

Management Discussion and Analysis

Macquarie Group
Year ended 31 March 2015

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the ‘Holey Dollar’ (valued at five shillings) and the ‘Dump’ (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie’s creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie Group.

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Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the year ended 31 March 2015, including further detail in relation to key elements of Macquarie Group Limited's ("MGL", "Macquarie", "the Group") financial performance and financial position. The report also outlines the funding and capital profile of the Group.

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

Date of this report

This report has been prepared for the year ended 31 March 2015 and is current as at 8 May 2015.

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2014.

References to the first half are to the six months ended 30 September 2014.

References to the second half are to the six months ended 31 March 2015.

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

Independent audit report

This document should be read in conjunction with the Macquarie Group Limited Financial Report for the year ended 31 March 2015, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent audit report to the members of Macquarie Group Limited dated 8 May 2015 was unqualified.

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

Disclaimer

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

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

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

1.0 Result Overview

1.1 Executive summary

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Financial performance summary						
Net interest income	1,136	956	19	2,092	1,705	23
Fee and commission income	2,589	2,181	19	4,770	3,853	24
Net trading income	1,040	687	51	1,727	1,570	10
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(14)	19	*	5	149	(97)
Other operating income and charges	244	455	(46)	699	855	(18)
Net operating income	4,995	4,298	16	9,293	8,132	14
Employment expenses	(2,199)	(1,944)	13	(4,143)	(3,736)	11
Brokerage, commission and trading-related expenses	(454)	(401)	13	(855)	(779)	10
Occupancy expenses	(201)	(178)	13	(379)	(382)	(1)
Non-salary technology expenses	(231)	(206)	12	(437)	(323)	35
Other operating expenses	(509)	(448)	14	(957)	(806)	19
Total operating expenses	(3,594)	(3,177)	13	(6,771)	(6,026)	12
Operating profit before income tax	1,401	1,121	25	2,522	2,106	20
Income tax expense	(467)	(432)	8	(899)	(827)	9
Profit after income tax	934	689	36	1,623	1,279	27
Profit attributable to non-controlling interests	(8)	(11)	(27)	(19)	(14)	36
Profit attributable to ordinary equity holders of Macquarie Group Limited	926	678	37	1,604	1,265	27
Key metrics						
Expense to income ratio (%)	72.0	73.9		72.9	74.1	
Compensation ratio (%)	41.4	42.4		41.9	43.1	
Effective tax rate (%)	33.5	38.9		35.9	39.5	
Basic earnings per share (cents per share)	288.1	213.3		502.3	383.6	
Diluted earnings per share (cents per share)	275.7	204.9		484.2	369.2	
Ordinary dividends per share (cents per share)	200.0	130.0		330.0	260.0	
Ordinary dividend payout ratio (%)	72.0	61.8		67.6	66.8	
Special dividend per share (cents per share)	–	–		–	115.6	
Annualised return on equity (%)	15.4	12.5		14.0	11.1	

Profit attributable to ordinary equity holders was \$A1,604 million for the year ended 31 March 2015, up 27% from \$A1,265 million in the prior year.

Macquarie's annuity-style businesses – Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2015 of \$A2,847 million, an increase of 33% on the prior year. Macquarie Asset Management benefited from increased base and performance fee income, while Corporate and Asset Finance's higher net profit contribution was largely driven by increased loan and lease volumes, together with gains on the disposals of the US equipment leasing business and operating lease assets. Banking and Financial Services reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

1.0 Result Overview

continued

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Commodities and Financial Markets – delivered a combined net profit contribution for the year ended 31 March 2015 of \$A1,329 million, an increase of 19% on the prior year. Macquarie Securities' net profit contribution was down on the prior year as increased income from improved trading opportunities was offset by increased operating expenses driven by additional regulatory compliance requirements and restructuring costs associated with exiting Structured Products during the year. Macquarie Capital benefited from increased fee income across all product classes, particularly mergers and acquisitions and debt capital markets, and increased gains on sales of principal investments resulting from improved market conditions. Commodities and Financial Markets' net profit contribution was mainly driven by the continued strong performance of its commodities businesses, increased income across interest rates and foreign exchange platforms, and increased fee income and debt capital markets activity in the US.

Net operating income of \$A9,293 million for the year ended 31 March 2015 increased 14% from \$A8,132 million in the prior year. Key drivers of the changes from the prior year were:

- A 17% increase in combined net interest and trading income to \$A3,819 million for the year ended 31 March 2015 from \$A3,275 million in the prior year. Most operating groups contributed to the increase, with key drivers of the result being:
 - continued strong performance of commodities businesses in Commodities and Financial Markets;
 - increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, resulting in increased client volumes and activity in Commodities and Financial Markets compared with the prior year; and
 - loan portfolio growth in Corporate and Asset Finance and Banking and Financial Services. Net interest and trading income for the half-year ended 31 March 2015 was up 32% from \$A1,643 million in the prior half, mainly due to seasonal strong customer flows in Commodities and Financial Markets' Energy Markets business.
- A 24% increase in fee and commission income to \$A4,770 million for the year ended 31 March 2015 from \$A3,853 million in the prior year primarily driven by:
 - increased base fees of \$A1,388 million for the year ended 31 March 2015, up 8% from \$A1,289 million in the prior year, largely due to positive net flows into higher fee earning products, additional investments and favourable currency and market movements;
 - increased performance fees of \$A667 million for the year ended 31 March 2015, up significantly from \$A219 million in the prior year, including significant performance fees recognised from Macquarie Infrastructure Company LLC (MIC), Macquarie European Infrastructure Fund 1 (MEIF 1), Hedge Funds and Macquarie Atlas Roads (MQA);
 - increased mergers and acquisitions, advisory and underwriting fees of \$A973 million for the year ended 31 March 2015, up 20% from \$A809 million in the prior year, mainly due to an increase in mergers and acquisitions and debt capital markets activity particularly in the US; and
 - increased other fee and commission income of \$A875 million for the year ended 31 March 2015, up 38% from \$A633 million in the prior year mainly due to a fee from Freeport LNG Terminal in Commodities and Financial Markets, and higher income in Banking and Financial Services resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions from higher assets under administration on the Wrap platform.

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- An 18% decrease in other operating income and charges to \$A699 million for the year ended 31 March 2015 from \$A855 million in the prior year. The current year included:
 - a decrease of 35% in net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) to \$A324 million for the year ended 31 March 2015 from \$A502 million in the prior year, which included a non-recurring \$A228 million gain on the SYD distribution in January 2014 and income from the disposal of an investment in OzForex on its IPO in October 2013;
 - gains on disposal of operating lease assets of \$A231 million for the year ended 31 March 2015, up from \$A2 million in the prior year mainly due to gains in Corporate and Asset Finance on disposal of the North American railcar operating lease portfolio in January 2015 and the restructure of a railcar logistics operating lease facility;
 - gains on acquiring, disposing and change in ownership interest in subsidiaries and associates of \$A190 million, up from \$A26 million in the prior year primarily due to the sale of Corporate and Asset Finance's US equipment leasing business in March 2015;
 - an increase of 11% in net operating lease income to \$A585 million for the year ended 31 March 2015 from \$A529 million in the prior year primarily due to favourable currency movements and acquisitions in Corporate and Asset Finance's Aviation portfolio;
 - an increase of 34% in aggregate impairment charges on investment securities available for sale, associates and joint ventures and non-financial assets to \$A356 million for the year ended 31 March 2015 from \$A265 million in the prior year primarily relating to the impairment of goodwill relating to legacy acquisitions and the write-down of certain assets associated with the restructure of a railcar logistics operating lease facility in Corporate and Asset Finance; and
 - an increase of 93% in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to \$A467 million for the year ended 31 March 2015 from \$A242 million in the prior year primarily due to higher provisions in Commodities and Financial Markets mainly due to the underperformance of certain credits and the downward movement in certain commodity prices, additional collective provisions in Corporate and Asset Finance reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Total operating expenses increased 12% from \$A6,026 million in the prior year to \$A6,771 million for the year ended 31 March 2015 mainly due to the following key drivers:

- an 11% increase in employment expenses to \$A4,143 million for the year ended 31 March 2015 from \$A3,736 million in the prior year primarily due to higher staff compensation resulting from the improved performance of the Group and the impact of the depreciation of the Australian dollar on offshore expenses. Headcount increased 1% from 13,913 at 31 March 2014 to 14,085 at 31 March 2015. The compensation ratio of 41.9% for the year ended 31 March 2015 decreased from 43.1% in the prior year;
- a 35% increase in non-salary technology expenses from \$A323 million in the prior year to \$A437 million for the year ended 31 March 2015 primarily due to increased development activity to support business growth, including the development of a new Core Banking system in Banking and Financial Services and activity driven by increased regulatory compliance requirements; and
- a 19% increase in total other operating expenses from \$A806 million in the prior year to \$A957 million for the year ended 31 March 2015 largely driven by increased activity across the Group, the impact of the depreciation of the Australian dollar on offshore expenses and transaction related expenses for business and asset disposals and acquisitions in Corporate and Asset Finance.

Income tax expense for the year ended 31 March 2015 was \$A899 million, up 9% from \$A827 million in the prior year. The increase was mainly driven by a 20% increase in operating profit before income tax, from \$A2,106 million in the prior year to \$A2,522 million in the year ended 31 March 2015, partly offset by a decrease in income tax permanent differences. The effective tax rate for the year ended 31 March 2015 was 35.9%, down from 39.5% in the prior year.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest income	1,136	956	19	2,092	1,705	23
Net trading income	1,040	687	51	1,727	1,570	10
Net interest and trading income	2,176	1,643	32	3,819	3,275	17

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

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

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

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

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Macquarie Asset Management	–	11	(100)	11	(23)	*
Corporate and Asset Finance	411	326	26	737	663	11
Banking and Financial Services	419	406	3	825	738	12
Macquarie Securities	176	113	56	289	234	24
Macquarie Capital	(11)	(13)	(15)	(24)	(35)	(31)
Commodities and Financial Markets						
Commodities						
Risk management products	323	271	19	594	540	10
Lending and financing	177	141	26	318	383	(17)
Inventory management, transport and storage	207	6	*	213	201	6
Credit, interest rates and foreign exchange	315	253	25	568	456	25
Corporate	159	129	23	288	118	144
Net interest and trading income	2,176	1,643	32	3,819	3,275	17

Net interest and trading income of \$A3,819 million for the year ended 31 March 2015 increased 17% from \$A3,275 million in the prior year. All operating groups contributed to the increase with key drivers being improved trading conditions for certain businesses in Commodities and Financial Markets, portfolio growth in Corporate and Asset Finance and growth in lending and deposit volumes in Banking and Financial Services.

Macquarie Asset Management

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

Net interest and trading income of \$A11 million for the year ended 31 March 2015 increased from an expense of \$A23 million in the prior year primarily due to increased activity in the Macquarie Specialised Investment Solutions (MSIS) business.

Corporate and Asset Finance

Net interest and trading income in Corporate and Asset Finance predominately relates to income from the corporate lending and asset financing portfolios, offset by the funding costs associated with operating lease portfolios.

Net interest and trading income of \$A737 million for the year ended 31 March 2015 increased 11% from \$A663 million in the prior year. The increase was mainly due to portfolio growth and the accretion of interest income on loans acquired at a discount in the Lending portfolio, partially offset by internal break costs associated with the sales of the North American railcar operating lease portfolio in January 2015 and the Macquarie Equipment Finance US operations in March 2015.

The loan and finance lease portfolios of \$A22.4 billion at 31 March 2015 increased 13% from \$A19.8 billion in the prior year driven by growth in the Lending and Leasing portfolios as a result of acquisitions and the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated portfolios, partially offset by the sale of Macquarie Equipment Finance US operations.

Banking and Financial Services

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

Net interest and trading income of \$A825 million for the year ended 31 March 2015 increased 12% from \$A738 million in the prior year primarily due to growth in lending and deposit volumes, including:

- a 44% increase in Australian mortgage volumes from \$A17.0 billion at 31 March 2014 to \$A24.5 billion at 31 March 2015 including acquisitions of residential mortgage portfolios of \$A2.5 billion during the year;
- a 27% increase in business lending volumes from \$A4.1 billion at 31 March 2014 to \$A5.2 billion at 31 March 2015;
- a 12% increase in retail deposits from \$A33.3 billion at 31 March 2014 to \$A37.3 billion at 31 March 2015; and
- a 100% increase in credit card volumes from \$A0.3 billion at 31 March 2014 to \$A0.6 billion at 31 March 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins. Average net interest margins on the Australian mortgages portfolio decreased as loans with higher margins continued to run-off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined \$A3.8 billion at 31 March 2015, down 31% from \$A5.5 billion at 31 March 2014.

2.0 Financial performance analysis

continued

Macquarie Securities

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

Net interest and trading income of \$A289 million for the year ended 31 March 2015 increased 24% from \$A234 million in the prior year. The increase was mainly due to improved trading opportunities driven by increased market volatility in certain emerging markets, particularly China.

Macquarie Capital

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

Net interest and trading expense of \$A24 million for the year ended 31 March 2015 decreased 31% from \$A35 million in the prior year primarily due to lower net trading expense. Net trading expense reflects Macquarie Capital's share of fair value movements in relation to certain derivatives, debt investments classified as fair value through profit and loss and the net impact of foreign exchange movements.

Commodities and Financial Markets

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

Commodities

i) Risk management products

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

Risk management products income of \$A594 million for the year ended 31 March 2015 increased 10% from \$A540 million in the prior year.

The Energy Markets business was the largest contributor with revenues generated across its global platform driven by strong customer flow off the back of price volatility, particularly in the Global Oil and North American Gas businesses.

Base metals markets saw increased client activity, while depressed prices in precious metals markets led to lower levels of client activity.

ii) Lending and financing

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

Lending and financing income of \$A318 million for the year ended 31 March 2015 decreased 17% from \$A383 million in the prior year.

While financing income was down on the prior year, mainly driven by the physical metals financing activities, this was offset by the reduction of associated storage costs that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses. Overall, net income from physical metals financing activities is broadly in line with the prior year when considering associated storage costs.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of \$A213 million for the year ended 31 March 2015 increased 6% from \$A201 million in the prior year, driven by continued growth in physical activities, particularly in the Energy Markets business which benefited from volatility across most commodities, partially offset by lower income from the North American Gas business following a strong performance in the prior year.

Credit, interest rates and foreign exchange

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

Net interest and trading income from credit, interest rates and foreign exchange products of \$A568 million for the year ended 31 March 2015 increased 25% from \$A456 million in the prior year.

Increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, led to increased client volumes. This was partially offset by lower levels of client activity in US credit markets.

Corporate

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

Net interest and trading income of \$A288 million for the year ended 31 March 2015 increased significantly from \$A118 million in the prior year mainly due to an increase in income from internal funding arrangements as a result of business growth across the Group, the refinancing of higher margin debt and favourable non-trading derivative volatility during the year. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

2.0 Financial performance analysis

continued

2.2 Fee and commission income

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Base fees	738	650	14	1,388	1,289	8
Performance fees	294	373	(21)	667	219	205
Mergers and acquisitions, advisory and underwriting fees	544	429	27	973	809	20
Brokerage and commissions	457	410	11	867	903	(4)
Other fee and commission income	556	319	74	875	633	38
Total fee and commission income	2,589	2,181	19	4,770	3,853	24

Total fee and commission income of \$A4,770 million for the year ended 31 March 2015 increased 24% from \$A3,853 million in the prior year largely due to higher performance fees driven by funds outperforming their respective benchmarks; increased mergers and acquisitions, advisory and underwriting fees across all product classes, particularly mergers and acquisitions and debt capital markets; growth in base fee income resulting from the impact of favourable currency and market movements, net inflows into higher fee earning products and investments in assets under management (AUM); partly offset by the loss of brokerage and commissions income as a result of the sale of Macquarie Private Wealth Canada in November 2013.

Base and performance fees

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Base fees						
Macquarie Asset Management						
Macquarie Investment Management	442	384	15	826	749	10
Macquarie Infrastructure and Real Assets	274	248	10	522	493	6
Macquarie Specialist Investment Solutions	15	9	67	24	20	20
Total Macquarie Asset Management	731	641	14	1,372	1,262	9
Other operating groups	7	9	(22)	16	27	(41)
Total base fee income	738	650	14	1,388	1,289	8

Performance fees

Macquarie Asset Management						
Macquarie Investment Management	78	9	*	87	55	58
Macquarie Infrastructure and Real Assets	216	364	(41)	580	162	258
Total Macquarie Asset Management	294	373	(21)	667	217	207
Other operating groups	–	–	–	–	2	(100)
Total performance fee income	294	373	(21)	667	219	205

Base fees income of \$A1,388 million for the year ended 31 March 2015 increased 8% from \$A1,289 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Asset Management where base fee income increased 9% to \$A1,372 million for the year ended 31 March 2015 from \$A1,262 million in the prior year. This was largely due to net inflows in the Macquarie Investment Management (MIM) business into higher fee earning products, additional investments by funds in the Macquarie Infrastructure and Real Assets (MIRA) business, as well as favourable currency and market movements. These were partially offset by the impact of the formation of the Jackson Square Partners (JSP) joint venture, the management buyout of the MIM Private Markets business and asset disposals by funds in the MIRA business.

For further details of AUM refer to Section 7.1.

Performance fees, which are typically generated from Macquarie-managed funds that have outperformed pre-defined benchmarks, of \$A667 million for the year ended 31 March 2015 increased significantly from \$A219 million in the prior year. The year ended 31 March 2015 included significant performance fees from MIC, MEIF 1, Hedge Funds and MQA. Performance fee income in the prior year primarily related to performance fees from MWREF Ltd (a wholesale property fund), Hedge Funds, MIC and MQA.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of \$A973 million for the year ended 31 March 2015 increased 20% from \$A809 million in the prior year.

The US business was the largest contributor to mergers and acquisitions, advisory and underwriting fee income during the year ended 31 March 2015 with strong growth from the prior year predominately driven by increased mergers and acquisitions and debt capital markets transactions. Australia benefited from higher equity capital markets fee income in the current year primarily as a result of a number of IPOs. Fee income from other regions was broadly consistent with the prior year.

Brokerage and commissions

Brokerage and commissions income of \$A867 million for the year ended 31 March 2015 decreased 4% from \$A903 million in the prior year. The decrease was mainly due to the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013.

Other fee and commission income

Other fee and commission income of \$A875 million for the year ended 31 March 2015 increased 38% from \$A633 million in the prior year. Other fee and commission income includes fees earned on Funds under Administration, including the Wrap platform, insurance, business lending, credit cards and mortgages, as well as distribution service fees, structuring fees, capital protection fees, income from True Index products and any other fee income not reported elsewhere.

The increase from the prior year was largely due to a fee from Freeport LNG Terminal in Commodities and Financial Markets.

Banking and Financial Services also reported higher fee income resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions driven by higher assets under administration on the Wrap platform as a result of net inflows and positive market movements, partly offset by the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013. Macquarie platform assets under administration closed at \$A48.0 billion on 31 March 2015, an increase of 19% from \$A40.3 billion at 31 March 2014 due to net inflows and positive market movements.

2.0 Financial performance analysis

continued

2.3 Share of net profits of associates and joint ventures

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(14)	19	*	5	149	(97)

Share of net (losses)/profits of associates and joint ventures of \$A5 million for the year ended 31 March 2015 decreased 97% from \$A149 million in the prior year.

The decrease was largely due to the non-recurrence of gains recognised in the prior year in Macquarie Asset Management arising from the sale of assets by a number of unlisted MIRA funds, including the sale of Global Tower Partners, and an increase in the valuation of real estate assets held by funds in which Macquarie has investments.

Share of net (losses)/profits of associates and joint ventures for the year ended 31 March 2015 included equity accounted income in Macquarie Asset Management from JSP and gains resulting from asset sales in MEIF 1, partially offset by equity accounted losses on MIRA investments in the UK and Russia and reduced income from investments in Commodities and Financial Markets and the Corporate segment, which includes legacy assets.

2.4 Other operating income and charges

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net gains on sale of investment securities available for sale	69	146	(53)	215	441	(51)
Impairment charge on investment securities available for sale	(48)	(19)	153	(67)	(85)	(21)
Net gains on sale of associates and joint ventures	59	50	18	109	61	79
Impairment charge on interest in associates and joint ventures	(92)	(29)	217	(121)	(152)	(20)
Gain on disposal of operating lease assets	141	90	57	231	2	*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and associates	187	3	*	190	26	*
Impairment charge on intangibles and other non-financial assets	(137)	(31)	*	(168)	(28)	*
Net operating lease income						
Rental income	541	484	12	1,025	930	10
Depreciation on operating lease assets	(229)	(211)	9	(440)	(401)	10
Dividends/distributions received/receivable	76	26	192	102	208	(51)
Collective allowance for credit losses provided for during the financial year	(78)	(26)	200	(104)	(64)	63
Individually assessed provisions for impairment and write-offs	(285)	(78)	265	(363)	(178)	104
Other income	40	50	(20)	90	95	(5)
Total other operating income and charges	244	455	(46)	699	855	(18)

Total other operating income and charges of \$A699 million for the year ended 31 March 2015 decreased 18% from \$A855 million in the prior year, mainly driven by the non-recurrence of income as a result of the SYD distribution in the prior year. The current year benefited from increased gains from asset and business sales partially offset by increased impairment charges.

Net gains on sale of investments

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totaled \$A324 million for the year ended 31 March 2015, a decrease of 35% from \$A502 million in the prior year. Improved market conditions resulted in increased gains on sale of principal investments by Macquarie Capital, with strong performances in the Australia and EMEA regions, partially offset by a lower contribution from the US, and the non-recurrence of the \$A228 million gain on the SYD distribution in January 2014 and income from the disposal of an investment in OzForex on its IPO in October 2013.

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

Impairment charges on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets totaled \$A356 million for the year ended 31 March 2015, an increase of 34% from \$A265 million in the prior year. The increase predominately relates to the impairment of goodwill relating to legacy acquisitions in Corporate and the write-down of certain assets associated with operating leases in Corporate and Asset Finance.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of \$A231 million for the year ended 31 March 2015 increased significantly from \$A2 million in the prior year. The gain in the current year predominately relates to gains in Corporate and Asset Finance on disposal of the North American railcar operating lease portfolio in January 2015, the restructure of a railcar logistics operating lease facility (resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable) and the sale of aircraft.

2.0 Financial performance analysis

continued

Gain on acquiring, disposing and change in ownership interest in subsidiaries and associates

Gain on acquiring, disposing and change in ownership interest in subsidiaries and associates of \$A190 million for the year ended 31 March 2015 increased significantly from \$A26 million in the prior year. The increase predominately relates to the gain on the sale of Corporate and Asset Finance's US equipment leasing business in March 2015.

Net operating lease income

Net operating lease income, which is predominately earned by Corporate and Asset Finance, totaled \$A585 million for the year ended 31 March 2015, an increase of 11% from \$A529 million in the prior year. The increase is broadly in line with growth of the operating lease portfolio from \$A5.7 billion at 31 March 2014 to \$A6.3 billion at 31 March 2015, which was primarily driven by the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets and acquisitions in the Aviation portfolio, partially offset by the divestment of the North American railcar operating lease portfolio in January 2015.

Dividends/distributions received/receivable

Dividends/distributions received/receivable of \$A102 million for the year ended 31 March 2015 decreased 51% from \$A208 million in the prior year. The decrease was predominately driven by the non-recurrence of dividends from Sydney Airport due to the SYD distribution in January 2014 and lower dividend income in Macquarie Capital due to changes in the composition of principal investments within its portfolio.

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

Net charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses of \$A467 million for the year ended 31 March 2015 increased 93% from \$A242 million in the prior year mainly due to the underperformance of certain credits and the impact of the downward movement in certain commodity prices in Commodities and Financial Markets, increased collective provisions in Corporate and Asset Finance reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios, and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Other income

Other income of \$A90 million for the year ended 31 March 2015 decreased 5% from \$A95 million in the prior year mainly due to the non-recurrence of gains from the sale of net profit interests by Commodities and Financial Markets in the prior year, partly offset by gains in Macquarie Asset Management on the JSP and MIM Private Markets transactions and fees earned from the provision of transitional services to the new owners of these businesses in the current year.

2.5 Operating expenses

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Employment expenses						
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,915)	(1,626)	18	(3,541)	(3,217)	10
Share based payments	(160)	(180)	(11)	(340)	(284)	20
Reversal/(provision) for long service leave and annual leave	5	(15)	*	(10)	(4)	150
Total compensation expenses	(2,070)	(1,821)	14	(3,891)	(3,505)	11
Other employment expenses including on-costs, staff procurement and staff training	(129)	(123)	5	(252)	(231)	9
Total employment expenses	(2,199)	(1,944)	13	(4,143)	(3,736)	11
Brokerage, commission and trading-related expenses	(454)	(401)	13	(855)	(779)	10
Occupancy expenses	(201)	(178)	13	(379)	(382)	(1)
Non-salary technology expenses	(231)	(206)	12	(437)	(323)	35
Other operating expenses						
Professional fees	(172)	(143)	20	(315)	(257)	23
Auditor's remuneration	(16)	(11)	45	(27)	(24)	13
Travel and entertainment expenses	(83)	(75)	11	(158)	(150)	5
Advertising and communication expenses	(63)	(49)	29	(112)	(96)	17
Amortisation of intangibles	(67)	(28)	139	(95)	(66)	44
Other expenses	(108)	(142)	(24)	(250)	(213)	17
Total other operating expenses	(509)	(448)	14	(957)	(806)	19
Total operating expenses	(3,594)	(3,177)	13	(6,771)	(6,026)	12

Total operating expenses of \$A6,771 million for the year ended 31 March 2015 increased 12% from \$A6,026 million in the prior year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and higher compensation expenses driven by the improved performance of the Group.

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

- Total employment expenses of \$A4,143 million for the year ended 31 March 2015 increased 11% from \$A3,736 million in the prior year mainly reflecting higher staff compensation resulting from the improved performance of the Group, partly offset by the impact of the sale of Macquarie Private Wealth Canada in November 2013;
- Brokerage, commission and trading-related expenses of \$A855 million for the year ended 31 March 2015 increased 10% from \$A779 million in the prior year mainly due to higher sub-advisory expenses in Macquarie Asset Management's Delaware business as a result of the JSP transaction and increased costs associated with the rewards program of the Woolworths credit card portfolio acquired by Banking and Financial Services;
- Occupancy expenses of \$A379 million for the year ended 31 March 2015 decreased 1% from \$A382 million in the prior year, mainly due to lower depreciation expense in Sydney, Hong Kong and New York offices and the impact of the sale of Macquarie Private Wealth Canada in November 2013;
- Non-salary technology expenses of \$A437 million for the year ended 31 March 2015 increased 35% from \$A323 million in the prior year primarily due to increased activity to support business growth, including the development of a new Core Banking system in Banking and Financial Services and activity driven by increased regulatory compliance requirements;
- Total other operating expenses of \$A957 million for the year ended 31 March 2015 increased 19% from \$A806 million in the prior year, largely driven by increased activity across the Group and transaction related expenses in Corporate and Asset Finance, including those associated with an operating lease restructure, the sales of the US equipment leasing business, and the North American railcar operating lease portfolio and the execution of an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited.

2.0 Financial performance analysis

continued

2.6 Headcount

	As at			Movement	
	Mar 15	Sep 14	Mar 14	Sep 14 %	Mar 14 %
Headcount by group					
Macquarie Asset Management	1,488	1,492	1,510	(<1)	(1)
Corporate and Asset Finance	1,033	1,063	1,039	(3)	(1)
Banking and Financial Services	2,505	2,568	2,419	(2)	4
Macquarie Securities	998	1,013	1,050	(1)	(5)
Macquarie Capital	1,202	1,139	1,141	6	5
Commodities and Financial Markets	984	959	944	3	4
Total headcount — Operating Groups	8,210	8,234	8,103	(<1)	1
Total headcount — Corporate	5,875	5,904	5,810	(<1)	1
Total headcount	14,085	14,138	13,913	(<1)	1
Headcount by region					
Australia ⁽¹⁾	6,547	6,635	6,533	(1)	<1
International:					
Americas	2,685	2,706	2,685	(1)	-
Asia	3,524	3,462	3,447	2	2
Europe, Middle East and Africa	1,329	1,335	1,248	(<1)	6
Total headcount — International	7,538	7,503	7,380	<1	2
Total headcount	14,085	14,138	13,913	(<1)	1
International headcount ratio (%)	54	53	53		

⁽¹⁾ Includes New Zealand.

Total headcount of 14,085 at 31 March 2015 increased 1% from 13,913 at 31 March 2014.

The total headcount of operating groups was 8,210 at 31 March 2015, an increase of 1% from 8,103 at 31 March 2014 mainly driven by business growth and technology development projects, including the development of a new Core Banking platform in Banking and Financial Services. These increases were partially offset by a reduction in Macquarie Securities' headcount driven by the decision to exit Structured Products.

Total Corporate headcount was 5,875, at 31 March 2015, an increase of 1% from 5,810 at 31 March 2014.

The increase in headcount was mainly in regional service hubs to support business growth and ongoing regulatory compliance.

2.7 Income tax expense

	Full-year to	
	Mar 15	Mar 14
	\$Am	\$Am
Operating profit before income tax	2,522	2,106
Prima facie tax @ 30%	757	632
Income tax permanent differences	142	195
Income tax expense	899	827
Effective tax rate ⁽¹⁾	35.9%	39.5%

⁽¹⁾ The effective tax rate is calculated on net profit before income tax and after non-controlling interests. Non-controlling interests reduced net profit before income tax by \$A19 million for the year ended 31 March 2015 (31 March 2014: \$A14 million).

Income tax expense for the year ended 31 March 2015 was \$A899 million, up 9% from \$A827 million in the prior year with an effective tax rate of 35.9%.

The increase in income tax expense was mainly driven by a 20% increase in operating profit before income tax, from \$A2,106 million in the prior year to \$A2,522 million for the year ended 31 March 2015. This was partly offset by a 27% decrease in income tax permanent differences from \$A195 million in the prior year to \$A142 million in the year ended 31 March 2015 mainly due to increased income earned from lower tax jurisdictions including EMEA and Asia, partially offset by increased income earned in the US, which is taxed at higher rates.

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

3.0 Segment analysis

3.1 Basis of preparation

Operating Segments

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

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

The operating groups comprise:

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

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

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

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

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

Internal funding arrangements

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

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

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

Transactions between operating groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central support functions

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

Performance-related profit share and share based payments expense

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

Income tax

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

Presentation of segment income statements

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

3.0 Segment analysis

continued

	Macquarie Asset Management \$Am	Corporate and Asset Finance \$Am	Banking and Financial Services \$Am
Full-year ended 31 March 2015			
Net interest and trading income/(expense)	11	737	825
Fee and commission income/(expense)	2,303	33	532
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	13	3	3
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(36)	(153)	(35)
Other operating income and charges	154	977	17
Internal management revenue/(charge)	2	(3)	3
Net operating income	2,447	1,594	1,345
Total operating expenses	(997)	(482)	(1,060)
Profit/(loss) before tax	1,450	1,112	285
Tax expense	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	1,450	1,112	285
Full-year ended 31 March 2014			
Net interest and trading (expense)/income	(23)	663	738
Fee and commission income/(expense)	1,720	36	576
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	103	2	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	4	(85)	(49)
Other operating income and charges	108	576	49
Internal management revenue/(charge)	16	15	5
Net operating income	1,928	1,207	1,320
Total operating expenses	(877)	(381)	(1,060)
Profit/(loss) before tax	1,051	826	260
Tax expense	–	–	–
Profit/(loss) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	1,051	826	260

Macquarie Securities \$Am	Macquarie Capital \$Am	Commodities and Financial Markets \$Am	Corporate \$Am	Total \$Am
289	(24)	1,693	288	3,819
652	860	418	(28)	4,770
–	13	(1)	(26)	5
(4)	(58)	(334)	(203)	(823)
(9)	258	65	60	1,522
(10)	5	(10)	13	–
918	1,054	1,831	104	9,293
(854)	(629)	(996)	(1,753)	(6,771)
64	425	835	(1,649)	2,522
–	–	–	(899)	(899)
–	5	–	(24)	(19)
64	430	835	(2,572)	1,604
234	(35)	1,580	118	3,275
633	727	162	(1)	3,853
–	18	23	2	149
(5)	(48)	(207)	(117)	(507)
2	148	131	348	1,362
1	7	(7)	(37)	–
865	817	1,682	313	8,132
(758)	(548)	(956)	(1,446)	(6,026)
107	269	726	(1,133)	2,106
–	–	–	(827)	(827)
–	11	–	(25)	(14)
107	280	726	(1,985)	1,265

3.0 Segment analysis

continued

3.2 Macquarie Asset Management

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading income/(expense)	–	11	(100)	11	(23)	*
Fee and commission income						
Base fees	731	641	14	1,372	1,262	9
Performance fees	294	373	(21)	667	217	207
Other fee and commission income	145	119	22	264	241	10
Total fee and commission income	1,170	1,133	3	2,303	1,720	34
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(25)	38	*	13	103	(87)
Other operating income and charges						
Net gains on sale of equity investments	17	34	(50)	51	42	21
Other income	41	26	58	67	70	(4)
Total other operating income and charges	58	60	(3)	118	112	5
Internal management revenue/(charge)	5	(3)	*	2	16	(88)
Net operating income	1,208	1,239	(3)	2,447	1,928	27
Operating expenses						
Employment expenses	(190)	(147)	29	(337)	(306)	10
Brokerage, commission and trading-related expenses	(117)	(102)	15	(219)	(173)	27
Other operating expenses	(236)	(205)	15	(441)	(398)	11
Total operating expenses	(543)	(454)	20	(997)	(877)	14
Net profit contribution	665	785	(15)	1,450	1,051	38
Non-GAAP metrics						
MAM (including MIRA) assets under management (\$A billion)	484.0	423.3	14	484.0	424.8	14
MIRA equity under management (\$A billion)	66.2	58.5	13	66.2	52.5	26
Headcount	1,488	1,492	(<1)	1,488	1,510	(1)

Macquarie Asset Management's net profit contribution of \$A1,450 million for the year ended 31 March 2015 increased 38% from \$A1,051 million in the prior year. The improved result was primarily driven by increased performance fee income and growth in annuity base fee income from higher assets and equity under management. This was partially offset by reduced equity accounted profits on associate investments and higher operating expenses.

Net interest and trading income/(expense)

Net interest and trading income of \$A11 million for the year ended 31 March 2015 increased from an expense of \$A23 million in the prior year primarily due to increased activity in the Macquarie Specialised Investment Solutions (MSIS) business.

Base fees

Base fee income of \$A1,372 million for the year ended 31 March 2015 increased 9% from \$A1,262 million in the prior year. This increase was largely due to net inflows in the MIM business into higher fee earning products, additional investments by funds in the MIRA business, as well as favourable currency and market movements. These were partially offset by the impact of the formation of the JSP joint venture, the management buyout of the MIM Private Markets business and asset disposals by funds in the MIRA business.

Assets under management increased 14% from \$A424.8 billion at 31 March 2014 to \$A484.0 billion at 31 March 2015. Refer to Section 7 for further details of Macquarie Asset Management's Assets under Management and Equity under Management.

Performance fees

Performance fee income of \$A667 million for the year ended 31 March 2015 increased significantly from \$A217 million in the prior year. The year ended 31 March 2015 included significant performance fees from MIC, MEIF 1, Hedge Funds and MQA. Performance fee income in the prior year related primarily to performance fees from MWREF Ltd (a wholesale property fund), Hedge Funds, MIC and MQA.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees, brokerage and commission and income from True Index products. Distribution service fees are offset by associated expenses that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses. Other fee and commission income of \$A264 million for the year ended 31 March 2015 increased 10% from \$A241 million in the prior year mainly due to increased activity in MSIS and the impact of the depreciation of the Australian dollar.

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

Share of net (losses)/profits of associates and joint ventures of \$A13 million for the year ended 31 March 2015 was down significantly from \$A103 million in the prior year. The current year result included equity accounted income from JSP and gains resulting from asset sales in MEIF 1, partially offset by equity accounted losses on MIRA investments in the UK and Russia. The prior year included equity accounted gains arising from the sale of assets by a number of unlisted MIRA funds, including the sale of Global Tower Partners, and an increase in the valuation of real estate assets held by funds in which Macquarie has investments.

Net gains on sale of equity investments

Net gains on sale of equity investments of \$A51 million for the year ended 31 March 2015 included a gain from the partial sale of Macquarie Asset Management's holding in MQA, as well as a gain on the sale of an investment in an unlisted wholesale property fund. The prior year included gains from the partial sale of investments in MIC and MQA.

Other income

Other income of \$A67 million for the year ended 31 March 2015 decreased 4% from \$A70 million in the prior year. The current year included gains on the JSP and MIM Private Markets transactions and fees earned from the provision of transitional services to the new owners of these businesses, as well as dividend income received on MIRA investments, including MIC and MQA.

Operating expenses

Total operating expenses of \$A997 million for the year ended 31 March 2015 increased 14% from \$A877 million in the prior year. The increase was primarily driven by sub-advisory expenses in the Delaware business as a result of the JSP transaction, expenses incurred on business restructures, increased cost recoveries from support areas mainly due to increased costs of compliance and reporting, as well as the impact of the depreciation of the Australian dollar on offshore expenses. This was partially offset by reduced costs resulting from the JSP and MIM Private Markets transactions.

3.0 Segment analysis

continued

3.3 Corporate and Asset Finance

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading income	411	326	26	737	663	11
Fee and commission income	12	21	(43)	33	36	(8)
Share of net profits of associates and joint ventures accounted for using the equity method	2	1	100	3	2	50
Other operating income and charges						
Impairment charge on equity investments, intangibles and other non-financial assets	(34)	(15)	127	(49)	(10)	*
Gain on disposal of operating lease assets	141	90	57	231	2	*
Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale	141	—	*	141	5	*
Net operating lease income	296	265	12	561	520	8
Provisions for impairment, write-offs and collective allowance for credit losses	(85)	(19)	*	(104)	(75)	39
Other income	29	15	93	44	49	(10)
Total other operating income and charges	488	336	45	824	491	68
Internal management (charge)/revenue	(7)	4	*	(3)	15	*
Net operating income	906	688	32	1,594	1,207	32
Operating expenses						
Employment expenses	(116)	(97)	20	(213)	(176)	21
Brokerage, commission and trading-related expenses	(7)	(4)	75	(11)	(13)	(15)
Other operating expenses	(139)	(119)	17	(258)	(192)	34
Total operating expenses	(262)	(220)	19	(482)	(381)	27
Net profit contribution	644	468	38	1,112	826	35
Non-GAAP metrics						
Loan and finance lease portfolio (\$A billion)	22.4	21.6	4	22.4	19.8	13
Operating lease portfolio (\$A billion)	6.3	5.9	7	6.3	5.7	11
Headcount ⁽¹⁾	1,033	1,063	(3)	1,033	1,039	(1)

(1) Includes headcount of 149 transferred with the sale of the Macquarie Equipment Finance US operations on 31 March 2015.

Corporate and Asset Finance's net profit contribution of \$A1,112 million for the year ended 31 March 2015 increased 35% from \$A826 million in the prior year. The improved result was largely driven by profit on the sale of the Macquarie Equipment Finance US operations and gains on the disposal of operating lease assets, together with growth of volumes in key portfolios.

Net interest and trading income

Net interest and trading income in Corporate and Asset Finance predominately relates to income from the corporate lending and asset financing portfolios, offset by the funding costs associated with operating lease portfolios.

Net interest and trading income of \$A737 million for the year ended 31 March 2015 increased 11% from \$A663 million in the prior year. The increase was mainly due to portfolio growth and the accretion of interest income on loans acquired at a discount in the Lending portfolio, partially offset by internal break costs associated with business sales.

The loan and finance lease portfolios of \$A22.4 billion at 31 March 2015 increased 13% from \$A19.8 billion in the prior year driven by growth in the Lending and Leasing portfolios as a result of acquisitions and the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated portfolios, partially offset by the sale of the Macquarie Equipment Finance US operations.

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

Impairment charge on equity investments, intangibles and other non-financial assets of \$A49 million for the year ended 31 March 2015 increased from \$A10 million in the prior year primarily due to the impairment of a number of less marketable and older aircraft in the Aviation portfolio and the write-off of certain assets realised through the restructure of a railcar logistics operating lease facility outlined below.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of \$A231 million for the year ended 31 March 2015 predominately relates to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft, and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. This gain was partially offset by costs and charges associated with the transaction (refer Impairment charge on equity investments, intangibles and other non-financial assets and Operating expenses).

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

Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale of \$A141 million for the year ended 31 March 2015 primarily relates to the gain on the sale of the Macquarie Equipment Finance US operations in March 2015.

Net operating lease income

Net operating lease income of \$A561 million for the year ended 31 March 2015 increased 8% from \$A520 million in the prior year. The increase is broadly in line with growth of the operating lease portfolio from \$A5.7 billion at 31 March 2014 to \$A6.3 billion at 31 March 2015, which was primarily driven by the favourable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets and acquisitions in the Aviation portfolio, partially offset by the divestment of the North American railcar operating lease portfolio in January 2015.

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

Provisions for impairment, write-offs and collective allowance for credit losses of \$A104 million for the year ended 31 March 2015 increased 39% from \$A75 million in the prior year mainly due to additional collective provisions reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios.

Operating expenses

Total operating expenses of \$A482 million for the year ended 31 March 2015 increased 27% from \$A381 million in the prior year.

Employment expenses of \$A213 million for the year ended 31 March 2015 increased 21% from \$A176 million in the prior year primarily due to the full year impact of headcount increases in the prior year to support business growth and the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses of \$A258 million for the year ended 31 March 2015 increased 34% from \$A192 million in the prior year mainly due to investment in platforms and transaction related expenses associated with an operating lease restructure (refer Gain on disposal of operating lease assets above), the sale of the Macquarie Equipment Finance US operations, the sale of the North American railcar operating lease portfolio and the execution of an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited.

3.0 Segment analysis

continued

3.4 Banking and Financial Services

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading income	419	406	3	825	738	12
Fee and commission income						
Base fees	6	6	–	12	24	(50)
Brokerage and commissions	58	64	(9)	122	179	(32)
Other fee and commission income	206	192	7	398	373	7
Total fee and commission income	270	262	3	532	576	(8)
Share of net profits of associates and joint ventures accounted for using the equity method	2	1	100	3	1	200
Other operating income and charges						
Net gains on sale of equity investments	1	4	(75)	5	50	(90)
Impairment charge on equity investments and non-financial assets	(4)	(1)	300	(5)	(2)	150
Provisions for impairment, write-offs and collective allowance for credit losses	(16)	(14)	14	(30)	(47)	(36)
Other income	5	7	(29)	12	(1)	*
Total other operating income and charges	(14)	(4)	250	(18)	–	*
Internal management revenue	3	–	*	3	5	(40)
Net operating income	680	665	2	1,345	1,320	2
Operating expenses						
Employment expenses	(182)	(190)	(4)	(372)	(404)	(8)
Brokerage, commission and trading-related expenses	(103)	(95)	8	(198)	(168)	18
Other operating expenses	(251)	(239)	5	(490)	(488)	<1
Total operating expenses	(536)	(524)	2	(1,060)	(1,060)	–
Net profit contribution	144	141	2	285	260	10
Non-GAAP metrics						
Funds under management/advice/administration ⁽¹⁾ (\$A billion)	146.5	132.6	10	146.5	127.7	15
Australian loan portfolio ⁽²⁾ (\$A billion)	30.4	25.3	20	30.4	21.5	41
Legacy loan portfolio ⁽³⁾ (\$A billion)	3.8	4.6	(17)	3.8	5.5	(31)
Retail deposits (\$A billion)	37.3	35.3	6	37.3	33.3	12
Headcount	2,505	2,568	(2)	2,505	2,419	4

(1) Funds under management/advice/administration includes assets under management plus funds on Banking and Financial Services platforms (e.g. Wrap Funds under Administration), total Banking and Financial Services loan and deposit portfolios, CHESS holdings of Banking and Financial Services clients, and funds under advice (e.g. assets under advice of Macquarie Private Bank).

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

(3) The legacy loan portfolio primarily comprises residential mortgages in Canada and the US.

Banking and Financial Services' net profit contribution of \$A285 million for the year ended 31 March 2015 increased 10% from \$A260 million in the prior year.

In the year ended 31 March 2015, BFS benefited from strong volume growth in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by higher distribution costs and increased investment in technology projects to support growth in the business, including the development of a new Core Banking system.

Net interest and trading income

Net interest and trading income of \$A825 million for the year ended 31 March 2015 increased 12% from \$A738 million in the prior year primarily due to growth in lending and deposit volumes, including:

- a 44% increase in Australian mortgage volumes from \$A17.0 billion at 31 March 2014 to \$A24.5 billion at 31 March 2015 including acquisitions of residential mortgage portfolios of \$A2.5 billion during the year;
- a 27% increase in business lending volumes from \$A4.1 billion at 31 March 2014 to \$A5.2 billion at 31 March 2015;
- a 12% increase in retail deposits from \$A33.3 billion at 31 March 2014 to \$A37.3 billion at 31 March 2015; and
- a 100% increase in credit card volumes from \$A0.3 billion at 31 March 2014 to \$A0.6 billion at 31 March 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins. Average net interest margins on the Australian mortgages portfolio decreased as loans with higher margins continued to run off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined \$A3.8 billion at 31 March 2015, down 31% from \$A5.5 billion at 31 March 2014.

Base fees

Base fee income of \$A12 million for the year ended 31 March 2015 decreased 50% from \$A24 million in the prior year driven by the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage and commissions

Brokerage and commissions income of \$A122 million for the year ended 31 March 2015 decreased 32% from \$A179 million in the prior year mainly due to the sale of Macquarie Private Wealth Canada in November 2013. The remaining income, which is largely derived from the provision of retail equities broking services in Australia, decreased from the prior year mainly due to a reduction in adviser headcount.

Other fee and commission income

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

Other fee and commission income of \$A398 million for the year ended 31 March 2015 increased 7% from \$A373 million in the prior year. Income resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions driven by higher assets under administration on the Wrap platform were partly offset by the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013.

Macquarie platform assets under administration closed at \$A48.0 billion on 31 March 2015, an increase of 19% from \$A40.3 billion at 31 March 2014. This increase was due to net inflows and positive market movements.

Net gains on sale of equity investments

Net gains on sale of equity investments of \$A5 million for the year ended 31 March 2015 predominately related to the sale of a minority investment in a mortgage aggregator. The net gains on sale of equity investments in the prior year were largely from the disposal of an investment in OzForex on its IPO in October 2013.

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

Provisions for impairment, write-offs and collective allowance for credit losses of \$A30 million for the year ended 31 March 2015 decreased 36% from \$A47 million in the prior year due to lower provisions for impairment relating to mortgage and business lending clients including the recovery in the current year of certain business loans previously provided for.

3.0 Segment analysis

continued

Other income

Other income of \$A12 million for the year ended 31 March 2015 increased from a loss of \$A1 million in the prior year mainly due to dividends received from a number of investments in mortgage brokers and aggregators.

Operating expenses

Total operating expenses of \$A1,060 million for the year ended 31 March 2015 were in line with the prior year.

Employment expenses of \$A372 million for the year ended 31 March 2015 decreased 8% from \$A404 million in the prior year. The impact from the sale of Macquarie Private Wealth Canada in November 2013 was partially offset by an increase in headcount to support business growth and investment in technology projects.

Brokerage, commission and trading-related expenses mainly relate to amounts paid to external advisers for product distribution and the cost of credit cards partner and rewards programs. Brokerage, commission and trading-related expenses of \$A198 million for year ended 31 March 2015 increased 18% from \$A168 million in the prior year primarily due to the acquisition of the Woolworths credit card portfolio in May 2014 and increased lending and deposit volumes.

Other operating expenses of \$A490 million for the year ended 31 March 2015 were broadly in line with the prior year. Investment in technology projects to support business growth, including the development of a new Core Banking system, was offset by lower expenses resulting from the sale of Macquarie Private Wealth Canada in November 2013.

3.5 Macquarie Securities

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading income	176	113	56	289	234	24
Fee and commission income						
Brokerage and commissions	280	262	7	542	547	(1)
Other fee and commission income	49	61	(20)	110	86	28
Total fee and commission income	329	323	2	652	633	3
Share of net profits of associates and joint ventures accounted for using the equity method	–	–	–	–	–	–
Other operating income and charges	(13)	–	*	(13)	(3)	*
Internal management (charge)/revenue	(5)	(5)	–	(10)	1	*
Net operating income	487	431	13	918	865	6
Operating expenses						
Employment expenses	(124)	(127)	(2)	(251)	(240)	5
Brokerage, commission and trading-related expenses	(87)	(71)	23	(158)	(130)	22
Other operating expenses	(229)	(216)	6	(445)	(388)	15
Total operating expenses	(440)	(414)	6	(854)	(758)	13
Net profit contribution	47	17	176	64	107	(40)
Non-GAAP metrics						
Headcount	998	1,013	(1)	998	1,050	(5)

Macquarie Securities' net profit contribution of \$A64 million for the year ended 31 March 2015 decreased from \$A107 million in the prior year. Brokerage and commissions income was slightly down however income from equity capital markets and trading activities was up driven by increased activity in certain markets. Increased net operating income was offset by increased costs largely as a result of regulatory driven investment in platforms and processes and restructuring costs associated with the exit of Structured Products during the year.

Net interest and trading income

Net interest and trading income of \$A289 million for the year ended 31 March 2015 increased 24% from \$A234 million in the prior year. The increase was mainly due to improved trading opportunities driven by increased market volatility in certain emerging markets, particularly China, partially offset by lower demand for Asia retail derivatives.

Brokerage and commissions

Brokerage and commissions income of \$A542 million for the year ended 31 March 2015 decreased 1% from \$A547 million in the prior year. The impact of the depreciation of the Australian dollar in the current year was offset by reduced commissions income, with overall mixed levels of client activity being experienced – improvements seen in Australia and Europe were offset by weaker client volumes across Asia and North America compared to the prior year.

Other fee and commission income

Other fee and commission income of \$A110 million for the year ended 31 March 2015 increased 28% from \$A86 million in the prior year. The increase was mainly driven by strong equity capital markets activity and market share in Australia, combined with increased client stock borrowing activity compared to the prior year.

3.0 Segment analysis

continued

Operating expenses

Total operating expenses of \$A854 million for the year ended 31 March 2015 increased 13% from \$A758 million in the prior year.

Employment expenses of \$A251 million for the year ended 31 March 2015 increased 5% from \$A240 million in the prior year primarily due to the impact of the depreciation of the Australian dollar on offshore expenses and restructuring costs associated with the exit of Structured Products during the year. The impact of these increases was partially offset by reduced headcount.

Brokerage, commissions and trading-related expenses of \$A158 million for the year ended 31 March 2015 increased 22% from \$A130 million in the prior year primarily due to increased trading-related activity.

Other operating expenses of \$A445 million for the year ended 31 March 2015 increased 15% from \$A388 million in the prior year mainly due to ongoing investment in platforms and processes driven by increasing regulatory compliance requirements and the impact of the depreciation of the Australian dollar on offshore expenses.

3.6 Macquarie Capital

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading expense	(11)	(13)	(15)	(24)	(35)	(31)
Fee and commission income						
Mergers and acquisitions, advisory and underwriting fees	465	332	40	797	667	19
Brokerage and commissions	25	18	39	43	46	(7)
Other fee and commission expense	9	11	(18)	20	14	43
Total fee and commission income	499	361	38	860	727	18
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	20	(7)	*	13	18	(28)
Other operating income and charges						
Net gains on sale of equity and debt investments	117	109	7	226	99	128
Impairment charge on equity investments	(28)	(1)	*	(29)	(18)	61
Provisions for impairment and collective allowance for credit losses	(13)	(16)	(19)	(29)	(30)	(3)
Other income	27	5	*	32	49	(35)
Total other operating income and charges	103	97	6	200	100	100
Internal management revenue	4	1	300	5	7	(29)
Net operating income	615	439	40	1,054	817	29
Operating expenses						
Employment expenses	(168)	(140)	20	(308)	(274)	12
Brokerage, commission and trading-related expenses	(2)	(2)	–	(4)	(6)	(33)
Other operating expenses	(169)	(148)	14	(317)	(268)	18
Total operating expenses	(339)	(290)	17	(629)	(548)	15
Non-controlling interests ⁽¹⁾	4	1	300	5	11	(55)
Net profit contribution	280	150	87	430	280	54
Non-GAAP metrics						
Headcount	1,202	1,139	6	1,202	1,141	5

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

3.0 Segment analysis

continued

Macquarie Capital's net profit contribution of \$A430 million for the year ended 31 March 2015 increased 54% from \$A280 million in the prior year predominately due to increased fee income and net gains on sale of equity and debt investments.

Net interest and trading expense

Net interest and trading expense of \$A24 million for the year ended 31 March 2015 decreased 31% from \$A35 million in the prior year primarily due to lower net trading expense. Net trading expense reflects Macquarie Capital's share of fair value movements in relation to certain derivatives and debt investments classified as fair value through profit and loss and the net impact of foreign exchange movements.

Fee and commission income

Fee and commission income of \$A860 million for the year ended 31 March 2015 increased 18% from \$A727 million in the prior year.

The US business was the largest contributor to fee income during the year ended 31 March 2015 with strong growth from the prior year predominately driven by increased mergers and acquisitions and debt capital markets transactions. Australia benefited from higher equity capital markets fee income in the current year primarily as a result of a number of IPOs. Fee income from other regions was broadly consistent with the prior year.

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

Share of net profits/(losses) of associates and joint ventures of \$A13 million for the year ended 31 March 2015 decreased 28% from \$A18 million in the prior year. The movement reflects changes in the composition of principal investments within the portfolio.

Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of \$A226 million for the year ended 31 March 2015 increased significantly from \$A99 million in the prior year. Improved market conditions provided opportunities for the realisation of principal positions throughout the year ended 31 March 2015. The Australian business generated over half of the net gains on sale during the year, including from the sale of a stake in 3P Learning Pty Limited on its IPO and the partial sell down of an investment in Charter Hall Group. The gains recognised by the Europe and Asia businesses also increased from the prior year, partially offset by a lower contribution from the US. The net gains in the year ended 31 March 2015 were in respect of both listed and unlisted investments.

Impairment charge on equity investments

The impairment charge on equity investments of \$A29 million for the year ended 31 March 2015 related to a small number of underperforming principal assets.

Other income

Other income of \$A32 million for the year ended 31 March 2015 decreased 35% from \$A49 million in the prior year predominately reflecting lower dividend income resulting from changes in the composition of principal investments within the portfolio.

Operating expenses

Total operating expenses of \$A629 million for the year ended 31 March 2015 increased 15% from \$A548 million in the prior year. The movement reflects higher employment expenses arising from an increase in non-salary staff costs and an increase in other direct costs associated with transactions. The depreciation of the Australian dollar also negatively impacted offshore operating expenses.

3.7 Commodities and Financial Markets

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest and trading income						
Commodities						
Risk management products	323	271	19	594	540	10
Lending and financing	177	141	26	318	383	(17)
Inventory management, transport and storage	207	6	*	213	201	6
Total commodities	707	418	69	1,125	1,124	<1
Credit, interest rates and foreign exchange	315	253	25	568	456	25
Net interest and trading income	1,022	671	52	1,693	1,580	7
Fee and commission income						
Brokerage and commissions	65	51	27	116	102	14
Other fee and commission income	260	42	*	302	60	*
Total fee and commission income	325	93	249	418	162	158
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(3)	2	*	(1)	23	*
Other operating income and charges						
Net gains on sale of equity investments	9	23	(61)	32	45	(29)
Impairment charge on equity investments, intangibles and other non-financial assets	(75)	(24)	213	(99)	(118)	(16)
Provisions for impairment and collective allowance for credit losses	(187)	(48)	290	(235)	(89)	164
Other income	24	9	167	33	86	(62)
Total other operating income and charges	(229)	(40)	*	(269)	(76)	254
Internal management charge	(9)	(1)	*	(10)	(7)	43
Net operating income	1,106	725	53	1,831	1,682	9
Operating expenses						
Employment expenses	(150)	(133)	13	(283)	(264)	7
Brokerage, commission and trading-related expenses	(134)	(124)	8	(258)	(281)	(8)
Amortisation of intangibles	(2)	(2)	–	(4)	(17)	(76)
Other operating expenses	(235)	(216)	9	(451)	(394)	14
Total operating expenses	(521)	(475)	10	(996)	(956)	4
Net profit contribution	585	250	134	835	726	15
Non-GAAP metrics						
Headcount	984	959	3	984	944	4

Commodities and Financial Markets' net profit contribution for the year ended 31 March 2015 was \$A835 million, an increase of 15% from \$A726 million in the prior year. Net operating income of \$A1,831 million for the year ended 31 March 2015 increased 9% from \$A1,682 million in the prior year, while total operating expenses of \$A996 million increased 4% from \$A956 million in the prior year.

The result for Commodities and Financial Markets reflects a general improvement in market conditions compared to the prior year driving increased client activity and a fee from Freeport LNG Terminal, partially offset by increased provisions for impairment taken on certain underperforming credits.

3.0 Segment analysis

continued

Commodities net interest and trading income

i) Risk management products

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

Risk management products income of \$A594 million for the year ended 31 March 2015 increased 10% from \$A540 million in the prior year.

The Energy Markets business was the largest contributor with revenues generated across its global platform driven by strong customer flow off the back of price volatility, particularly in the Global Oil and North American Gas businesses.

Base metals markets saw increased client activity and continued business growth, while depressed prices in precious metals markets led to lower levels of client activity.

ii) Lending and financing

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

Lending and financing income of \$A318 million for the year ended 31 March 2015 decreased 17% from \$A383 million in the prior year.

While financing income was down on the prior year, mainly driven by the physical metals financing activities, this was offset by the reduction of associated storage costs that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses. Overall, net income from physical metals financing activities is broadly in line with the prior year when considering associated storage costs.

iii) Inventory management, transport and storage

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

Inventory management, transport and storage income of \$A213 million for the year ended 31 March 2015 increased 6% from \$A201 million in the prior year, driven by continued growth in physical activities, particularly in the Energy Markets business which benefited from volatility across most commodities, partially offset by lower income from the North American Gas business following a strong performance in the prior year.

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

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

Net interest and trading income from credit, interest rates and foreign exchange products of \$A568 million for the year ended 31 March 2015 increased 25% from \$A456 million in the prior year.

Increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, led to increased client volumes. This was partially offset by lower levels of client activity in US credit markets.

Brokerage, commissions and other fee income

Brokerage, commissions and fee income of \$A418 million for the year ended 31 March 2015 increased significantly from \$A162 million in the prior year. The current year includes a fee from Freeport LNG Terminal. There has been a continued growth and increase in transaction flows across the securitisation and origination businesses, particularly in the UK and Europe, as well as increased new issue volumes and fees in debt capital markets in the US.

Net gains on sale of equity investments

Net gains on sale of equity investments of \$A32 million for the year ended 31 March 2015 decreased 29% from \$A45 million in the prior year. Mining equity markets remained subdued during the current year, which impacted the timing and number of asset realisations.

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

Impairment charges on equity investments, intangibles and other non-financial assets of \$A99 million for the year ended 31 March 2015 decreased 16% from \$A118 million in the prior year, largely driven by mining investments where equity markets remained subdued and the lower value of the equity portfolio.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of \$A235 million for the year ended 31 March 2015 increased significantly from \$A89 million in the prior year mainly due to the underperformance of certain credits and the downward movement in certain commodity prices.

Other income

Other income of \$A33 million for the year ended 31 March 2015 decreased 62% from \$A86 million in the prior year, which included significant gains from the sale of net profit interests.

Operating expenses

Total operating expenses of \$A996 million for the year ended 31 March 2015, increased 4% from \$A956 million in the prior year.

Employment expenses of \$A283 million for the year ended 31 March 2015 increased 7% from \$A264 million in the prior year, largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

Brokerage, commission and trading-related expenses of \$A258 million for the year ended 31 March 2015 decreased 8% from \$A281 million in the prior year. This was driven by the reduction in storage costs for physical commodities that, for accounting purposes, are recognised within brokerage, commission and trading-related expenses, whilst the associated income is included within commodities trading income.

Amortisation of intangibles relate to investments in net profit interests which are amortised based on the production output of the investment. The expense of \$A4 million for the year ended 31 March 2015 was down 76% from \$A17 million in the prior year, consistent with the sale of a number of net profit interests in the prior year.

Other operating expenses of \$A451 million for the year ended 31 March 2015 increased 14% from \$A394 million in the prior year mainly due to continued investment in technology to meet increasing regulatory compliance requirements globally, combined with the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis

continued

3.8 Corporate

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Net interest income and trading income	159	129	23	288	118	144
Fee and commission expense	(16)	(12)	33	(28)	(1)	*
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(10)	(16)	(38)	(26)	2	*
Other operating income and charges						
Net gains on sale of debt and equity securities	16	23	(30)	39	261	(85)
Impairment charge on investments, intangibles and other non-financial assets	(126)	(25)	*	(151)	(115)	31
Provisions for impairment and collective allowance for credit losses	(50)	(2)	*	(52)	(2)	*
Other income	11	10	10	21	87	(76)
Total other operating income and charges	(149)	6	*	(143)	231	*
Internal management revenue/(charge)	9	4	125	13	(37)	*
Net operating income	(7)	111	*	104	313	(67)
Operating expenses						
Employment expenses	(1,269)	(1,110)	14	(2,379)	(2,072)	15
Brokerage, commission and trading-related expenses	(4)	(3)	33	(7)	(8)	(13)
Other operating expenses	320	313	2	633	634	(<1)
Total operating expenses	(953)	(800)	19	(1,753)	(1,446)	21
Income tax expense	(467)	(432)	8	(899)	(827)	9
Macquarie Income Preferred Securities	(3)	(2)	50	(5)	(4)	25
Macquarie Income Securities	(10)	(9)	11	(19)	(18)	6
Non-controlling interests ⁽¹⁾	1	(1)	*	-	(3)	(100)
Net loss contribution	(1,439)	(1,133)	27	(2,572)	(1,985)	30
Non-GAAP metrics						
Headcount	5,875	5,904	(<1)	5,875	5,810	1

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

The Corporate segment comprises head office and central support functions, including Group Treasury, certain legacy investments, assets and businesses that are no longer core for strategic reasons and unallocated costs, including performance -related profit share and share based payments expense and income tax expense.

The Corporate segment's result for the year ended 31 March 2015 was a net loss of \$A2,572 million, an increase of 30% from a net loss of \$A1,985 million in the prior year, mainly driven by higher staff compensation resulting from the improved performance of the Group and increased income tax expense, partially offset by the non-recurrence of the \$A228 million gain on the SYD distribution in January 2014.

Net interest and trading income

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

Net interest and trading income of \$A288 million for the year ended 31 March 2015 increased significantly from \$A118 million in the prior year mainly due to an increase in income from internal funding arrangements as a result of business growth across the Group, the receipt of internal swap break income from Corporate and Asset Finance in relation to the sales of US Rail and Macquarie Equipment Finance US, the refinancing of higher margin debt and favourable non-trading derivative volatility during the year. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

Fee and commission expense

Fee and commission expense of \$A28 million for the year ended 31 March 2015 relates to amounts paid to Commodities and Financial Markets in relation to Group funding transactions.

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

Share of net (losses)/profits of associates and joint ventures for the year ended 31 March 2015 was \$A26 million, which compares to a profit of \$A2 million in the prior year. The movement reflects changes in the underlying performance of central investments, which includes legacy assets.

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of \$A39 million for the year ended 31 March 2015 decreased significantly from \$A261 million in the prior year, which included a \$A228 million gain on the SYD distribution in January 2014.

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

Impairment charge on investments, intangibles and other non-financial assets of \$A151 million for the year ended 31 March 2015 increased 31% from \$A115 million in the prior year, driven by impairments of legacy investments that are no longer strategic holdings and the impairment of goodwill relating to legacy acquisitions.

Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of \$A52 million for the year ended 31 March 2015 increased from \$A2 million in the prior year primarily due to an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Other income

Other income of \$A21 million for the year ended 31 March 2015 decreased from \$A87 million in the prior year primarily due to the loss of dividends from Sydney Airport due to the SYD distribution in January 2014.

3.0 Segment analysis

continued

Employment expenses

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

For the year ended 31 March 2015 employment expenses were \$A2,379 million, an increase of 15% from \$A2,072 million in the prior year. The increase was mainly attributable to the improved performance of the Group and the impact of the depreciation of the Australian dollar on offshore expenses.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of central support functions, offset by the recovery of central support function costs from the operating groups. Net recoveries from the operating groups decreased 1% from \$A634 million in the prior year to \$A633 million for the year ended 31 March 2015, which reflects an increased cost base of central support functions resulting from investment in technology platforms, increased regulatory compliance costs and the impact of the depreciation of the Australian dollar on offshore expenses, partially offset by higher recoveries of all central support function operating costs from operating groups.

3.9 International income

International income by region

	Half-year to			Full-year to		
	Mar 15 \$Am	Sep 14 \$Am	Movement %	Mar 15 \$Am	Mar 14 \$Am	Movement %
Americas	2,066	1,272	62	3,338	2,734	22
Asia	706	425	66	1,131	1,070	6
Europe, Middle East and Africa	964	1,049	(8)	2,013	1,547	30
Total international income	3,736	2,746	36	6,482	5,351	21
Australia ⁽¹⁾	1,275	1,445	(12)	2,720	2,431	12
Total income (excluding earnings on capital and other corporate items)	5,011	4,191	20	9,202	7,782	18
Earnings on capital and other corporate items	(16)	107	*	91	350	(74)
Net operating income (as reported)	4,995	4,298	16	9,293	8,132	14
International income (excluding earnings on capital and other corporate items) ratio (%)	75	66		70	69	

⁽¹⁾ Includes New Zealand.

International income by group and region

	Full-year to Mar 15						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽²⁾ \$Am	Total Income ⁽³⁾ \$Am	Total International %
Macquarie Asset Management	1,335	188	523	2,046	399	2,445	84
Corporate and Asset Finance	631	38	610	1,279	318	1,597	80
Banking and Financial Services	21	–	3	24	1,318	1,342	2
Macquarie Securities	98	566	87	751	177	928	81
Macquarie Capital	436	107	158	701	348	1,049	67
Commodities and Financial Markets	817	232	632	1,681	160	1,841	91
Total	3,338	1,131	2,013	6,482	2,720	9,202	70

⁽²⁾ Includes New Zealand.

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

3.0 Segment analysis

continued

Total international income was \$A6,482 million for the year-ended 31 March 2015, an increase of 21% from \$A5,351 million in the prior year. Total international income represented 70% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior year.

Income from the Americas of \$A3,338 million for the year ended 31 March 2015 increased 22% from \$A2,734 million in the prior year, driven by increased base fees as well as higher performance fee income from MIC in Macquarie Asset Management, Corporate and Asset Finance's gain on the sale of Macquarie Equipment Finance US operations and gains on the disposal of operating lease assets, increased mergers and acquisitions and debt capital markets activity in Macquarie Capital and the impact of the depreciation of the Australian dollar. These increases were partially offset by a reduction in Banking and Financial Services income from the region due to the sale of Macquarie Private Wealth Canada in November 2013.

In Asia, income of \$A1,131 million for the year ended 31 March 2015 increased 6% from \$A1,070 million in the prior year. The increase was mainly in Commodities and Financial Markets, driven by improved client flow in its Asian Markets business, and Macquarie Securities' increased trading activity, particularly in China. The prior year benefited from higher performance fees and equity accounting gains arising from an increase in the valuation of assets held by funds in which Macquarie has investments.

Income from Europe, Middle East and Africa of \$A2,013 million for the year ended 31 March 2015 increased 30% from \$A1,547 million in the prior year. The increase was mainly driven by performance fee income from Macquarie European Infrastructure Fund 1 in Macquarie Asset Management and an increased contribution from Commodities and Financial Markets as improved activity across commodities markets resulted in strong customer flows and trading opportunities, particularly in the European Gas and European Power businesses. Corporate and Asset Finance increased its contribution to income from the region due to growth of the Aviation and Lending portfolios that in part benefited from the depreciation of the Australian dollar.

In Australia, income of \$A2,720 million for the year ended 31 March 2015 increased 12% from \$A2,431 million in the prior year. Key drivers included growth in platforms, lending and deposit volumes in Banking and Financial Services and gains on the sale of equity and debt investments in Macquarie Capital.

4.0 Balance sheet

4.1 Statement of financial position

	As at		Movement		
	Mar 15 \$Am	Sep 14 \$Am	Mar 14 \$Am	Sep 14 %	Mar 14 %
Assets					
Receivables from financial institutions	28,705	20,775	19,457	38	48
Trading portfolio assets	30,406	26,310	22,462	16	35
Derivative assets	20,080	14,648	12,633	37	59
Investment securities available for sale	8,896	9,299	14,051	(4)	(37)
Other assets	13,557	13,024	12,990	4	4
Loan assets held at amortised cost	72,762	64,435	58,712	13	24
Other financial assets at fair value through profit or loss	2,125	2,752	2,854	(23)	(26)
Property, plant and equipment	7,079	6,636	6,311	7	12
Interests in associates and joint ventures accounted for using the equity method	2,328	2,483	2,447	(6)	(5)
Intangible assets	1,164	1,237	1,221	(6)	(5)
Deferred tax assets	874	733	766	19	14
Total assets	187,976	162,332	153,904	16	22
Liabilities					
Trading portfolio liabilities	5,295	4,118	2,762	29	92
Derivative liabilities	18,267	14,634	11,973	25	53
Deposits	47,386	44,216	42,401	7	12
Other liabilities	15,830	13,287	13,908	19	14
Payables to financial institutions	18,645	16,961	19,654	10	(5)
Other financial liabilities at fair value through profit or loss	1,626	1,364	1,464	19	11
Debt issued at amortised cost	61,463	51,076	45,565	20	35
Provisions	220	221	205	(<1)	7
Deferred tax liabilities	464	635	551	(27)	(16)
Total liabilities excluding loan capital	169,196	146,512	138,483	15	22
Loan capital					
Subordinated debt at amortised cost	4,384	3,604	3,507	22	25
Total loan capital	4,384	3,604	3,507	22	25
Total liabilities	173,580	150,116	141,990	16	22
Net assets	14,396	12,216	11,914	18	21
Equity					
Contributed equity	5,947	5,063	5,112	17	16
Reserves	1,656	826	669	100	148
Retained earnings	6,306	5,801	5,637	9	12
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	13,909	11,690	11,418	19	22
Non-controlling interests	487	526	496	(7)	(2)
Total equity	14,396	12,216	11,914	18	21

4.0 Balance sheet

continued

The Group's balance sheet has been impacted by changes in business activities and movements in prices and rates since 31 March 2014. Total assets of \$A188.0 billion at 31 March 2015 increased 22% from \$A153.9 billion at 31 March 2014, while total liabilities increased 22% from \$A142.0 billion at 31 March 2014 to \$A173.6 billion at 31 March 2015. The growth in the Group's balance sheet has largely been driven by the impact of the depreciation of the Australian dollar, growth in loan assets, trading assets and receivables from financial institutions (Treasury cash and liquid assets).

Key drivers of the movement in the balance sheet include:

- Treasury management initiatives during the year including significant new issuances of short term and long term debt issued at amortised cost and an increase in cash and liquid asset holdings with increased reverse repurchase agreements that led to an overall increase in receivables from financial institutions. These were partially offset by the sale of debt investment securities available for sale;
- Improved trading opportunities in equities driven by increased market volatility in certain emerging markets, particularly China, resulted in increased trading and reduced stock borrowing activity in Macquarie Securities. This led to an increase in trading portfolio assets and liabilities and a reduction in receivables from financial institutions;
- In Commodities and Financial Markets, growth of the physical metals business led to an increase in trading portfolio assets, which was partially offset by a reduction in Commonwealth Government bond holdings. Changes in interest rates, foreign exchange and commodity prices during the year also resulted in an increase in derivative assets and liabilities;
- An increase in principal investments through acquisitions, combined with the impact of the depreciation of the Australian dollar, resulted in an increase in investment securities available for sale within Macquarie Asset Management and Macquarie Capital;
- Increased lending activity was seen across the Group, leading to strong growth in loan assets held at amortised cost, including:
 - Banking and Financial Services' Australian mortgage portfolio grew 44% from \$A17.0 billion at 31 March 2014 to \$A24.5 billion at 31 March 2015, which included acquisitions of residential mortgage portfolios of \$A2.5 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined \$A3.8 billion at 31 March 2015, down 31% from \$A5.5 billion at 31 March 2014;
 - Banking and Financial Services also increased business lending volumes by 27% from \$A4.1 billion at 31 March 2014 to \$A5.2 billion at 31 March 2015, and credit card volumes from \$A0.3 billion at 31 March 2014 to \$A0.6 billion at 31 March 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014;
 - Corporate and Asset Finance's loan and finance lease portfolios of \$A22.4 billion at 31 March 2015 increased 13% from the prior year driven by growth in the Lending and Leasing portfolios as a result of acquisitions along with the favourable impact of the depreciation of the Australian dollar, partially offset by the sale of the US equipment leasing business. The increased lending and leasing activity in Corporate and Asset Finance also resulted in an increase in external non-recourse funding through securitisations by the SMART Trusts and warehouse facilities; and
 - These increases were partially offset by reduced asset backed lending activity and redemptions from retail products in Macquarie Asset Management.
- Operating lease portfolios within Corporate and Asset Finance benefited from acquisitions of aircraft and the impact of the depreciation of the Australian dollar, partially offset by the disposal of the North American railcar operating lease portfolio, resulting in a net increase in property, plant and equipment;
- The issuance of \$A430 million of Macquarie Bank Capital Notes (BCN) and foreign currency movements on foreign denominated debts resulted in increased loan capital.

Total equity increased \$A2.5 billion from \$A11.9 billion at 31 March 2014 to \$A14.4 billion at 31 March 2015, largely due to a net increase in the foreign currency translation reserve driven by the impact of the depreciation of the Australian dollar, new share issuances including the institutional private placement of \$A500 million, the dividend reinvestment plan of \$A171 million and the share purchase plan of \$A170 million, and net retained earnings generated during the year.

4.2 Loan assets

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

	As at			Movement	
	Mar 15 \$Ab	Sep 14 \$Ab	Mar 14 \$Ab	Sep 14 %	Mar 14 %
Loan assets at amortised cost per statement of financial position	72.8	64.4	58.7	13	24
Other loans held at fair value ⁽¹⁾	0.5	0.6	0.9	(17)	(44)
Operating lease assets	6.3	6.0	5.7	5	11
Other reclassifications ⁽²⁾	1.0	0.5	0.6	100	67
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽³⁾	(16.6)	(15.3)	(13.6)	8	22
Less: segregated funds ⁽⁴⁾	(3.8)	(2.2)	(2.2)	73	73
Less: margin balances (reclassified to trading) ⁽⁵⁾	(5.0)	(4.1)	(2.9)	22	72
Total loan assets per funded balance sheet⁽⁶⁾	55.2	49.9	47.2	11	17

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

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

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

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

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

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

4.0 Balance sheet

continued

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

	Notes	As at		Movement		
		Mar 15 \$Ab	Sep 14 \$Ab	Mar 14 \$Ab	Sep 14 %	Mar 14 %
Mortgages:	1					
Australia		16.7	12.6	10.5	33	59
Canada, United States and Other		4.5	5.2	5.7	(13)	(21)
Total mortgages		21.2	17.8	16.2	19	31
Structured investments	2	2.3	2.3	3.8	–	(39)
Banking	3	5.2	4.9	4.2	6	24
Real estate	4	2.5	2.9	2.5	(14)	–
Resources and commodities	5	3.0	2.6	2.4	15	25
Leasing (finance and operating)	6	10.7	10.7	10.7	–	–
Corporate lending	7	7.9	6.5	6.0	22	32
Other lending	8	2.4	2.2	1.4	9	71
Total		55.2	49.9	47.2	11	17

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential property and supported by mortgage insurance:

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

2. Structured investments

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

3. Banking

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

4. Real estate

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

5. Resources and commodities

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

6. Leasing (finance and operating)

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

7. Corporate lending

Diversified secured corporate lending.

8. Other lending

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

4.3 Equity investments

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

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

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

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

Equity investments reconciliation

	As at		Movement		
	Mar 15 \$Am	Sep 14 \$Am	Mar 14 \$Am	Sep 14 %	Mar 14 %
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	1,076	1,268	1,342	(15)	(20)
Equity investments within investment securities available for sale	2,444	2,024	2,005	21	22
Interests in associates and joint ventures accounted for using the equity method	2,328	2,483	2,447	(6)	(5)
Total equity investments per statement of financial position	5,848	5,775	5,794	1	1
Adjustment for funded balance sheet					
Equity hedge positions ⁽¹⁾	(787)	(1,038)	(1,138)	(24)	(31)
Total funded equity investments	5,061	4,737	4,656	7	9
Adjustments for equity investments analysis					
Other assets ⁽²⁾	9	7	17	29	(47)
Available for sale reserves ⁽³⁾	(688)	(509)	(493)	35	40
Associates reserves ⁽⁴⁾	-	(15)	(20)	(100)	(100)
Total adjusted equity investments⁽⁵⁾	4,382	4,220	4,160	4	5

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

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

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

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

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

4.0 Balance sheet

continued

Equity investments by category

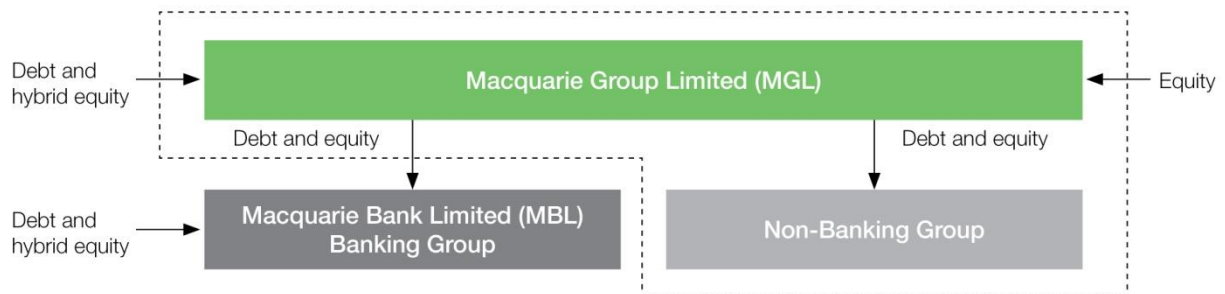
	As at		Movement		
	Mar 15 \$Am	Sep 14 \$Am	Mar 14 \$Am	Sep 14 %	Mar 14 %
Macquarie-managed funds					
Listed MIRA managed funds	669	529	492	26	36
Unlisted MIRA managed funds	810	993	1,036	(18)	(22)
Other Macquarie-managed funds	554	481	414	15	34
Total Macquarie-managed funds	2,033	2,003	1,942	1	5
Other investments					
Transport, industrial and infrastructure	381	335	364	14	5
Telecommunications, information technology, media and entertainment	759	603	549	26	38
Energy, resources and commodities	372	416	445	(11)	(16)
Real estate investment, property and funds management	300	315	369	(5)	(19)
Finance, wealth management and exchanges	537	548	491	(2)	9
Total other investments	2,349	2,217	2,218	6	6
Total equity investments	4,382	4,220	4,160	4	5

5.0 Funding and liquidity

5.1 Overview

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

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



Liquidity management

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

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

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

Liquidity policy and principles

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

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

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

5.0 Funding and liquidity continued

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

Risk Tolerances

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

Liquidity Management Principles

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

Scenario analysis

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

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

Liquid asset holdings

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

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

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

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

The cash and liquid asset portfolio is denominated and held in both Australian Dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. MGL Group had \$A25.7 billion cash and liquid assets as at 31 March 2015 (31 March 2014: \$A19.1 billion), of which \$A23.8 billion was held by the MBL Group (31 March 2014: \$A17.3 billion).

5.0 Funding and liquidity continued

Liquidity contingency plan

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

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

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

Funds transfer pricing

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

Credit ratings

Credit ratings⁽¹⁾ at 31 March 2015 are detailed below.

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

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

Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS-210) details the local implementation of the Basel III liquidity framework for Australian banks. The standard incorporates one of the key quantitative metrics put forward by the Basel Committee – the Liquidity Coverage Ratio (LCR) – as well as a range of qualitative requirements which became effective in January 2014. APRA will later incorporate the other key Basel Committee metric – the Net Stable Funding Ratio (NSFR) – into local standards once the metric is finalised.

Liquidity Coverage Ratio

The LCR requires sufficient HQLA to be held to cover net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. The LCR became a minimum prudential requirement in full for Australian banks on 1 January 2015. In Australia, HQLA includes cash, balances held with the RBA, and Commonwealth Government and semi-government securities, as well as any CLF allocation.

As at 31 March 2015, the Bank Group's LCR exceeded 120%. Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on 1 January 2015, with the average LCR for the first quarter of 2015 also exceeding 120%.

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 requirement in 2018.

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

Macquarie continues to monitor developing liquidity regulations.

5.0 Funding and liquidity continued

5.2 Funded balance sheet

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

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 31 March 2015. The following pages split this between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

The growth in Macquarie's funded balance sheet over the last 12 months is largely driven by foreign currency movements (primarily the depreciation of the AUD/USD exchange rate), growth in Australian mortgage lending and growth in the cash and liquid asset portfolio.

	Notes	As at	
		Mar 15 \$Ab	Mar 14 \$Ab
Total assets per MGL statement of financial position		188.0	153.9
Accounting deductions:			
Self funded trading assets	1	(19.3)	(17.9)
Derivative revaluation accounting gross-ups	2	(17.9)	(11.6)
Life investment contracts and other segregated assets	3	(7.5)	(5.7)
Outstanding trade settlement balances	4	(7.7)	(7.2)
Short term working capital assets	5	(6.2)	(5.5)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	6	(16.6)	(13.4)
Net funded assets		112.8	92.6

Explanatory notes concerning net funded assets

1. Self funded trading assets

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

2. Derivative revaluation accounting gross-ups

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

3. Life investment contracts and other segregated assets

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

4. Outstanding trade settlement balances

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

5. Short term working capital assets

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

6. Securitised and non-recourse assets

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

5.3 Funding profile for consolidated MGL Group

Funded balance sheet

		As at	
	Notes	Mar 15 \$Ab	Mar 14 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.4	1.9
Commercial paper		11.1	6.6
Net trade creditors	2	2.0	1.0
Structured notes	3	2.5	2.3
Secured funding	4	4.4	7.0
Bonds	5	29.8	19.3
Other loans	6	0.5	0.9
Senior credit facility	7	2.6	1.3
Deposits:	8		
Retail deposits		37.3	33.3
Corporate and wholesale deposits		2.4	3.6
Loan capital	9	4.4	3.5
Equity and hybrids	10	14.4	11.9
Total		112.8	92.6
Funded assets			
Cash and liquid assets	11	25.7	19.1
Self securitisation	12	9.5	7.4
Net trading assets	13	21.2	16.7
Loan assets less than one year	14	11.4	11.9
Loan assets greater than one year	14	34.3	27.9
Debt investment securities	15	3.7	3.1
Co-investment in Macquarie-managed funds and other equity investments	16	5.1	4.7
Property, plant and equipment and intangibles		1.9	1.8
Net trade debtors	17	–	–
Total		112.8	92.6

See Section 5.6 for notes 1-17.

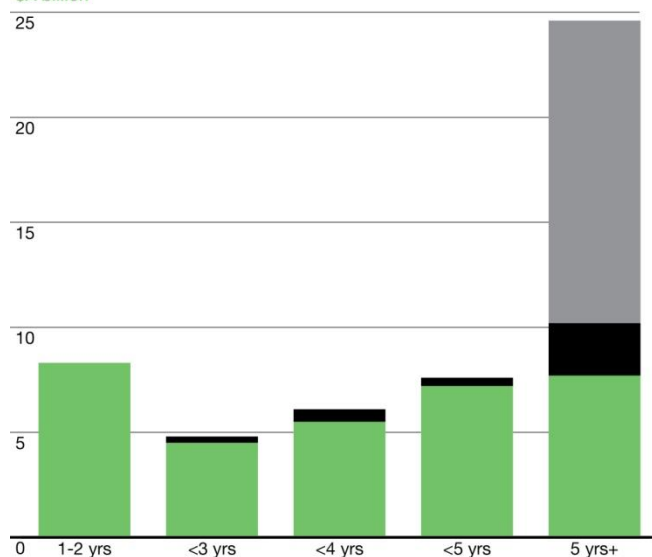
5.0 Funding and liquidity continued

Term funding profile

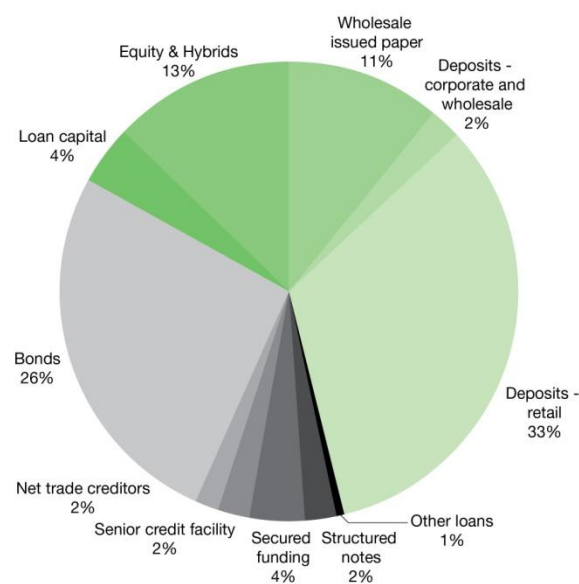
Detail of term funding (drawn & committed but undrawn) maturing beyond one year

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



Diversity of funding sources



As at Mar 15

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes	0.4	0.5	–	–	1.3	2.2
Secured funding	–	–	0.3	–	0.3	0.6
Bonds	7.9	4.0	2.6	7.2	6.1	27.8
Other loans	–	–	–	–	–	–
Senior credit facility	–	–	2.6	–	–	2.6
Total debt	8.3	4.5	5.5	7.2	7.7	33.2
Loan capital	–	0.3	0.6	0.4	2.5	3.8
Equity and hybrids	–	–	–	–	14.4	14.4
Total funding sources drawn	8.3	4.8	6.1	7.6	24.6	51.4
Undrawn	–	–	–	–	–	–
Total funding sources drawn and undrawn	8.3	4.8	6.1	7.6	24.6	51.4

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

At 31 March 2015, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 4.5 years at 31 March 2014 to 4.4 years at 31 March 2015.

As at 31 March 2015, total deposits represented \$A39.7 billion, or 35% of MGL Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented \$A12.5 billion, or 11% of total funding, and other debt funding maturing within 12 months represented \$A9.2 billion, or 8% of total funding.

During the year ended 31 March 2015, all remaining government guaranteed debt was repaid.

Term funding initiatives

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

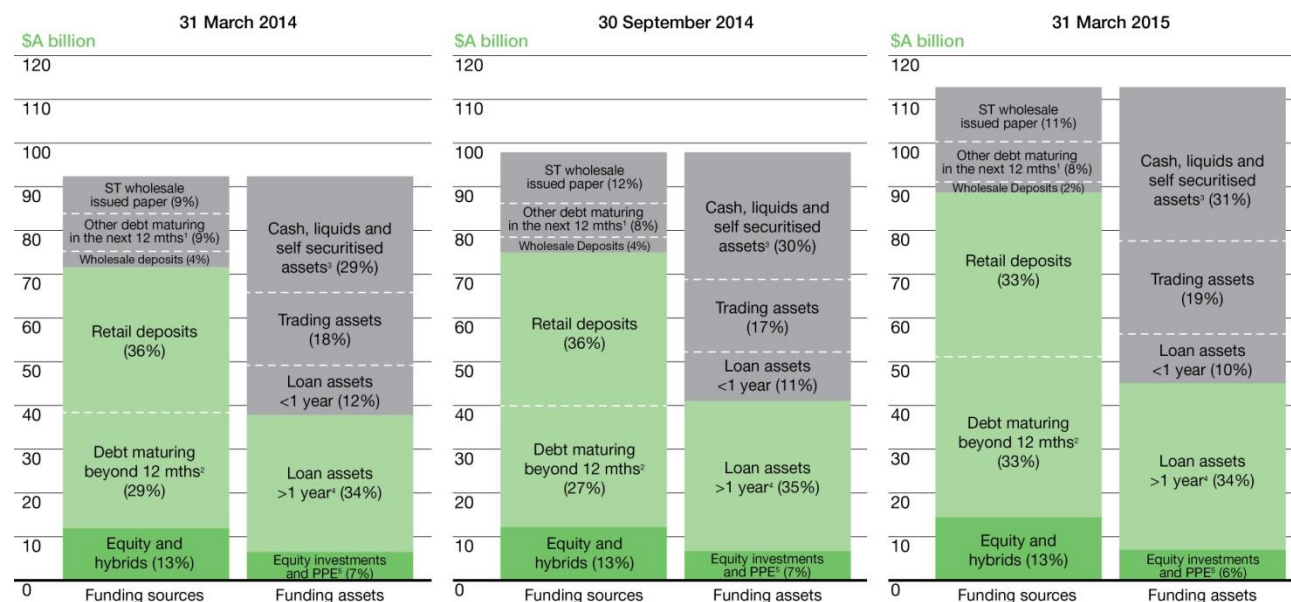
Details of term funding raised between 1 April 2014 and 31 March 2015:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured Funding	– Term securitisation and other secured finance	8.3	–	8.3
Issued paper	– Senior	12.6	0.2	12.8
Loan Capital	– Macquarie Bank Capital Notes (BCN)	0.4	–	0.4
Total		21.3	0.2	21.5

Macquarie has continued to diversify its funding base and develop new markets including issuances in Australia, Japan, Switzerland, Norway, China and the United Kingdom.

Since 31 March 2014, MGL Group raised \$A21.5 billion of term funding, including \$A12.8 billion of term wholesale funding, \$A8.3 billion of term secured finance and \$A0.4 billion of BCN issuance. Wholesale term issuance of \$A12.8 billion includes \$A5.8 billion in senior unsecured debt issuance in the US market, \$A4.5 billion in senior unsecured issuance in European, Australian, Japanese, Swiss and UK markets, \$A2.3 billion in MBL private placements and structured notes and \$A0.2 billion in MGL loan facilities. Term secured finance of \$A8.3 billion includes \$A4.3 billion of PUMA RMBS, \$A3.2 billion of SMART auto and equipment ABS, \$A0.3 billion of Macquarie Equipment Finance ABS and a net increase of \$A0.5 billion of warehouse funding for SMART.

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



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

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

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

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

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

5.0 Funding and liquidity continued

5.4 Funding profile for Bank Group

Funded balance sheet

		As at	
	Notes	Mar 15 \$Ab	Mar 14 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.4	1.9
Commercial paper		11.1	6.6
Net trade creditors	2	1.9	0.7
Structured notes	3	2.0	1.6
Secured funding	4	4.3	6.9
Bonds	5	21.7	11.3
Other loans	6	0.2	0.5
Deposits:	8		
Retail deposits		37.3	33.3
Corporate and wholesale deposits		2.4	3.6
Loan capital	9	3.2	2.5
Equity and hybrids	10	11.6	9.5
Total		97.1	78.4
Funded assets			
Cash and liquid assets	11	23.8	17.3
Self securitisation	12	9.5	7.4
Net trading assets	13	20.3	15.4
Loan assets less than one year	14	11.2	11.7
Loan assets greater than one year	14	33.3	26.9
Debt investment securities	15	3.1	2.6
Non-Bank Group deposit with MBL		(6.4)	(5.0)
Co-investment in Macquarie-managed funds and other equity investments	16	1.1	1.0
Property, plant and equipment and intangibles		1.2	1.1
Net trade debtors	17	–	–
Total		97.1	78.4

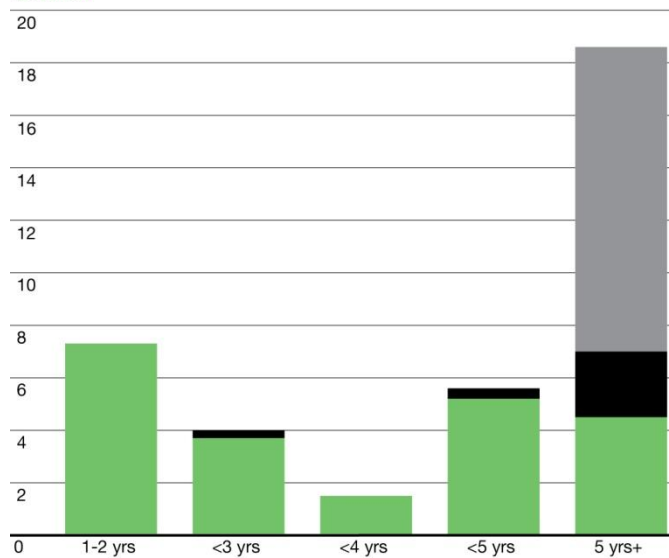
See Section 5.6 for notes 1-17.

Term funding profile

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

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



As at Mar 15

	1-2yrs	2-3yrs	3-4yrs	4-5yrs	5yrs+	Total
	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab
Structured notes	0.1	0.5	–	–	1.3	1.9
Secured funding	–	–	0.3	–	0.3	0.6
Bonds	7.2	3.2	1.2	5.2	2.9	19.7
Other loans	–	–	–	–	–	–
Total debt	7.3	3.7	1.5	5.2	4.5	22.2
Loan capital	–	0.3	–	0.4	2.5	3.2
Equity and hybrids	–	–	–	–	11.6	11.6
Total funding sources drawn	7.3	4.0	1.5	5.6	18.6	37.0
Undrawn	–	–	–	–	–	–
Total funding sources drawn and undrawn	7.3	4.0	1.5	5.6	18.6	37.0

The Bank Group has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) increased from 3.6 years at 31 March 2014 to 4.0 years at 31 March 2015.

As at 31 March 2015, total deposits represented \$A39.7 billion, or 41% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented \$A12.5 billion, or 13% of total funding, and other debt funding maturing within 12 months represented \$A7.9 billion, or 8% of total funding.

5.0 Funding and liquidity continued

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

- \$US25 billion Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US11.9 billion debt securities outstanding at 31 March 2015;
- \$US10 billion Commercial Paper Program under which \$US5.9 billion of debt securities were outstanding at 31 March 2015;
- \$US20 billion US Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 31 March 2015 issuances outstanding amounted to \$US8.8 billion under the Rule 144A/Regulation S Medium Term Note Program; and
- \$US5 billion Structured Note Program under which \$US1.4 billion of funding from structured notes was outstanding at 31 March 2015.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 31 March 2015, MBL Group had \$A1.4 billion of these securities outstanding.

At 31 March 2015, MBL Group had internally securitised \$A9.5 billion of its own mortgages.

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

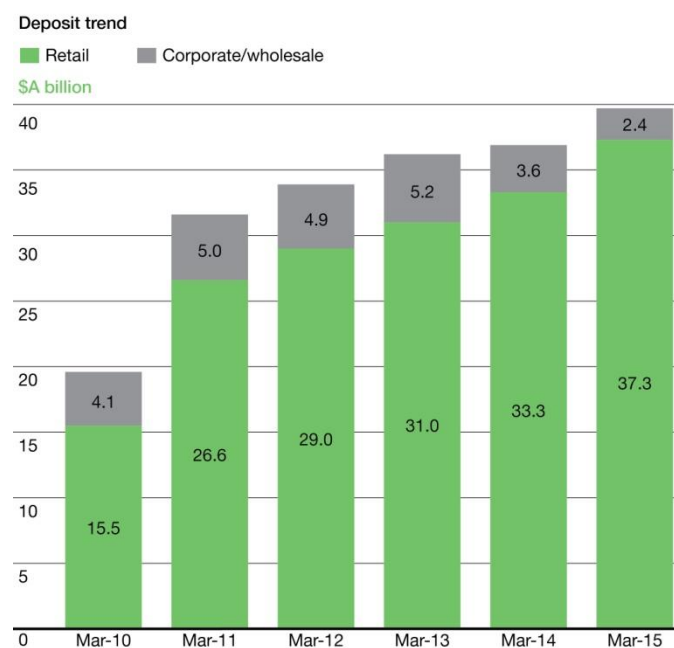
Deposit strategy

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

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

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

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



5.0 Funding and liquidity continued

5.5 Funding profile for Non-Bank Group

Funded balance sheet

		As at	
	Notes	Mar 15 \$Ab	Mar 14 \$Ab
Funding sources			
Net trade creditors	2	0.1	0.3
Structured notes	3	0.5	0.7
Secured funding	4	0.1	0.1
Bonds	5	8.1	8.0
Other loans	6	0.3	0.4
Senior credit facility	7	2.6	1.3
Loan capital	9	1.2	1.0
Equity	10	2.8	2.4
Total		15.7	14.2
Funded assets			
Cash and liquid assets	11	1.9	1.8
Non-Bank Group deposit with MBL		6.4	5.0
Net trading assets	13	0.9	1.3
Loan assets less than one year	14	0.2	0.2
Loan assets greater than one year	14	1.0	1.0
Debt investment securities	15	0.6	0.5
Co-investment in Macquarie-managed funds and other equity investments	16	4.0	3.7
Property, plant and equipment and intangibles		0.7	0.7
Net trade debtors	17	–	–
Total		15.7	14.2

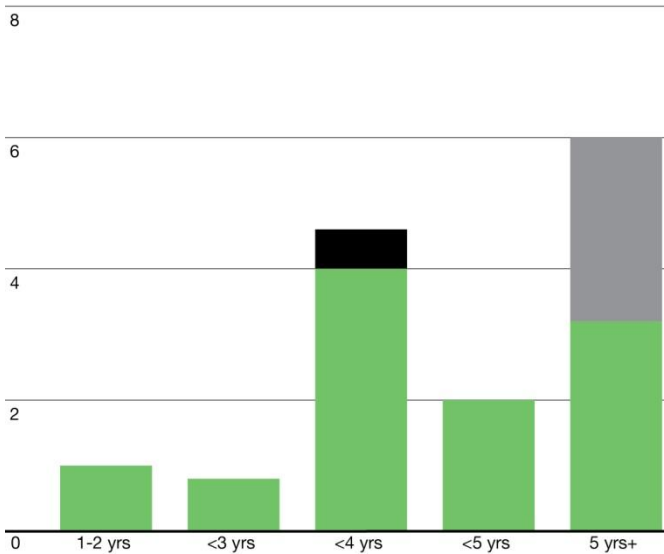
See Section 5.6 for notes 2-17.

Term funding profile

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

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



As at Mar 15

	1-2yrs	2-3yrs	3-4yrs	4-5yrs	5yrs+	Total
	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab
Structured notes	0.3	–	–	–	–	0.3
Secured funding	–	–	–	–	–	–
Bonds	0.7	0.8	1.4	2.0	3.2	8.1
Other loans	–	–	–	–	–	–
Senior credit facility	–	–	2.6	–	–	2.6
Total debt	1.0	0.8	4.0	2.0	3.2	11.0
Loan capital	–	–	0.6	–	–	0.6
Equity	–	–	–	–	2.8	2.8
Total funding sources drawn	1.0	0.8	4.6	2.0	6.0	14.4
Undrawn	–	–	–	–	–	–
Total funding sources drawn and undrawn	1.0	0.8	4.6	2.0	6.0	14.4

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 6.2 years at 31 March 2014 to 5.4 years at 31 March 2015.

As at 31 March 2015, other debt funding maturing within 12 months represented \$A1.3 billion, or 8% of total funding.

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

- Senior Credit Facility was \$US2.0 billion at 31 March 2015;
- \$US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which \$US4.3 billion was outstanding at 31 March 2015; and
- \$US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and MGL Wholesale Notes. The Debt Instrument Program had \$US0.4 billion debt securities outstanding at 31 March 2015.

5.0 Funding and liquidity continued

5.6 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Senior credit facility

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

8. Deposits

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

9. Loan capital

Long term subordinated debt, MCN, BCN, PMI and ECS.

10. Equity and hybrids

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

11. Cash and liquid assets

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

12. Self securitisation

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

13. Net trading assets

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

14. Loan assets

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

15. Debt investment securities

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

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

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

17. Net trade debtors

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

6.0 Capital

6.1 Overview

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

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

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

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2015 include the Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Exchangeable Capital Securities (ECS), Macquarie Bank Capital Notes (BCN), Macquarie Group Capital Notes (MCN) and Preferred Membership Interests (PMI).

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

Pillar 3

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

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

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

6.0 Capital

continued

Macquarie Group Basel III regulatory capital surplus calculation

	As at Mar 15		As at Sep 14		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Macquarie Group eligible capital:						
Bank Group Gross Tier 1 capital	12,297	12,297	9,650	9,650	27	27
Non-Bank Group eligible capital	3,780	3,780	3,586	3,586	5	5
Eligible capital	16,077	16,077	13,236	13,236	21	21
Macquarie Group capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA) ⁽¹⁾	90,291	86,459	73,346	69,943	23	24
Capital required to cover RWA at 7% ⁽²⁾	6,320	6,052	5,134	4,896	23	24
Tier 1 deductions	921	2,798	1,059	2,885	(13)	(3)
Total Bank Group capital requirement	7,241	8,850	6,193	7,781	17	14
Total Non-Bank Group capital requirement	3,216	3,216	2,988	2,988	8	8
Total capital requirement	10,457	12,066	9,181	10,769	14	12
Macquarie Group regulatory capital surplus (at 7%⁽²⁾ of Bank Group RWA)	5,620	4,011	4,055	2,467	39	63
Additional capital requirement required to maintain 8.5%⁽³⁾ of Tier 1 ratio in Bank Group	1,355	1,297	1,100	1,049	23	24
Macquarie Group regulatory capital surplus (at 8.5%⁽³⁾ of Bank Group RWA)	4,265	2,714	2,955	1,418	44	91

(1) In calculating the Bank Group's contribution to MGL's capital requirement, RWA associated with exposures to the Non-Bank Group is eliminated (31 March 2015: \$A39m; 30 September 2014: nil).

(2) Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.

(3) Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is not required by APRA until 2016 and by BIS until 2019.

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2015 consists of MIS, MIPS, ECS and BCN. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

MIPS were issued when the London Branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% per annum until April 2020. As at 31 March 2015, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie. MIPS are eligible for transitional arrangements under Basel III rules.

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

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

6.0 Capital

continued

Bank Group Basel III Tier 1 Capital

	As at Mar 15		As at Sep 14		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Common Equity Tier 1 capital						
Paid-up ordinary share capital	8,690	8,690	7,709	7,709	13	13
Retained earnings	1,884	1,884	1,113	1,113	69	69
Reserves	639	639	169	169	278	278
Gross Common Equity Tier 1 capital	11,213	11,213	8,991	8,991	25	25
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	50	50	109	109	(54)	(54)
Deferred tax assets	108	243	105	201	3	21
Net other fair value adjustments	(66)	(66)	(30)	(30)	120	120
Intangible component of investments in subsidiaries and other entities	479	479	438	438	9	9
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	215	–	173	–	24
Equity exposures	–	1,386	–	1,361	–	2
Shortfall in provisions for credit losses	230	263	317	348	(27)	(24)
Other Common Equity Tier 1 capital deductions	120	228	120	285	–	(20)
Total Common Equity Tier 1 capital deductions	921	2,798	1,059	2,885	(13)	(3)
Net Common Equity Tier 1 capital	10,292	8,415	7,932	6,106	30	38
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	1,084	1,084	659	659	64	64
Gross Additional Tier 1 capital	1,084	1,084	659	659	64	64
Deduction from Additional Tier 1 capital	–	–	–	–	–	–
Net Additional Tier 1 capital	1,084	1,084	659	659	64	64
Total Net Tier 1 capital	11,376	9,499	8,591	6,765	32	40

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Mar 15		As at Sep 14		Movement	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Credit risk						
Subject to IRB approach:						
Corporate	26,204	26,204	19,768	19,768	33	33
SME Corporate	2,086	2,086	1,822	1,822	14	14
Sovereign	330	330	487	487	(32)	(32)
Bank	1,628	1,628	1,454	1,454	12	12
Residential mortgage	3,685	5,111	3,629	4,913	2	4
Other Retail	5,590	5,590	5,258	5,258	6	6
Total RWA subject to IRB approach	39,523	40,949	32,418	33,702	22	22
Specialised lending exposures subject to slotting criteria	7,043	7,043	5,227	5,227	35	35
Subject to Standardised approach:						
Corporate	659	659	763	763	(14)	(14)
Residential mortgage	3,008	3,008	1,783	1,783	69	69
Other Retail	1,265	1,265	1,324	1,324	(4)	(4)
Total RWA subject to Standardised approach	4,932	4,932	3,870	3,870	27	27
Credit risk RWA for securitisation exposures	809	729	1,104	1,038	(27)	(30)
Credit Valuation Adjustment RWA	2,769	2,769	2,455	2,455	13	13
Exposures to Central Counterparties RWA	1,776	1,776	1,830	1,830	(3)	(3)
RWA for Other Assets	10,602	9,795	7,207	6,763	47	45
Total Credit risk RWA	67,454	67,993	54,111	54,885	25	24
Equity risk exposures RWA	4,457	–	4,254	–	5	–
Market risk RWA	6,650	6,650	4,659	4,659	43	43
Operational risk RWA	9,398	9,398	8,377	8,377	12	12
Interest rate risk in banking book RWA	–	–	–	–	–	–
Scaling factor (6%) applied to RWA subject to IRB approach	2,371	2,457	1,945	2,022	22	22
Total Bank Group RWA	90,330	86,498	73,346	69,943	23	24
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	11.4	9.7	10.8	8.7		
Macquarie Bank Group Tier 1 capital ratio (%)	12.6	11.0	11.7	9.7		

6.0 Capital

continued

6.3 Non-Bank Group capital

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

Risk ⁽¹⁾	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment ⁽²⁾ Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

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

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

Non-Bank Group capital requirement

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

	As at Mar 15		
	Asset \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.9	30	20%
Loan assets ⁽¹⁾	1.2	127	133%
Debt investment securities	0.6	77	161%
Co-investments in Macquarie-managed funds and other equity investments	3.8	1,868	619%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.2		
Property, plant and equipment and intangibles	0.7	254	453%
Non Bank Group deposit with MBL	6.4		
Net trading assets	0.9		
Total funded assets	15.7	2,356	
Self-funded and non-recourse assets			
Self funded trading assets	0.9		
Outstanding trade settlement balances	4.5		
Derivative revaluation accounting gross-ups	0.1		
Non-recourse funding	0.1		
Short term working capital assets	3.0		
Total self-funded and non-recourse assets	8.6		
Total Non-Bank Group assets	24.3		
Off balance sheets exposures, operational, market and other risk and diversification offset ⁽²⁾		860	
Non-Bank Group capital requirement		3,216	

⁽¹⁾ Includes leases.

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

7.0 Funds management

7.1 Assets under Management

	As at		Movement		
	Mar 15 \$Ab	Sep 14 \$Ab	Mar 14 \$Ab	Sep 14 %	Mar 14 %
Assets under Management					
Macquarie Investment Management	348.0	307.3	310.5	13	12
Macquarie Infrastructure and Real Assets	133.7	114.2	112.8	17	19
Macquarie Specialised Investment Solutions	2.3	1.8	1.5	28	53
Total Macquarie Asset Management	484.0	423.3	424.8	14	14
Other Operating Groups	2.3	2.1	2.1	10	10
Total Assets under Management	486.3	425.4	426.9	14	14
Assets under Management by region					
Americas	289.0	242.3	236.3	19	22
Europe, Middle East and Africa	86.7	77.7	79.7	12	9
Australia	81.7	66.8	70.5	22	16
Asia	28.9	38.6	40.4	(25)	(28)
Total Assets under Management	486.3	425.4	426.9	14	14
Assets under Management by type					
Fixed income	202.9	183.7	174.2	10	16
Direct infrastructure	125.0	107.1	105.3	17	19
Equities	111.8	90.9	99.1	23	13
Cash	17.8	17.3	16.7	3	7
Direct real estate	6.1	4.3	4.7	42	30
Alternatives	4.2	3.9	7.9	8	(47)
Currency	7.9	8.3	8.1	(5)	(2)
Multi-asset allocation solutions	8.3	8.1	9.4	2	(12)
Specialist investments	2.3	1.8	1.5	28	53
Total Assets under Management	486.3	425.4	426.9	14	14

Assets under Management (AUM) of \$A486.3 billion at 31 March 2015 increased 14% from \$A426.9 billion as at 31 March 2014. The increase in AUM over the period was largely due to additional investments by funds in the MIRA business, and favourable currency and market movements. These were partially offset by the impact of the formation of the JSP joint venture, the management buyout of the MIM Private Markets business and asset disposals by funds in the MIRA business.

Macquarie Investment Management

Macquarie Investment Management's AUM was \$A348.0 billion at 31 March 2015, an increase of 12% from \$A310.5 billion at 31 March 2014 largely due to favourable currency and market movements. These were partially offset by the impact of the formation of the JSP joint venture and the management buyout of the MIM Private Markets business.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Assets' AUM was \$A133.7 billion at 31 March 2015, an increase of 19% from \$A112.8 billion at 31 March 2014 largely due to additional investments by funds and favourable currency and market movements, partially offset by asset disposals by funds.

7.2 Equity under Management

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

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

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

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

Equity under Management by type and region

	As at ⁽¹⁾⁽²⁾		Movement		
	Mar 15 \$Ab	Sep 14 \$Ab	Mar 14 \$Ab	Sep 14 %	Mar 14 %
Equity under Management by type					
Listed equity	16.1	12.2	9.4	32	71
Unlisted equity	50.1	46.3	43.1	8	16
Total EUM	66.2	58.5	52.5	13	26
Equity under Management by region⁽³⁾					
Australia	5.0	4.9	4.8	2	4
Europe, Middle East and Africa	23.2	23.0	23.3	1	(<1)
Americas	23.5	19.8	16.0	19	47
Asia	14.5	10.8	8.4	34	73
Total EUM	66.2	58.5	52.5	13	26

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

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

⁽³⁾ By location of fund management team.

EUM of \$A66.2 billion at 31 March 2015 increased 26% from \$A52.5 billion at 31 March 2014. The increase was primarily due to equity raisings for funds including MIC, Macquarie Asia Infrastructure Fund, Macquarie Infrastructure Partners III and co-investment capital, appreciation in the share price of listed equity, as well as the favourable impact of the depreciation of the Australian dollar since 31 March 2014. These increases were partially offset by returns of capital that resulted from asset divestments during the year.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer, and – provide for fully discretionary capital distributions. As at 31 March 2015, additional Tier 1 Capital consists of MIS, MIPS MIPS ECS and BCN.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS investments are those that have a high probability of being sold within 12 month to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes ("BCN") at face value of \$A100 each. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 330bps margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

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

8.0 Glossary

continued

ECS	On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of Exchangeable Capital Securities (ECS). Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High quality liquid assets.
International income	Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Jackson Square Partners (JSP)	JSP, a Delaware limited liability company, is an entity formed by the former members of the Delaware Investments Focus Growth team. JSP serves as a sub-advisor to certain Delaware Investments mutual funds, and an investment adviser or sub-adviser to other pooled vehicles (including other mutual funds) and separately managed accounts. Delaware Investments owns 49.9% of the total outstanding units of JSP.
Level 2 Bank Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie Income Preferred Securities (MIPS)	MIPS were issued when the London branch of MBL issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

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

8.0 Glossary

continued

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

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9.0 Ten year history

	2006	2007	2008
Financial performance (\$A million)			
Net operating income	4,832	7,181	8,248
Total operating expenses	(3,545)	(5,253)	(6,043)
Operating profit before income tax	1,287	1,928	2,205
Income tax expense	(290)	(377)	(317)
Profit after income tax	997	1,551	1,888
Profit attributable to non-controlling interests	(81)	(88)	(85)
Profit after income tax attributable to ordinary equity holders	916	1,463	1,803
Financial position (\$A million)			
Total assets	106,211	136,389	167,250
Total liabilities	(100,874)	(128,870)	(157,189)
Net assets	5,337	7,519	10,061
Total loan assets	35,126	45,939	53,213
Impaired loan assets (net of provisions)	85	46	121
Share information			
Cash dividends per share (cents per share)			
Interim	90	125	145
Final	125	190	200
Special ⁽¹⁾	–	–	–
Total	215	315	345
Basic earnings per share (cents per share)	400.3	591.6	670.6
Share price at end of period (\$A)	64.68	82.75	52.82
Ordinary share capital (million shares)	232.4	253.9	274.6
Market capitalisation at end of period (fully paid ordinary shares) (\$A million)	15,032	21,010	14,504
Net tangible assets per ordinary share (\$A)	16.99	24.35	30.35
Ratios			
Return on average ordinary shareholders' funds (%)	26.0	28.1	23.7
Ordinary dividend payout ratio (%)	54.4	54.3	52.2
Expense/income ratio (%)	73.4	73.2	73.3
Net loan losses/loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.2	0.1	0.3
Assets under management (\$A billion)	140.3	197.2	232.0
Staff numbers	8,183	10,023	13,107

⁽¹⁾ The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD distribution in January 2014. The total distribution including return of capital was 373 cents per share.

Year ended 31 March						
2009	2010	2011	2012	2013	2014	2015
5,526	6,638	7,665	6,963	6,657	8,132	9,293
(4,537)	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	(6,771)
989	1,294	1,271	1,049	1,405	2,106	2,522
(15)	(201)	(282)	(287)	(533)	(827)	(899)
974	1,093	989	762	872	1,279	1,623
(103)	(43)	(33)	(32)	(21)	(14)	(19)
871	1,050	956	730	851	1,265	1,604
149,144	145,940	157,568	153,626	144,748	153,904	187,976
(139,584)	(134,171)	(145,636)	(141,894)	(132,793)	(141,990)	(173,580)
9,560	11,769	11,932	11,732	11,955	11,914	14,396
47,080	45,660	47,222	46,380	50,793	58,712	72,762
916	551	340	357	368	365	594
145	86	86	65	75	100	130
40	100	100	75	125	160	200
–	–	–	–	–	116	–
185	186	186	140	200	376	330
309.6	320.2	282.5	210.1	251.2	383.6	502.3
27.05	47.25	36.60	29.08	37.15	57.93	76.67
283.4	344.2	346.8	348.6	339.5	321.1	333.5
7,666	16,263	12,693	10,137	12,613	18,601	25,569
27.89	28.40	28.91	28.12	29.94	31.71	38.19
9.9	10.1	8.8	6.8	7.8	11.1	14.0
60.2	60.4	67.3	66.4	79.0	66.8	67.6
82.1	80.5	83.4	84.9	78.9	74.1	72.9
1.9	0.8	0.4	0.5	0.4	0.4	0.7
243.1	325.7	309.8	326.9	347.4	426.9	486.3
12,716	14,657	15,556	14,202	13,663	13,913	14,085

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