisions to its counterparty credit risk framework for ADIs; (ii) draft new prudential standard, Prudential Standard *APS 180 Capital Adequacy: Counterparty Credit Risk*, and (iii) draft revised Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. The revisions in large part reflect changes made by the Basel Committee on Banking Supervision ("*Basel Committee*") to its framework for counterparty credit risk as set out in *The standardised approach for measuring counterparty credit risk* ("*SA-CCR*"), released in March 2014, and *Capital requirements for bank exposures to central counterparties - final standard*, released in April 2014.

In particular, the September 2016 Counterparty credit risk for ADIs consultation package proposes to require ADIs to use the SA-CCR methodology to measure counterparty credit risk exposures arising from over-the-counter derivatives, exchange traded derivatives and long settlement transactions. APRA announced that it does not propose to introduce the Basel Committee's internal model method for counterparty credit risk into its framework. It also proposed that all ADIs will be required to hold capital for exposures to central counterparties in a manner consistent with Basel Committee's final standard.

APRA proposes to apply its revised counterparty credit risk framework from January 1, 2018 (as opposed to January 1, 2017 set out in the Basel Committee's framework). Under the current proposal, MBL will be required to comply with the SA-CCR from January 1, 2018.

Financial System Inquiry

Over the course of 2014, the Australian Federal Government undertook a review of the Australian financial system, called the Financial System Inquiry ("*FSI*"). The FSI released its final report on December 7, 2014, which included 44 recommendations. On October 20, 2015, the Australian Federal Treasury responded to each of the recommendations made by the FSI, endorsing the majority of them, referring certain matters to key regulators and proposing a timetable for further public and industry consultation and, in certain cases, for implementation of reform measures. It is not currently possible to have any further certainty on the impact on the capital structure or businesses of MBL from any future policy changes resulting from the regulatory and supervisory responses to the FSI or broader international regulatory developments.

Sound residential mortgage lending practices

On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by certain ADIs accredited to use the IRB approach to credit risk. For those ADIs using the IRB approach, the average risk weight on Australian residential mortgage exposures increased from approximately 16% to at least 25%, effective July 1, 2016. The affected ADIs are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, MBL, National Australia Bank Limited and Westpac Banking Corporation.

On August 5, 2016, APRA reaffirmed its objective to increase the average risk weight on Australian mortgages measured across all IRB ADIs to an average of at least 25%. APRA acknowledged that the impact of certain modelling adjustments it had required certain IRB ADIs to make, when combined with the adjustment proposed in July 2015, resulted in an average risk weight well in excess of the 25% risk weight targeted by APRA in its original announcement. APRA has advised the relevant ADIs of a recalibration of the adjustments advised in July 2015 with a view to ensure that its original target of an average risk weight for Australian residential mortgages of at least 25% is achieved, while not significantly exceeding this target. The recalibration and modelling changes will be implemented by APRA in the upcoming quarters and this may lead to some volatility in mortgage risk weights as those changes are finalized.

APRA's prudential supervision - margining and risk mitigation for non-centrally cleared derivatives

In February 2016, APRA released a consultation package for APRA-regulated institutions on margining and risk mitigation requirements for non-centrally cleared derivatives – draft Prudential Standard *CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* ("*CPS 226*"). This consultation generally follows the internationally-agreed standards, including those published by the Basel Committee and the International Organization of Securities Commissions (IOSCO) in March 2015 with some modifications to avoid placing undue cost on regulated entities with relatively small levels of non-centrally cleared derivative activity. APRA proposes to apply margin and risk mitigation requirements to all APRA-regulated entities (excluding private health insurers but including ADIs such as MBL) that transact in non-centrally cleared derivatives over certain qualifying thresholds.

On October 17, 2016, APRA released the final version of CPS 226 and a response to the submissions paper addressing issues raised in the February 2016 consultation. At this stage, APRA has not set a commencement date, but has released CPS 226 to provide clarity on the final requirements and to allow APRA-regulated institutions with material levels of non-centrally cleared derivatives to actively continue their preparations. Under the requirements, MBL and Level 2 affiliates will be required to exchange initial margin and variation margin when transacting uncleared OTC derivatives with certain financial institutions, as well as being subject to risk mitigation obligations including documentation standards, dispute resolution, portfolio reconciliation and portfolio compression requirements. Macquarie expects to be subject to variation margin requirements in early 2017, but does not expect to be subject to initial margin requirements until 2018-2019.

APRA finalises non-capital components for the supervision of conglomerate groups

On August 8, 2016, APRA released its final requirements for governance and risk management of the frame for supervision of banking and insurance conglomerate groups. This follows APRA's consultation on the requirements in March 2016 with only minor clarifications being made to the requirements as part of feedback received during the consultation period. These new requirements are expected to apply beginning July 1, 2017.

International

United States

On July 26, 2013, the U.S. Commodity Futures Trading Commission ("*CFTC*") issued Cross-Border Guidance addressing the extent to which, and the manner in which, its rules governing swap dealers would be applied to non-U.S. swap dealers, such as MBL, in connection with their transactions with non-U.S. counterparties. Among other things, the Cross-Border Guidance provided a framework for the CFTC to grant "*substituted compliance*" to swap dealers located in non-U.S. jurisdictions, pursuant to which such swap dealers would be permitted to comply with local law and regulations when transacting with non-U.S. counterparties, in lieu of compliance with CFTC rules. On

December 20, 2013, the CFTC, pursuant to its previously issued Cross-Border Guidance, approved a series of substituted compliance determinations covering certain swap entity-level and transaction-level requirements in six jurisdictions, including entity-level requirements under Australian law, which permits non-U.S. swap dealers, such as MBL, to rely on substituted compliance with approved local laws and regulations when dealing with non-U.S. counterparties, in place of certain of the CFTC's rules. Therefore, MBL is able to comply only with Australian regulatory requirements in certain respects in connection with its swap dealing business with non-U.S. counterparties. It is possible that further cross-border relief will be granted in the future. However, MBL remains subject to many of the CFTC's requirements – and to all transaction-level requirements when transacting with U.S. counterparties – and the other MGL affiliate that is registered as a swap dealer is fully subject to CFTC rules.

The CFTC has substantially completed the adoption and implementation of the principal components of the regulatory structure for swap dealers, although it continues to issue final and proposed regulations, statements of guidance and no-action letters that may affect certain members of the MGL Group, including MBL. For example, on November 14, 2013, the CFTC issued a staff advisory (the "*Advisory*") relating to the cross-border application of transaction-level swap requirements. However, through a series of no-action letters, the CFTC delayed the effectiveness of the Advisory, and has most recently issued an extension of that delay until September 30, 2017, and proposed rules to address the cross-border application of certain requirements and replace its Advisory. Further actions by the CFTC may affect swap transactions of certain members of the MBL Group.

The CFTC has promulgated margin rules for swap dealers subject to its jurisdiction and will adopt capital requirements for such dealers. For entities subject to their supervision, the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration and the Federal Housing Finance Agency (the "*Prudential Regulators*") have adopted capital and margin rules. The CFTC and the Prudential Regulators finalized their respective regulations on initial and variation margin for uncleared swaps in late 2015 and early 2016. As a non-U.S. swap dealer registered with the CFTC, MBL is subject to new initial and variation margin rules, and such rules will also apply to MBL's swaps with its affiliates. The phase-in period for compliance began in September 2016 with additional staged compliance dates until September 2020, including a general compliance date of March 1, 2017, for the variation margin requirements. The CFTC is expected to finalize its proposed regulations on position limits on swaps and listed futures and commodity options in 2016, although the effective date of the regulations is unclear. The imposition of these requirements may limit trading activities by MBL. In addition, the Prudential Regulators have adopted a rule with respect to the capital requirements applicable to registered swap dealers that are subject to their supervision. Under those rules, MBL, as a registered swap dealer, will be subject to APRA capital rules. See "Regulation and Supervision—International—United States" in our 2016 Annual U.S. Disclosure Report for further information.

Since February 2016, the CFTC has been working on re-proposing new capital requirements for swap dealers that are not subject to a Prudential Regulator's supervision. An MGL affiliate that is a U.S. swap dealer, will be subject to the CFTC's capital requirements for swap dealers. There is no set date as to when the re-proposed CFTC capital rules will be issued, though industry expectation is late 2016.

On October 13, 2016, the CFTC unanimously approved an order establishing December 31, 2018 as the swap dealer *de minimis* threshold phase-in termination date. Under the order, the CFTC will retain the $8 billion *de minimis* threshold (for dealing activity with counterparties other than Special Entities) until December 31, 2018. The original phase-in termination date in which the swap dealer *de minimis* threshold was scheduled to automatically drop to $3 billion was December 31, 2017. Absent further action by the CFTC, the phase-in period will terminate on December 31, 2018 and the *de minimis* threshold will automatically drop to $3 billion. The extension of, or potential reduction in, the *de minimis* threshold does not affect a registered swap dealer unless it desires to deregister, in which case it would need to conduct its swap dealing under the threshold. Such a reduction in the *de minimus* threshold also does not affect other members of the MBL Group as no other MBL affiliate currently engages in swap dealing activity subject to these rules.

The U.S. Securities and Exchange Commission ("*SEC*") has jurisdiction over transactions in security-based swaps, which are swaps on single securities or narrow-based indices of securities, and has proposed or adopted regulations requiring, among other things, registration of security-based swap dealers and compliance with regulations on business conduct, recordkeeping and reporting and other matters. However, compliance with the SEC's rules applicable to security-based swaps is not yet required and the SEC has not publicly announced a timetable for compliance. In addition, the Prudential Regulators' capital and margin rules will apply to those security-based swap dealers that are subject to their supervision at such time as the SEC requires registration of such entities. However, such registration is not required until the SEC finalizes and mandates compliance with its rules on security-based swaps. MBL expects that it will be required to register as a security-based swap dealer with its Prudential Regulator at the time that such registration becomes mandatory and that it will thereafter be subject to compliance with SEC rules regarding security-based swap transactions. The registration and compliance obligations will likely result in increased costs with respect to MBL's security-based swaps business.

The CFTC reopened the comment period to Regulation Automated Trading ("*Regulation AT*") on June 10, 2016. The CFTC proposed Regulation AT in an attempt to reduce the risk of market disruptions caused by automated trading. Regulation AT includes risks controls and transparency measures for Futures Commission Merchants ("*FCMs*"), Designated Contract Markets ("*DCMs*"), and CFTC registrants using algorithmic trading systems. The proposed rule also includes a new registration requirement for persons engaged in proprietary algorithmic trading on a DCM through direct electronic access ("*DEA*"). CFTC Chairman, Timothy Massad, expressed his willingness to finalize Regulation AT in phases. Regulation AT may affect MBL, should it utilize algorithmic trading systems for CFTC governed swap dealing activities. However, Macquarie's CFTC registered FCM, may also be impacted when the rule is finalized. It is not possible at this point in time to determine definitively the full extent of the impact of Regulation AT because the final scope and terms of the rules, and the effective date remain unknown. Nevertheless, the regulatory changes may increase regulatory burdens and compliance costs for those entities that utilize algorithmic trading systems for swap dealing activities.

On August 25, 2015, the U.S. Treasury Department proposed new regulations that would require investment advisers registered or required to be registered with the SEC to satisfy anti-money laundering ("*AML*") requirements that are similar to those currently imposed on banks and broker-dealers. If adopted as proposed, MBL's subsidiaries that are registered or required to be registered with the SEC as investment advisers would be required to comply with new AML requirements, and the SEC would examine those subsidiaries for compliance with the AML requirements.

United Kingdom

On June 23, 2016, the United Kingdom voted to leave the European Union in a referendum. Over the next two to three years, the MGL Group expects there will be increased uncertainty and volatility in the global financial markets while the details of this departure (known as the 'Brexit') is negotiated. There is also potential for further consequences of the Brexit to impact the markets as details of the terms of this departure emerge. At this point in time it is not possible to definitely determine what the impact of the Brexit will be on the MGL Group, including MBL.

European Union

Although the European Union member states proposing to participate in a financial transaction tax issued a joint statement in December 2015 indicating their intention to make decisions on the remaining open issues by the end of June 2016, the proposal has not yet been finalized. The scope, legality and coming into force of any such tax remains uncertain.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM RESULTS OF OPERATION AND FINANCIAL CONDITION

Investors should be aware that the discussion set forth in this Report is not complete and should be read in conjunction with the discussion under "Management's Discussion and Analysis of Results of Operation and Financial Condition" beginning on page 45 of our 2016 Annual U.S. Disclosure Report.

For further information on the preparation of our 2017 interim financial statements, see "Financial Information Presentation" in this Report and the discussion in this Report under "— Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Segment overview — Basis of preparation."

Recent developments post September 30, 2016

On October 31, 2016, S&P Global Ratings revised their outlook for the MBL Group's long-term credit rating, along with a number of other Australian banks and financial institutions, from "stable" to "negative" in a system-wide action as a result of macroeconomic and systemic factors.

Critical accounting policies and significant judgments

Note 1 to our 2016 annual financial statements provides a list of the critical accounting policies and significant judgments. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, certain information on policies we have identified as particularly involving critical accounting estimates and requiring management's exercise of judgment is set out in detail under "Management's Discussion and Analysis of Results of Operation and Financial Condition" beginning on page 45 of our 2016 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments for the half year ended September 30, 2016 are otherwise consistent with those referred to above. These critical accounting policies should be read in conjunction with the discussion set out in our 2016 Annual U.S. Disclosure Report and Note 1 to our 2016 annual financial statements.

Trading conditions and market update

Operating conditions and impact on MBL Group

Macquarie Asset Management's Assets under Management increased 17% to A$4.2 billion compared to March 31, 2016. While Corporate & Asset Finance benefited from an acquisition of a portfolio of aircraft (transition completed March 31, 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a reduced contribution from the Lending portfolio. Banking & Financial Services benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform.

Macquarie Securities experienced limited trading opportunities in the half-year ended September 30, 2016 due to market uncertainty. Commodities & Financial Markets experienced lower levels of volatility across a number of commodities, particularly oil, but benefited from increased customer activity in foreign exchange, interest rates and futures markets, due to ongoing market volatility.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the half year ended September 30, 2016, see "— Half year ended September 30, 2016 compared to half year ended September 30, 2015 — Results overview" below for further information.

Half year ended September 30, 2016 compared to half year ended September 30, 2015

Results overview

	Half year ended			Movement	
	Sep 16	**Mar 16**	**Sep 15**	**Mar 16**	**Sep 15**
	A$m	**A$m**	**A$m**	**%**	**%**
Financial performance summary					
Net interest income	1,063	1,089	1,083	(2)	(2)
Fee and commission income	368	496	434	(26)	(15)
Net trading income	740	982	1,142	(25)	(35)
Net operating lease income	477	493	388	(3)	23
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(26)	26	(4)	*	*
Other operating income and charges	253	(225)	(261)	*	*
Net operating income	**2,875**	**2,861**	**2,782**	<1	3
Employment expenses	(776)	(603)	(825)	29	(6)
Brokerage, commission and trading-related expenses	(303)	(320)	(320)	(5)	(5)
Occupancy expenses	(61)	(56)	(56)	9	9
Non-salary technology expenses	(81)	(59)	(92)	37	(12)
Other operating expenses	(816)	(836)	(740)	(2)	10
Total operating expenses	**(2,037)**	**(1,874)**	**(2,033)**	9	<1
Operating profit before income tax	**838**	**987**	**749**	(15)	12
Income tax expense	(255)	(343)	(338)	(26)	(25)
Profit from ordinary activities after income tax	**583**	**644**	**411**	(9)	42
Profit from discontinued operations (net of income tax)	-	-	1,040	-	(100)
Profit from ordinary activities and discontinued operations after income tax	583	644	1,451	(9)	(60)
Loss attributable to non-controlling interests	7	8	3	(13)	133
Profit attributable to equity holders of Macquarie Bank Limited	**590**	**652**	**1,454**	(10)	(59)
Distributions paid or provided for on Macquarie Income Securities	(8)	(8)	(8)	-	-
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**582**	**644**	**1,446**	(10)	(60)
Profit from continuing operations	**582**	**644**	**406**	(10)	43
Profit from discontinued operations (net of income tax)	**-**	**-**	**1,040**	-	(100)

[1] "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Consolidated net profit attributable to ordinary equity holders from continuing operations of A$582 million for the half year ended September 30, 2016 increased from A$406 million in the prior corresponding period and decreased from A$644 million in the prior period. The result in the prior corresponding period included profit from discontinued operations of A$1,040 million.

Continuing operations

Macquarie Bank Limited's annuity-style businesses – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – generated a combined net profit contribution for the half year ended September 30, 2016 of A$821 million, broadly in line with the prior corresponding period. While Corporate and Asset Finance benefited from acquisitions of a portfolio of aircraft from AWAS Aviation Capital Limited (the "*AWAS portfolio acquisition*"; transition completed by March 31, 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a lower overall net profit contribution mainly driven by lower income due to the timing of prepayments and realizations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. Banking and Financial Services' net profit contribution benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased expenses mainly due to elevated project activity as well as a change in approach to the capitalization of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity investments and intangible assets. Additionally, Banking and Financial Services disposed of Macquarie Life's risk insurance business and its remaining U.S. mortgages portfolio during the half year ended September 30, 2016, generating an overall net gain on the disposals.

Macquarie Bank's capital markets facing businesses – Macquarie Securities and Commodities and Financial Markets – delivered a combined net profit contribution for the half year ended September 30, 2016 of A$420 million, a decrease of 3% on the prior corresponding period. Macquarie Securities' net profit contribution decreased significantly on the prior corresponding period, which benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half year ended September 30, 2016 were limited due to market uncertainty. Commodities and Financial Markets reported a higher net profit contribution driven by increased income from the sale of equity investments and reduced provisions for impairment compared to the prior corresponding period.

Net operating income of A$2,875 million for the half year ended September 30, 2016 increased 3% from A$2,782 million in the prior corresponding period. Higher net operating lease income, an increase in net gains on sale of investments and businesses, and lower provisions for impairment were partially offset by decreases across net interest and trading income and fee and commission income.

Combined net interest and trading income of A$1,803 million for the half year ended September 30, 2016 decreased 19% from A$2,225 million in the prior corresponding period. The reduction was across a number of operating groups. Macquarie Securities was impacted by limited trading opportunities due to market uncertainty. In Corporate and Asset Finance, there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realizations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. Commodities and Financial Markets also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in the oil sector. Partially offsetting these declines was increased net interest and trading income in Banking and Financial Services, mainly driven by volume growth in the Australian loan and deposit portfolios.

Total fee and commission income of A$368 million for the half year ended September 30, 2016 decreased 15% from A$434 million in the prior corresponding period mainly driven by decreased brokerage and commissions income as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Net operating lease income of A$477 million for the half year ended September 30, 2016 increased 23% from A$388 million in the prior corresponding period, mainly driven by the AWAS portfolio acquisition by Corporate and Asset Finance.

Other operating income of A$253 million for the half year ended September 30, 2016 was a significant improvement from a charge of A$261 million in the prior corresponding period. The primary drivers were increased gains on the sale of investments and businesses; and lower provisions for impairment mainly due to reduced exposures to underperforming commodity-related loans in Commodities and Financial Markets. Gains on the sale of businesses and investments included a significant gain from Banking and Financial Services' sale of Macquarie

Life's risk insurance business, as well as increased contributions from Commodities and Financial Markets, partially offset by a loss on the sale of Banking and Financial Services' U.S. mortgages portfolio.

Total operating expenses of A$2,037 million for the half year ended September 30, 2016 was broadly in line with A$2,033 million in the prior corresponding period.

Employment expenses of A$776 million for the half year ended September 30, 2016 decreased 6% from A$825 million in the prior corresponding period mainly driven by lower performance-related profit share expense.

Brokerage, commission and trading-related expenses of A$303 million for the half year ended September 30, 2016 decreased 5% from A$320 million in the prior corresponding period mainly due to decreased trading-related activity.

Other operating expenses of A$816 million for the half year ended September 30, 2016 increased 10% from A$740 million in the prior corresponding period mainly due to the impact of portfolio acquisitions in Corporate and Asset Finance.

Income tax expense of A$255 million for the half year ended September 30, 2016 decreased 25% from A$338 million in the prior corresponding period, resulting in an effective tax rate of 30.2%. The decrease was mainly due to changes in the geographic composition of earnings, with increased income being generated in Australia and lower income being generated in the United States.

Discontinued operations

Profit from discontinued operations (net of income tax) of A$1,040 million in the prior corresponding period represents profit from the sale of the Macquarie Investment Management business to Macquarie Financial Holdings Pty Limited and its subsidiaries on April 15, 2015, as well as profit earned by Macquarie Investment Management up until the sale date.

Results analysis

MBL Group presents the information below relating to our financial results on a consolidated MBL Group basis.

Net interest and trading income

	Half year ended			Movement	
	Sep 16	**Mar 16**	**Sep 15**	**Mar 16**	**Sep 15**
	A$m	**A$m**	**A$m**	**%**	**%**
Net interest income	1,063	1,089	1,083	(2)	(2)
Net trading income	740	982	1,142	(25)	(35)
Net interest and trading income	**1,803**	**2,071**	**2,225**	(13)	(19)

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

For businesses that predominantly earn income from trading-related activities (Macquarie Securities and Commodities & 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 predominantly earn income from lending activities (Corporate & Asset Finance and Banking & 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 recognized at a total Banking 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 recognized within the Corporate segment offset by the effect of hedge relationships at the total Banking 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 & Asset Finance, interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognized in net interest income but the related swap is recognized 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.

See "— Segment analysis — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)" and "— Segment analysis — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)" for further discussion of MBL's trading activities.

	Half year ended			Movement	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Macquarie Asset Management[1]	52	46	67	13	(22)
Corporate & Asset Finance	346	381	453	(9)	(24)
Banking & Financial Services	498	485	456	3	9
Macquarie Securities[2]	165	140	379	18	(56)
Commodities & Financial Markets [3]					
Commodities[4]	484	732	577	(34)	(16)
Credit, interest rates and foreign exchange	266	158	206	68	29
Corporate[5]	(8)	129	87	*	*
Net interest and trading income	**1,803**	**2,071**	**2,225**	(13)	(19)

1 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions that are part of the Non-Banking Group.

2 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

3 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

4 Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

5 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility.

Net interest and trading income of A$1,803 million for the half year ended September 30, 2016 decreased 19% from A$2,225 million in the prior corresponding period. The reduction was across a number of operating groups. Macquarie Securities was impacted by limited trading opportunities due to market uncertainty. In Corporate and Asset Finance, there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realizations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. Commodities and Financial Markets also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in the oil sector. Partially offsetting these declines was increased net interest and trading income in Banking and Financial Services, mainly driven by volume growth in the Australian loan and deposit portfolios.

Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions)

Net interest and trading income in Macquarie Asset Management includes income on specialized retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of A$52 million for the half year ended September 30, 2016 decreased 22% from A$67 million in the prior corresponding period, mostly due to the non-recurrence of certain income items recognized in the prior corresponding period in the Macquarie Specialized Investment Solutions (MSIS) business.

Corporate & Asset Finance

Net interest and trading income in Corporate & Asset Finance predominantly relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolio and the funding costs associated with the operating lease portfolio (including aviation, mining and energy assets).

Net interest and trading income of A$346 million for the half year ended September 30, 2016 decreased 24% from A$453 million in the prior corresponding period. The decrease was largely due to a reduced contribution from the Lending portfolio due to the timing of prepayments and realizations and lower loan volumes, as well as increased funding costs driven by the growth of the aircraft operating lease portfolio. This was partially offset by increased net interest income as a result of the acquisition of the Esanda dealer finance portfolio in November 2015.

The loan and finance lease portfolio was A$28.0 billion at September 30, 2016, an increase of 21% from A$23.2 billion at September 30, 2015, mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015 and partially offset by lower Lending volumes and the impact of foreign currency movements on period end balances.

Banking & Financial Services

Net interest and trading income in Banking & 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 & 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 MBL Group.

Net interest and trading income of A$498 million for the half year ended September 30, 2016 increased 9% from A$456 million in the prior corresponding period primarily due to volume growth in the Australian loan and deposit portfolios, including:

- a 4% increase in Australian mortgage volumes to A$28.6 billion at September 30, 2016 from A$27.6 billion at September 30, 2015;

- an 8% increase in business lending volumes to A$6.4 billion at September 30, 2016 from A$5.9 billion at September 30, 2015; and

- a 9% increase in Banking and Financial Services deposits to A$42.2 billion at September 30, 2016 from A$38.7 billion at September 30, 2015.

Average net interest margins on deposits were unfavorably impacted by the Reserve Bank of Australia’s interest rate cuts made in May 2016 and August 2016.

The legacy loan portfolio reduced to A$0.6 billion at September 30, 2016 from A$2.6 billion at September 30, 2015 following the sale of the U.S. mortgages portfolio during the current period and the continued run down of the Canadian mortgage portfolio.

Macquarie Securities

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

Net interest and trading income of A$165 million for the half year ended September 30, 2016 decreased 56% from A$379 million in the prior corresponding period. This resulted from limited trading opportunities due to market uncertainty. The prior corresponding period benefited from strong equity markets activity, particularly in China.

Commodities & Financial Markets

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

Commodities

Net interest and trading income from commodities was A$484 million for the half year ended September 30, 2016, a decrease of 16% from A$577 million in the prior corresponding period which benefited from higher levels of client activity due to heightened volatility across a number of commodities, particularly oil.

Additionally, the result was impacted by price dislocations in the U.S. gas market as well as volatility associated with the timing of income relating to tolling agreements and capacity contracts.

Credit, interest rates and foreign exchange

Net interest and trading income from credit, interest rates and foreign exchange products of A$266 million for the half year ended September 30, 2016 increased 29% from A$206 million in the prior corresponding period.

Increased income in the current period was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility. The result also reflects improved performance of high yield debt markets and increased asset-backed securitization activity in the Northern Hemisphere relative to the prior corresponding period.

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for the MBL Group, earnings on capital 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 expense of A$8 million for the half year ended September 30, 2016 decreased from income of A$87 million in the prior corresponding period primarily due to an increase in interest expense associated with managing the Group's liquidity and funding, as well as lower interest rates.

Fee and commission income

	Half year ended			Movement	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Brokerage and commissions	190	217	219	(12)	(13)
Other fee and commission income	178	279	215	(36)	(17)
Total fee and commission income	**368**	**496**	**434**	(26)	(15)

Brokerage and commissions

Brokerage and commissions income of A$190 million for the half year ended September 30, 2016 decreased 13% from A$219 million in the prior corresponding period. The decrease was mainly in Macquarie Securities as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Other fee and commission income

Other fee and commission income of A$178 million for the half year ended September 30, 2016 decreased 17% from A$215 million in the prior corresponding period mainly due to the increased recovery of costs to the Banking Group in Corporate and the non-recurrence of a performance fee in respect of the sale of a U.K. asset in Banking & Financial Services.

Net operating lease income

	Half year ended			Movement	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Rental income	844	874	687	(3)	23
Depreciation on operating lease assets	(367)	(381)	(299)	(4)	23
Net operating lease income	**477**	**493**	**388**	(3)	23

Net operating lease income, which is predominantly earned by Corporate & Asset Finance, totaled A$477 million for the half year ended September 30, 2016, an increase of 23% from A$388 million in the prior corresponding period. The increase was driven by the growth of Corporate & Asset Finance's operating lease portfolio, which increased 9% to A$10.0 billion at September 30, 2016 from A$9.2 billion at September 30, 2015, primarily due to the completion of the AWAS portfolio acquisition by March 31, 2016 and partially offset by the impact of foreign currency movements on period end balances.

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

	Half year ended			Movement	Movement
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(26)**	**26**	**(4)**	*	*

Share of net (losses)/profits of associates and joint ventures for the half year ended September 30, 2016 was a net loss of A$26 million compared to a loss of A$4 million in the prior corresponding period. The movement primarily reflected changes in the underlying performance of central investments in Corporate, which include certain legacy and other non-core assets.

Other operating income and charges

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net gains on sale of investment securities available-for-sale	27	9	19	200	42
Impairment charge on investment securities available-for-sale	(19)	(26)	(7)	(27)	171
Net gains on sale of associates and joint ventures	103	1	19	*	*
Impairment charge on interest in associates and joint ventures	(5)	(2)	(2)	150	150
Gain on disposal of operating lease assets	15	5	3	200	*
Gain/(Loss) on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	234	3	(27)	*	*
Impairment charge on intangibles and other non-financial assets	(34)	(43)	(17)	(21)	100
Dividends/distributions received/receivable	5	21	17	(76)	(71)
Collective allowance for credit losses provided for during the period	6	(4)	(2)	*	*
Individually assessed provisions for impairment and write-offs	(125)	(228)	(263)	(45)	(52)
Other income/(charges)	46	39	(1)	18	*
Total other operating income and charges	**253**	**(225)**	**(261)**	*****	*****

[1] "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total other operating income of A$253 million for the half year ended September 30, 2016 increased significantly from a charge of A$261 million in the prior corresponding period.

Net gains on sale of investments (including investment securities available-for-sale and investments in associates and joint ventures) of A$130 million for the half year ended September 30, 2016 increased significantly from A$38 million in the prior corresponding period. The increase primarily related to gains on the sale of a number of investments, mainly in energy and related sectors in Commodities & Financial Markets.

Impairment charges on investment securities available-for-sale, associates, joint ventures, intangibles and other non-financial assets of A$58 million in the half year ended September 30, 2016 increased 123% from A$26 million in the prior corresponding period. The increase predominantly related to the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform in Banking and Financial Markets.

Gain on disposal of operating lease assets of A$15 million for the half year ended September 30, 2016 increased significantly from A$3 million in the prior corresponding period. The gain predominantly related to a gain recognized on the sale of eight aircraft in Corporate & Asset Finance.

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of A$234 million in the half year ended September 30, 2016 was primarily driven by the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in Banking & Financial Services.

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses provided for of A$119 million for the half year ended September 30, 2016 decreased 55% from A$265 million in the prior corresponding period. The decrease was mainly due to reduced exposure to underperforming commodity-related loans in Commodities & Financial Markets.

Operating expenses

	Half year ended			Movement	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Employment expenses:					
Salary and salary related costs including commissions, superannuation and performance-related profit share	(683)	(552)	(745)	24	(8)
Share-based payments	(90)	(54)	(78)	67	15
(Provision for)/reversal for long service leave and annual leave	(3)	3	(2)	*	50
Total employment expenses	**(776)**	**(603)**	**(825)**	29	(6)
Brokerage, commission and trading-related expenses	(303)	(320)	(320)	(5)	(5)
Occupancy expenses	(61)	(56)	(56)	9	9
Non-salary technology expenses	(81)	(59)	(92)	37	(12)
Other operating expenses:					
Professional fees	(85)	(124)	(77)	(31)	10
Auditor's remuneration	(12)	(13)	(9)	(8)	33
Travel and entertainment expenses	(26)	(29)	(28)	(10)	(7)
Advertising and communication expenses	(15)	(19)	(15)	(21)	-
Amortization of intangibles	(5)	(8)	(26)	(38)	(81)
Other expenses	(673)	(643)	(585)	5	15
Total other operating expenses	**(816)**	**(836)**	**(740)**	(2)	10
Total operating expenses	**(2,037)**	**(1,874)**	**(2,033)**	9	<1

[1] "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total operating expenses of A$2,037 million for the half year ended September 30, 2016 was broadly in line with the prior corresponding period.

Total employment expenses of A$776 million for the half year ended September 30, 2016 decreased 6% from A$825 million in the prior corresponding period. This reflected the impact of lower performance-related profit share expense, partially offset by increased share based payments expense relating to increased retained equity awards granted in previous years.

Brokerage, commission and trading-related expenses of A$303 million for the half year ended September 30, 2016 decreased 5% from A$320 million in the prior corresponding period mainly driven by reduced trading-related activity in Macquarie Securities and reduced commodity-related trading activity in Commodities & Financial Markets.

Other operating expenses, which includes professional fees, auditor's remuneration, travel and entertainment, advertising and communication, amortization of intangibles and other expenses, in aggregate increased 15% compared to the prior corresponding period. The increase was mainly due to costs associated with the Esanda dealer finance portfolio in Corporate & Asset Finance and the impact of increasing costs of regulation and other expenses in Commodities & Financial Markets.

Headcount

	Half year ended			Movement	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
Headcount by operating group				%	%
Macquarie Asset Management	115	105	101	10	14
Corporate & Asset Finance	1,342	1,350	883	(1)	52
Banking & Financial Services	2,049	2,180	2,248	(6)	(9)
Macquarie Securities	145	158	162	(8)	(10)
Commodities & Financial Markets	782	795	827	(2)	(5)
Total headcount — operating groups	**4,433**	**4,588**	**4,221**	(3)	5
Total headcount — discontinued operations	**91**	**93**	**89**	(2)	2
Total headcount — Corporate	**41**	**40**	**42**	3	(2)
Total headcount	**4,565**	**4,721**	**4,352**	(3)	5
Headcount by region					
Australia	3,249	3,389	3,023	(4)	7
International:					
Americas	505	514	513	(2)	(2)
Asia	325	327	336	(1)	(3)
Europe, Middle East and Africa	486	491	480	(1)	1
Total headcount — International	**1,316**	**1,332**	**1,329**	(1)	(1)
Total headcount	**4,565**	**4,721**	**4,352**	(3)	5
International headcount ratio (%)	29	28	31		

Total headcount increased 5% to 4,565 at September 30, 2016 from 4,352 at September 30, 2015. Additional headcount due to the acquisition of the Esanda dealer finance portfolio in November 2015 by Corporate & Asset Finance was partially offset by headcount reductions resulting from the realization of efficiencies in Banking & Financial Services.

Income tax expense

	Half year ended		
	Sep 16	Mar 16	Sep 15
	A$m	A$m	A$m
Operating profit from continuing operations before income tax	838	987	749
Prima facie tax @ 30%	251	296	225
Income tax permanent differences	4	47	113
Income tax expense	255	343	338
Effective tax rate (%)[1]	**30.2%**	**34.5%**	**44.9%**

[1] The effective tax rate is calculated on net profit before income tax and after non-controlling interests. Non-controlling interests increased net profit before income tax by A$7 million for the half year ended September 30, 2016 (September 30, 2015: A$3 million). The effective tax rate differs from the Australian company tax rate due to permanent tax differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned outside of Australia.

Income tax expense for the half year ended September 30, 2016 was A$255 million, down 25% from A$338 million in the prior corresponding period with an effective tax rate of 30.2%. The decrease was mainly due to changes in the geographic composition of earnings, with increased income being generated in Australia and lower income being generated in the United States.

Segment overview

Summary of segment results

	Macquarie Asset Management[1]	Banking & Financial Services	Commodities & Financial Markets[2]	Macquarie Securities[3]	Corporate & Asset Finance	Corporate[4]	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2016							
Net interest and trading income/(expense)	52	498	750	165	346	(8)	1,803
Fee and commission income/(expense)	28	254	112	58	23	(107)	368
Net operating lease income	6	-	-	-	467	4	477
Share of net profits/(losses) of associates and JVs accounted for using the equity method.................	-	1	(10)	-	-	(17)	(26)
Other operating income and charges	13	123	60	7	(10)	60	253
Internal management (charge)/revenue.............	-	1	6	-	3	(10)	-
Net operating income	**99**	**877**	**918**	**230**	**829**	**(78)**	**2,875**
Total operating expenses.......	**(53)**	**(618)**	**(507)**	**(221)**	**(314)**	**(324)**	**(2,037)**
Profit/(loss) before tax...........	**46**	**259**	**411**	**9**	**515**	**(402)**	**838**
Tax expense............................	-	-	-	-	-	(255)	(255)
Profit/(loss) attributable to non-controlling interests	-	-	(1)	-	1	7	7
Profit/(loss) attributable to equity holders................	**46**	**259**	**410**	**9**	**516**	**(650)**	**590**
Distributions paid or provided for on MIS	-	-	-	-	-	(8)	(8)
Net profit/(loss) contribution	**46**	**259**	**410**	**9**	**516**	**(658)**	**582**

1 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group. See "—Presentation."

2 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

4 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

	Macquarie Asset Management[1]	Banking & Financial Services	Commodities & Financial Markets[2]	Macquarie Securities[3]	Corporate & Asset Finance	Corporate[4]	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended March 31, 2016							
Net interest and trading income	46	485	890	140	381	129	2,071
Fee and commission income/(expense)	32	243	101	94	30	(4)	496
Net operating lease income	6	-	-	-	486	1	493
Share of net profits/(losses) of associates and JVs accounted for using the equity method	-	1	9	-	5	11	26
Other operating income and charges	5	(6)	(153)	-	(106)	35	(225)
Internal management (charge)/revenue	2	4	-	2	58	(66)	-
Net operating income	**91**	**727**	**847**	**236**	**854**	**106**	**2,861**
Total operating expenses	**(59)**	**(548)**	**(562)**	**(220)**	**(340)**	**(145)**	**(1,874)**
Profit/(loss) before tax	**32**	**179**	**285**	**16**	**514**	**(39)**	**987**
Tax expense	-	-	-	-	-	(343)	(343)
Loss attributable to non-controlling interests	-	-	-	-	1	7	8
Profit/(loss) attributable to equity holders	**32**	**179**	**285**	**16**	**515**	**(375)**	**652**
Distributions paid or provided for on MIS	-	-	-	-	-	(8)	(8)
Net profit/(loss) contribution	**32**	**179**	**285**	**16**	**515**	**(383)**	**644**

1 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group. See "—Presentation."

2 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

4 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

	Macquarie Asset Management[1]	Banking & Financial Services	Commodities & Financial Markets[2]	Macquarie Securities[3]	Corporate & Asset Finance	Corporate[4]	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2015							
Net interest and trading income	67	456	783	379	453	87	2,225
Fee and commission income/(expense)	22	281	99	35	14	(17)	434
Net operating lease income	6	-	-	-	379	3	388
Share of net (losses)/profits of associates and JVs accounted for using the equity method	-	-	(4)	-	2	(2)	(4)
Other operating income and charges	5	(2)	(130)	(1)	5	(138)	(261)
Internal management revenue/(charge)	-	-	2	(6)	2	2	-
Net operating income/(charge)	**100**	**735**	**750**	**407**	**855**	**(65)**	**2,782**
Total operating expenses	**(57)**	**(566)**	**(503)**	**(223)**	**(249)**	**(435)**	**(2,033)**
Profit/(loss) before tax	**43**	**169**	**247**	**184**	**606**	**(500)**	**749**
Tax expense	-	-	-	-	-	(338)	(338)
Loss attributable to non-controlling interests	-	-	-	-	-	3	3
Profit/(loss) attributable to equity holders	**43**	**169**	**247**	**184**	**606**	**(835)**	**414**
Distributions paid or provided for on MIS	-	-	-	-	-	(8)	(8)
Net profit/(loss) contribution	**43**	**169**	**247**	**184**	**606**	**(843)**	**406**

1 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group. See "—Presentation."

2 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

4 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Basis of preparation

MBL Group segments

AASB 8 "*Operating Segments*" requires the 'management approach' to disclosing information about Macquarie Bank'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. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations is included in Note 21 to our 2017 interim financial statements.

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

- Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities);

- Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions);

- Banking & Financial Services;

- Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); and

- Corporate & Asset Finance.

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

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

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

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

Internal funding arrangements

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

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

Deposits are a funding source for Macquarie. Banking & 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 recognized in each of the relevant categories of income and expense as appropriate.

Central service groups

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

Performance-related profit share and share-based payments expense

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

Income tax

Income tax expense and benefits are recognized in the Corporate segment and not allocated to operating groups. However, to recognize 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 recognized 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 summarized by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the MBL Group's financial performance.

Segment analysis

Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions)

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading income	**52**	**46**	**67**	13	(22)
Fee and commission income	**28**	**32**	**22**	(13)	27
Net operating lease income	**6**	**6**	**6**	-	-
Other operating income and charges	**13**	**5**	**5**	160	160
Internal management revenue[2]	**-**	**2**	**-**	(100)	-
Net operating income	**99**	**91**	**100**	9	(1)
Operating expenses					
Employment expenses	(14)	(14)	(15)	-	(7)
Brokerage, commission and trading-related expenses	(8)	(14)	(8)	(43)	-
Other operating expenses	(31)	(31)	(34)	-	(9)
Total operating expenses	**(53)**	**(59)**	**(57)**	(10)	(7)
Net profit contribution	**46**	**32**	**43**	44	7
Other metrics					
Assets under Management (A$ billion)	4.2	3.6	3.3	17	27
Headcount	115	105	101	10	14

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 See "— Basis of preparation — Income tax".

Macquarie Asset Management's net profit contribution of A$46 million for the half year ended September 30, 2016 increased 7% from A$43 million in the prior corresponding period.

Net interest and trading income

Net interest and trading income of A$52 million for the half year ended September 30, 2016 decreased 22% from A$67 million in the prior corresponding period mostly due to the non-recurrence of certain income items recognized in the prior corresponding period in MSIS.

Fee and commission income

Fee and commission income includes base fees, distribution service fees, structuring fees, principal protection fees and brokerage and commission. Total fee and commission income of A$28 million for the half year ended September 30, 2016 increased 27% from A$22 million in the prior corresponding period, primarily due to growth in the Infrastructure Debt business as well as fees earned on closed end fund facilities.

Operating expenses

Total operating expenses of A$53 million for the half year ended September 30, 2016 were 7% lower than the prior corresponding period primarily due to lower operating expenses as a result of the sale of the vineyard operations in the prior corresponding period.

Banking & Financial Services

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading income	**498**	**485**	**456**	3	9
Fee and commission income					
Wealth management income	153	147	163	4	(6)
Banking income	74	70	67	6	10
Life insurance income	27	26	30	4	(10)
Other fee and commission income	-	-	21	-	(100)
Total fee and commission income	**254**	**243**	**281**	5	(10)
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	**1**	**-**	-	*
Other operating income and charges					
Impairment charge on equity investments and other non-financial assets	(46)	(6)	(2)	*	*
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	192	-	-	*	*
Provisions for impairment, write-offs and collective allowance for credit losses	(32)	(23)	(12)	39	167
Other income	9	23	12	(61)	(25)
Total other operating income/(charges)	**123**	**(6)**	**(2)**	*	*
Internal management revenue[2]	**1**	**4**	**-**	(75)	*
Net operating income	**877**	**727**	**735**	21	19
Operating expenses					
Employment expenses	(171)	(168)	(177)	2	(3)
Brokerage, commission and trading-related expenses	(105)	(105)	(102)	-	3
Technology expenses[3]	(189)	(143)	(139)	32	36
Other operating expenses	(153)	(132)	(148)	16	3
Total operating expenses	**(618)**	**(548)**	**(566)**	13	9
Net profit contribution	**259**	**179**	**169**	45	53
Other metrics					
Funds on platform (A$ billion)[4]	62.1	58.4	46.7	6	33
Australian loan portfolio (A$ billion)[5]	35.6	35.1	34.2	1	4
Legacy loan portfolio (A$ billion)[6]	0.6	1.6	2.6	(63)	(77)
Deposits (A$ billion)[7]	42.2	40.4	38.7	4	9
Headcount[8]	1,952	2,180	2,248	(10)	(13)

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 See "— Basis of preparation — Income tax".

3 Technology expenses include technology staff expenses, depreciation of technology assets, amortization of capitalized software and maintenance costs.

4 Funds on platform includes Macquarie wrap, Vision, Equity Portfolio Services and Industry Super Funds.

5 The Australian loan portfolio primarily comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.

6 The legacy loan portfolios primarily comprise residential mortgages in Canada and the United States.

7 Banking & Financial Services deposits excludes corporate/wholesale deposits.

8 Headcount at September 30, 2016 excludes 97 staff relating to the sale of the Macquarie Life's risk insurance business.

Banking & Financial Services' net profit contribution of A$259 million for the half year ended September 30, 2016 increased 53% from A$169 million in the prior corresponding period. The improved result reflects increased income from growth in Australian lending, deposit and platform volumes, as well as a gain on sale of Macquarie Life's risk insurance business. This was partially offset by a loss on the disposal of the U.S. mortgages portfolio, increased costs mainly due to elevated project activity as well as a change in approach to the capitalization of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity investments and intangibles.

Net interest and trading income

Net interest and trading income of A$498 million for the half year ended September 30, 2016 increased 9% from A$456 million in the prior corresponding period primarily due to volume growth in the Australian loan and deposit portfolio, including:

- a 4% increase in Australian mortgage volumes to A$28.6 billion at September 30, 2016 from A$27.6 billion at September 30, 2015;

- an 8% increase in business lending volumes to A$6.4 billion at September 30, 2016 from A$5.9 billion at September 30, 2015; and

- a 9% increase in Banking & Financial Services deposits to A$42.2 billion at September 30, 2016 from A$38.7 billion at September 30, 2015.

Average net interest margins on deposits were unfavorably impacted by the Reserve Bank of Australia's interest rate cuts made in May 2016 and August 2016.

The legacy loan portfolio reduced to A$0.6 billion at September 30, 2016 from A$2.6 billion at September 30, 2015 following the sale of the U.S. mortgages portfolio during the current period and the continued run down of the Canadian mortgage portfolio.

Wealth management fee income

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

Wealth management fee income of A$153 million for the half year ended September 30, 2016 decreased 6% from A$163 million in the prior corresponding period mainly due to lower adviser headcount and market movements, partially offset by increased platform commissions from higher funds on the Wrap and Vision platforms.

Funds on platform closed at A$62.1 billion at September 30, 2016, an increase of 33% from A$46.7 billion at September 30, 2015 driven by the consolidation of client accounts onto platforms of A$10.1 billion and net inflows.

Banking fee income

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

Banking fee income of A$74 million for the half year ended September 30, 2016 increased 10% from A$67 million in the prior corresponding period driven by volume growth in lending and deposits.

Other fee and commission income

There was no other fee and commission income for the half year ended September 30, 2016, a decrease of A$21 million on the prior corresponding period.

Impairment charge on equity investments and non-financial assets

Impairment charge on equity investments, intangibles and other non-financial assets of A$46 million for the half year ended September 30, 2016 increased from A$2 million in the prior corresponding period predominantly due to the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform.

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 A$192 million for the half year ended September 30, 2016 was driven by the sale of the Macquarie Life's risk insurance business to Zurich Australia Limited, partly offset by losses on the sale of the U.S. mortgages portfolio.

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

Provisions for impairment, write-offs and collective allowance for credit losses of A$32 million for the half year ended September 30, 2016 increased 167% from A$12 million in the prior corresponding period due to increased business lending provisions on a small number of loans, as well as lending growth.

Other income

Other income of A$9 million for the half year ended September 30, 2016 decreased 61% from A$23 million in the prior period, which included a dividend on disposal of an investment in the United Kingdom.

Operating expenses

Total operating expenses of A$618 million for the half year ended September 30, 2016 increased 9% from A$566 million in the prior corresponding period.

Employment expenses of A$171 million for the half year ended September 30, 2016 decreased 3% from A$177 million in the prior corresponding period driven by lower headcount as the business realized efficiencies.

Combined Technology and Other operating expenses of A$342 million for the half year ended September 30, 2016 increased 19% from A$287 million in the prior corresponding period. The increase was mainly due to elevated project activity as well as a change in approach to the capitalization of software expenses in relation to the Core Banking platform.

The change in approach to the capitalization of software expenses is in response to a rapidly changing environment for technology and has resulted in the narrowing of the eligibility criteria for capitalization in connection with the Core Banking platform. Costs that are not directly part of the platform itself, such as ancillary software that connect to the platform, will no longer be eligible for capitalization going forward.

The impact of this change for the half year ended September 30, 2016 is as follows:

- Increased operating costs of A$8 million relating to technology that has been expensed in the current period but would have otherwise been capitalized and amortized over future periods; and

- Accelerated expensing of technology costs previously capitalized of A$40 million bringing forward expenses that would have otherwise been incurred in future periods.

Corporate & Asset Finance

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading income	**346**	**381**	**453**	(9)	(24)
Fee and commission income	**23**	**30**	**14**	(23)	64
Net operating lease income	**467**	**486**	**379**	(4)	23
Share of net profits of associates and joint ventures accounted for using the equity method	**-**	**5**	**2**	(100)	(100)
Other operating income and charges					
Impairment charge on equity investments, intangibles and other non-financial assets	(17)	(41)	(4)	(59)	*
Gain on disposal of operating lease assets	15	5	3	200	*
Provisions for impairment, write-offs and collective allowance for credit losses	(44)	(103)	(20)	(57)	120
Other income	36	33	26	9	38
Total other operating income and charges	**(10)**	**(106)**	**5**	(91)	*
Internal management revenue[2]	**3**	**58**	**2**	(95)	50
Net operating income	**829**	**854**	**855**	(3)	(3)
Operating expenses					
Employment expenses	(134)	(130)	(106)	3	26
Brokerage, commission and trading-related expenses	(4)	(4)	(3)	-	33
Other operating expenses	(176)	(206)	(140)	(15)	26
Total operating expenses	**(314)**	**(340)**	**(249)**	(8)	26
Non-controlling interests	1	1	-	-	*
Net profit contribution	**516**	**515**	**606**	<1	(15)
Other metrics					
Loan and finance lease portfolio (A$ billion)	28.0	28.7	23.2	(2)	21
Operating lease portfolio (A$ billion)	10.0	10.6	9.2	(6)	9
Headcount	1,342	1,350	883	(1)	52

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 See "— Basis of preparation —Income tax".

Corporate & Asset Finance's net profit contribution of A$516 million for the half year ended September 30, 2016 decreased 15% from A$606 million in the prior corresponding period. The decrease was mainly driven by lower income due to the timing of prepayments and realizations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. This was partially offset by profit from the AWAS portfolio acquisition and the acquisition of the Esanda dealer finance portfolio in the prior year.

Net interest and trading income

Net interest and trading income in Corporate & Asset Finance predominantly relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolio and the funding costs associated with the operating lease portfolio (including aviation, mining and energy assets).

Net interest and trading income of A$346 million for the half year ended September 30, 2016 decreased 24% from A$453 million in the prior corresponding period. The decrease was largely due to a reduced contribution from the Lending portfolio due to the timing of prepayments and realizations and lower loan volumes, as well as increased funding costs driven by the growth of the aircraft operating lease portfolio. This was partially offset by increased net interest income as a result of the acquisition of the Esanda dealer finance portfolio in November 2015.

The loan and finance lease portfolio was A$28.0 billion at September 30, 2016, an increase of 21% from A$23.2 billion at September 30, 2015, mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015, partially offset by lower Lending volumes and the impact of foreign currency movements on period end balances.

Net operating lease income

Net operating lease income of A$467 million for the half year ended September 30, 2016 increased 23% from A$379 million in the prior corresponding period primarily due to the AWAS portfolio acquisition during the prior year. The 4% decrease in net operating lease income from A$486 million in the prior period was mainly due to foreign exchange impacts as well as reduced income following the sale of eight aircraft during the current half year.

The operating lease portfolio was A$10.0 billion at September 30, 2016, an increase of 9% from A$9.2 billion at September 30, 2015, primarily due to the completion of the AWAS portfolio acquisition by March 31, 2016 and partially offset by the impact of foreign currency movements on period end balances.

Other operating income and charges

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

Impairment charge on equity investments, intangibles and other non-financial assets of A$17 million for the half year ended September 30, 2016 increased from A$4 million in the prior corresponding period, predominantly due to impairments of certain Aviation assets.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of A$15 million for the half year ended September 30, 2016 increased from A$3 million in the prior corresponding period, predominantly due to a gain recognized on the sale of eight aircraft.

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

Provisions for impairment, write-offs and collective allowance for credit losses of A$44 million for the half year ended September 30, 2016 increased from A$20 million in the prior corresponding period due to portfolio growth primarily from the acquisition of the Esanda dealer finance portfolio in November 2015.

Operating expenses

Total operating expenses of A$314 million for the half year ended September 30, 2016 increased 26% from A$249 million in the prior corresponding period. This was primarily driven by an increase in costs associated with the Esanda dealer finance portfolio.

Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)

	Half year ended			Movement[1]	Movement[1]
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading income					
Commodities[2]	484	732	577	(34)	(16)
Credit, interest rates and foreign exchange	266	158	206	68	29
Net interest and trading income	**750**	**890**	**783**	(16)	(4)
Fee and commission income					
Brokerage and commissions	78	71	65	10	20
Other fee and commission income	34	30	34	13	-
Total fee and commission income	**112**	**101**	**99**	11	13
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(10)**	**9**	**(4)**	*	150
Other operating income and charges					
Net gains on sale of equity and debt investments	104	1	30	*	247
Impairment charge on equity investments, intangibles and other non-financial assets	(11)	(34)	(10)	(68)	10
Provisions for impairment and collective allowance for credit losses	(48)	(120)	(164)	(60)	(71)
Other income	15	-	14	*	7
Total other operating income/(charges)	**60**	**(153)**	**(130)**	*	*
Internal management revenue[3]	**6**	**-**	**2**	*	200
Net operating income	**918**	**847**	**750**	8	22
Operating expenses					
Employment expenses	(132)	(151)	(141)	(13)	(6)
Brokerage, commission and trading-related expenses	(103)	(122)	(112)	(16)	(8)
Other operating expenses	(272)	(289)	(250)	(6)	9
Total operating expenses	**(507)**	**(562)**	**(503)**	(10)	1
Non-controlling Interests	(1)	-	-	*	*
Net profit contribution	**410**	**285**	**247**	44	66
Other metrics					
Headcount	782	795	827	(2)	(5)

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

3 See "— Basis of preparation — Income tax".

Commodities & Financial Markets' net profit contribution for the half year ended September 30, 2016 was A$410 million, an increase of 66% from A$247 million in the prior corresponding period. The result reflects an increase in income generated from the sale of equity investments and a reduction in provisions for impairment compared to prior periods. This was partially offset by reduced commodities-related net interest and trading income compared to the prior corresponding period, which benefited from higher levels of volatility across a number of commodities, particularly oil.

Net interest and trading income

Commodities trading income

Net interest and trading income from commodities of A$484 million for the half year ended September 30, 2016 decreased 16% from A$577 million in the prior corresponding period which benefited from higher levels of client activity due to heightened volatility across a number of commodities, particularly oil.

Additionally the result was impacted by price dislocations in the U.S. gas markets as well as volatility associated with the timing of income relating to tolling agreements and capacity contracts.

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

Net interest and trading income from credit, interest rates and foreign exchange products of A$266 million for the half year ended September 30, 2016 increased 29% from A$206 million in the prior corresponding period. Increased income in the current period was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility. The result also reflects improved performance of high yield debt markets and increased asset-backed securitization activity in the Northern Hemisphere relative to the prior corresponding period.

Fee and commission income

Fee and commission income of A$112 million for the half year ended September 30, 2016 increased 13% from A$99 million in the prior corresponding period mainly due to increased volumes executed in global futures markets driven by new clients and ongoing market volatility as a result of geopolitical events, notably the United Kingdom's decision to exit the European Union.

Other operating income and charges

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of A$104 million for the half year ended September 30, 2016 increased from A$30 million in the prior corresponding period due to gains on the sale of a number of investments, mainly in energy and related sectors.

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

Impairment charge on equity investments, intangibles and other non-financial assets of A$11 million for the half year ended September 30, 2016 increased 10% from A$10 million in the prior corresponding period and represented an improvement on the half year ended March 31, 2016 due to a reduction in the residual Metals & Energy Capital equity investment portfolio.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of A$48 million for the half year ended September 30, 2016 decreased 71% from A$164 million in the prior corresponding period and decreased 60% from A$120 million in the prior period due to the business' reduced exposure to underperforming commodity-related loans.

Operating expenses

Total operating expenses of A$507 million for the half year ended September 30, 2016 increased 1% from A$503 million in the prior corresponding period, although reductions in employment expenses and brokerage, commission and trading-related expenses were offset by an increase in other operating expenses**.**

Employment expenses

Employment expenses of A$132 million for the half year ended September 30, 2016 decreased 6% from A$141 million in the prior corresponding period mainly due to a decrease in headcount.

Brokerage, commission and trading-related expenses

Brokerage, commission and trading-related expenses includes fees paid in relation to trading-related activities and storage costs of physical metals and other commodities. Brokerage, commission and trading-related expenses of A$103 million for the half year ended September 30, 2016 decreased 8% from A$112 million in the prior corresponding period mainly due to a reduction in commodity-related trading activity and lower storage costs for physical commodities as a result of a change in storage arrangements, with clients now largely paying for storage costs directly.

Other operating expenses

Other operating expenses of A$272 million for the half year ended September 30, 2016 increased 9% from A$250 million in the prior corresponding period mainly due to the impact of increasing costs of regulation and other expenses.

Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading income	**165**	**140**	**379**	18	(56)
Fee and commission income					
Brokerage and commissions	59	96	104	(39)	(43)
Other fee and commission expense	(1)	(2)	(69)	(50)	(99)
Total fee and commission income	**58**	**94**	**35**	(38)	66
Other operating income/(charges)	**7**	**-**	**(1)**	*	*
Internal management revenue/(charge)[2]	**-**	**2**	**(6)**	(100)	(100)
Net operating income	**230**	**236**	**407**	(3)	(43)
Operating expenses					
Employment expenses	(21)	(25)	(22)	(16)	(5)
Brokerage, commission and trading-related expenses	(81)	(74)	(93)	9	(13)
Other operating expenses	(119)	(121)	(108)	(2)	10
Total operating expenses	**(221)**	**(220)**	**(223)**	<1	(1)
Net profit contribution	**9**	**16**	**184**	(44)	(95)
Other metrics					
Headcount	145	158	162	(8)	(10)

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 See "— Basis of preparation — Income tax".

Macquarie Securities' net profit contribution of A$9 million for the half year ended September 30, 2016 decreased from A$184 million in the prior corresponding period. The prior corresponding period benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half year ended September 30, 2016 were limited due to market uncertainty.

Net interest and trading income

Net interest and trading income of A$165 million for the half year ended September 30, 2016 decreased from A$379 million in the prior corresponding period. This resulted from limited trading opportunities due to market uncertainty. The prior corresponding period benefited from strong equity markets activity, particularly in China.

Total fee and commission income

Brokerage and commissions

Brokerage and commissions income of A$59 million for the half year ended September 30, 2016 decreased 43% from A$104 million in the prior corresponding period as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Other fee and commission expense

Other fee and commission expenses of A$1 million for the half year ended September 30, 2016 decreased significantly from A$69 million in the prior corresponding period. During the prior period Macquarie Securities implemented a revised tax transfer pricing methodology which resulted in a reclassification of expenses to trading income.

Operating expenses

Total operating expenses of A$221 million for the half year ended September 30, 2016 decreased 1% from A$223 million in the prior corresponding period. A reduction in trading-related expenses due to reduced trading activity was partially offset by increased expenses in technology infrastructure.

Corporate

	Half year ended			Movement[1]	
	Sep 16	Mar 16	Sep 15	Mar 16	Sep 15
	A$m	A$m	A$m	%	%
Net interest and trading (expense)/income	**(8)**	**129**	**87**	*	*
Fee and commission expense	**(107)**	**(4)**	**(17)**	*	*
Net operating lease income	**4**	**1**	**3**	*	33
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(17)**	**11**	**(2)**	*	*
Other operating income and charges					
Net gains/(losses) on sale and reclassification of debt and equity securities	46	4	(32)	*	*
Impairment write back/(charge) on investments, intangibles and other non-financial assets, and provision for impairment and collective allowance for credit losses	13	24	(80)	46	*
Other income/(expense)	1	7	(26)	(86)	*
Total other operating income/(charges)	**60**	**35**	**(138)**	71	*
Internal management (charge)/revenue[2]	**(10)**	**(66)**	**2**	(85)	*
Net operating (loss)/income	**(78)**	**106**	**(65)**	*	20
Operating expenses					
Employment expenses	(304)	(115)	(364)	164	(16)
Brokerage, commission and trading-related expenses	(2)	(1)	(2)	100	-
Other operating expenses	(18)	(29)	(69)	(38)	(74)
Total operating expenses	**(324)**	**(145)**	**(435)**	123	(26)
Net loss contribution	**(402)**	**(39)**	**(500)**	*	(20)
Other metrics					
Headcount	41	40	42	3	(2)

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

2 See "— Basis of preparation — Income tax".

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

Net interest and trading income

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

Net interest and trading expense of A$8 million for the half year ended September 30, 2016 decreased from income of A$87 million in the prior corresponding period primarily due to an increase in interest expense associated with managing the Group's liquidity and funding, as well as lower interest rates.

Fee and commission expense

Fee and commission expense in the Corporate segment primarily comprises internal transactions between the Corporate segment and other segments within the Banking Group and transactions between the Banking and Non-Banking Group.

Fee and commission expense of A$107 million for the half year ended September 30, 2016 increased from A$17 million in the prior corresponding period primarily due to the increased recovery of costs to the Banking Group.

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

Share of net losses of associates and joint ventures of A$17 million for the half year ended September 30, 2016 increased from A$2 million in the prior corresponding period. The movement reflects changes in the underlying performance of central investments, including certain legacy and other non-core assets.

Other operating income and charges

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

Net gains on sale and reclassification of debt and equity securities were A$46 million for the half year ended September 30, 2016, compared to net losses of A$32 million in the prior corresponding period. The loss in the prior corresponding period largely resulted from the reclassification of legacy assets that are no longer held for strategic purposes. The current period income resulted from the disposal of these legacy assets as well as the gains on sale of debt investments.

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

Impairment write back/(charges) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses of A$13 million for the half year ended September 30, 2016 increased from a charge of A$80 million in the prior corresponding period, which included an increase to the central management overlay applied to the Group's collective provision to account for changes in economic conditions.

Operating expenses

Employment expenses

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

Employment expenses of A$304 million for the half year ended September 30, 2016 decreased 16% from A$364 million in the prior corresponding period. Lower performance-related profit share expense was partially offset by an increase in share based payments expense relating to increased retained equity awards granted in previous years.

Other operating expenses

Other operating expenses of A$18 million for the half year ended September 30, 2016 decreased 74% from A$69 million in the prior corresponding period. The decrease is mainly driven by the non-recurrence of provisions raised in the prior corresponding period.

Capital analysis

Overview

As an APRA authorized and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for the whole MGL Group, including the Non-Banking Group. MGL and APRA have agreed a capital adequacy framework for MGL, based on MGL'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 Banking 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-Banking Group capital requirement, calculated using MGL's ECAM.

Transactions internal to MGL Group are eliminated.

Banking Group capital

MBL 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.

Capital disclosures in this section include Harmonized 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 MBL's regulatory requirements under APRA Basel III rules.

Common Equity Tier 1 Capital

The Banking 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 September 30, 2016 consists of MIS, ECS and BCN. MBL periodically pays dividends to MGL, and is recapitalized 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 MBL. MIS are eligible for transitional arrangements under APRA Basel III rules.

ECS were issued by MBL acting through its London branch (the "*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

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1 Harmonized 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 January 1, 2013.

MGL ordinary shares on June 20, 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on June 20, 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 March 24, 2020, September 24, 2020 and March 24, 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 March 24, 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.

Pillar 3

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

Banking Group Basel III Tier 1 Capital

	As at Sep 16	
	Harmonized Basel III	**APRA Basel III**
	A$m	**A$m**
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	9,500	9,500
Retained earnings	2,139	2,139
Reserves	368	368
Gross Common Equity Tier 1 Capital	**12,007**	**12,007**
Regulatory adjustments to Common Equity Tier 1 Capital:		
Goodwill	46	46
Deferred tax assets	74	149
Net other fair value adjustments	(128)	(128)
Intangible component of investments in non-consolidated subsidiaries and other entities	39	39
Loan and lease origination fees and commissions paid to mortgage originators and brokers	-	320
Equity exposures	-	1,257
Shortfall in provisions for credit losses	283	304
Other Common Equity Tier 1 Capital deductions	103	263
Total Common Equity Tier 1 Capital deductions	**417**	**2,250**
Net Common Equity Tier 1 Capital	**11,590**	**9,757**
Additional Tier 1 Capital		
Additional Tier 1 Capital instruments	1,036	1,036
Gross Additional Tier 1 Capital	**1,036**	**1,036**
Deduction from Additional Tier 1 Capital	-	-
Net Additional Tier 1 Capital	**1,036**	**1,036**
Total Net Tier 1 Capital	**12,626**	**10,793**

Banking Group Basel III Risk-Weighted Assets (RWA)

	As at Sep 16	
	Harmonized Basel III	**APRA Basel III**
	A$m	**A$m**
Credit risk – Risk-Weighted Assets (RWA)		
Subject to IRB approach:		
Corporate	27,150	27,150
SME Corporate	2,704	2,704
Sovereign	294	294
Bank	1,353	1,353
Residential mortgage	5,112	10,688
Other retail	4,575	4,575
Retail SME	2,818	2,949
Total RWA subject to IRB approach	**44,006**	**49,713**
Specialized lending exposures subject to slotting criteria	**6,354**	**6,354**
Subject to Standardized approach:		
Corporate	776	776
Residential mortgage	1,520	1,520
Other retail	6,986	6,986
Total RWA subject to Standardized approach	**9,282**	**9,282**
Credit risk RWA for Securitization exposures	597	493
Credit Valuation Adjustment RWA	2,907	2,907
Exposures to Central Counterparties RWA	1,063	1,374
RWA for other assets	9,511	9,001
Total credit risk RWA	**73,720**	**79,124**
Equity risk exposures RWA	4,301	-
Market risk RWA	4,298	4,298
Operational risk RWA	9,531	9,531
Interest rate risk in banking book RWA	-	645
Total Banking Group RWA	**91,850**	**93,598**
Capital ratios		
Macquarie Banking Group Common Equity Tier 1 Capital ratio (%)	**12.6%**	**10.4%**
Macquarie Banking Group Tier 1 Capital ratio (%)	**13.7%**	**11.5%**

Statutory consolidated statement of financial position

	As at			Movement	
	Sep 16	**Mar 16**	**Sep 15**	**Mar 16**	**Sep 15**
	A$m	**A$m**	**A$m**	**%**	**%**
Assets					
Receivables from financial institutions	30,679	30,956	33,904	(1)	(10)
Trading portfolio assets	27,029	23,062	31,224	17	(13)
Derivative assets	15,211	17,962	22,200	(15)	(31)
Investment securities available-for-sale	5,314	9,008	8,188	(41)	(35)
Other assets	8,102	6,918	7,472	17	8
Loan assets held at amortized cost	76,672	78,913	75,098	(3)	2
Other financial assets at fair value through profit or loss	768	1,057	1,242	(27)	(38)
Due from related body corporate entities	1,544	1,610	1,710	(4)	(10)
Property, plant and equipment	10,735	11,304	10,009	(5)	7
Interests in associates and joint ventures accounted for using the equity method	243	426	652	(43)	(63)
Intangible assets	189	224	185	(16)	2
Deferred tax assets	155	169	231	(8)	(33)
Total assets	**176,641**	**181,609**	**192,115**	(3)	(8)
Liabilities					
Trading portfolio liabilities	5,051	4,794	8,504	5	(41)
Derivative liabilities	12,908	14,713	19,906	(12)	(35)
Deposits	55,433	52,228	51,899	6	7
Other liabilities	7,576	7,121	9,408	6	(19)
Payables to financial institutions	20,826	20,555	19,112	1	9
Debt issued at amortized costs	48,978	55,142	56,264	(11)	(13)
Other financial liabilities at fair value through profit or loss	2,591	2,307	1,841	12	41
Due to related body corporate entities	6,600	7,555	8,298	(13)	(20)
Deferred tax liabilities	372	406	422	(8)	(12)
Total liabilities excluding loan capital	160,335	164,821	175,654	(3)	(9)
Loan capital	**3,811**	**4,078**	**4,591**	(7)	(17)
Total liabilities	**164,146**	**168,899**	**180,245**	(3)	(9)
Net assets	**12,495**	**12,710**	**11,870**	(2)	5
Equity					
Contributed equity	9,891	9,882	9,083	<1	9
Reserves	330	483	1082	(32)	(70)
Retained earnings	2,270	2,333	1,689	(3)	34
Total capital and reserves attributable to equity holders of MBL	12,491	12,698	11,854	(2)	5
Non-controlling interests	4	12	16	(67)	(75)
Total equity	**12,495**	**12,710**	**11,870**	(2)	5

The Bank's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half year ended September 30, 2016.

Total assets of A$176.6 billion at September 30, 2016 decreased 3% from A$181.6 billion at March 31, 2016 mainly due to a reduction in Loan assets held at amortized cost, Derivative assets and Investment securities available for sale. These decreases were partially offset by an increase in Trading portfolio assets and Other assets.

Loan assets held at amortized cost of A$76.7 billion at September 30, 2016 decreased 3% from A$78.9 billion at March 31, 2016. Most businesses saw a reduction in volumes, including:

- Corporate & Asset Finance's loan and finance lease portfolios decreased 2% to A$28.0 billion at September 30, 2016 from A$28.7 billion at March 31, 2016 mainly due to repayments in the Lending portfolio, and

- Banking and Financial Services disposal of the U.S. mortgage portfolio and the run down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes.

Derivative assets at September 30, 2016 of A$15.2 billion (down 15% from A$18.0 billion at March 31, 2016) and Derivative liabilities of A$12.9 billion (down 12% from A$14.7 billion at March 31, 2016) both decreased mainly as a result of price movements in underlying physical commodities, particularly oil and gas, as well as the revaluation of interest rate and foreign currency derivatives in Commodities & Financial Markets.

Investment securities available for sale of A$5.3 billion at September 30, 2016 decreased 41% from A$9.0 billion at March 31, 2016 mainly due to Treasury's funding and liquidity management activities during the period.

Other notable decreases in asset balances since March 31, 2016 included lower Property, plant and equipment mainly due to the sale of eight aircraft in Corporate & Asset Finance.

Trading portfolio assets of A$27.0 billion at September 30, 2016 increased 17% from A$23.1 billion at March 31, 2016 mainly due to an increase in holdings of physical commodities, particularly oil, base and precious metals, and an increase in holdings of government and corporate bonds within Commodities & Financial Markets. In addition, Other assets of A$8.1 billion at September 30, 2016 increased 17% from A$6.9 billion at March 31, 2016 as a result of an increase in recent trading activity in both Commodities & Financial Markets and Macquarie Securities.

Total liabilities decreased 3% to A$164.1 billion at September 30, 2016 from A$168.9 billion at March 31, 2016 mainly driven by Treasury's funding and liquidity management activities during the period including the repayment of Debt issued at amortized cost (down 11% to A$49.0 billion at September 30, 2016 from A$55.1 billion at March 31, 2016) resulting from the reduction in Total assets combined with an increase in Deposits (up 6% to A$55.4 billion at September 30, 2016 from A$52.2 billion at March 31, 2016).

Total equity decreased 2% to A$12.5 billion at September 30, 2016 from A$12.7 billion at March 31, 2016. The decrease was mainly due to a reduction in reserves and retained earnings during the half year.

Loan assets

This description of our funded loan assets is based on the funded balance sheet of MBL Group and not the statutory balance sheet classification.

	Half year ended			Movement	
	Sep 16	**Mar 16**	**Sep 15**	**Mar 16**	**Sep 15**
	A$b	**A$b**	**A$b**	**%**	**%**
Loan assets at amortized cost per statutory balance sheet ...	76.7	78.9	75.1	(3)	2
Other loans held at fair value[1]	0.1	0.2	0.2	(50)	(50)
Operating lease assets	9.9	10.6	9.2	(7)	8
Other reclassifications[2]	1.6	1.6	1.6	-	-
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3] ..	(14.7)	(15.8)	(17.2)	(6)	(14)
Less: segregated funds[4]	(5.0)	(4.4)	(4.2)	14	19
Less: margin balances (reclassed to trading)[5]	(1.7)	(3.6)	(5.2)	(53)	(67)
Total per funded balance sheet[6]	**66.9**	**67.5**	**59.5**	(1)	12

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 MBL Group in consolidated Special Purpose Entities (SPE).

4 These represent the assets and liabilities that are recognized where MBL 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 the funded balance sheet include self-securitization assets.

For the half years ended September 30, 2016, March 31, 2016 and September 30, 2015, funded loan assets of MBL Group consisted of:

	As at			Movement	
	Sep 16 A$b	**Mar 16 A$b**	**Sep 15 A$b**	**Mar 16 %**	**Sep 15 %**
Corporate and Asset Finance					
Asset Finance[1]:					
Finance lease assets	13.1	12.6	5.7	3	130
Operating lease assets	9.9	10.6	9.2	(7)	8
Total Asset Finance	**23.0**	**23.2**	**14.9**	(1)	54
Lending[2]	8.0	9.0	10.6	(11)	(25)
Total Corporate and Asset Finance	**31.0**	**32.2**	**25.5**	(4)	22
Banking and Financial Services					
Retail Mortgages[3]:					
Australia	22.9	21.6	19.1	6	20
Canada, US and Other	0.6	1.5	2.5	(60)	(76)
Total Retail Mortgages	**23.5**	**23.1**	**21.6**	2	9
Business banking[4]	6.0	5.8	5.9	3	2
Total Banking and Financial Services	**29.5**	**28.9**	**27.5**	2	7
Commodities and Financial Markets					
Resources and commodities[5]	2.4	3.0	3.2	(20)	(25)
Other[6]	2.7	1.8	1.7	50	59
Total Commodities and Financial Markets	**5.1**	**4.8**	**4.9**	6	4
Macquarie Asset Management					
Structured investments[7]	1.3	1.6	1.6	(19)	(19)
Other Operating Groups					
Corporate and other lending[8]	-	-	-	-	-
Total	**66.9**	**67.5**	**59.5**	(1)	12

Explanatory notes concerning asset security of funded loan asset portfolio

1 *Asset finance.* Secured by underlying financed assets.

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

3 *Retail mortgages*. Secured by residential property and supported by mortgage insurance to cover a portion of the mortgage portfolio:

- Australia: most loans are fully mortgage insured; and
- Canada: most loans are fully insured with underlying government support.

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

5 *Resources and commodities*. Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets.

6 *Other*. Predominantly relates to recourse loans to financial institutions, as well as financing for real estate and other sectors.

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

8 *Corporate and other lending*. Includes deposits with financial institutions held as collateral for trading positions.

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 MBL Group has over the investment and management's intention with respect to the holding of the asset in the short-term.

The table below sets out the composition of these categories of equity investments for the half years ended September 30, 2016, March 31, 2016 and September 30, 2015.

Equity investments reconciliation

	As at		
	Sep 16	**Mar 16**	**Sep 15**
	A$b	**A$b**	**A$b**
Equity investments			
Statutory balance sheet			
Equity investments within other financial assets at fair value through profit or loss	0.4	0.8	0.9
Equity investments within investment securities available-for-sale	0.4	0.4	0.4
Interests in associates and joint ventures accounted for using the equity method	0.2	0.4	0.7
Total equity investments per statement of financial position	**1.0**	**1.6**	**2.0**
Adjustment for funded balance sheet			
Equity hedge positions[1]	(0.4)	(0.8)	(0.9)
Total funded equity investments	**0.6**	**0.8**	**1.1**
Adjustments for equity investments analysis			
Available-for-sale reserves[2]	(0.1)	(0.1)	(0.1)
Total adjusted equity investments[3]	**0.5**	**0.7**	**1.0**

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

2 Available-for-sale reserve on equity investments (gross of tax) that will be released to income upon realization of the investment, excluding investments in which MBL Group has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realization of the investment.

3 The adjusted book value represents the total net exposure to MBL Group.

Euro-zone and other exposures

This table includes MBL Group's exposures to certain Euro-zone countries that are currently experiencing significant economic, fiscal and/or political strains, due to which the likelihood of default by sovereign governments and non-sovereign entities based in those countries is higher than would be anticipated in the absence of such factors. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures. The total exposure to these countries is predominantly fully funded with minimal unfunded committed exposures.

MBL continues to monitor these exposures but notes that due to their size and associated security they are not considered to be material in relation to overall balance sheet size.

	As at Sep 30, 2016			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Greece				
Derivative assets[2]	-	-	0	0
Greece totals	-	-	0	0
Russia				
Loans, receivables & commitments[1]	-	0	-	0
Russia totals	-	0	-	0
Italy				
Loans, receivables & commitments[1]	-	-	57	57
Derivative assets[2]	-	9	-	9
Italy totals	-	9	57	66
Spain				
Loans, receivables & commitments[1]	19	16	131	166
Derivative assets[2]	1	0	28	29
Spain totals	20	16	159	195
Portugal				
Loans, receivables & commitments[1]	-	-	55	55
Portugal totals	-	-	55	55
Ireland				
Loans, receivables & commitments[1]	0	0	331	332
Derivative assets[2]	-	0	8	8
Traded debt securities	-	16	-	16
Ireland totals	0	16	339	355
Total exposure	**20**	**41**	**610**	**672**

1 Includes debt instruments held as loans, hold-to-maturity securities or available-for-sale securities, measured on an amortized cost basis. Includes finance lease receivables, but does not include assets which are on operating leases. Unfunded commitments are measured as the value of the commitment.

2 Derivative asset exposures represent the sum of positive mark-to-market counterparty positions, net of any cash collateral held against such positions.

3 Figures do not include our exposures to aircraft-related businesses due to the transient nature of these assets.

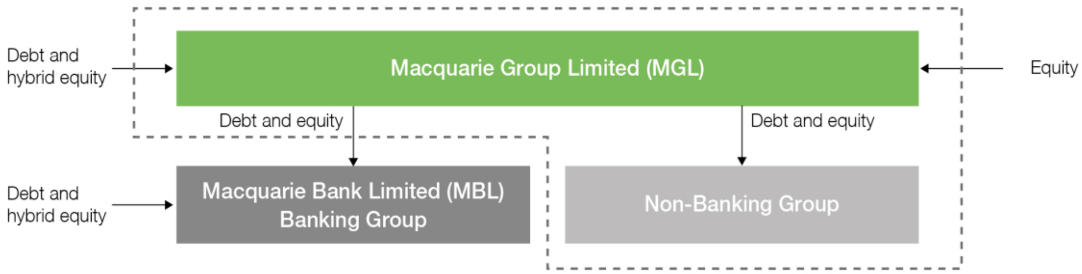
In addition, during the half year ended September 30, 2016, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of September 30, 2016, MBL's total credit and market exposure to Russia and Ukraine was not material.

Liquidity risk governance and management framework

Governance and Oversight

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

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



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

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

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

Liquidity policy and risk appetite

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

- The MGL liquidity policy applies to all entities in the Group except MBL and its subsidiaries. Specifically, this includes MGL and the Non-Bank Group entities

- The MBL liquidity policy applies to MBL and its subsidiaries as a standalone entity within the Macquarie Group.

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

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

Macquarie Bank Limited

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

MBL is an ADI and is funded mainly with capital, long-term liabilities and deposits.

Liquidity Risk Tolerances and Principles

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

Risk Tolerances

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

Liquidity Management Principles

- Macquarie has a centralized 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 intra-day basis;
- a liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis';
- a funding strategy is prepared annually and monitored on a regular basis;
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them;
- strong relationships are maintained to assist with managing confidence and liquidity; and
- the MBL and MGL Boards and senior management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

Liquidity Contingency Plan

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

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high-level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The plan also incorporates a retail run management plan 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 liquidity contingency plan.

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

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

Funding strategy

Macquarie prepares a funding strategy on an annual basis and monitor 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.

Management of Liquidity Risk

Scenario analysis

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

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

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

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

Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. MBL Group had A$18.7 billion cash and liquid assets as at September 30, 2016 (September 30, 2015: A$26.5 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, recognizing the actual and contingent funding-related exposures their activities create for the Group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Credit ratings

As at September 30, 2016, the credit ratings for MBL Group were as follows:

	Macquarie Bank Limited		
Rating agency[1]	**Short-term**	**Long-term**	**Outlook**
Fitch Ratings	F-1	A	Stable
Moody's Investors Service	P-1	A2	Stable
S&P Global Ratings[2 3]	A-1	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 S&P Global Ratings does not place outlook statements on short-term ratings.

3 On October 31, 2016, S&P Global Ratings revised their outlook for the MBL Group's long-term credit rating, along with a number of other Australian banks and financial institutions, from "stable" to "negative" in a system-wide action as a result of macroeconomic and systemic factors.

Regulatory developments

The 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.

Liquidity Coverage Ratio

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

Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on January 1, 2015. MBL's 3-month average LCR to September 30, 2016 was 169% (average based on month end observations). For a detailed breakdown of Macquarie's LCR, please refer to the Pillar 3 documents, which are available on MBL's U.S. Investors' Website.

Net Stable Funding Ratio

The NSFR is a 12-month structural funding metric, requiring that '*available stable funding*' be sufficient to cover '*required stable funding*', where '*stable*' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement in 2018. APRA have released draft requirements on the proposed implementation of NSFR in Australia, with final requirements expected by the end of 2016

MBL has minimal reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, MBL's internal liquidity policy requires that term assets are funded with term liabilities. MBL expects that it will meet the overall requirements of the NSFR, however, the final position will remain uncertain until the requirements are finalized in local standards.

MBL continues to monitor developing liquidity regulations.

Funded balance sheet

MBL'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 MBL.

The table below reconciles the reported assets of the consolidated MBL Group to the net funded assets at September 30, 2016.

The movement in MBL's funded balance sheet over the last six months was largely driven by the repayment of the Esanda loan facility, issued paper and bonds.

MBL Group

	As at Sep 16
	A$b
Total assets per MBL statement of financial position	**176.6**
Accounting deductions:	
Self-funded trading assets[1]	(20.3)
Derivative revaluation accounting gross-ups[2]	(12.5)
Life investment contracts and other segregated assets[3]	(9.4)
Outstanding trade settlement balances[4]	(2.8)
Short-term working capital assets[5]	(4.8)
Intercompany gross-ups	(6.5)
Non-recourse funded assets:	
Securitized assets and other non-recourse funding[6]	(13.7)
Net funded assets	106.6

1. *Self-funded trading assets.* MBL Group 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, MBL Group 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.* MBL Group'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 recognized where MBL Group provides products such as investment-linked policy contracts or where MBL holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount and hence do not require funding.

4 *Outstanding trade settlement balances.* At any particular time MBL Group 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 MBL Group is owed on other trades (receivables).

5 *Short-term working capital assets.* As with the outstanding trade settlement balances above, MBL Group 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 *Securitized assets and other non-recourse funding.* These represent assets that are funded by third parties with no recourse to MBL Group including lending assets (mortgages and leasing) sold down into external securitization entities.

Term funding initiatives

The table below sets out MBL Group's term funding transactions since March 31, 2016:

Funding source	Banking Group
	A$bn
Secured Funding	
Term securitization and other secured finance	0.8
AWAS Term Loan	2.4
Issued paper	
Senior and subordinated debt	0.5
Syndicated loan facilities	0.3
Total	**4.0**

Since March 31, 2016, MBL raised A$4.0 billion of term funding, comprising A$3.2 billion of secured funding (including A$2.4 billion refinance of AWAS acquisition debt facility), A$0.5 billion of senior and subordinated debt and A$0.3 billion of syndicated loan facility.

Funding profile for the Banking Group

The funded balance sheet of the Banking Group as at September 30, 2016:

	As at	
	Sep 16	Sep 15
Banking Group	A$b	A$b
Funding sources		
Wholesale issued paper:[1]		
Negotiable certificates of deposit	0.5	0.7
Commercial paper	6.8	10.8
Net trade creditors[2]	-	1.1
Structured notes[3]	3.3	2.6
Secured funding[4]	3.9	5.3
Bonds[5]	26.8	26.2
Other loans[6]	0.4	0.2
Syndicated loan facilities[7]	2.5	-
Customer deposits[8]	46.1	42.8
Loan capital[9]	3.8	4.6
Equity and hybrid[10]	12.5	11.9
Total	**106.6**	**106.2**

Funded assets		
Cash and liquid assets[11]	18.7	26.5
Self securitization[12]	15.4	10.4
Net trading assets[13]	23.3	22.4
Loan assets including operating lease assets less than one year[14]	14.4	10.7
Loan assets including operating lease assets greater than one year[14]	37.1	38.4
Debt investment securities[15]	2.0	2.4
Non-Banking Group deposit with MBL	(5.2)	(6.3)
Co-investment in Macquarie-managed funds and other equity investments[16]	0.8	1.1
Property, plant and equipment and intangibles	0.6	0.6
Net trade debtors[17]	(0.5)	-
Total	**106.6**	**106.2**

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 (creditors) are created through the day-to-day operations of MBL Group. A net funding source will result due to timing differences in cash flows.

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

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

5 *Bonds.* Unsecured long-term wholesale funding.

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

7 *Syndicated loan facilities.* Loan facilities provided by a syndicate of wholesale lenders.

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

9 *Loan capital.* Long-term subordinated debt, Bank Capital Notes and Exchangeable Capital Securities.

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

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

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

13 *Net trading assets.* The net trading asset balance consists of financial markets and equity trading assets including the net derivative position

and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

14 *Loan assets including operating lease assets.* This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases. See "— Capital analysis — Loan assets" in this Report for further information.

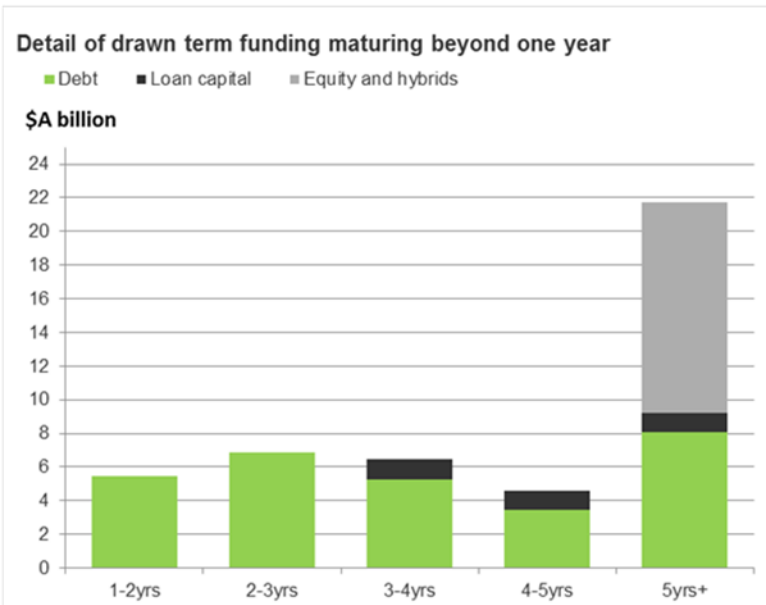
15 *Debt investment securities.* These include various categories of debt securities including asset-backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

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) are created through the day-to-day operations of MBL Group. A net funding use will result due to timing differences in cash flows.

As at September 30, 2016, customer deposits represented A$46.1 billion, or 43% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A$7.3 billion, or 7% of total funding, and other debt funding maturing within 12 months represented A$8.6 billion, or 8% of total funding.

The following chart and table provides details of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2016:



	As at Sep 16					
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+	Total
Banking Group	A$b	A$b	A$b	A$b	A$b	A$b
Structured notes[1]	0.2	-	0.3	0.1	1.7	2.3
Secured funding	0.7	0.2	0.2	0.2	1.8	3.1
Bonds	4.3	4.9	4.8	2.4	4.6	21.0
Other loans	0.2	-	-	-	-	0.2
Syndicated loan facilities	-	1.8	-	0.7	-	2.5
Total debt	**5.4**	**6.9**	**5.3**	**3.4**	**8.1**	**29.1**
Loan capital[2]	-	-	1.2	1.2	1.1	3.5
Equity and hybrid	-	-	-	-	12.5	12.5
Total funding sources drawn	**5.4**	**6.9**	**6.5**	**4.6**	**21.7**	**45.1**
Undrawn	**-**	**-**	**-**	**-**	**-**	**-**
Total funding sources drawn and undrawn	**5.4**	**6.9**	**6.5**	**4.6**	**21.7**	**45.1**

1 Structured notes are profiled using a behavioral maturity profile.

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

The Bank Group has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.4 years at September 30, 2016.

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

- US$25 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 US$11.9 billion of debt securities outstanding at September 30, 2016;

- US$10 billion Commercial Paper Program under which US$4.3 billion of debt securities were outstanding at September 30, 2016;

- US$20 billion Rule 144A/Regulation S Medium Term Note Program under which US$11.4 billion of issuances were outstanding at September 30, 2016;

- US$5 billion Structured Notes Program under which US$2.4 billion of funding from structured notes was outstanding at September 30, 2016;

- A$5 billion Covered Bond Programme under which A$0.7 billion of debt securities were outstanding at September 30, 2016;

- £1.5 billion Sterling Facility under which £1.5 billion was outstanding at September 30, 2016; and

- US$1.8 billion AWAS Term Loan under which US$1.7 billion of debt securities were outstanding at September 30, 2016.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At September 30, 2016, MBL Group had A$0.5 billion of these securities outstanding.

At September 30, 2016, MBL Group had internally securitized A$15.4 billion of its own mortgages.

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

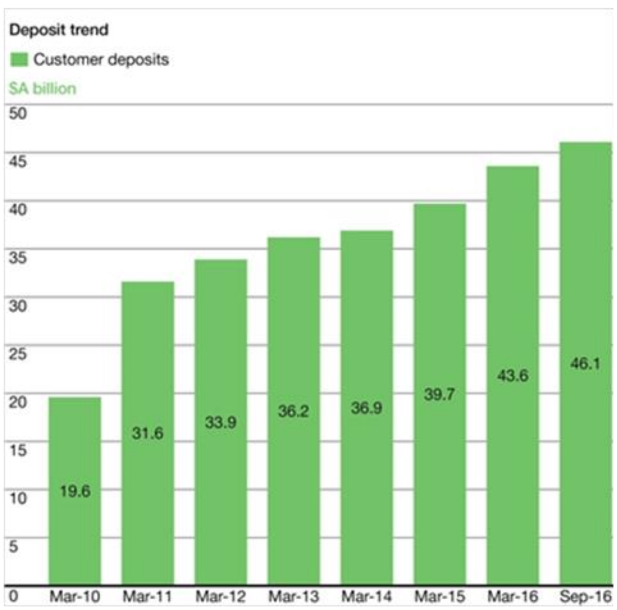
Deposit strategy

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

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

The majority of MBL's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at A$250,000 per account holder.

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



Lease commitments, contingent liabilities and assets

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 34 "Lease commitments" to our 2016 annual financial statements for further information. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at September 30, 2016, MBL Group had A$5,795 million of contingent liabilities and commitments, including A$1,139 million of contingent liabilities and A$4,656 million of commitments in respect of undrawn credit facilities and securities underwriting. See Note 18 "Contingent liabilities and commitments" to our 2017 interim financial statements which shows MBL Group's contingent liabilities and commitments at September 30, 2016.

Quantitative and qualitative disclosures about market risk

Each year we prepare a detailed analysis of market risk as it applies to MBL Group and a quantitative analysis of MBL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 37 "Financial risk management" to MBL Group's 2016 annual financial statements for a quantitative and qualitative discussion of these risks.

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