



Management Discussion and Analysis

Macquarie Group
Year ended 31 March 2014

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.

Contents

1.0	Result overview	3
1.1	Executive summary	3
2.0	Financial performance analysis	6
2.1	Net interest and trading income	6
2.2	Fee and commission income	9
2.3	Share of net profits of associates and joint ventures	11
2.4	Other operating income and charges	12
2.5	Operating expenses	14
2.6	Headcount	15
2.7	Income tax expense	16
3.0	Segment analysis	17
3.1	Basis of preparation	17
3.2	Macquarie Funds	20
3.3	Corporate and Asset Finance	22
3.4	Banking and Financial Services	24
3.5	Macquarie Securities	27
3.6	Macquarie Capital	29
3.7	Fixed Income, Currencies and Commodities	32
3.8	Corporate	35
3.9	International Income	38
4.0	Balance sheet	40
4.1	Statement of financial position	40
4.2	Loan assets	43
4.3	Equity investments	45
5.0	Funding and liquidity	47
5.1	Overview	47
5.2	Funded balance sheet	52
5.3	Funding profile for consolidated MGL Group	53
5.4	Funding profile for Bank Group	56
5.5	Funding profile for Non-Bank Group	60
5.6	Explanatory notes concerning funding sources and funded assets	62
6.0	Capital	63
6.1	Overview	63
6.2	Bank Group capital	65
6.3	Non-Bank Group capital	68
7.0	Funds management	70
7.1	Assets under Management	70
7.2	Equity under Management	71
8.0	Glossary	72
9.0	Ten year history	78

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 2014, 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 2014 and is current as at 2 May 2014.

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2013.

References to the first half are to the six months ended 30 September 2013.

References to the second half are to the six months ended 31 March 2014.

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 2014, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent audit report to the members of Macquarie Group Limited dated 2 May 2014 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, specific provisions 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 forecast information, actual results may vary in a materially positive or negative manner. Forecasts 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 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Financial performance summary						
Net interest income	845	860	(2)	1,705	1,367	25
Fee and commission income	2,015	1,838	10	3,853	3,379	14
Net trading income	979	591	66	1,570	1,234	27
Share of net profits of associates and joint ventures accounted for using the equity method	79	70	13	149	92	62
Other operating income and charges	535	320	67	855	585	46
Net operating income	4,453	3,679	21	8,132	6,657	22
Employment expenses	(2,006)	(1,730)	16	(3,736)	(3,273)	14
Brokerage, commission and trading-related expenses	(400)	(379)	6	(779)	(604)	29
Occupancy expenses	(187)	(195)	(4)	(382)	(390)	(2)
Non-salary technology expenses	(190)	(133)	43	(323)	(260)	24
Other operating expenses	(374)	(432)	(13)	(806)	(725)	11
Total operating expenses	(3,157)	(2,869)	10	(6,026)	(5,252)	15
Operating profit before income tax	1,296	810	60	2,106	1,405	50
Income tax expense	(520)	(307)	69	(827)	(533)	55
Profit after income tax	776	503	54	1,279	872	47
Profit attributable to non-controlling interests	(12)	(2)	*	(14)	(21)	(33)
Profit attributable to ordinary equity holders of Macquarie Group Limited	764	501	52	1,265	851	49
Key metrics						
Expense to income ratio (%)	70.9	78.0		74.1	78.9	
Compensation ratio (%)	42.3	44.1		43.1	46.1	
Effective tax rate (%)	40.5	38.0		39.5	38.5	
Basic earnings per share (cents per share)	235.0	149.7		383.6	251.2	
Diluted earnings per share (cents per share)	224.8	144.6		369.2	246.1	
Ordinary dividends per share (cents per share)	160.0	100.0		260.0	200.0	
Ordinary dividend payout ratio (%)	66.6	67.1		66.8	79.0	
Special dividend per share (cents per share)	116.0	—		116.0	—	
Annualised return on equity (%)	13.5	8.7		11.1	7.8	

Profit attributable to ordinary equity holders was \$A1,265 million for the year ended 31 March 2014, up 49% from \$A851 million in the prior year.

Macquarie's annuity style businesses – Macquarie Funds, 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 2014 of \$A2,137 million, an increase of 26% on the prior year. The depreciation of the Australian dollar relative to the prior year was a significant contributor to the improved performance of Macquarie Funds, driving increased base fee income, and Corporate and Asset Finance, driving increased net interest and trading income and net operating lease income. Macquarie Funds also benefited from improved performance fees and returns from principal investments. Banking and Financial Services' profit contribution was also up on the prior year, benefiting from growth in loan and deposit volumes and the gain on disposal of an investment in OzForex.

1.0 Result overview

continued

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities – delivered a combined net profit contribution for the year ended 31 March 2014 of \$A1,113 million, an increase of 68% on the prior year. For Macquarie Securities, the key drivers in the improved performance compared to the prior year were improved global equity market conditions combined with the wind down of legacy activities, while Macquarie Capital benefited from improved equity capital markets compared to the prior year. Fixed Income, Currencies and Commodities' profit contribution improved on the prior year mainly due to improved trading opportunities from a general improvement in market conditions across most markets, and increased volatility in commodity markets driving a higher level of client hedging activity.

Net operating income of \$A8,132 million for the year ended 31 March 2014 increased 22% from \$A6,657 million in the prior year. Key drivers of the change from the prior year were:

- A 25% increase in net interest income to \$A1,705 million for the year ended 31 March 2014 from \$A1,367 million in the prior year primarily due to higher interest bearing asset volumes across the Group combined with reduced funding margins.
- A 14% increase in fee and commission income to \$A3,853 million for the year ended 31 March 2014 from \$A3,379 million in the prior year, driven by:
 - increased base fees of \$A1,289 million for the year ended 31 March 2014, up 26% from \$A1,019 million in the prior year primarily due to an increase in AUM that was largely driven by favourable currency and market movements, acquisitions and positive fund flows across Macquarie Funds;
 - increased mergers and acquisitions, advisory and underwriting fees of \$A809 million for the year ended 31 March 2014, up 23% from \$A659 million in the prior year, mainly due to improved equity capital markets which benefited Macquarie Capital; and
 - increased brokerage and commissions income of \$A903 million for the year ended 31 March 2014, up 11% from \$A811 million in the prior year reflecting improved client activity in cash equities across most regions, partially offset by the sale of Macquarie Private Wealth Canada in November 2013.
- A 27% increase in net trading income to \$A1,570 million for the year ended 31 March 2014 up from \$A1,234 million in the prior year, mainly driven by improved trading conditions for Fixed Income, Currencies and Commodities, particularly in commodities markets, and improved trading conditions and market sentiment for Macquarie Securities.
- A 46% increase in other operating income and charges to \$A855 million for the year ended 31 March 2014 from \$A585 million in the prior year. The increase was mainly due to:
 - the gain on SYD distribution of \$A228 million, while the prior year included a gain on change of ownership interest of \$A121 million where Macquarie was required to re-measure ownership interests due to the loss of control or significant influence in certain investments;
 - a reduction in impairment charges on equity investments (including investment securities available for sale and associates and joint ventures) of 37% to \$A243 million for the year ended 31 March 2014 from \$A388 million in the prior year. While mining equity markets remain subdued, investor sentiment and confidence in these markets appear to have stabilised in the second half of the year, resulting in significantly lower levels of equity impairments for Fixed Income, Currencies and Commodities for both the year and the second half compared to the prior year and first half; and
 - an increase in net operating lease income of 27% from \$A417 million in the prior year to \$A529 million for the year ended 31 March 2014 driven by the full year contribution of Corporate and Asset Finance's European Rail operating lease business acquired in January 2013 and the depreciation of the Australian dollar, which favourably impacted earnings from the aircraft, rail and UK Energy Leasing operating lease portfolios.

Total operating expenses increased 15% from \$A5,252 million in the prior year to \$A6,026 million for the year ended 31 March 2014 mainly reflecting the impact of the depreciation of the Australian dollar on offshore expenses in addition to the following key drivers:

- a 14% increase in employment expenses to \$A3,736 million for the year ended 31 March 2014 from \$A3,273 million in the prior year primarily due to higher staff compensation due to the improved performance of the Group. Headcount increased 2% from 13,663 at 31 March 2013 to 13,913 at 31 March 2014. The compensation ratio of 43.1% for the year ended 31 March 2014 decreased from 46.1% in the prior year;
- a 29% increase in brokerage, commission and trading-related expenses from \$A604 million in the prior year to \$A779 million for the year ended 31 March 2014 mainly due to growth of physical metals financing activities;
- a 24% increase in non-salary technology expenses from \$A260 million in the prior year to \$A323 million for the year ended 31 March 2014 mainly driven by an increase in information technology development activity largely in response to increased regulatory requirements; and
- an 11% increase in other operating expenses from \$A725 million in the prior year to \$A806 million for the year ended 31 March 2014 mainly driven by an increase in business activity.

Income tax expense for the year ended 31 March 2014 was \$A827 million, up 55% from \$A533 million in the prior year mainly due to the 50% increase in operating profit before income tax from \$A1,405 million in the prior year to \$A2,106 million for the year ended 31 March 2014. The effective tax rate for the year ended 31 March 2014 of 39.5% was slightly up on the prior year reflecting the geographic mix of income and tax uncertainties.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest income	845	860	(2)	1,705	1,367	25
Net trading income	979	591	66	1,570	1,234	27
Net interest and trading income	1,824	1,451	26	3,275	2,601	26

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

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

For businesses that predominantly earn income from lending activities (Corporate 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 Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Macquarie Funds	(18)	(5)	260	(23)	—	*
Corporate and Asset Finance	386	277	39	663	579	15
Banking and Financial Services	372	366	2	738	642	15
Macquarie Securities	109	125	(13)	234	132	77
Macquarie Capital	(32)	(3)	*	(35)	(59)	(41)
Fixed Income, Currencies and Commodities						
Commodities ⁽¹⁾	731	393	86	1,124	713	58
Credit, interest rates and foreign exchange	233	223	4	456	461	(1)
Corporate	43	75	(43)	118	133	(11)
Net interest and trading income	1,824	1,451	26	3,275	2,601	26

⁽¹⁾ Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

Net interest and trading income of \$A3,275 million for the year ended 31 March 2014 increased 26% from \$A2,601 million in the prior year. Most Operating Groups contributed to the increase, with key drivers being the impact of the depreciation of the Australian dollar relative to the prior year, reduced funding margins, improved trading conditions for certain businesses in Fixed Income, Currencies and Commodities and Macquarie Securities, growth in the loan and lease portfolios in Corporate and Asset Finance, higher loan volumes in Banking and Financial Services and an expanded debt investment portfolio in Macquarie Capital.

Macquarie Funds

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

Net interest and trading expense of \$A23 million for the year ended 31 March 2014 compares to \$Anil in the prior year. The increased expense for the year was primarily due to higher funding costs associated with balance sheet investments

Corporate and Asset Finance

Net interest and trading income in Corporate and Asset Finance predominantly 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 \$A663 million for the year ended 31 March 2014 increased 15% from \$A579 million in the prior year. The increase was mainly due to the favourable impact of the depreciation of the Australian dollar on income earned from non-Australian dollar denominated loan and finance lease portfolios, combined with organic growth of the motor vehicle lease portfolio. Partially offsetting this growth was the full year impact of funding costs associated with the European Rail operating lease business acquired in January 2013.

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 businesses, 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 \$A738 million for the year ended 31 March 2014 increased 15% from \$A642 million in the prior year primarily due to higher loan and deposit volumes.

Retail deposits increased 7% to \$A33.3 billion at 31 March 2014 from \$A31.0 billion at 31 March 2013.

The total Australian loan portfolio of \$A21.5 billion at 31 March 2014 increased 39% from \$A15.5 billion at 31 March 2013 primarily due to a 47% increase in the Australian mortgage portfolio to \$A17.0 billion at 31 March 2014 from \$A11.6 billion at 31 March 2013, resulting primarily from increased lending activity.

Banking and Financial Services also maintains a legacy loan portfolio which primarily comprises residential mortgages in Canada and the US that are in run-off. The legacy loan portfolio closed at a combined \$A5.5 billion at 31 March 2014, down 26% from \$A7.4 billion at 31 March 2013.

Macquarie Securities

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

Net interest and trading income of \$A234 million for the year ended 31 March 2014 increased 77% from \$A132 million in the prior year mainly due to improved trading conditions and market sentiment driving higher product flow, particularly across the Asia platform, and reduced losses in legacy businesses.

Macquarie Capital

Net interest and trading expense in Macquarie Capital relates to the interest income and funding costs associated with debt and equity investment portfolios, and fair value movements associated with derivative products typically held as part of debt or equity transactions in which Macquarie Capital is involved.

2.0 Financial performance analysis

continued

Net interest and trading expense was \$A35 million for the year ended 31 March 2014, a decrease of 41% from \$A59 million in the prior year. The change was primarily due to increased net interest income as a result of an expanded debt portfolio, partially offset by higher net trading expense in the year ended 31 March 2014 that reflects Macquarie Capital's share of fair value movements on swap transactions shared with Fixed Income, Currencies and Commodities.

Fixed Income, Currencies and Commodities

Net interest and trading income in Fixed Income, Currencies and Commodities is earned from a broad range of financial markets activities including trading, financing and the provision of risk management solutions to clients.

Commodities

Commodities trading income of \$A1,124 million for the year ended 31 March 2014 increased 58% from \$A713 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 and improved trading opportunities, particularly in the US Gas, US Power and Global Oil businesses. Mature physical trading capabilities provided opportunities for the energy business to leverage volatility and service client opportunities.

Precious metals markets saw increased volatility and falling prices, particularly in the first half, resulting in increased client hedging activity and associated trading income.

Base metals markets experienced low levels of volatility compared to the prior year, dampening both trading results and client hedging activity; however growth of physical metals financing activities resulted in higher overall trading income from these markets. The increased trading income was largely offset by associated storage costs that, for accounting purposes, are recognised in brokerage, commissions and trading-related expenses.

Reduced market volatility in agricultural markets led to lower client activity and limited trading opportunities.

Credit, interest rates and foreign exchange

Net interest and trading income from credit, interest rates and foreign exchange products of \$A456 million for the year ended 31 March 2014 decreased 1% from \$A461 million in the prior year. The credit environment was mixed, with lower confidence experienced in the higher yield markets for a large portion of the year, while volatility and volumes improved in foreign exchange compared to the prior year.

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 \$A118 million for the year ended 31 March 2014 decreased 11% from \$A133 million in the prior year primarily due to reduced earnings on capital as a result of lower interest rates.

2.2 Fee and commission income

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Base fees	661	628	5	1,289	1,019	26
Performance fees	143	76	88	219	164	34
Mergers and acquisitions, advisory and underwriting fees	452	357	27	809	659	23
Brokerage and commissions	434	469	(7)	903	811	11
Other fee and commission income	325	308	6	633	726	(13)
Total fee and commission income	2,015	1,838	10	3,853	3,379	14

Total fee and commission income of \$A3,853 million for the year ended 31 March 2014 increased 14% from \$A3,379 million in the prior year. This was largely due to growth in base fee income resulting from higher AUM; and increased mergers and acquisitions, advisory and underwriting fees driven by an improvement in activity in equity capital markets that also benefited brokerage and commissions fee income.

Base and performance fees

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Base fees						
Macquarie Funds						
Macquarie Investment Management	393	356	10	749	591	27
Macquarie Infrastructure and Real Assets	247	246	<1	493	383	29
Macquarie Specialist Investment Solutions	12	8	50	20	15	33
Total Macquarie Funds	652	610	7	1,262	989	28
Other Operating Groups	9	18	(50)	27	30	(10)
Total base fee income	661	628	5	1,289	1,019	26

Performance fees

Macquarie Funds						
Macquarie Investment Management	46	9	*	55	25	120
Macquarie Infrastructure and Real Assets	96	66	45	162	139	17
Total Macquarie Funds	142	75	89	217	164	32
Other Operating Groups	1	1	—	2	—	*
Total performance fee income	143	76	88	219	164	34

Base fees income of \$A1,289 million for the year ended 31 March 2014 increased 26% from \$A1,019 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Funds where base fee income increased 28% to \$A1,262 million for the year ended 31 March 2014 from \$A989 million in the prior year. This was primarily due to an increase in AUM, largely due to the favourable impact of the depreciation of the Australian dollar, acquisitions, market movements and positive fund flows. Base fee growth also reflects fund raisings and investments in the infrastructure and real assets business, positive underlying fund flows, particularly into higher margin products, and the acquisition of ING Investment Management Korea in December 2013. These were partially offset by the impact of asset disposals in the infrastructure and real assets business.

Refer to Section 7.1 Assets under Management for further details.

2.0 Financial performance analysis

continued

Performance fees, which are typically generated from Macquarie-managed funds that have outperformed pre-defined benchmarks, of \$A219 million for the year ended 31 March 2014 increased 34% from \$A164 million in the prior year. The year ended 31 March 2014 included significant performance fees from MWREF Ltd (a wholesale property fund), Quant Hedge Funds, Macquarie Infrastructure Company LLC (MIC) and Macquarie Atlas Roads (MQA). The prior year income related primarily to performance fees earned as a result of MIC, MQA and DUET Group outperforming their respective benchmarks, and performance fees earned upon the sale of investments in Wales & West Utilities by third party co-investors.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of \$A809 million for the year ended 31 March 2014 increased 23% from \$A659 million in the prior year as improved sentiment in global equity markets resulted in increased income from both advisory activities and equity capital market activities relative to the prior year. Refer to Section 3.6 Macquarie Capital for further information and details of significant transactions for the year ended 31 March 2014.

Brokerage and commissions

Brokerage and commissions income of \$A903 million for the year ended 31 March 2014 increased 11% from \$A811 million in the prior year. The increase was mainly driven by improved client activity in cash equities across most regions. Global markets saw inflows into equities during the year ended 31 March 2014 that were further leveraged across Macquarie's global platform through gains in market share. This was partly offset by reduced brokerage and commissions income within Banking and Financial Services primarily due to the sale of Macquarie Private Wealth Canada in November 2013.

Other fee and commission income

Other fee and commission income of \$A633 million for the year ended 31 March 2014 decreased 13% from \$A726 million in the prior year. Other fee and commission income includes fees earned on Funds under Administration (including the Australian Wrap platform), mortgages, insurance, credit cards and business banking, as well as distribution service fees, structuring fees, capital protection fees and income from Macquarie's True Index products.

The prior year included fees received on the internalisation of the management of DUET Group and the IPO of Macquarie Mexican REIT. Additionally, the sales of Macquarie Private Wealth Canada in November 2013 and the COIN institutional business in August 2012 resulted in lower fee revenue for the year ended 31 March 2014 compared to the prior year. This was partially offset by growth in Funds under Administration on the Australian Wrap platform, which closed at \$A37.7 billion on 31 March 2014, an increase of 50% from \$A25.1 billion at 31 March 2013. The increase was primarily due to the integration of Perpetual's \$A7.6 billion Private Wealth Platform into Macquarie's Wrap platform in April 2013, other net inflows, and an increase in underlying equity market values.

2.3 Share of net profits of associates and joint ventures

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Share of net profits of associates and joint ventures accounted for using the equity method	79	70	13	149	92	62

Share of net profits of associates and joint ventures of \$A149 million for the year ended 31 March 2014 increased 62% from \$A92 million in the prior year. The increase was predominantly due to net profits in Macquarie Funds arising from the sale of assets by a number of unlisted infrastructure funds in which Macquarie has investments, 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. This was partially offset by lower net profits in the Corporate segment which primarily relates to non-core investments.

2.0 Financial performance analysis

continued

2.4 Other operating income and charges

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net gains on sale of investment securities available for sale	366	75	*	441	114	287
Impairment charge on investment securities available for sale	(21)	(70)	(70)	(91)	(232)	(61)
Net gains on sale of associates (including associates held for sale) and joint ventures	25	36	(31)	61	208	(71)
Impairment charge on interest in associates and joint ventures	(140)	(12)	*	(152)	(156)	(3)
Gain/(loss) on acquiring, disposing and change in ownership interest in subsidiaries	28	(2)	*	26	24	8
Net gains on change of ownership interests	2	—	*	2	121	(98)
Impairment charge on non-financial assets	(4)	(24)	(83)	(28)	(43)	(35)
Net operating lease income						
Rental income	481	449	7	930	724	28
Depreciation on operating lease assets	(210)	(191)	10	(401)	(307)	31
Dividends/distributions received/receivable	104	104	—	208	142	46
Collective allowance for credit losses provided for during the financial year	(37)	(21)	76	(58)	(3)	*
Specific provisions	(104)	(74)	41	(178)	(186)	(4)
Other income	45	50	(10)	95	179	(47)
Total other operating income and charges	535	320	67	855	585	46

Total other operating income and charges of \$A855 million for the year ended 31 March 2014 increased 46% from \$A585 million in the prior year mainly due to the gain on the SYD distribution in January 2014, reduced charges for equity impairments and increased net operating lease income.

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totalled \$A502 million for the year ended 31 March 2014, an increase of 56% from \$A322 million in the prior year. Net gains in the year ended 31 March 2014 included a \$A228 million gain on the SYD distribution in January 2014 and 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, and non-financial assets totalled \$A271 million for the year ended 31 March 2014, a decrease of 37% from \$A431 million in the prior year. While mining equity markets remain weak, investor sentiment and confidence in these markets appear to have stabilised in the second half of the year, resulting in significantly lower levels of equity impairments for Fixed Income, Currencies and Commodities for both the year and the second half compared to the prior year and the first half. In addition, lower impairment charges were recognised during the year on legacy investments held within the Corporate segment.

Net gains on change of ownership interests were not significant for the year ended 31 March 2014, while the prior year included a gain in the Corporate segment on reclassification of a listed investment in an associate to an investment available for sale following the loss of significant influence, partly offset by a loss relating to an equity accounted investment in Macquarie Capital where Macquarie lost significant influence on the IPO of the investment and was required to revalue its retained investment to fair value.

Net operating lease income, which is predominantly earned by Corporate and Asset Finance, totalled \$A529 million for the year ended 31 March 2014, an increase of 27% from \$A417 million in the prior year. The increase was mainly driven by the full year contribution of the European Rail operating lease business acquired in January 2013 and the depreciation of the Australian dollar relative to the prior year, which has favourably impacted earnings from the aircraft, rail and UK Energy Leasing operating lease portfolios.

Dividends/distributions received/receivable of \$A208 million for the year ended 31 March 2014 increased 46% from \$A142 million in the prior year. The increase was mainly due to dividend streams from new investments, entities previously not paying dividends or entities previously classified as an investment in an associate but now classified as an investment security held for sale.

Net charges for specific and collective provisions of \$A236 million for the year ended 31 March 2014 increased 25% from \$A189 million in the prior year largely due to additional collective provisions in Corporate and Asset Finance mainly reflecting growth in the lending and leasing books and specific provisions, and higher provisions in Fixed Income, Currencies and Commodities predominantly relating to loan assets in the resource and energy sectors. This was partly offset by provision write backs within Macquarie Funds reflecting the release of various specific provisions for doubtful debts following their recovery or settlement during the year.

Other income of \$A95 million for the year ended 31 March 2014 decreased 47% from \$A179 million in the prior year. The decrease was largely due to reduced net operating results from consolidated principal investments following the sale of a number of these investments by Macquarie Capital in the year ended 31 March 2014, while the prior year included a gain from the sales of aircraft by Corporate and Asset Finance.

2.0 Financial performance analysis

continued

2.5 Operating expenses

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Employment expenses						
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,753)	(1,464)	20	(3,217)	(2,806)	15
Share based payments	(131)	(153)	(14)	(284)	(273)	4
Reversal/(provision) for annual leave	3	(7)	*	(4)	6	*
(Provision)/reversal for long service leave	(2)	2	*	—	1	(100)
Total compensation expenses	(1,883)	(1,622)	16	(3,505)	(3,072)	14
Other employment expenses including on-costs, staff procurement and staff training	(123)	(108)	14	(231)	(201)	15
Total employment expenses	(2,006)	(1,730)	16	(3,736)	(3,273)	14
Brokerage, commission and trading-related expenses	(400)	(379)	6	(779)	(604)	29
Occupancy expenses	(187)	(195)	(4)	(382)	(390)	(2)
Non-salary technology expenses	(190)	(133)	43	(323)	(260)	24
Other operating expenses:						
Professional fees	(102)	(155)	(34)	(257)	(232)	11
Auditor's remuneration	(13)	(11)	18	(24)	(24)	—
Travel and entertainment expenses	(80)	(70)	14	(150)	(134)	12
Advertising and communication expenses	(50)	(46)	9	(96)	(91)	5
Amortisation of intangibles	(28)	(38)	(26)	(66)	(62)	6
Other expenses	(101)	(112)	(10)	(213)	(182)	17
Total other operating expenses	(374)	(432)	(13)	(806)	(725)	11
Total operating expenses	(3,157)	(2,869)	10	(6,026)	(5,252)	15

Total operating expenses of \$A6,026 million for the year ended 31 March 2014 increased 15% from \$A5,252 million in the prior year mainly due to the impact of the depreciation of the Australian dollar on offshore costs and higher employment expenses which were also the main drivers of the 10% increase in total operating expenses from \$A2,869 million for the first half to \$A3,157 million for the second half.

Total employment expenses of \$A3,736 million for the year ended 31 March 2014 increased 14% from \$A3,273 million in the prior year mainly reflecting the impact of the depreciation of the Australian dollar on offshore expenses relative to the prior year, and higher staff compensation resulting from the improved performance of the Group. Refer to Section 2.6 Headcount for further information and details of Macquarie's headcount.

Brokerage, commission and trading-related expenses of \$A779 million for the year ended 31 March 2014 increased 29% from \$A604 million in the prior year. The increase was mainly due to growth of physical commodities financing activities resulting in higher storage costs that, for accounting purposes, are reported within operating expenses while the associated income is included within net trading income for Fixed Income, Currencies and Commodities, combined with the impact of the depreciation of the Australian dollar on offshore expenses relative to the prior year.

Occupancy expenses of \$A382 million for the year ended 31 March 2014 decreased 2% from \$A390 million in the prior year, mainly due to the sale of Macquarie Private Wealth Canada in November 2013 and full year savings from the consolidation of leased office space in New York, Hong Kong and Sydney in the prior year, partly offset by increased costs associated with the outsourcing of facilities management.

Non-salary technology expenses of \$A323 million for the year ended 31 March 2014 increased 24% from \$A260 million in the prior year due to an increase in information technology development activity largely in response to increased regulatory requirements and the outsourcing of selected non-core technology functions.

Total other operating expenses of \$A806 million for the year ended 31 March 2014 increased 11% from \$A725 million in the prior year. The increase was mainly due to increased business activity and the impact of the depreciation of the Australian dollar on offshore costs relative to the prior year.

2.6 Headcount

	As at			Movement	
	Mar 14	Sep 13	Mar 13	Sep 13 %	Mar 13 %
Headcount by group					
Macquarie Funds	1,510	1,445	1,472	4	3
Corporate and Asset Finance	1,039	976	957	6	9
Banking and Financial Services	2,419	2,891	2,848	(16)	(15)
Macquarie Securities	1,050	1,038	1,020	1	3
Macquarie Capital	1,141	1,117	1,105	2	3
Fixed Income, Currencies and Commodities	944	932	946	1	(<1)
Total headcount — Operating Groups	8,103	8,399	8,348	(4)	(3)
Total headcount — Corporate	5,810	5,502	5,315	6	9
Total headcount	13,913	13,901	13,663	<1	2
Headcount by region					
Australia ⁽¹⁾	6,533	6,167	6,124	6	7
International:					
Americas	2,685	3,255	3,253	(18)	(17)
Asia	3,447	3,280	3,093	5	11
Europe, Middle East and Africa	1,248	1,199	1,193	4	5
Total headcount — International	7,380	7,734	7,539	(5)	(2)
Total headcount	13,913	13,901	13,663	<1	2
International headcount ratio (%)	53	56	55		

⁽¹⁾ Includes New Zealand.

Total headcount of 13,913 at 31 March 2014 increased 2% from 13,663 at 31 March 2013.

The total headcount of Operating Groups was 8,103 at 31 March 2014, a decrease of 3% from 8,348 at 31 March 2013. Initiatives in Banking and Financial Services' were the main drivers of the decrease during the year, with headcount down 15% to 2,419 primarily due to the sale of Macquarie Private Wealth Canada in November 2013. Corporate and Asset Finance's headcount increased 9% from 31 March 2013 to 1,039 at 31 March 2014, primarily in Australia, as they continued to invest in capabilities to support the growth of the business. Macquarie Funds' headcount increased 3% from the prior year to 1,510 at 31 March 2014 predominantly driven by the acquisition of the ING Investment Management business in Korea which added 57 staff.

Total Corporate headcount was 5,810 at 31 March 2014, an increase of 9% from 5,315 at 31 March 2013. The increase in headcount was mainly attributed to growth in the regional service hubs supporting Macquarie's global operating platform, particularly in Asia, driven by a continued increase in regulatory and compliance requirements; as well as increased technology staff required for information technology development projects across Macquarie.

2.0 Financial performance analysis

continued

2.7 Income tax expense

	Full-year to	
	Mar 14 \$Am	Mar 13 \$Am
Operating profit before income tax	2,106	1,405
Prima facie tax @ 30%	632	422
Income tax permanent differences	195	111
Income tax expense	827	533
Effective tax rate⁽¹⁾	39.5%	38.5%

⁽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 \$A14 million for the year ended 31 March 2014 (31 March 2013: \$A21 million). The effective tax rate differs from the Australian company tax rate due to permanent tax differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned outside of Australia.

Income tax expense for the year ended 31 March 2014 was \$A827 million, up 55% from \$A533 million in the prior year with an effective tax rate of 39.5%, slightly up from 38.5% in the prior year. The increase was mainly driven by a 50% increase in operating profit before income tax, from \$A1,405 million in the prior year to \$A2,106 million for the year ended 31 March 2014, in addition to a 76% increase in income tax permanent differences, which includes the impact of offshore income tax rate differentials, from \$A111 million in the prior year to \$A195 million in the year ended 31 March 2014. The effective tax rate reflected the geographic mix of income and tax uncertainties.

3.0 Segment analysis

3.1 Basis of preparation

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:

- Macquarie Funds
- Corporate and Asset Finance
- Banking and Financial Services
- Macquarie Securities
- Macquarie Capital
- Fixed Income, Currencies and Commodities.

In addition, there is a Corporate segment which includes head office and central support functions including Group Treasury, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

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, unallocated head office costs and employment related costs of central support functions, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

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, Financial Management, Risk Management, Legal and Governance and Central Executive.

Internal transactions

All transactions and transfers between segments are 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 the key policies.

Internal funding arrangements

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.

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.

During the year ended 31 March 2014, Group Treasury revised internal funding transfer pricing arrangements relating to Banking and Financial Services' deposit and lending activities. Comparative information presented in this document has been restated to reflect the current methodology.

Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms. 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.

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense and benefits. Non-assessable income generated by an Operating Group results in management revenue added to that group's operating result. Conversely a non-deductible expense results in a management charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that on aggregation the total nets to nil.

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.

3.0 Segment analysis

continued

	Macquarie Funds \$Am	Corporate and Asset Finance \$Am	Banking and Financial Services \$Am
Full-year ended 31 March 2014			
Net interest and trading income/(expense)	(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/(charges)	112	491	—
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
Full-year ended 31 March 2013			
Net interest and trading income/(expense)	—	579	642
Fee and commission income/(expense)	1,442	41	645
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	36	(3)	3
Other operating income/(charges)	20	427	(8)
Internal management revenue/(charge)	16	8	9
Net operating income	1,514	1,052	1,291
Total operating expenses	(760)	(358)	(1,048)
Profit/(loss) before tax	754	694	243
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	1	—	—
Net profit/(loss) contribution	755	694	243

Macquarie Securities \$Am	Macquarie Capital \$Am	Fixed Income, Currencies and Commodities \$Am	Corporate \$Am	Total \$Am
234	(35)	1,580	118	3,275
633	727	162	(1)	3,853
—	18	23	2	149
(3)	100	(76)	231	855
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
132	(59)	1,174	133	2,601
502	586	171	(8)	3,379
—	13	28	15	92
23	115	(87)	95	585
6	10	17	(66)	—
663	665	1,303	169	6,657
(713)	(519)	(740)	(1,114)	(5,252)
(50)	146	563	(945)	1,405
—	—	—	(533)	(533)
—	4	—	(26)	(21)
(50)	150	563	(1,504)	851

3.0 Segment analysis

continued

3.2 Macquarie Funds

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest and trading expense	(18)	(5)	260	(23)	—	*
Fee and commission income						
Base fees	652	610	7	1,262	989	28
Performance fees	142	75	89	217	164	32
Brokerage and commissions	16	16	—	32	27	19
Other fee and commission income	105	104	1	209	262	(20)
Total fee and commission income	915	805	14	1,720	1,442	19
Share of net profits of associates and joint ventures accounted for using the equity method	56	47	19	103	36	186
Other operating income and charges						
Net gains on sale of equity investments	19	23	(17)	42	18	133
Impairment (charge)/write back on equity investments and non-financial assets	(2)	1	*	(1)	(24)	(96)
Specific provisions and collective allowance for credit losses written back/(provided for)	1	4	(75)	5	(11)	*
Other income	40	26	54	66	37	78
Total other operating income and charges	58	54	7	112	20	*
Internal management revenue	10	6	67	16	16	—
Net operating income	1,021	907	13	1,928	1,514	27
Operating expenses						
Employment expenses	(163)	(143)	14	(306)	(267)	15
Brokerage, commission and trading-related expenses	(86)	(87)	(1)	(173)	(150)	15
Other operating expenses	(221)	(177)	25	(398)	(343)	16
Total operating expenses	(470)	(407)	15	(877)	(760)	15
Non-controlling interests ⁽¹⁾	—	—	—	—	1	(100)
Net profit contribution	551	500	10	1,051	755	39
Non-GAAP metrics						
MFG (including MIRA) assets under management (\$A billion)	424.8	380.7	12	424.8	343.5	24
MIRA equity under management (\$A billion)	52.5	49.6	6	52.5	41.0	28
Headcount	1,510	1,445	4	1,510	1,472	3

⁽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.

Macquarie Funds' net profit contribution of \$A1,051 million for the year ended 31 March 2014 increased 39% from \$A755 million in the prior year. The improved result was primarily driven by growth in annuity base fee income from higher assets and equity under management, increased performance fee income and higher equity accounted gains from infrastructure and real estate funds in which Macquarie has investments, partially offset by higher expenses resulting from increased business activity and business reorganisations. The depreciation of the Australian dollar relative to the prior year impacted both revenue and expenses and had an overall favourable impact on the net profit contribution of Macquarie Funds.

Net interest and trading expense

Net interest and trading expense of \$A23 million for the year ended 31 March 2014 compares to \$Anil in the prior year. The increased expense for the year was primarily due to higher funding costs associated with balance sheet investments.

Base fees

Base fee income of \$A1,262 million for the year ended 31 March 2014 increased 28% from \$A989 million in the prior year. This was primarily driven by an increase in AUM, up 24% from \$A343.5 billion at 31 March 2013 to \$A424.8 billion at 31 March 2014, largely due to the favourable impact of the depreciation of the Australian dollar, acquisitions, market movements and positive fund flows. Base fee growth also reflects fund raisings and investments in the infrastructure and real assets business, positive underlying fund flows, particularly into higher margin products, the full year impact of the transfer of Macquarie Professional Series from Banking and Financial Services from 1 October 2012 and the acquisition of ING Investment Management Korea in December 2013. These were partially offset by the impact of asset disposals in the infrastructure and real assets business.

Refer to Section 7 for a breakdown of Macquarie Funds' Assets under Management and Equity under Management.

Performance fees

Performance fee income of \$A217 million for the year ended 31 March 2014 increased 32% from \$A164 million in the prior year. The year ended 31 March 2014 included significant performance fees from MWREF Ltd (a wholesale property fund), Quant Hedge Funds, Macquarie Infrastructure Company LLC (MIC) and Macquarie Atlas Roads (MQA). The prior year income related primarily to performance fees earned as a result of MIC, MQA and DUET Group outperforming their respective benchmarks, and performance fees earned upon the sale of investments in Wales & West Utilities by third party co-investors.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees 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 \$A209 million for the year ended 31 March 2014 decreased 20% from \$A262 million in the prior year primarily due to fees received in the prior year on the internalisation of the management of DUET Group and the IPO of Macquarie Mexican REIT. This was partially offset by the favourable impact of the depreciation of the Australian dollar.

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

Share of net profits of associates and joint ventures of \$A103 million for the year ended 31 March 2014 increased significantly from \$A36 million in the prior year. The year ended 31 March 2014 included equity accounted gains arising from the sale of assets by a number of unlisted infrastructure funds in which Macquarie has investments, 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 \$A42 million for the year ended 31 March 2014 included gains from the partial sale of listed infrastructure investments including MIC and MQA, as well as a gain on the sale of an investment in an unlisted infrastructure fund.

Specific provisions and collective allowance for credit losses written back/(provided for)

Specific provisions and collective allowance for credit losses written back of \$A5 million for the year ended 31 March 2014 largely reflected the release of various specific provisions for doubtful debts following their recovery or settlement during the year.

Other income

Other income of \$A66 million for the year ended 31 March 2014 increased 78% from \$A37 million in the prior year. The increase was primarily driven by higher dividend income from investments, in particular MIC and MQA.

Operating expenses

Total operating expenses of \$A877 million for the year ended 31 March 2014 increased 15% from \$A760 million in the prior year. The increase was primarily driven by the impact of the depreciation of the Australian dollar on offshore expenses as well as increased business activity and business reorganisations.

3.0 Segment analysis

continued

3.3 Corporate and Asset Finance

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest and trading income	386	277	39	663	579	15
Fee and commission income	29	7	*	36	41	(12)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(2)	4	*	2	(3)	*
Other operating income and charges						
Impairment charge on equity investments and non-financial assets	(14)	(2)	*	(16)	(11)	45
Net operating lease income	265	255	4	520	415	25
Specific provisions and collective allowance for credit losses	(42)	(27)	56	(69)	(47)	47
Other income	—	56	(100)	56	70	(20)
Total other operating income and charges	209	282	(26)	491	427	15
Internal management revenue	7	8	(13)	15	8	88
Net operating income	629	578	9	1,207	1,052	15
Operating expenses						
Employment expenses	(94)	(82)	15	(176)	(152)	16
Brokerage, commission and trading-related expenses	(7)	(6)	17	(13)	(14)	(7)
Other operating expenses	(98)	(94)	4	(192)	(192)	—
Total operating expenses	(199)	(182)	9	(381)	(358)	6
Non-controlling interests ⁽¹⁾	—	—	—	—	—	—
Net profit contribution	430	396	9	826	694	19
Non-GAAP metrics						
Loan and finance lease portfolio (\$A billion)	19.8	18.9	5	19.8	17.3	14
Operating lease portfolio (\$A billion)	5.7	5.7	—	5.7	5.1	12
Headcount	1,039	976	6	1,039	957	9

⁽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.

Corporate and Asset Finance's net profit contribution of \$A826 million for the year ended 31 March 2014 increased 19% from \$A694 million in the prior year. The improved result was largely driven by growth of volumes in key portfolios, the favourable impact of the depreciation of the Australian dollar on offshore businesses and the full year contribution of the European Rail operating lease business acquired in January 2013.

Net interest and trading income

Net interest and trading income of \$A663 million for the year ended 31 March 2014 increased 15% from \$A579 million in the prior year. The increase was mainly due to the favourable impact of the depreciation of the Australian dollar on income earned from non-Australian dollar denominated loan and finance lease portfolios, combined with organic growth of the motor vehicle lease portfolio. Partially offsetting this growth was the full year impact of funding costs associated with the European Rail operating lease business acquired in January 2013.

Net operating lease income

Net operating lease income of \$A520 million for the year ended 31 March 2014 increased 25% from \$A415 million in the prior year. The increase was mainly driven by the full year contribution of the European Rail operating lease business acquired in January 2013 and the depreciation of the Australian dollar relative to the prior year, which has favourably impacted earnings from the aircraft, rail and UK Energy Leasing operating lease portfolios.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of \$A69 million for the year ended 31 March 2014 increased 47% from \$A47 million in the prior year mainly reflecting growth in the lending and leasing books and specific impairments.

Other income

Other income of \$A56 million for the year ended 31 March 2014 decreased 20% from \$A70 million in the prior year, which included a gain from the sales of aircraft. The year ended 31 March 2014 included income from the favourable settlement of a claim in relation to the UK Energy Leasing business, and gains from the realisation of equity exposures in the Lending business.

Operating expenses

Total operating expenses of \$A381 million for the year ended 31 March 2014 increased 6% from \$A358 million in the prior year, primarily as a result of a 9% increase in headcount and the impact of the depreciation of the Australian dollar on offshore expenses.

3.0 Segment analysis

continued

3.4 Banking and Financial Services

	Half-year to			Full-year to		
	Mar 14	Sep 13	Movement	Mar 14	Mar 13	Movement
	\$Am	\$Am	%	\$Am	\$Am	%
Net interest and trading income	372	366	2	738	642	15
Fee and commission income						
Base fees	8	16	(50)	24	28	(14)
Brokerage and commissions	73	106	(31)	179	214	(16)
Other fee and commission income	178	195	(9)	373	403	(7)
Total fee and commission income	259	317	(18)	576	645	(11)
Share of net profits of associates and joint ventures accounted for using the equity method	—	1	(100)	1	3	(67)
Other operating income and charges						
Net gains on sale of equity investments	49	1	*	50	2	*
Impairment charge on equity investments	—	—	—	—	(6)	(100)
Specific provisions and collective allowance for credit losses	(24)	(23)	4	(47)	(37)	27
Other income	(6)	3	*	(3)	33	*
Total other operating income and charges	19	(19)	*	—	(8)	(100)
Internal management revenue	3	2	50	5	9	(44)
Net operating income	653	667	(2)	1,320	1,291	2
Operating expenses						
Employment expenses	(186)	(218)	(15)	(404)	(433)	(7)
Brokerage, commission and trading-related expenses	(80)	(88)	(9)	(168)	(158)	6
Other operating expenses	(238)	(250)	(5)	(488)	(457)	7
Total operating expenses	(504)	(556)	(9)	(1,060)	(1,048)	1
Net profit contribution	149	111	34	260	243	7
Non-GAAP metrics						
Funds under management/advice/administration ⁽¹⁾ (\$A billion)	127.7	136.8	(7)	127.7	123.0	4
Australian loan portfolio ⁽²⁾ (\$A billion)	21.5	19.0	13	21.5	15.5	39
Legacy loan portfolio ⁽³⁾ (\$A billion)	5.5	6.7	(18)	5.5	7.4	(26)
Retail deposits (\$A billion)	33.3	33.1	1	33.3	31.0	7
Headcount	2,419	2,891	(16)	2,419	2,848	(15)

(1) Funds under management/advice/administration includes Assets under Management plus items such as 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 Australian 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 \$A260 million for the year ended 31 March 2014 increased 7% from \$A243 million in the prior year.

In the year ended 31 March 2014, BFS benefited from strong volume growth across a number of products, including mortgages, retail deposits, and the Wrap platform, as well as the gain on the disposal of an investment in OzForex on its IPO in October 2013. These increases in operating income were partially offset by increased costs associated with key information technology development programs and the ASIC Enforceable Undertaking. The prior year benefited from gains on the sale of Macquarie Premium Funding Canada in May 2012 and the COIN institutional business in August 2012, as well as income from the Macquarie Professional Series product that was transferred to Macquarie Funds from 1 October 2012.

Net interest and trading income

Net interest and trading income of \$A738 million for the year ended 31 March 2014 increased 15% from \$A642 million in the prior year primarily due to higher loan and deposit volumes.

Retail deposits increased 7% to \$A33.3 billion at 31 March 2014 from \$A31.0 billion at 31 March 2013.

The Australian loan portfolio comprises residential mortgages, loans to Australian businesses, insurance premium funding and credit cards. The total Australian loan portfolio of \$A21.5 billion at 31 March 2014 increased 39% from \$A15.5 billion at 31 March 2013 primarily due to a 47% increase in the Australian mortgage portfolio to \$A17.0 billion at 31 March 2014 from \$A11.6 billion at 31 March 2013. This resulted primarily from increased lending activity.

The legacy loan portfolio primarily comprises residential mortgages in Canada and the US. These portfolios are in run-off and closed at a combined \$A5.5 billion at 31 March 2014, down 26% from \$A7.4 billion at 31 March 2013.

Base fees

Base fee income of \$A24 million for the year ended 31 March 2014 decreased 14% from \$A28 million in the prior year. This was primarily due to the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage and commissions

Brokerage and commissions income of \$A179 million for the year ended 31 March 2014 decreased 16% from \$A214 million in the prior year, primarily due to the sale of Macquarie Private Wealth Canada in November 2013.

Other fee and commission income

Other fee and commission income of \$A373 million for the year ended 31 March 2014 decreased 7% from \$A403 million in the prior year. Other fee and commission income relates to fees earned on a range of Banking and Financial Services' products including the Australian Wrap platform, mortgages, insurance, credit cards and business banking. The decrease from the prior year was mostly due to the transfer of Macquarie Professional Series to Macquarie Funds from 1 October 2012, the sale of Macquarie Private Wealth Canada in November 2013 and the sale of the COIN institutional business in August 2012. This was partially offset by growth of administration fees from the Wrap platform.

Funds under Administration on the Australian Wrap platform closed at \$A37.7 billion on 31 March 2014, an increase of 50% from \$A25.1 billion at 31 March 2013. This increase was primarily due to the integration of Perpetual's \$A7.6 billion Private Wealth Platform into Macquarie's Wrap platform in April 2013, other net inflows, and an increase in the underlying market values.

Net gains on sale of equity investments

Net gains on sale of equity investments of \$A50 million for the year ended 31 March 2014 was largely from the disposal of an investment in OzForex on its IPO in October 2013.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of \$A47 million for the year ended 31 March 2014 increased 27% from \$A37 million in the prior year, largely reflecting loan portfolio growth over the year especially in the mortgages portfolio.

3.0 Segment analysis

continued

Other income

Other income of \$A33 million in the prior year included the gains on sale of the Canadian Macquarie Premium Funding business in May 2012 and the COIN institutional business in August 2012.

Operating expenses

Total operating expenses of \$A1,060 million for the year ended 31 March 2014 increased 1% from \$A1,048 million in the prior year.

Employment expenses of \$A404 million for the year ended 31 March 2014 decreased 7% from \$A433 million in the prior year largely due to reduced headcount and commissions paid to internal advisers resulting from the sale of Macquarie Private Wealth Canada in November 2013, as well as reduced headcount following the transfer of Macquarie Professional Series to Macquarie Funds from 1 October 2012 and the sale of the COIN institutional business in August 2012.

Brokerage, commission and trading-related expenses, which are mainly paid to external advisers for product distribution, of \$A168 million for the year ended 31 March 2014 increased 6% from \$A158 million in the prior year. This was mainly driven by increased premium funding volumes following the acquisition by the Macquarie Premium Funding JV of the Pacific Premium Funding business in March 2013, partially offset by the transfer of the Macquarie Professional Series product to Macquarie Funds from 1 October 2012.

Other operating expenses of \$A488 million for the year ended 31 March 2014 increased 7% from \$A457 million in the prior year mainly due to investment in new technology to enhance the client service offering and increased professional fees associated with new business development, the sale of Macquarie Private Wealth Canada in November 2013 and the ASIC Enforceable Undertaking.

3.5 Macquarie Securities

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest and trading income	109	125	(13)	234	132	77
Fee and commission income						
Brokerage and commissions	275	272	1	547	450	22
Other fee and commission income	43	43	—	86	52	65
Total fee and commission income	318	315	1	633	502	26
Share of net profits of associates and joint ventures accounted for using the equity method	—	—	—	—	—	—
Other operating income and charges	1	(4)	*	(3)	23	*
Internal management revenue	1	—	*	1	6	(83)
Net operating income	429	436	(2)	865	663	30
Operating expenses						
Employment expenses	(123)	(117)	5	(240)	(222)	8
Brokerage, commission and trading-related expenses	(64)	(66)	(3)	(130)	(131)	(1)
Other operating expenses	(206)	(182)	13	(388)	(360)	8
Total operating expenses	(393)	(365)	8	(758)	(713)	6
Net profit/(loss) contribution	36	71	(49)	107	(50)	*
Non-GAAP metrics						
Headcount	1,050	1,038	1	1,050	1,020	3

Macquarie Securities' net profit contribution of \$A107 million for the year ended 31 March 2014 improved from a net loss of \$A50 million in the prior year as global equity markets benefited from improved macro-economic conditions and investor sentiment, driving increased client activity. Macquarie Securities' trading businesses benefited from improved market conditions and reduced costs in legacy businesses.

The contribution for the second half was a net profit of \$A36 million, down 49% from a net profit of \$A71 million in the first half reflecting lower volumes and more challenging trading conditions, particularly in Asia, in addition to higher operating expenses.

Net interest and trading income

Net interest and trading income of \$A234 million for the year ended 31 March 2014 increased 77% from \$A132 million in the prior year mainly due to improved trading conditions and market sentiment driving higher product flow, particularly across the Asia platform, and reduced losses in legacy businesses. Net interest and trading income of \$A109 million for the second half decreased 13% from \$A125 million in the first half mainly due to more challenging trading conditions, particularly in Asia.

Brokerage and commissions

Brokerage and commissions income of \$A547 million for the year ended 31 March 2014 increased 22% from \$A450 million in the prior year reflecting improved client activity in cash equities across most regions. Global markets saw inflows into equities during the year ended 31 March 2014 that were further leveraged across Macquarie's global platform through gains in market share.

3.0 Segment analysis

continued

Other fee and commission income

Other fee and commission income mainly consists of equity capital markets fees.

Other fee and commission income of \$A86 million for the year ended 31 March 2014 increased 65% from \$A52 million in the prior year as improved investor sentiment led to an increase in equity capital markets activity, especially in Asia and Australia.

Other operating income and charges

Other operating income of \$A23 million in the prior year mainly represents the profit made on the sale of an investment in an exchange.

Operating expenses

Total operating expenses of \$A758 million for the year ended 31 March 2014 increased 6% from \$A713 million in the prior year largely due to the impact of the depreciation of the Australian dollar relative to the prior year on the offshore cost base.

Employment expenses of \$A240 million for the year ended 31 March 2014 increased 8% from \$A222 million in the prior year largely due to the impact of the depreciation of the Australian dollar on the offshore cost base, partly offset by lower average headcount during the year.

Brokerage, commission and trading-related expenses of \$A130 million for the year ended 31 March 2014 were broadly in line with the prior year. Reduced costs from the winding down of legacy trading activities were largely offset by increased volumes in the institutional cash equities business as market conditions improved over the prior year.

Other operating expenses of \$A388 million for the year ended 31 March 2014 increased 8% from \$A360 million in the prior year driven largely by the impact of the depreciation of the Australian dollar on offshore expenses.

3.6 Macquarie Capital

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest income/(expense)	3	—	*	3	(45)	*
Fee and commission income						
Mergers and acquisitions, advisory and underwriting fees	379	288	32	667	540	24
Brokerage and commissions	22	24	(8)	46	34	35
Other fee and commission income	5	9	(44)	14	12	17
Total fee and commission income	406	321	26	727	586	24
Net trading expense	(35)	(3)	*	(38)	(14)	171
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	23	(5)	*	18	13	38
Other operating income and charges						
Net gains on sale of debt and equity investments	38	50	(24)	88	142	(38)
Impairment charge on equity investments	(18)	—	*	(18)	(20)	(10)
Loss on change of ownership interest	—	—	—	—	(40)	(100)
Impairment charge on non-financial assets	—	—	—	—	(13)	(100)
Specific provisions and collective allowance for credit losses	(17)	(13)	31	(30)	(30)	—
Other income	38	22	73	60	76	(21)
Total other operating income and charges	41	59	(31)	100	115	(13)
Internal management revenue	7	—	*	7	10	(30)
Net operating income	445	372	20	817	665	23
Operating expenses						
Employment expenses	(142)	(132)	8	(274)	(247)	11
Brokerage, commission and trading-related expenses	(1)	(5)	(80)	(6)	(6)	—
Other operating expenses	(122)	(146)	(16)	(268)	(266)	1
Total operating expenses	(265)	(283)	(6)	(548)	(519)	6
Non-controlling interests ⁽¹⁾	(1)	12	*	11	4	175
Net profit contribution	179	101	77	280	150	87
Non-GAAP metrics						
Headcount	1,141	1,117	2	1,141	1,105	3

⁽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.

Macquarie Capital's net profit contribution of \$A280 million for the year ended 31 March 2014 increased 87% from \$A150 million in the prior year. The net profit contribution for the second half of \$A179 million increased 77% from \$A101 million in the first half. The predominant driver of the improved results was increased fee income.

Net interest income/(expense)

Net interest income of \$A3 million for the year ended 31 March 2014 improved from a net interest expense in the prior year of \$A45 million. Compared to the prior year, interest income increased 38% to \$A152 million from \$A110 million. An increase in the size of the debt investment portfolio, and the full year impact of prior year growth contributed to the increase in interest income. Interest expense of \$A149 million for the year ended 31 March 2014 was broadly in line with \$A155 million in the prior year.

Fee and commission income

Fee and commission income (net of sharing with other Operating Groups) of \$A727 million for the year ended 31 March 2014 increased 24% from \$A586 million in the prior year.

3.0 Segment analysis

continued

The number of transactions in which Macquarie participated for the year ended 31 March 2014 (450 transactions valued at approximately \$A89 billion) was broadly in line with the prior year (447 transactions valued at approximately \$A85 billion).

Significant advisory transactions completed for the year ended 31 March 2014 included:

- Adviser to a consortium comprising Bombardier Transportation, John Laing, ITOCHU Corporation and Uberior on the Queensland Government's 32-year PPP concession to build 75 new six-car trains and provide maintenance services, with a total contract value of \$A4.4 billion
- Adviser to Canada Pension Plan Investment Board on its \$A3.9 billion joint takeover (with DEXUS Property Group) of Commonwealth Property Office Fund⁽¹⁾
- Joint issue manager, global coordinator, bookrunner and underwriter for the \$US1.1 billion IPO of APTT on the SGX
- Sole placement agent, sole manager and joint financial adviser for the pre-IPO investment of up to \$US750 million by Brookfield into China Xintiandi, a wholly owned subsidiary of Shui On Land
- Adviser to Shui On Land on the \$US545 million sale of a prime Shanghai office asset to China Life
- Lead equity sponsor, financial adviser and debt arranger, mezzanine debt provider, construction liquidity facility provider, interest rate swap provider and insurance captive provider for the successful closing of the £600 million Mersey Gateway PPP project in the UK
- Adviser and co-investor with Aquiline Capital Partners on the acquisition of Equity Red Star, the UK subsidiary of Insurance Australia Group
- Adviser to WMS Industries on its \$US1.5 billion sale to Scientific Games and SHFL Entertainment on its \$US1.3 billion sale to Bally Technologies, the two largest ever deals in the gaming equipment sector
- Adviser to Kelso & Company on the sale of PSAV Presentation Services to Goldman Sachs and Olympus Partners and joint lead arranger and joint bookrunner on the debt financing package. Macquarie's preferred equity investment was divested as part of this transaction
- Adviser to Surge Energy on five deals totalling ~\$C642 million, and led three equity financings raising \$C391 million

Net trading expense

Net trading expense of \$A38 million for the year ended 31 March 2014 increased 171% from \$A14 million in the prior year. Losses in the current year predominantly reflected Macquarie Capital's share of fair value movements on swap transactions shared with Fixed Income, Currencies and Commodities.

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

Share of net profits of associates and joint ventures of \$A18 million for the year ended 31 March 2014 increased 38% from \$A13 million in the prior year. The movement reflects changes in the composition and underlying performance of principal investments within the portfolio.

Net gains on sale of debt and equity investments

Net gains on sale of debt and equity investments of \$A88 million for the year ended 31 March 2014 decreased 38% from \$A142 million in the prior year. There were no individually significant gains in either year.

Impairment charge on equity investments

Impairment charge on equity investments of \$A18 million for the year ended 31 March 2014 was broadly in line with \$A20 million in the prior year. There were no individually significant impairments in either year.

Loss on change of ownership interest

Loss on change of ownership interest of \$A40 million in the prior year related to an equity accounted investment where Macquarie lost significant influence on the IPO of the investment and was required to revalue its retained investment to fair value.

⁽¹⁾ Completion occurred in April 2014.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowances for credit losses of \$A30 million in the year ended 31 March 2014 is in line with the prior year.

Other income

Other income of \$A60 million for the year ended 31 March 2014 decreased 21% from \$A76 million in the prior year reflecting reduced income from consolidated principal investments following the sale of a number of these investments. This was partially offset by increased dividend income mainly from recent principal investments.

Operating expenses

Total operating expenses of \$A548 million for the year ended 31 March 2014 increased 6% from \$A519 million in the prior year. The increase was predominantly due to the impact of the depreciation of the Australian dollar on offshore costs, which was a key driver of an 11% increase in employment expenses to \$A274 million for the year ended 31 March 2014 from \$A247 million in the prior year.

3.0 Segment analysis

continued

3.7 Fixed Income, Currencies and Commodities

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest and trading income						
Commodities ⁽¹⁾	731	393	86	1,124	713	58
Credit, interest rates and foreign exchange	233	223	4	456	461	(1)
Net interest and trading income	964	616	56	1,580	1,174	35
Fee and commission income						
Brokerage and commissions	51	51	—	102	86	19
Other fee and commission income	30	30	—	60	85	(29)
Total fee and commission income	81	81	—	162	171	(5)
Share of net profits of associates and joint ventures accounted for using the equity method	8	15	(47)	23	28	(18)
Other operating income and charges						
Net gains on sale of equity investments	27	18	50	45	114	(61)
Impairment charge on equity investments	(12)	(83)	(86)	(95)	(171)	(44)
Specific provisions and collective allowance for credit losses	(60)	(29)	107	(89)	(57)	56
Other income	33	30	10	63	27	133
Total other operating income and charges	(12)	(64)	(81)	(76)	(87)	(13)
Internal management (charge)/revenue	(12)	5	*	(7)	17	*
Net operating income	1,029	653	58	1,682	1,303	29
Operating expenses						
Employment expenses	(142)	(122)	16	(264)	(240)	10
Brokerage, commission and trading-related expenses	(157)	(124)	27	(281)	(142)	98
Amortisation of intangibles	(2)	(15)	(87)	(17)	(20)	(15)
Other operating expenses	(205)	(189)	8	(394)	(338)	17
Total operating expenses	(506)	(450)	12	(956)	(740)	29
Net profit contribution	523	203	158	726	563	29
Non-GAAP metrics						
Headcount	944	932	1	944	946	(<1)

⁽¹⁾ Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

Fixed Income, Currencies and Commodities' net profit contribution for the year ended 31 March 2014 was \$A726 million, an increase of 29% from \$A563 million in the prior year. Net operating income of \$A1,682 million for the year ended 31 March 2014 increased 29% from \$A1,303 million in the prior year, while total operating expenses of \$A956 million also increased 29% from \$A740 million in the prior year.

The contribution for the second half was a net profit of \$A523 million, up 158% from a net profit of \$A203 million in the first half.

The result for Fixed Income, Currencies and Commodities reflected a general improvement in market conditions compared to the prior year. There was a significant increase in commodities trading income, driven by stronger client hedging and trading opportunities from increased volatility in energy markets particularly in the second half, coupled with falling precious metals prices, and growth in physical metals financing activities. Continued subdued mining equity markets and generally lower metals and bulk commodities prices impacted the timing of asset realisations, new project financings, and resulted in further equity impairments in the Metals and Energy Capital business, albeit an improvement on the prior year. The credit environment was mixed with US credit market volatility improving during the fourth quarter of the current fiscal year. Foreign exchange and futures markets experienced improved volatility and volumes compared to the prior year.

Commodities trading income

Commodities trading income of \$A1,124 million for the year ended 31 March 2014 increased 58% from \$A713 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 and trading opportunities, particularly in the US Gas, US Power and Global Oil businesses. Mature physical trading capabilities provided opportunities for the energy business to leverage volatility and service client opportunities.

Precious metals markets saw increased volatility and falling prices, particularly in the first half, resulting in increased client hedging activity and associated trading income.

Base metals markets experienced low levels of volatility compared to the prior year, dampening both trading results and client hedging activity; however growth of physical metals financing activities resulted in higher overall trading income from these markets. The increased trading income was largely offset by associated storage costs that, for accounting purposes, are recognised in brokerage, commission and trading-related expenses.

Reduced market volatility in agricultural markets led to lower client activity and limited trading opportunities.

Credit, interest rates and foreign exchange trading income

Net interest and trading income from credit, interest rates and foreign exchange products of \$A456 million for the year ended 31 March 2014 decreased 1% from \$A461 million in the prior year. The credit environment was mixed, with lower confidence experienced in the higher yield markets for a large portion of the year, while volatility and volumes improved in foreign exchange compared to the prior year.

Brokerage and commissions

Brokerage and commissions income of \$A102 million for the year ended 31 March 2014 increased 19% from \$A86 million in the prior year benefiting from increased transaction volumes across all key regions in futures markets.

Other fee and commission income

Other fee and commission income of \$A60 million for the year ended 31 March 2014 decreased 29% from \$A85 million in the prior year due to reduced deal flow across fixed income origination parts of the business.

Net gains on sale of equity investments

Net gains on sale of equity investments of \$A45 million for the year ended 31 March 2014 decreased 61% from \$A114 million in the prior year. Subdued mining equity markets during the 2014 fiscal year impacted the timing and number of asset realisations.

3.0 Segment analysis

continued

Impairment charge on equity investments

Impairment charges on equity investments of \$A95 million for the year ended 31 March 2014 decreased 44% from \$A171 million in the prior year. Mining equity markets remained weak during the year, however investor sentiment and confidence stabilised in the second half, reducing overall impairments in the second half of the year compared to the prior period.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of \$A89 million for the year ended 31 March 2014 increased 56% from \$A57 million in the prior year. The charges in the current year predominantly relate to loan assets in the resource and energy sectors.

Other income

Other income of \$A63 million for the year ended 31 March 2014 increased 133% from \$A27 million in the prior year, driven largely by the income earned from the sale of net profit interests, as compared to the prior year which was primarily generated by the income from Fixed Income, Currencies and Commodities' royalty interests in North American oil assets.

Operating expenses

Total operating expenses of \$A956 million for the year ended 31 March 2014 increased 29% from \$A740 million in the prior year.

Employment expenses of \$A264 million for the year ended 31 March 2014 increased 10% from \$A240 million in the prior year, largely due to the impact of the depreciation of the Australian dollar on offshore costs, as well as increasing costs of regulatory compliance and enquiry.

Brokerage, commission and trading-related expenses of \$A281 million for the year ended 31 March 2014 increased 98% from \$A142 million in the prior year. This was driven by the growth of physical metals financing activities that resulted in higher storage costs that, for accounting purposes, are reported within brokerage, commission and trading-related expenses, while 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 \$A17 million for the year ended 31 March 2014 was down 15% from \$A20 million in the prior year, consistent with a reduced level of operating income from net profit interests in the 2014 fiscal year.

Other operating expenses increased 17% from \$A338 million in the prior year to \$A394 million for the year ended 31 March 2014 mainly due to increased investment in technology to meet increasing regulatory compliance requirements globally, combined with the impact of the depreciation of the Australian dollar on offshore costs.

3.8 Corporate

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Net interest and trading income	43	75	(43)	118	133	(11)
Fee and commission income/(expense)	7	(8)	*	(1)	(8)	(88)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(6)	8	*	2	15	(87)
Other operating income and charges						
Net gains on sale of debt and equity securities	254	7	*	261	18	*
Impairment (charge)/write back on debt and equity securities	(117)	1	*	(116)	(165)	(30)
Gain on change of ownership interests	—	—	—	—	161	(100)
Dividends and distributions received	36	52	(31)	88	81	9
Specific provisions and collective allowance for credit losses	—	(2)	(100)	(2)	(6)	(67)
Other income	46	(46)	*	—	6	(100)
Total other operating income and charges	219	12	*	231	95	143
Internal management charge	(16)	(21)	(24)	(37)	(66)	(44)
Net operating income	247	66	274	313	169	85
Operating expenses						
Employment expenses	(1,156)	(916)	26	(2,072)	(1,712)	21
Brokerage, commission and trading-related expenses	(5)	(3)	67	(8)	(3)	167
Other operating expenses	341	293	16	634	601	5
Total operating expenses	(820)	(626)	31	(1,446)	(1,114)	30
Tax expense	(520)	(307)	69	(827)	(533)	55
Macquarie Income Preferred Securities	(2)	(2)	—	(4)	(4)	—
Macquarie Income Securities	(9)	(9)	—	(18)	(21)	(14)
Non-controlling interests ⁽¹⁾	—	(3)	(100)	(3)	(1)	200
Net loss contribution	(1,104)	(881)	25	(1,985)	(1,504)	32
Non-GAAP metrics						
Headcount	5,810	5,502	6	5,810	5,315	9

⁽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.

3.0 Segment analysis

continued

The Corporate segment includes head office and central support functions including Group Treasury, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

The Corporate segment's result for the year ended 31 March 2014 was a net loss of \$A1,985 million, an increase of 32% from a net loss of \$A1,504 million in the prior year, mainly driven by increases in employment expenses and income tax expense (refer Section 2.7), partially offset by income on the SYD distribution.

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, 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 \$A118 million for the year ended 31 March 2014 decreased 11% from \$A133 million in the prior year primarily due to reduced earnings on capital as a result of lower interest rates.

Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures for the year ended 31 March 2014 was \$A2 million, a decrease of 87% from \$A15 million in the prior year. There were no individually significant items.

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of \$A261 million for the year ended 31 March 2014 increased significantly from \$A18 million in the prior year. The net gains in the current year primarily relate to the gain on the SYD distribution in January 2014, as well as gains on the disposal of securities undertaken in managing the Group's liquidity.

Impairment charges on debt and equity securities

Impairment charges on debt and equity securities of \$A116 million for the year ended 31 March 2014 decreased 30% from \$A165 million in the prior year. The impairment charges for the year ended 31 March 2014 related to a number of legacy investments that are no longer strategic holdings.

Gain on change of ownership interests

The gain on change of ownership interests in the prior year of \$A161 million related to a gain recognised when Macquarie lost significant influence over an investment and was required to revalue its retained investment to fair value on reclassification of the investment from an investment in an associate to an investment available for sale.

Dividends and distributions received

Dividends and distributions received of \$A88 million in the year ended 31 March 2014 increased 9% from \$A81 million in the prior year. Dividends were primarily received from non-core investments, including the investment in Sydney Airport and investments held to hedge Directors' Profit Share liabilities.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of \$A2 million for the year ended 31 March 2014 decreased 67% from \$A6 million in the prior year, and primarily related to investments in the real estate sector in both years.

Employment expenses

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

For the year ended 31 March 2014 employment expenses were \$A2,072 million, up 21% from \$A1,712 million in the prior year. The increase was mainly due to the impact of the depreciation of the Australian dollar on offshore costs relative to the prior year, and higher staff compensation resulting from the improved performance of the Group.

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 increased 5% from \$A601 million in the prior year to \$A634 million for the year ended 31 March 2014, which reflected growth of the regional service hubs supporting Macquarie's global operating platform, the impact of the depreciation of the Australian dollar relative to the prior year, and internal restructures where a number of support roles were transferred into the Corporate segment from the Operating Groups.

3.0 Segment analysis

continued

3.9 International income

International income by region

	Half-year to			Full-year to		
	Mar 14 \$Am	Sep 13 \$Am	Movement %	Mar 14 \$Am	Mar 13 \$Am	Movement %
Americas	1,547	1,162	33	2,709	2,203	23
Asia	558	485	15	1,043	728	43
Europe, Middle East and Africa	833	741	12	1,574	1,203	31
Total international income	2,938	2,388	23	5,326	4,134	29
Australia ⁽¹⁾	1,252	1,204	4	2,456	2,288	7
Total income (excluding earnings on capital and other corporate items)	4,190	3,592	17	7,782	6,422	21
Earnings on capital and other corporate items	263	87	202	350	235	49
Net operating income (as reported)	4,453	3,679	21	8,132	6,657	22
International income (excluding earnings on capital and other corporate items) ratio (%)	70	66		68	64	

⁽¹⁾ Includes New Zealand.

International income by group and region

	Full-year to Mar 14						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽¹⁾ \$Am	Total Income \$Am	Total International %
Macquarie Funds	972	263	337	1,572	340	1,912	82
Corporate and Asset Finance	262	14	564	840	352	1,192	70
Banking and Financial Services	134	1	3	138	1,177	1,315	10
Macquarie Securities	116	492	81	689	175	864	80
Macquarie Capital	346	138	80	564	246	810	70
Fixed Income, Currencies and Commodities	879	135	509	1,523	166	1,689	90
Total	2,709	1,043	1,574	5,326	2,456	7,782	68

⁽¹⁾ Includes New Zealand.

Total international income was \$A5,326 million for the year-ended 31 March 2014, up 29% from \$A4,134 million in the prior year, with the depreciation of the Australian dollar relative to the prior year being a significant contributor to the increase. Total International income represented 68% of total income (excluding earnings on capital and other corporate items) for the year ended 31 March 2014, an increase from 64% in the prior year.

Income from Americas of \$A2,709 million for the year ended 31 March 2014, increased 23% from \$A2,203 million in the prior year mainly from an increased contribution by Fixed Income, Currencies and Commodities, with increased income from trading activities in energy markets being a significant contributor driven by strong customer flow and improved trading opportunities especially in the second half of the year; and an increased contribution from Macquarie Funds, primarily due to increased AUM driving higher base fee income, equity accounted gains arising from the sale of assets by a number of unlisted infrastructure funds in which Macquarie has investments, including the sale of Global Tower Partners, and gains on the partial sale of an investment in MIC.

In Asia, income of \$A1,043 million for the year ended 31 March 2014 increased 43% from \$A728 million in the prior year. This increase was primarily in Macquarie Funds due to significant performance fees earned from MWREF Ltd and Quant Hedge Funds; and an increased contribution from Macquarie Securities resulting from improved client activity in cash equities as global markets continued to see inflows into equities during the year ended 31 March 2014.

Income from Europe, Middle East and Africa increased 31% from \$A1,203 million in the prior year to \$A1,574 million for the year ended 31 March 2014, mainly due to the full year contribution from the European Rail operating lease business acquired in January 2013 by Corporate and Asset Finance.

In Australia, income of \$A2,456 million for the year ended 31 March 2014 increased 7% from \$A2,288 million in the prior year. Key drivers included growth of the Australian mortgages and motor vehicle leasing portfolios.

4.0 Balance sheet

4.1 Statement of financial position

	As at			Movement	
	Mar 14 \$Am	Sep 13 \$Am	Mar 13 ⁽¹⁾ \$Am	Sep 13 %	Mar 13 %
Assets					
Receivables from financial institutions	19,457	18,384	14,806	6	31
Trading portfolio assets	22,462	22,489	19,776	(<1)	14
Derivative assets	12,633	14,647	14,704	(14)	(14)
Investment securities available for sale	14,051	16,578	17,057	(15)	(18)
Other assets	12,990	12,335	12,397	5	5
Loan assets held at amortised cost	58,712	56,093	50,793	5	16
Other financial assets at fair value through profit or loss	2,854	3,116	5,033	(8)	(43)
Property, plant and equipment	6,311	6,175	5,643	2	12
Interests in associates and joint ventures accounted for using the equity method	2,447	2,497	2,048	(2)	19
Intangible assets	1,221	1,276	1,221	(4)	—
Deferred tax assets	766	1,010	1,270	(24)	(40)
Total assets	153,904	154,600	144,748	(<1)	6
Liabilities					
Trading portfolio liabilities	2,762	3,485	1,497	(21)	85
Derivative liabilities	11,973	14,149	14,853	(15)	(19)
Deposits	42,401	42,694	41,103	(1)	3
Other liabilities	13,908	12,638	13,572	10	2
Payables to financial institutions	19,654	19,625	18,075	<1	9
Other financial liabilities at fair value through profit or loss	1,464	1,205	1,704	21	(14)
Debt issued at amortised cost	45,565	43,755	38,014	4	20
Provisions	205	225	213	(9)	(4)
Deferred tax liabilities	551	667	542	(17)	2
Total liabilities excluding loan capital	138,483	138,443	129,573	<1	7
Loan capital					
Macquarie Convertible Preference Securities	—	—	616	—	(100)
Subordinated debt at amortised cost	3,507	3,438	2,604	2	35
Total loan capital	3,507	3,438	3,220	2	9
Total liabilities	141,990	141,881	132,793	<1	7
Net assets	11,914	12,719	11,955	(6)	(<1)

⁽¹⁾ The balances as at 31 March 2013 have been restated for the effect of applying AASB 10 Consolidated Financial Statements.

	As at			Movement	
	Mar 14 \$Am	Sep 13 \$Am	Mar 13 ⁽¹⁾ \$Am	Sep 13 %	Mar 13 %
Equity					
Contributed equity	5,112	5,893	5,907	(13)	(13)
Reserves	669	726	57	(8)	*
Retained earnings	5,637	5,610	5,439	<1	4
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	11,418	12,229	11,403	(7)	<1
Non-controlling interests	496	490	552	1	(10)
Total equity	11,914	12,719	11,955	(6)	(<1)

⁽¹⁾ The balances as at 31 March 2013 have been restated for the effect of applying AASB 10 Consolidated Financial Statements.

Total assets of \$A153.9 billion at 31 March 2014 increased 6% from \$A144.7 billion at 31 March 2013. The depreciation of the Australian dollar since 31 March 2013 resulted in growth of both assets and liabilities denominated in foreign currencies. Other key drivers of the increase in assets included:

- Receivables from financial institutions increased 31% from \$A14.8 billion at 31 March 2013 to \$A19.5 billion at 31 March 2014 predominantly due to an increase in holdings required to cover short positions due to higher stock borrowing activity within Macquarie Securities.
- Trading portfolio assets increased 14% from \$A19.8 billion at 31 March 2013 to \$A22.5 billion at 31 March 2014 primarily as a result of increased trading activity in Macquarie Securities and Fixed Income, Currencies and Commodities.
- Derivative assets decreased 14% from \$A14.7 billion at 31 March 2013 to \$A12.6 billion at 31 March 2014 and derivative liabilities decreased 19% from \$A14.9 billion at 31 March 2013 to \$A12.0 billion at 31 March 2014 predominantly due to increased netting of derivatives allowed under the accounting standards (AASB 132).
- Investment securities available for sale decreased 18% from \$A17.1 billion at 31 March 2013 to \$A14.1 billion at 31 March 2014 mainly due to liquidity management activities within Group Treasury and the SYD distribution in January 2014.
- Loan assets increased 16% from \$A50.8 billion at 31 March 2013 to \$A58.7 billion at 31 March 2014 primarily due to growth in the lending and finance lease portfolios in Corporate and Asset Finance, growth of the Australian mortgage and business banking portfolios in Banking and Financial Services, and new investments in money market funds by Fixed Income, Currencies and Commodities.
- Other financial assets at fair value through profit or loss decreased 43% from \$A5.0 billion at 31 March 2013 to \$A2.9 billion at 31 March 2014 largely due to redemptions and maturities within Macquarie Funds' Macquarie Specialised Investment Solutions business.

4.0 Balance sheet

continued

Total liabilities (excluding loan capital) increased 7% from \$A129.6 billion at 31 March 2013 to \$A138.5 billion at 31 March 2014. In addition to the impact of the depreciation of the Australian dollar on liabilities denominated in foreign currency, other drivers of the increase included:

- Trading portfolio liabilities increased 85% from \$A1.5 billion at 31 March 2013 to \$A2.8 billion at 31 March 2014 largely due to an increase in trading activity in Macquarie Securities and Fixed Income, Currencies and Commodities.
- Deposits increased 3% from \$A41.1 billion at 31 March 2013 to \$A42.4 billion at 31 March 2014 primarily due to an increase in at call deposits partially offset by a reduction in term deposits.
- Payables to financial institutions increased 9% from \$A18.1 billion at 31 March 2013 to \$A19.7 billion at 31 March 2014 largely due to increased stock lending activity in Europe for Macquarie Securities.
- Debt issued at amortised cost increased 20% from \$A38.0 billion at 31 March 2013 to \$A45.6 billion at 31 March 2014 largely due to new debt issuances by Group Treasury and Corporate Asset and Finance, and the issuance of bonds by securitisation vehicles for the Australian mortgages business. These new issuances were partly offset by the partial buyback of Government guaranteed securities during the year.

Total equity decreased \$A41 million from \$A12.0 billion at 31 March 2013 to \$A11.9 billion at 31 March 2014 predominantly due to the \$A1.3 billion SYD distribution in January 2014, largely offset by a net increase in reserves of \$A612 million due to movements in the foreign currency translation reserve driven by the depreciation of the Australian dollar since 31 March 2013, combined with 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 14 \$Ab	Sep 13 \$Ab	Mar 13 \$Ab	Sep 13 %	Mar 13 %
Loan assets at amortised cost per statement of financial position	58.7	56.1	50.8	5	16
Other loans held at fair value ⁽¹⁾	0.9	1.1	1.5	(18)	(40)
Operating lease assets	5.7	5.7	5.1	—	12
Other reclassifications ⁽²⁾	0.6	0.2	0.2	200	200
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽³⁾	(13.6)	(12.7)	(10.5)	7	30
Less: segregated funds ⁽⁴⁾	(2.2)	(1.2)	(1.1)	83	100
Less: margin balances (reclassified to trading) ⁽⁵⁾	(2.9)	(3.3)	(3.1)	(12)	(6)
Total loan assets per funded balance sheet⁽⁶⁾	47.2	45.9	42.9	3	10

⁽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 14 \$Ab	Sep 13 \$Ab	Mar 13 \$Ab	Sep 13 %	Mar 13 %
Mortgages:	1					
Australia		10.5	8.4	7.2	25	46
United States		0.5	0.5	0.7	—	(29)
Canada		5.0	6.1	6.7	(18)	(25)
Other		0.2	0.2	0.2	—	—
Total mortgages		16.2	15.2	14.8	7	9
Structured investments	2	3.8	4.3	3.6	(12)	6
Banking	3	4.2	4.1	3.6	2	17
Real estate	4	2.3	2.6	2.3	(12)	—
Resources and commodities	5	2.4	2.1	2.3	14	4
Leasing (finance and operating)	6	10.7	10.6	9.3	1	15
Corporate lending	7	6.2	5.5	5.6	13	11
Other lending	8	1.4	1.5	1.4	(7)	—
Total		47.2	45.9	42.9	3	10

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
- 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 regular 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
- 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
- Other investments which are not investments in Macquarie-managed funds.

Equity investments reconciliation

	As at		Movement		
	Mar 14 \$Am	Sep 13 \$Am	Mar 13 \$Am	Sep 13 %	Mar 13 %
Equity investments					
Statement of financial position					
Equity investments within other financial assets at fair value through profit or loss	1,342	1,369	2,378	(2)	(44)
Equity investments within investment securities available for sale	2,005	3,367	3,156	(40)	(36)
Interests in associates and joint ventures accounted for using the equity method	2,447	2,497	2,048	(2)	19
Total equity investments per statement of financial position	5,794	7,233	7,582	(20)	(24)
Adjustment for funded balance sheet					
Equity hedge positions ⁽¹⁾	(1,138)	(1,111)	(2,114)	2	(46)
Total funded equity investments	4,656	6,122	5,468	(24)	(15)
Adjustments for equity investments analysis					
Other assets ⁽²⁾	17	85	122	(80)	(86)
Available for sale reserves ⁽³⁾	(493)	(689)	(365)	(28)	35
Associates reserves ⁽⁴⁾	(20)	(16)	—	25	*
Total adjusted equity investments⁽⁵⁾	4,160	5,502	5,225	(24)	(20)

⁽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

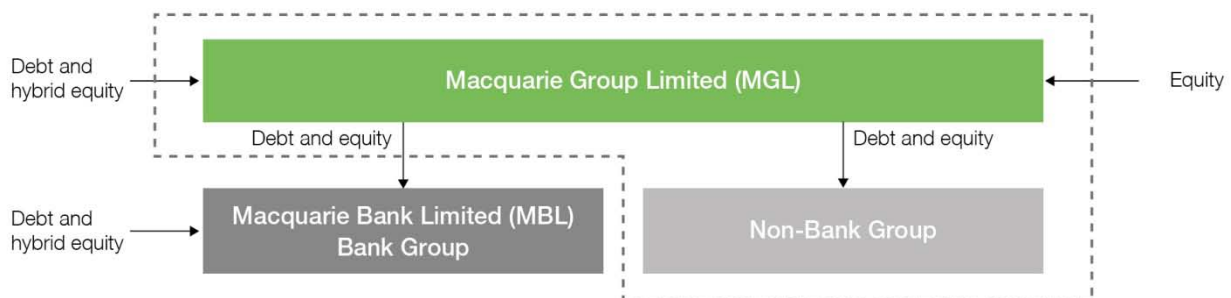
	As at		Movement		
	Mar 14 \$Am	Sep 13 \$Am	Mar 13 \$Am	Sep 13 %	Mar 13 %
Macquarie-managed funds					
Listed MIRA managed funds	492	522	579	(6)	(15)
Unlisted MIRA managed funds	862	696	579	24	49
Other Macquarie-managed funds	414	302	302	37	37
Total Macquarie-managed funds	1,768	1,520	1,460	16	21
Other investments					
Transport, industrial and infrastructure	364	1,771	1,558	(79)	(77)
Telecommunications, information technology, media and entertainment	549	610	646	(10)	(15)
Energy, resources and commodities	619	573	588	8	5
Real estate investment, property and funds management	369	574	621	(36)	(41)
Finance, wealth management and exchanges	491	454	352	8	39
Total other investments	2,392	3,982	3,765	(40)	(36)
Total equity investments	4,160	5,502	5,225	(24)	(20)

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

The Group'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 and the Risk Management Group (RMG). MGL Group and MBL Group's liquidity policies are approved by their respective Boards after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer 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 predominantly 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 predominantly 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 wholesale funding 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
- Cash and liquid assets are sufficient to cover a 12 month stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered high quality liquid assets and cash
- Short term assets exceed short term wholesale liabilities
- Diversity and stability of funding sources is a key priority
- Balance sheet currency mismatches are managed within set tolerances
- 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
- 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 the Group'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 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 access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

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 liquid asset requirement is calculated from scenario projections and complies with minimum regulatory requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. 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.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank, either by Macquarie or other counterparties. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2014, 97% of the liquid asset portfolio was eligible for repurchase with a central bank.

The 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 paper.

The liquid asset portfolio is largely denominated and held in Australian Dollars although liquid assets denominated in US Dollars or other currencies are held where appropriate. MGL Group had \$A19.1 billion cash and liquid assets as at 31 March 2014 (31 March 2013: \$A19.8 billion), of which \$A17.3 billion was held by the MBL Group (31 March 2013: \$A18.0 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 2014 are detailed below.

	Macquarie Group Limited			Macquarie Bank 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-2	A3	Stable	P-1	A2	Stable
Standard and Poor's	A-2	BBB	Stable	A-1	A	Stable
Fitch Ratings	F-2	A-	Stable	F-1	A	Stable

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

Regulatory developments

In December 2013, APRA released its final liquidity standard (APS 210) and Prudential Practice Guide (PPG) detailing the local implementation of the Basel III liquidity framework. APRA's 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 Basel Committee has finalised calibrating this metric. Regulators in other jurisdictions where Macquarie operates are yet to release final Basel III liquidity standards.

Liquidity Coverage Ratio

The LCR requires high-quality liquid assets to be held to cover net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. The ratio will come into effect as a requirement in January 2015.

Macquarie is well placed to meet the overall requirements of the LCR and also expects to have access to the Reserve Bank of Australia Committed Liquidity Facility (CLF).

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 and consultation 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 consultation period.

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 2014. 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.

	Notes	As at	
		Mar 14 \$Ab	Mar 13 \$Ab
Total assets per MGL statement of financial position		153.9	144.7
Accounting deductions:			
Self funded trading assets	1	(17.9)	(13.6)
Derivative revaluation accounting gross-ups	2	(11.6)	(14.4)
Life investment contracts and other segregated assets	3	(5.7)	(5.4)
Outstanding trade settlement balances	4	(7.2)	(7.7)
Short-term working capital assets	5	(5.5)	(5.2)
Non-recourse funded assets:			
Securitised assets and other non-recourse funding	6	(13.4)	(10.8)
Net funded assets		92.6	87.6

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. 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 14 \$Ab	Mar 13 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.9	1.4
Commercial paper		6.6	3.5
Net trade creditors	2	1.0	—
Structured notes	3	2.3	2.4
Secured funding	4	7.0	9.4
Bonds	5	19.3	16.5
Other loans	6	0.9	0.7
Senior credit facility	7	1.3	2.4
Deposits:	8		
Retail deposits		33.3	31.0
Corporate and wholesale deposits		3.6	5.2
Loan capital	9	3.5	3.2
Equity and hybrids	10	11.9	11.9
Total		92.6	87.6
Funded assets			
Cash and liquid assets	11	19.1	19.8
Self securitisation	12	7.4	6.2
Net trading assets	13	16.7	15.1
Loan assets less than one year	14	11.9	9.9
Loan assets greater than one year	14	27.9	26.8
Debt investment securities	15	3.1	2.3
Co-investment in Macquarie-managed funds and other equity investments	16	4.7	5.5
Property, plant and equipment and intangibles		1.8	1.7
Net trade debtors	17	—	0.3
Total		92.6	87.6

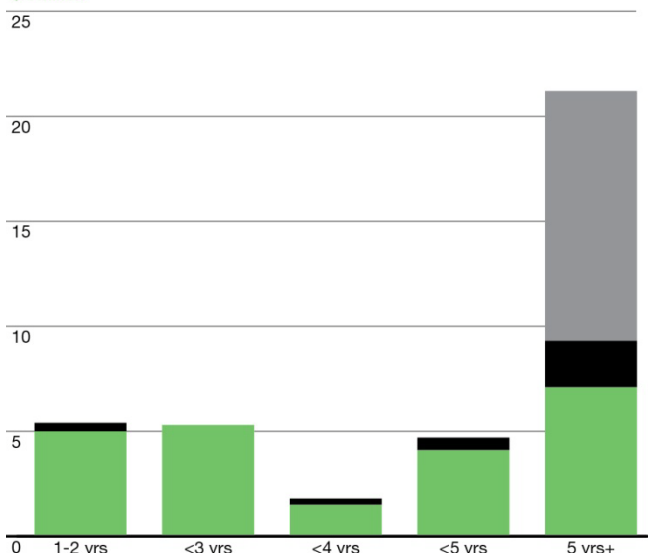
See Section 5.6 for notes 1-17.

5.0 Funding and liquidity continued

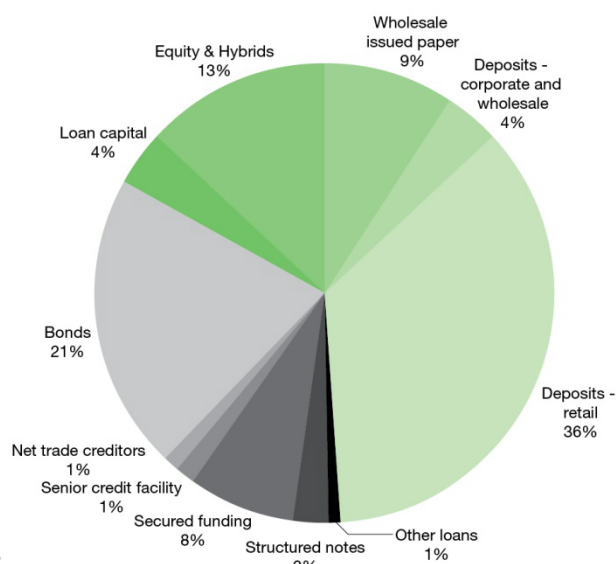
Detail of term funding (drawn & committed but undrawn) maturing beyond one year

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



Diversity of funding sources



As at Mar 14

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes	0.1	0.2	—	0.2	0.9	1.4
Secured funding	2.9	0.2	0.1	0.3	0.3	3.8
Bonds	1.7	4.9	1.4	2.3	5.6	15.9
Other loans	0.3	—	—	—	0.3	0.6
Senior credit facility	—	—	—	1.3	—	1.3
Total debt	5.0	5.3	1.5	4.1	7.1	23.0
Loan capital	0.4	—	0.3	0.6	2.2	3.5
Equity and hybrids	—	—	—	—	11.9	11.9
Total funding sources drawn	5.4	5.3	1.8	4.7	21.2	38.4
Undrawn	—	—	—	0.7	—	0.7
Total funding sources drawn and undrawn	5.4	5.3	1.8	5.4	21.2	39.1

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

At 31 March 2014, 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) increased from 4.4 years at 31 March 2013 to 4.5 years at 31 March 2014.

As at 31 March 2014, total deposits represented \$A36.9 billion, or 40% of MGL Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A8.5 billion, or 9% of total funding, and other debt funding maturing within 12 months represented \$A8.8 billion, or 9% of total funding.

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 2013, MGL and MBL have continued to raise term wholesale funding.

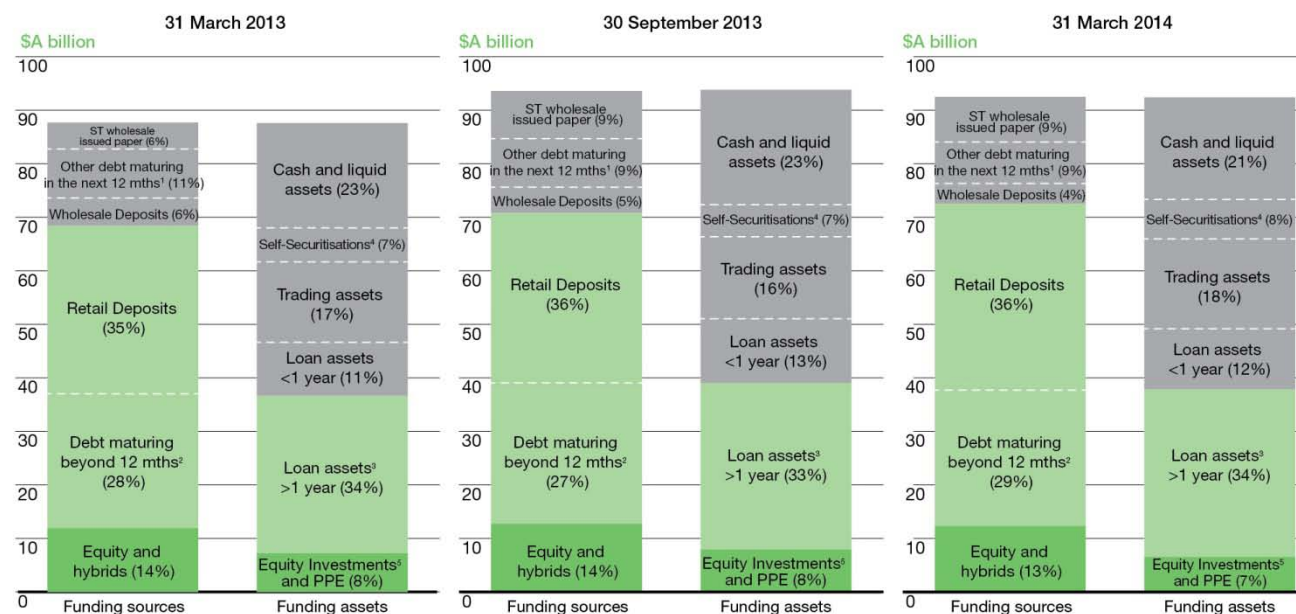
Details of term funding raised between 1 April 2013 and 31 March 2014:

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Secured Funding	– Term securitisation and other secured finance	7.8	—	7.8
Issued paper	– Senior	5.2	1.7	6.9
MCN	– Subordinated notes	—	0.6	0.6
Senior Credit Facility	– Term facility refinancing	—	2.1	2.1
Total		13.0	4.4	17.4

Macquarie has continued to diversify its funding base and develop new markets including issuances in the United States, Europe, United Kingdom, Australia and Korea.

Since 31 March 2013, MGL Group raised \$A17.4 billion of term funding, including \$A6.9 billion of term wholesale funding, \$A7.8 billion of term secured finance and \$A0.6 billion subordinated notes. Wholesale term issuance of \$A6.9 billion includes \$A4.3 billion in USD senior unsecured debt issuance, \$A1.5 billion in private placements and structured notes, \$A0.7 billion in senior unsecured issuance in the Euro market and \$A0.4 billion in senior unsecured issuance in the UK market. Term secured finance of \$A7.8 billion includes \$A2.4 billion of PUMA RMBS, \$A2.5 billion of SMART auto & equipment ABS, \$A0.3 billion secured by UK meters and a net increase of \$A2.6 billion of warehouse funding for PUMA and 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 maturing within the next 12 months and Net Trade Creditors.

(2) 'Debt maturing beyond 12 mths' includes Loan Capital.

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

(4) 'Self-Securitisations' includes repo eligible Australian mortgages originated by Macquarie.

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

5.0 Funding and liquidity continued

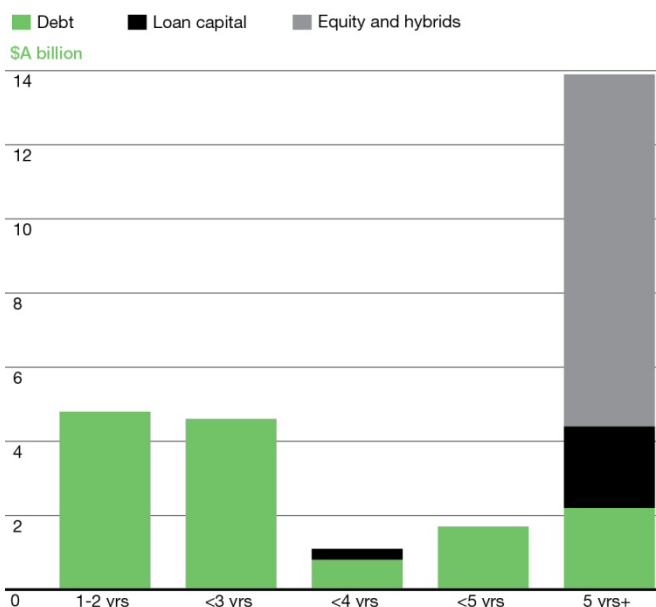
5.4 Funding profile for Bank Group

Funded balance sheet

		As at	
	Notes	Mar 14 \$Ab	Mar 13 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.9	1.4
Commercial paper		6.6	3.5
Net trade creditors	2	0.7	—
Structured notes	3	1.6	1.4
Secured funding	4	6.9	9.3
Bonds	5	11.3	10.7
Other loans	6	0.5	0.5
Deposits:	8		
Retail deposits		33.3	31.0
Corporate and wholesale deposits		3.6	5.2
Loan capital	9	2.5	2.2
Equity and hybrids	10	9.5	8.7
Total		78.4	73.9
Funded assets			
Cash and liquid assets	11	17.3	18.0
Self securitisation	12	7.4	6.2
Net trading assets	13	15.4	14.5
Loan assets less than one year	14	11.7	9.6
Loan assets greater than one year	14	26.9	25.7
Debt investment securities	15	2.6	2.1
Non-Bank Group deposit with MBL		(5.0)	(4.2)
Co-investment in Macquarie-managed funds and other equity investments	16	1.0	1.1
Property, plant and equipment and intangibles		1.1	1.0
Net trade debtors	17	—	(0.1)
Total		78.4	73.9

See Section 5.6 for notes 1-17.

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



As at Mar 14

	1-2yrs	2-3yrs	3-4yrs	4-5yrs	5yrs+	Total
	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab	\$Ab
Structured notes	0.1	0.1	—	0.2	0.7	1.1
Secured funding	2.9	0.2	0.1	0.3	0.3	3.8
Bonds	1.6	4.3	0.7	1.2	1.2	9.0
Other loans	0.2	—	—	—	—	0.2
Total debt	4.8	4.6	0.8	1.7	2.2	14.1
Loan capital	—	—	0.3	—	2.2	2.5
Equity and hybrids	—	—	—	—	9.5	9.5
Total funding sources drawn	4.8	4.6	1.1	1.7	13.9	26.1
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	4.8	4.6	1.1	1.7	13.9	26.1

The Bank Group has diversity of funding by both source and maturity. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.6 years.

As at 31 March 2014, total deposits represented \$A36.9 billion, or 47% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A8.5 billion, or 11% of total funding, and other debt funding maturing within 12 months represented \$A6.9 billion, or 9% 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 \$US7.4 billion debt securities outstanding at 31 March 2014
- \$US10 billion Commercial Paper Program under which \$US5.3 billion of debt securities were outstanding at 31 March 2014
- \$US20 billion US Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 31 March 2014 issuances outstanding amounted to \$US6.7 billion under the Rule 144A/Regulation S Medium Term Note Program
- \$US5 billion Structured Note Program under which \$US1.1 billion of funding from structured notes was outstanding at 31 March 2014.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 31 March 2014, MBL Group had \$A1.9 billion of these securities outstanding.

At 31 March 2014, MBL Group had internally securitised \$A7.4 billion of its own mortgages.

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

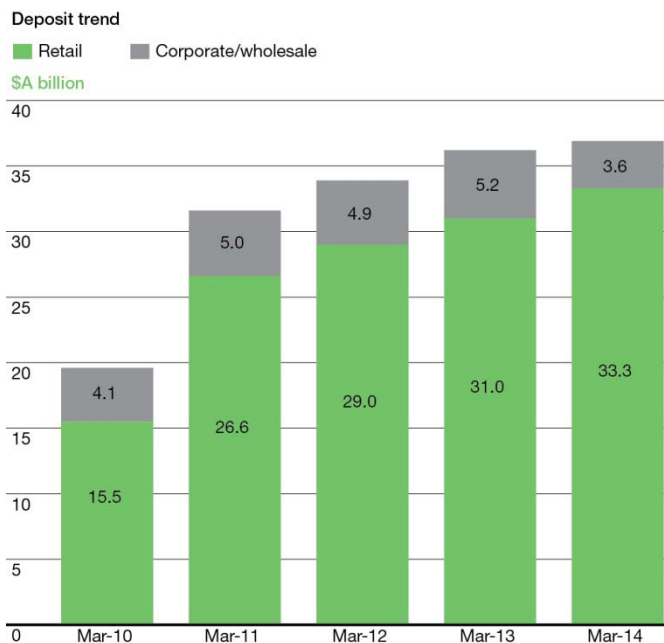
Deposit strategy

MBL continues to pursue a deposit strategy that is consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy is focused on growing the 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.

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



5.0 Funding and liquidity continued

5.5 Funding profile for Non-Bank Group

Funded balance sheet

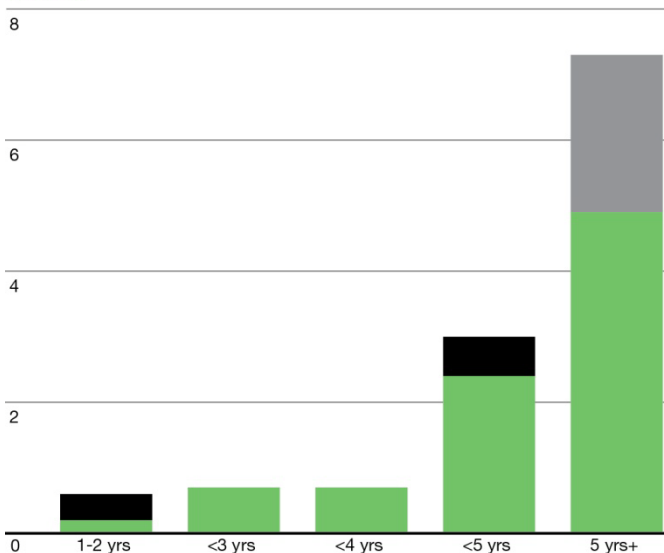
		As at	
	Notes	Mar 14 \$Ab	Mar 13 \$Ab
Funding sources			
Net trade creditors	2	0.3	—
Structured notes	3	0.7	1.0
Secured funding	4	0.1	0.1
Bonds	5	8.0	5.8
Other loans	6	0.4	0.2
Senior credit facility	7	1.3	2.4
Loan capital	9	1.0	1.0
Equity	10	2.4	3.2
Total		14.2	13.7
Funded assets			
Cash and liquid assets	11	1.8	1.8
Non-Bank Group deposit with MBL		5.0	4.2
Net trading assets	13	1.3	0.6
Loan assets less than one year	14	0.2	0.3
Loan assets greater than one year	14	1.0	1.1
Debt investment securities	15	0.5	0.2
Co-investment in Macquarie-managed funds and other equity investments	16	3.7	4.4
Property, plant and equipment and intangibles		0.7	0.7
Net trade debtors	17	—	0.4
Total		14.2	13.7

See Section 5.6 for notes 2-17.

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

■ Debt ■ Loan capital ■ Equity and hybrids

\$A billion



As at Mar 14

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes	—	0.1	—	—	0.2	0.3
Secured funding	—	—	—	—	—	—
Bonds	0.1	0.6	0.7	1.1	4.4	6.9
Other loans	0.1	—	—	—	0.3	0.4
Senior credit facility	—	—	—	1.3	—	1.3
Total debt	0.2	0.7	0.7	2.4	4.9	8.9
Loan capital	0.4	—	—	0.6	—	1.0
Equity	—	—	—	—	2.4	2.4
Total funding sources drawn	0.6	0.7	0.7	3.0	7.3	12.3
Undrawn	—	—	—	0.7	—	0.7
Total funding sources drawn and undrawn	0.6	0.7	0.7	3.7	7.3	13.0

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 6.2 years.

As at 31 March 2014, other debt funding maturing within 12 months represented \$A1.9 billion, or 13% 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 \$US1.8 billion⁽¹⁾ at 31 March 2014
- \$US10 billion US Rule 144A/Regulation S Medium Term Note Program, of which \$US4.3 billion was outstanding at 31 March 2014
- \$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 \$US0.6 billion debt securities outstanding at 31 March 2014.

⁽¹⁾ Includes both drawn and undrawn facility.

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, CPS, MCN, 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 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 currently include the Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Exchangeable Capital Securities (ECS), 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 14		As at Sep 13		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	9,682	9,682	9,629	9,629	1	1
Non-Bank Group eligible capital	3,197	3,197	4,061	4,061	(21)	(21)
Eligible capital	12,879	12,879	13,690	13,690	(6)	(6)
Macquarie Group capital requirement:						
Bank Group						
Risk-Weighted Assets (RWA)	68,655	65,698	66,897	62,844	3	5
Capital required to cover RWA at 7% ⁽¹⁾	4,806	4,599	4,683	4,399	3	5
Tier 1 deductions	1,182	2,721	1,058	2,806	12	(3)
Total Bank Group capital requirement	5,988	7,320	5,741	7,205	4	2
Total Non-Bank Group capital requirement	2,823	2,823	3,428	3,428	(18)	(18)
Total capital requirement	8,811	10,143	9,169	10,633	(4)	(5)
Macquarie Group regulatory capital surplus (at 7%⁽¹⁾ of Bank Group RWA)	4,068	2,736	4,521	3,057	(10)	(11)
Additional capital requirement required to maintain 8.5%⁽²⁾ of Tier 1 ratio in Bank Group	1,030	985	1,003	943	3	4
Macquarie Group regulatory capital surplus (at 8.5%⁽²⁾ of Bank Group RWA)	3,038	1,751	3,518	2,114	(14)	(17)

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

⁽²⁾ Calculated at 8.5% of the Bank Group's RWA. 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.

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital consists of MIS, MIPS and ECS. 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 2014, 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.

6.0 Capital

continued

Bank Group Basel III Tier 1 Capital

	As at Mar 14		As at Sep 13		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	7,710	7,710	7,681	7,681	<1	<1
Retained earnings	1,371	1,371	1,389	1,389	(1)	(1)
Reserves	(42)	(42)	(129)	(129)	(67)	(67)
Gross Common Equity Tier 1 capital	9,039	9,039	8,941	8,941	1	1
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	104	104	185	185	(44)	(44)
Deferred tax assets	98	189	135	249	(27)	(24)
Net other fair value adjustments	(9)	(9)	(20)	(20)	(55)	(55)
Intangible component of investments in subsidiaries and other entities	443	443	410	410	8	8
Loan and lease origination fees and commissions paid to mortgage originators and brokers	—	115	—	117	—	(2)
Equity exposures	—	1,307	—	1,490	—	(12)
Shortfall in provisions for credit losses	380	380	152	152	150	150
Other Common Equity Tier 1 capital deductions	166	192	196	223	(15)	(14)
Total Common Equity Tier 1 capital deductions	1,182	2,721	1,058	2,806	12	(3)
Net Common Equity Tier 1 capital	7,857	6,318	7,883	6,135	(<1)	3
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	643	643	688	688	(7)	(7)
Gross Additional Tier 1 capital	643	643	688	688	(7)	(7)
Deduction from Additional Tier 1 capital	—	—	—	—	—	—
Net Additional Tier 1 capital	643	643	688	688	(7)	(7)
Total Net Tier 1 capital	8,500	6,961	8,571	6,823	(1)	2

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Mar 14		As at Sep 13		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	18,295	18,295	16,545	16,545	11	11
SME Corporate	1,727	1,727	1,613	1,613	7	7
Sovereign	591	591	650	650	(9)	(9)
Bank	1,680	1,680	1,748	1,748	(4)	(4)
Residential mortgage	2,565	4,136	1,429	2,334	79	77
Other Retail	4,862	4,862	4,491	4,491	8	8
Total RWA subject to IRB approach	29,720	31,291	26,476	27,381	12	14
Specialised lending exposures subject to slotting criteria	4,891	4,891	5,192	5,192	(6)	(6)
Subject to Standardised approach:						
Corporate	891	891	1,388	1,388	(36)	(36)
Residential mortgage	1,380	1,380	1,453	1,453	(5)	(5)
Other Retail	1,081	1,081	1,036	1,036	4	4
Total RWA subject to Standardised approach	3,352	3,352	3,877	3,877	(14)	(14)
Credit risk RWA for securitisation exposures	874	874	1,090	1,090	(20)	(20)
Credit Valuation Adjustment RWA	2,325	2,325	2,637	2,637	(12)	(12)
Exposures to Central Counterparties RWA	1,595	1,595	1,510	1,510	6	6
RWA for Other Assets	6,751	6,395	6,509	6,253	4	2
Total Credit risk RWA	49,508	50,723	47,291	47,940	5	6
Equity risk exposures RWA	4,266	—	4,756	—	(10)	—
Market risk RWA	4,567	4,567	4,818	4,818	(5)	(5)
Operational risk RWA	8,531	8,531	8,443	8,443	1	1
Interest rate risk in banking book RWA	—	—	—	—	—	—
Scaling factor (6%) applied to RWA subject to IRB approach	1,783	1,877	1,589	1,643	12	14
Total Bank Group RWA	68,655	65,698	66,897	62,844	3	5
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	11.4	9.6	11.8	9.8		
Macquarie Bank Group Tier 1 capital ratio (%)	12.4	10.6	12.8	10.9		

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 ADIs, 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 some 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 79% 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 14		
	Asset \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	22	15%
Loan assets ⁽¹⁾	1.2	150	156%
Debt investment securities	0.5	54	136%
Co-investments in Macquarie-managed funds and equity investments	3.5	1,718	607%
Co-investments in Macquarie-managed funds and equity investments (relating to investments that hedge DPS plan liabilities)	0.2		
Property, plant and equipment and intangibles ⁽²⁾	0.7	286	511%
Non Bank Group deposit with MBL	5.0		
Net trading assets	1.3		
Net trade debtors	—		
Total funded assets	14.2	2,230	
Self-funded and non-recourse assets			
Self funded trading assets	1.6		
Broker settlement balances	3.8		
Derivative revaluation accounting gross-ups	0.2		
Working capital assets	3.9		
Total self-funded and non-recourse assets	9.5		
Total Non-Bank Group assets	23.7		
Off balance sheets exposures, operational, market and other risk and diversification offset ⁽³⁾		593	
Non-Bank Group capital requirement		2,823	

⁽¹⁾ Includes leases.

⁽²⁾ A component of the intangibles relating to the acquisitions of Orion Financial Inc. and Tristone Capital Global Inc. are supported 100% by exchangeable shares. These exchangeable shares have not been included in eligible regulatory capital.

⁽³⁾ Capital associated with net trading assets (eg. market risk capital) and net trade debtors has been included here.

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Mar 14 \$Ab	Sep 13 \$Ab	Mar 13 \$Ab	Sep 13 %	Mar 13 %
Assets under Management					
Macquarie Investment Management	310.5	264.7	239.3	17	30
Macquarie Infrastructure and Real Assets	112.8	114.3	102.3	(1)	10
Macquarie Specialised Investment Solutions	1.5	1.7	1.9	(12)	(21)
Total Macquarie Funds	424.8	380.7	343.5	12	24
Other Operating Groups	2.1	4.1	3.9	(49)	(46)
Total Assets under Management	426.9	384.8	347.4	11	23
Assets under Management by region					
Americas	236.3	226.2	205.0	4	15
Europe, Middle East and Africa	79.7	78.9	67.8	1	18
Australia	70.5	62.1	60.2	14	17
Asia	40.4	17.6	14.4	130	181
Total Assets under Management	426.9	384.8	347.4	11	23
Assets under Management by type					
Fixed income	174.2	147.0	138.7	19	26
Direct infrastructure	105.3	101.9	90.8	3	16
Equities	99.1	89.4	75.2	11	32
Cash	16.7	16.7	17.5	-	(5)
Direct real estate	4.7	10.2	9.2	(54)	(49)
Alternatives	7.9	7.1	5.3	11	49
Currency	8.1	5.8	4.6	40	76
Multi-asset allocation solutions	9.4	4.5	3.9	109	141
Specialist investments	1.5	2.2	2.2	(32)	(32)
Total Assets under Management	426.9	384.8	347.4	11	23

AUM of \$A426.9 billion at 31 March 2014 increased 23% from \$A347.4 billion at 31 March 2013. The increase in AUM was mainly due to favourable currency and market movements across Macquarie Funds, the acquisition of ING Investment Management Korea, positive net flows in the securities investment management business and investments in the infrastructure and real assets business. These increases were partially offset by asset disposals in the infrastructure and real assets business.

Macquarie Investment Management

Macquarie Investment Management's AUM was \$A310.5 billion as at 31 March 2014, an increase of 30% from \$A239.3 billion as at 31 March 2013 primarily due to the acquisition of ING Investment Management Korea in December 2013, the favourable impact of the depreciation of the Australian dollar since 31 March 2013, positive market and valuation movements and positive net flows.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Asset's AUM was \$A112.8 billion as at 31 March 2014, an increase of 10% from \$A102.3 billion as at 31 March 2013 due to the favourable impact of the depreciation of the Australian dollar since 31 March 2013, positive market and valuation movements and investments, partially offset by asset disposals.

7.2 Equity under Management

The Macquarie Infrastructure and Real Assets division of Macquarie Funds 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 14 \$Ab	Sep 13 \$Ab	Mar 13 \$Ab	Sep 13 %	Mar 13 %
Equity under Management by type					
Listed equity	9.4	8.6	6.9	9	36
Unlisted equity	43.1	41.0	34.1	5	26
Total EUM	52.5	49.6	41.0	6	28
Equity under Management by region⁽³⁾					
Australia	4.8	4.2	3.8	14	26
Europe, Middle East and Africa	23.3	22.3	16.8	4	39
Americas	16.0	14.4	13.2	11	21
Asia	8.4	8.7	7.2	(3)	17
Total EUM	52.5	49.6	41.0	6	28

⁽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 \$A52.5 billion at 31 March 2014 increased 28% from \$A41.0 billion at 31 March 2013. The increase was primarily due to the favourable impact of the depreciation of the Australian dollar since 31 March 2013 and equity raisings for funds including Macquarie Infrastructure Partners III, Macquarie European Infrastructure Fund 4, Asian Pay Television Trust, Macquarie Infrastructure Company LLC and Macquarie Mexican REIT, partially offset by returns of capital that have 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. Additional Tier 1 Capital consists of MIS, MIPS and ECS.
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 recognised at fair value 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.
BBSW	Bank Bill Swap Rate.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio 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.
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.
CPS	In July 2008, Macquarie CPS Trust, a subsidiary of MGL issued six million Macquarie Convertible Preference Securities (CPS) at face value of \$A100 each. The instruments were fully redeemed on 1 July 2013.
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.

8.0 Glossary

continued

ECAM	Economic Capital Adequacy Model.
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 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.
Fair value through profit or loss	Fair value through profit or loss financial assets or financial liabilities are designated as such on initial recognition and subsequently measured at fair value, with any movements in fair value recognised in the income statement.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
FX	Foreign exchange.
Headcount	Headcount includes both permanent staff (full time, part time and fixed term hires), casual staff and contractors (including consultants and secondees). It excludes staff on leave without pay and staff on parental leave.
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia and New Zealand. Operating income is classified as 'international' with reference to the geographic location from which the operating income is generated. This may not be the same geographic location where the operating income is recognised. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes would be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Level 2 MBL 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.

8.0 Glossary

continued

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

This page has been intentionally left blank

9.0 Ten year history

	2005	2006	2007
Financial performance (\$A million)			
Net operating income ⁽¹⁾	4,197	4,832	7,181
Total operating expenses ⁽¹⁾	(3,039)	(3,545)	(5,253)
Operating profit before income tax	1,158	1,287	1,928
Income tax expense	(288)	(290)	(377)
Profit after income tax	870	997	1,551
Profit attributable to non-controlling interests	(58)	(81)	(88)
Profit after income tax attributable to ordinary equity holders	812	916	1,463
Financial position (\$A million)			
Total assets ⁽²⁾	67,980	106,211	136,389
Total liabilities ⁽²⁾	(63,555)	(100,874)	(128,870)
Net assets ⁽²⁾	4,425	5,337	7,519
Total loan assets ⁽³⁾	28,425	35,126	45,939
Impaired assets (net of provisions)	42	85	46
Share information⁽⁴⁾			
Cash dividends per share (cents per share)			
Interim	61	90	125
Final	100	125	190
Special ⁽⁵⁾	40	–	–
Total	201	215	315
Basic earnings per share (cents per share)	369.6	400.3	591.6
Share price at end of period (\$A)	48.03	64.68	82.75
Ordinary share capital (million shares)	223.7	232.4	253.9
Market capitalisation at end of period (fully paid ordinary shares) (\$A million)	10,744	15,032	21,010
Net tangible assets per ordinary share (\$A)	14.02	16.99	24.35
Ratios			
Return on average ordinary shareholders' funds (%)	29.8	26.0	28.1
Dividend payout ratio (%)	53.2	54.4	54.3
Expense/income ratio (%)	72.4	73.4	73.2
Net loan losses/loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.2	0.2	0.1
Assets under management (\$A billion)	96.7	140.3	197.2
Staff numbers	6,556	8,183	10,023

(1) The balances for the year ended 31 March 2013 have been restated for better presentation of fees and commission income and brokerage expense for certain trades.

(2) The balances as at 31 March 2013 have been restated for the effect of applying AASB 10 Consolidated Financial Statements.

(3) The balances for the full years ended 31 March 2005-2014 have been restated for the effect of reclassification of margin monies from receivables from financial institutions to loan assets held at amortised cost.

(4) The MBL (now MGL) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

(5) 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.

(6) Excludes the special dividend of 116 cents per share arising from the SYD distribution in January 2014.

Year ended 31 March						
2008	2009	2010	2011	2012	2013	2014
8,248	5,526	6,638	7,665	6,963	6,657	8,132
(6,043)	(4,537)	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)
2,205	989	1,294	1,271	1,049	1,405	2,106
(317)	(15)	(201)	(282)	(287)	(533)	(827)
1,888	974	1,093	989	762	872	1,279
(85)	(103)	(43)	(33)	(32)	(21)	(14)
1,803	871	1,050	956	730	851	1,265
167,250	149,144	145,940	157,568	153,626	144,748	153,904
(157,189)	(139,584)	(134,171)	(145,636)	(141,894)	(132,793)	(141,990)
10,061	9,560	11,769	11,932	11,732	11,955	11,914
53,213	47,080	45,660	47,222	46,380	50,793	58,712
121	916	551	340	357	368	365
145	145	86	86	65	75	100
200	40	100	100	75	125	160
–	–	–	–	–	–	116
345	185	186	186	140	200	376
670.6	309.6	320.2	282.5	210.1	251.2	383.6
52.82	27.05	47.25	36.60	29.08	37.15	57.93
274.6	283.4	344.2	346.8	348.6	339.5	321.1
14,504	7,666	16,266	12,693	10,137	12,613	18,600
30.35	27.89	28.40	28.91	28.12	29.94	31.71
23.7	9.9	10.1	8.8	6.8	7.8	11.1
52.2	60.2	60.4	67.3	66.4	79.0	66.8 ⁽⁶⁾
73.3	82.1	80.5	83.4	84.9	78.9	74.1
0.3	1.9	0.8	0.4	0.5	0.4	0.4
232.0	243.1	325.7	309.8	326.9	347.4	426.9
13,107	12,716	14,657	15,556	14,202	13,663	13,913

This page has been intentionally left blank.

Contact details

Macquarie Group Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Group Limited
Level 7, No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Fax: +61 2 8232 4330



macquarie.com.au