Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2014

Dated: November 14, 2014

TABLE OF CONTENTS

CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2014 ("2015 Interim U.S. Disclosure Report" or this "Report"), unless otherwise specified or the context otherwise requires:

- *"2014 Annual U.S. Disclosure Report"* means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2014 and the documents incorporated by reference therein;

- *"2014 Interim Directors' Report and Financial Report"* means our 2014 Interim Directors' Report and Financial Report;

- *"2015 interim financial statements"* means our unaudited financial statements for the half year ended September 30, 2014 contained in our 2015 Interim Directors' Report and Financial Report; and

- *"2015 Interim Directors' Report and Financial Report"* means our 2015 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain definitions" beginning on page ii of our 2014 Annual U.S. Disclosure Report, which is posted on MBL's U.S. investors' website at www.macquarie.com/mgl/com/us/usinvestors/mbl ("*MBL's U.S. Investors' Website*").

Our fiscal year ends on March 31, so references to years such as "2015" or "fiscal year" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operation and financial condition, references such as "half year" and like references are to the six months ending on September 30 of the preceding year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

Significant risk factors applicable to MBL Group are described under "Risk factors" beginning on page 10 of our 2014 Annual U.S. Disclosure Report. Other factors are discussed under "Management's discussion and analysis of interim results of operation and financial condition" in this Report and in the "Management's discussion and analysis of results of operation and financial condition" in the 2014 Annual U.S. Disclosure Report.

EXCHANGE RATES

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

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. The noon buying rate on November 7, 2014, was US$0.8620 per A$1.00.

Fiscal year	Period End	Average Rate[1]	High	Low
2010	0.9169	0.8507	0.9369	0.6941
2011	1.0358	0.9450	1.0358	0.8172
2012	1.0367	1.0456	1.1026	0.9453
2013	1.0409	1.0317	1.0591	0.9688
2014	0.9275	0.9339	1.0564	0.8715
Month	**Period End**		**High**	**Low**
May 2014	0.9298		0.9382	0.9215
June 2014	0.9427		0.9430	0.9250
July 2014	0.9301		0.9488	0.9301
August 2014	0.9344		0.9352	0.9263
September 2014	0.8737		0.9376	0.8737
October 2014	0.8791		0.8904	0.8675
November 2014 (through November 7)	0.8620		0.8729	0.8580

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

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under "Financial information presentation" beginning on page x of our 2014 Annual U.S. Disclosure Report.

Our financial information

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

- the section of this Report under the heading "Selected Financial Information", which presents summary consolidated statement of financial position data as at September 30, 2014 and 2013, income statement data for the half years ended September 30, 2014 and 2013 and other historical financial data and metrics;
- the section of this Report under the heading "Management's Discussion and Analysis of Results of Operation and Financial Condition", which includes a discussion of operating conditions during the half year ended September 30, 2014 and the impact of such operating conditions on MBL Group, a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2014 compared to the half year ended September 30, 2013, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2014;
- our Pillar 3 Disclosure Document for the quarter ended June 30, 2014, which describes the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within the framework and which is posted on MBL's U.S. Investors' Website; and
- our historical financial statements, which are included in the extracts from our 2015 Interim Directors' Report and Financial Report posted on MBL's U.S. Investors' Website.

For further information on our historical financial information for the 2014 Fiscal Year and prior periods, refer to the discussion under the heading "Financial information presentation — Our financial information" included in our 2014 Annual U.S. Disclosure Report.

Application of new accounting standards

The application of new Australian Accounting Standards and amendments to Australian Accounting Standards and Interpretations that became effective in the half year ended September 30, 2014 have not had a material impact on MBL's reported financial position and operating results in this period. For further detail on new accounting standards and amendments to existing accounting standards that became effective in the half year ended September 30, 2014, see Note 1(iii) to our 2015 interim financial statements.

Certain differences between AGAAP and US GAAP

For information on certain differences between AGAAP and US GAAP, see "Financial information presentation — Certain differences between AGAAP and US GAAP" beginning on page xi of our 2014 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments

For information on our critical accounting policies and significant judgments, see "Management's discussion and analysis of results of operation and financial condition — Critical accounting policies and significant judgments" beginning on page 60 of our 2014 Annual U.S. Disclosure Report.

Non-GAAP financial measures

We report our financial results in accordance with AGAAP. However, we include certain financial measures and ratios that are not prepared in accordance with AGAAP that we believe provide useful information to investors in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by AGAAP and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AGAAP. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report. For further information on our non-GAAP financial measures, see "Financial information presentation — Non-GAAP financial measures" beginning on page xii of our 2014 Annual U.S. Disclosure Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 38 to our 2014 annual financial statements.

The significant risk factors applicable to MBL Group are described under "Risk factors" beginning on page 10 of our 2014 Annual U.S. Disclosure Report.

CAPITALIZATION, INDEBTEDNESS AND CAPITAL ADEQUACY

The following table sets forth our capitalization as at September 30, 2014.

The information relating to MBL Group in the following table is based on our 2015 interim financial statements, which were prepared in accordance with AGAAP, and should be read in conjunction therewith.

	As at	
	Sep 14	**Sep 14**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	13,115	15,010
Subordinated debt — due greater than 12 months	2,190	2,507
Total borrowings[2]	**15,305**	**17,517**
Equity		
Contributed equity		
Ordinary share capital	6,621	7,578
Equity contribution from ultimate parent entity	115	132
Macquarie Income Securities	342	391
Reserves	110	126
Retained earnings	986	1,129
Macquarie Income Preferred Securities	68	78
Other non-controlling interests	1	1
Total equity	**8,243**	**9,435**
TOTAL CAPITALIZATION	**23,548**	**26,952**

---

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. See “Exchange rates” for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At September 30, 2014, we had A$2.5 billion of secured indebtedness due in greater than 12 months compared to A$5.1 billion at September 30, 2013.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$19.0 billion as at September 30, 2014 and securitizations totaled A$15.4 billion as at September 30, 2014 compared to A$16.4 billion and A$12.7 billion, respectively, as at September 30, 2013.

For details on our short-term debt position as at September 30, 2014, see “Management’s discussion and analysis of interim results of operation and financial condition — Liquidity — Funding profile for the Banking Group” in this Report.

Capital adequacy

The following table sets forth our capital adequacy and risk-weighted assets as at September 30, 2014 and March 31, 2014 and has been prepared on an APRA Basel III basis.

	As at			
	Sep 14	**Sep 14**	**Mar 14**	**Movement**
	US$m[1]	**A$m**	**A$m**	**%**
Common Equity Tier 1 capital				
Paid-up ordinary share capital	6,735	7,709	7,710	(0)
Retained earnings	972	1,113	1,371	(19)
Reserves	148	169	(42)	*
Gross Common Equity Tier 1 capital	**7,855**	**8,991**	**9,039**	(1)
Regulatory adjustments to Common Equity Tier 1 capital:				
Goodwill	95	109	104	5
Deferred tax assets	175	201	189	6
Net other fair value adjustments	(26)	(30)	(9)	233
Intangible component of investments in subsidiaries and other entities	383	438	443	(1)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	151	173	115	50
Equity exposures	1,189	1,361	1,307	4
Shortfall in provisions for credit losses	304	348	380	(8)
Other Common Equity Tier 1 capital deductions	249	285	192	48
Total Common Equity Tier 1 capital deductions	**2,520**	**2,885**	**2,721**	6
Net Common Equity Tier 1 capital	**5,335**	**6,106**	**6,318**	(3)
Additional Tier 1 Capital				
Additional Tier 1 capital instruments	576	659	643	2
Gross Additional Tier 1 capital	**576**	**659**	**643**	2
Deductions from Additional Tier 1 capital	-	-	-	-
Net Additional Tier 1 capital	**576**	**659**	**643**	2
Total Tier 1 capital	**5,911**	**6,765**	**6,961**	(3)

---

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 "*" 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.

3 Impact of A$429 million of "Macquarie Bank Capital Notes" issued on October 8, 2014 ("BCN") not included.

	As at			
	Sep 14	Sep 14	Mar 14	Movement
	US$m[1]	A$m	A$m	%
Credit risk – Risk-Weighted Assets (“RWA”)				
Subject to IRB approach:				
Corporate	17,271	19,768	18,295	8
SME Corporate	1,592	1,822	1,727	6
Sovereign	426	487	591	(18)
Bank	1,270	1,454	1,680	(13)
Residential mortgage	4,292	4,913	4,075	21
Other Retail	4,594	5,258	4,923	7
Total RWA subject to IRB approach	**29,445**	**33,702**	**31,291**	8
Specialized lending exposures subject to slotting criteria	**4,567**	**5,227**	**4,891**	7
Subject to Standardized approach:				
Corporate	667	763	920	(17)
Residential mortgage	1,558	1,783	1,479	21
Other Retail	1,156	1,324	953	39
Total RWA subject to Standardized approach	**3,381**	**3,870**	**3,352**	15
Credit risk RWA for securitization exposures	**907**	**1,038**	**874**	19
Credit Valuation Adjustment RWA	**2,145**	**2,455**	**2,325**	6
Exposures to Central Counterparties RWA	**1,599**	**1,830**	**1,595**	15
RWA for Other Assets	**5,909**	**6,763**	**6,395**	6
Total Credit risk RWA	**47,953**	**54,885**	**50,723**	8
Market risk RWA	**4,070**	**4,659**	**4,567**	2
Operational risk RWA	**7,319**	**8,377**	**8,531**	(2)
Interest rate risk in banking book RWA	**-**	**-**	**-**	-
Scaling factor (6%) applied to RWA subject to IRB approach	**1,767**	**2,022**	**1,877**	8
Total Banking Group RWA	**61,109**	**69,943**	**65,698**	6
Capital ratios				
Banking Group Common Equity Tier 1 capital ratio (%)	8.7	8.7	9.6	
Banking Group Tier 1 capital ratio (%)[2]	9.7	9.7	10.6	

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. See “Exchange rates” for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 Impact of A$429 million of BCN issued on October 8, 2014 not included.

ACTIVE 203670395v.20

SELECTED FINANCIAL INFORMATION

Half years ended September 30, 2014 and 2013

The selected consolidated statement of financial position data as at September 30, 2014 and 2013 and income statement data for the half years ended September 30, 2014 and 2013 presented in this Report have been derived from our 2015 interim financial statements, which PricewaterhouseCoopers has reviewed but not audited and which, in the opinion of our management, have been prepared on the same basis as our audited consolidated historical financial statements and include all adjustments necessary for a fair statement of our operating results and financial position for those periods and as of those dates. See "Financial information presentation" in this Report for further information. In addition, investors should read the following selected financial information together with the discussion under "Selected financial information" beginning on page 24 of our 2014 Annual U.S. Disclosure Report, "Management's discussion and analysis of interim results of operation and financial condition" in this Report and "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2014 Annual U.S. Disclosure Report. The selected unaudited financial data for the half year ended September 30, 2014 is not necessarily indicative of our results for the fiscal year ending March 31, 2015 and our historical results are not necessarily indicative of our results for any future period.

The historical interim financial information in the following tables has been extracted from our 2015 interim financial statements.

Income statements

	Half year ended		
	Sep 14	**Sep 14**	**Sep 13**
	US$m[1]	**A$m**	**A$m**
Interest and similar income	1,952	2,234	2,102
Interest expense and similar charges	(1,129)	(1,292)	(1,254)
Net interest income	**823**	**942**	**848**
Fee and commission income	702	804	828
Net trading income	669	766	673
Share of net profits of associates and joint ventures accounted for using the equity method	6	7	12
Other operating income and charges	280	321	195
Net operating income	**2,481**	**2,840**	**2,556**
Employment expenses	(751)	(859)	(792)
Brokerage, commission and trading-related expenses	(315)	(360)	(335)
Occupancy expenses	(56)	(64)	(69)
Non-salary technology expenses	(43)	(49)	(56)
Other operating expenses	(710)	(813)	(715)
Total operating expenses	**(1,874)**	**(2,145)**	**(1,967)**
Operating profit before income tax	**607**	**695**	**589**
Income tax expense	(253)	(290)	(213)
Profit after income tax	**354**	**405**	**376**
Profit attributable to non-controlling interests	(2)	(2)	(2)
Profit attributable to non-controlling interests	**(2)**	**(2)**	**(2)**
Profit attributable to equity holders of Macquarie Bank Limited	352	403	**374**
Distributions paid or provided for on Macquarie Income Securities	(8)	(9)	(9)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**344**	**394**	**365**

[1] Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

Statement of financial position

	As at		
	Sep 14	Sep 14	Sep 13
	US$m[1]	A$m	A$m
ASSETS			
Receivables from financial institutions	15,788	18,070	15,788
Trading portfolio assets	22,178	25,384	21,469
Derivative assets	12,684	14,518	14,473
Investment securities available for sale	6,368	7,289	13,612
Other assets	6,516	7,458	7,693
Loan assets held at amortized cost	54,868	62,800	54,574
Other financial assets at fair value through profit or loss	1,571	1,798	2,524
Due from related body corporate entities	1,219	1,395	861
Property, plant and equipment	5,538	6,339	5,983
Interests in associates and joint ventures accounted for using the equity method	492	563	588
Intangible assets	685	784	834
Deferred tax assets	162	185	234
Total assets	**128,070**	**146,583**	**138,633**
LIABILITIES			
Trading portfolio liabilities	3,214	3,679	1,796
Derivative liabilities	12,592	14,412	13,967
Deposits	38,549	44,122	42,573
Other liabilities	6,827	7,814	7,805
Payables to financial institutions	11,433	13,086	16,235
Other financial liabilities at fair value through profit or loss	735	841	663
Due to related body corporate entities	5,452	6,240	6,045
Debt issued at amortized cost	38,100	43,608	37,032
Provisions	89	102	110
Deferred tax liabilities	620	710	643
Total liabilities excluding loan capital	**117,612**	**134,614**	**126,869**
Loan capital			
Subordinated debt at amortized cost	2,214	2,534	2,399
Total loan capital	**2,214**	**2,534**	**2,399**
Total liabilities	**119,826**	**137,148**	**129,268**
Net assets	**8,243**	**9,435**	**9,365**
EQUITY			
Contributed equity	7,078	8,101	8,087
Reserves	110	126	(74)
Retained earnings	986	1,129	1,281
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**8,174**	**9,356**	**9,294**
Non-controlling interests	**69**	**79**	**71**
Total equity	**8,243**	**9,435**	**9,365**

[1] Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2014, which was US$0.8737 per A$1.00. See “Exchange rates” for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

__Other financial data__

	As at	
	Sep 14	**Sep 13**
Ratios		
Net loan losses as a percentage of loan assets (annualized %)[1]	0.3	0.4
Ratio of earnings to fixed charges[2]	1.5x	1.5x
Expense/income ratio (%)[3]	75.5	77.0
APRA Basel III Tier 1 capital ratio (%)[4]	9.7	10.9

1 Net loan losses as a percentage of loan assets excludes amounts relating to mortgage securitization special purpose entities. MBL's exposure in relation to these entities is largely mitigated by credit insurance. As a result, any loan losses in these vehicles do not have a material effect on our results.

2 For the purpose of computing ratios, earnings consist of net profit before interest costs, operating lease rental payments, income tax and non-controlling interests. Fixed charges consist of interest costs plus rental payments under operating leases.

3 Total operating expenses expressed as a percentage of net operating income.

4 Impact of A$429 million of BCN issued on October 8, 2014 not included.

RECENT DEVELOPMENTS

The following are significant recent developments for MBL Group that have occurred since the release of our 2014 Annual U.S. Disclosure Report on May 15, 2014. Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under "Risk factors" beginning on page 10 and under "Macquarie Bank Limited" beginning on page 27 of our 2014 Annual U.S. Disclosure Report and other information posted on MBL's U.S. Investors' Website.

Recent board changes

In addition to the board and management changes described under "Macquarie Bank Limited — Board and management changes since the beginning of the 2014 fiscal year" on page 27 of our 2014 Annual U.S. Disclosure Report, Helen Nugent and Peter Kirby retired as Non-Executive Directors from the Boards of MGL and MBL, effective July 24, 2014.

Gordon Cairns was appointed to the Boards of MGL and MBL as a Non-Executive Director, effective November 1, 2014. Mr. Cairns is currently the Chairman of Origin Energy Limited, Quick Service Restaurants and the Origin Foundation. Mr. Cairns has held a range of management and executive roles throughout his career including Chief Executive Officer of Lion Nathan Limited. He is a senior adviser to McKinsey & Co and a director of Opera Australia. Mr. Cairns has extensive experience as a company director, including nine years as a non-executive director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees. He has served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited, and as the Chairman of David Jones Limited and Rebel Group Pty Limited.

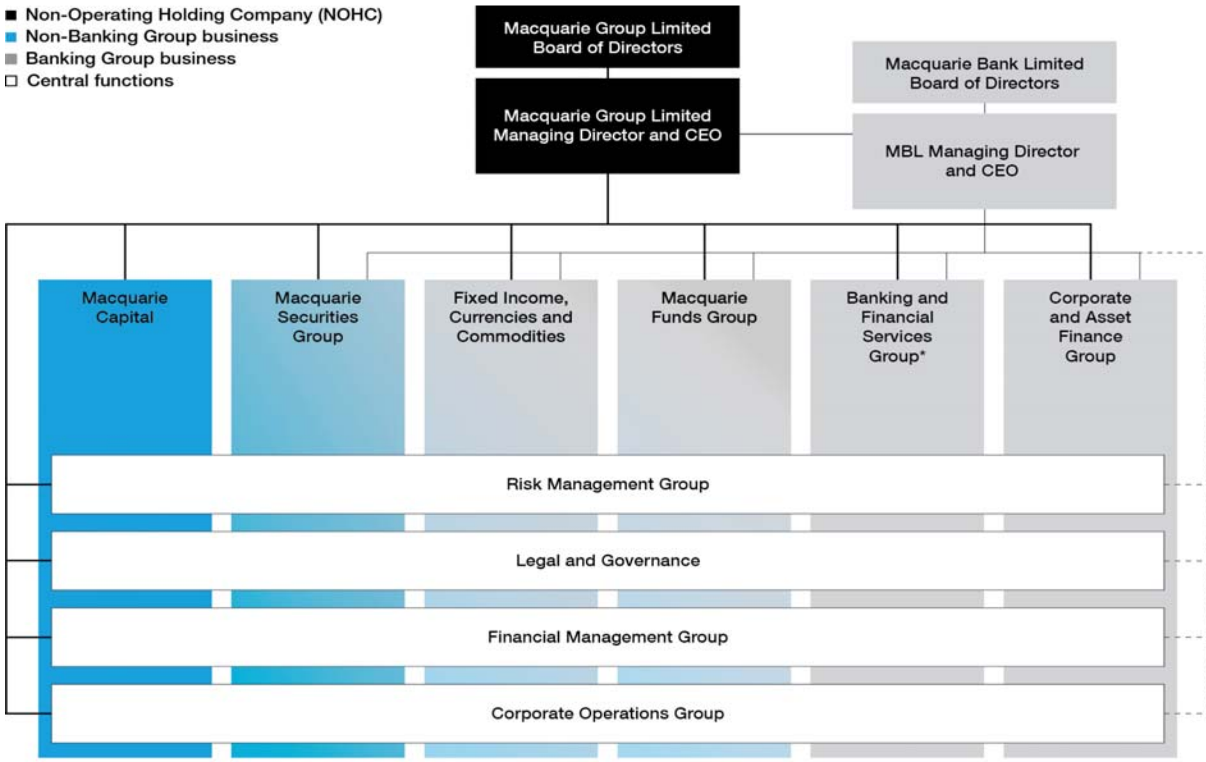
Organizational structure

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

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment includes earnings on capital, group treasury operations, earnings from certain legacy assets and businesses, certain corporate costs not recharged to operating businesses, employment related costs, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL's and MBL's liquidity and funding, see the discussion under "Management's discussion and analysis of interim results of operation and financial condition — Liquidity". Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

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



As at 1 July 2014
**The current Group Head of BFS is also the Deputy Group CEO.*

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

Our key strengths

For a description of our key strengths, see "Macquarie Bank Limited — Our key strengths" on page 30 of our 2014 Annual U.S. Disclosure Report.

MBL has met all of its capital requirements throughout the half year ended September 30, 2014. At September 30, 2014, the Banking Group had a Common Equity Tier 1 capital ratio of 8.7%, a Tier 1 capital ratio of 9.7% and a total capital ratio of 11.6%. On a pro forma basis, including A$429 million of BCN issued on October 8, 2014 which are eligible for inclusion as Additional Tier 1 Capital, the Banking Group had a Tier 1 capital ratio of 10.3%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on regulation and supervision, refer to the discussion under the heading "Regulation and Supervision — APRA" on page 48 of our 2014 Annual U.S. Disclosure Report and for further information on our regulatory capital position as at September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Capital analysis" in this Report.

Our strategy

Our strategy is set out under "Macquarie Bank Limited — Our strategy" on page 32 of our 2014 Annual U.S. Disclosure Report. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MBL Group in the medium term.

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

Overview of MBL Group

At September 30, 2014, MBL had total assets of A$146.6 billion and total equity of A$9.4 billion. For the half year ended September 30, 2014, our net operating income was A$2.8 billion and profit after tax attributable to ordinary equity holders was A$394 million, with 47% of MBL Group's revenues from external customers derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution of each of our operating groups in the half years ended September 30, 2014 and 2013.

Net operating income of MBL Group by operating group for the half years ended September 30, 2014 and 2013[1]

	Half year ended		
	Sep 14	**Sep 13**	**Movement**
	A$m	**A$m**	**%**
Macquarie Funds[2]	575	521	10
Corporate & Asset Finance	682	570	20
Banking & Financial Services	665	667	(<1)
Macquarie Securities[3]	156	158	(1)
Fixed Income, Currencies & Commodities[4]	681	617	10
Total net operating income by operating group	**2,759**	**2,533**	9
Corporate[5]	81	23	252
Total net operating income	**2,840**	**2,556**	11

1 For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment overview" and Note 3 to our 2015 interim financial statements.

2 Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division that remains part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes the Cash division and the Derivatives division, in each case, in certain jurisdictions.

4 Fixed Income, Currencies & Commodities as reported for MBL Group excludes certain assets of the Credit Trading business and some other less financially significant activities that remain part of the Non-Banking Group.

5 The Corporate segment includes earnings on capital, group treasury operations, earnings from certain legacy assets and businesses, certain corporate costs not recharged to operating businesses, employment related costs, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges.

Profit contribution of MBL Group by operating group for the half years ended September 30, 2014 and 2013[1]

	Half year ended		
	Sep 14	**Sep 13**	**Movement**[2]
	A$m	**A$m**	**%**
Macquarie Funds[3]	248	222	12
Corporate & Asset Finance	464	390	19
Banking & Financial Services	141	111	27
Macquarie Securities[4]	(20)	15	*
Fixed Income, Currencies & Commodities[5]	232	189	23
Total contribution to profit by operating group	**1,065**	**927**	15
Corporate[6]	(671)	(562)	19
Net profit after tax	**394**	**365**	8

1 For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment overview" and Note 3 to our 2014 interim financial statements.

2 "*" 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.

3 Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

4 Macquarie Securities as reported for MBL Group excludes the Cash division and the Derivatives division, in each case, in certain jurisdictions.

5 Fixed Income, Currencies & Commodities as reported for MBL Group excludes certain assets of the Credit Trading business and some other less financially significant activities that remain part of the Non-Banking Group.

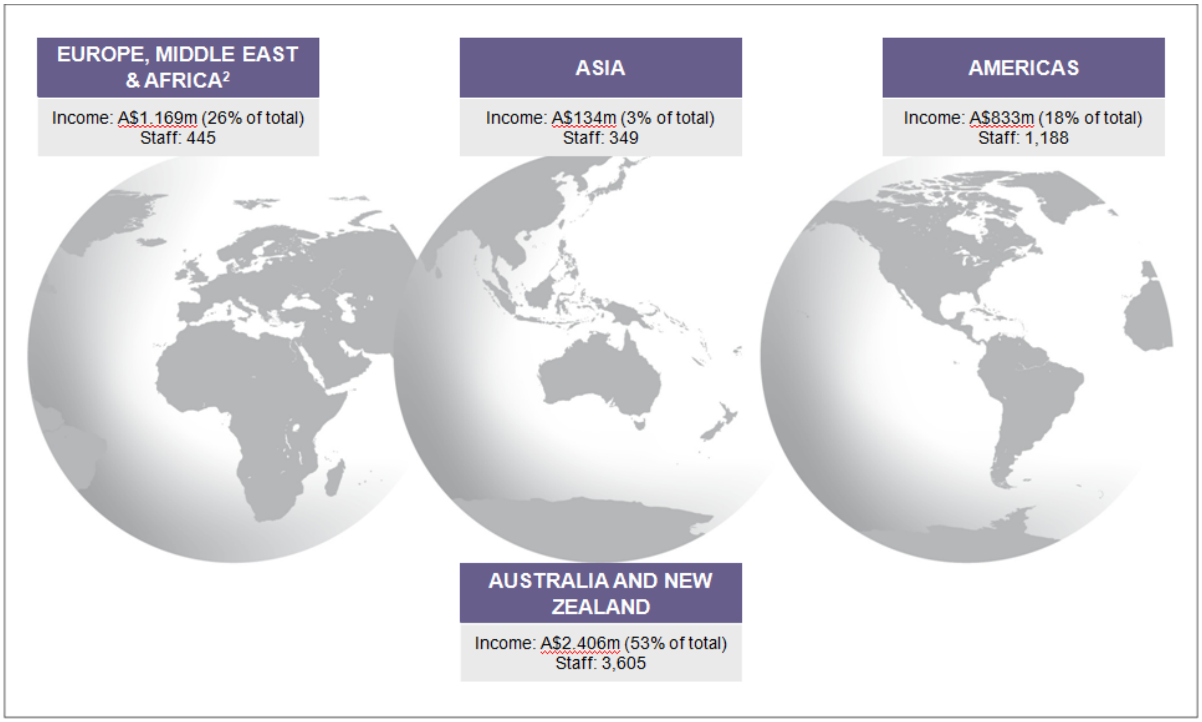
6 The Corporate segment includes earnings on capital, group treasury operations, earnings from certain legacy assets and businesses, certain corporate costs not recharged to operating businesses, employment related costs, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges.

Regional activity

At September 30, 2014, MBL Group employed 5,587 staff globally and conducted its operations in 21 countries. For the half year ended September 30, 2014, MBL Group generated 47% of its revenues from external customers outside Australia.

The chart below shows MBL Group's revenues from external customers by region in the half year ended September 30, 2014.

Revenues from external customers of MBL Group[1] by region for the half year ended September 30, 2014



---

1 For further information on our segment reporting, see Note 3 to our 2015 interim financial statements.

2 Staff seconded to joint venture not included in official headcount (South Africa: Macquarie First South, Moscow: Macquarie Renaissance).

3 Revenue relating to New Zealand included in Asia.

4 Headcount relating to New Zealand included in Australia.

Australia. MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at September 30, 2014, MBL Group employed over 3,600 staff across Australia and New Zealand. In the half year ended September 30, 2014, Australia contributed A$2.4 billion (53%) of our revenues from external customers as compared to A$2.6 billion (62%) in the half year ended September 30, 2013.

Americas. MBL Group has been active in the Americas for 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, principally through acquisitions of Delaware Investments, and Constellation Energy, and the growth of our Energy Trading and Credit Trading businesses. As at September 30, 2014, MBL Group employed over 1,100 staff across the United States, Canada and Brazil. In the half year ended September 30, 2014, the Americas contributed A$833 million (18%) of our revenues from external customers as compared to A$1.1 billion (25%) in the half year ended September 30, 2013.

Asia. MBL Group has been active in Asia for more than 19 years, when we established our first office in Hong Kong in 1995. As at September 30, 2014, MBL Group employed over 300 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Singapore and Taiwan. MBL has expanded the regional investment and product platforms of Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division), Corporate & Asset Finance as well as Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities), which had established an Asian regional "hub" in Singapore in the 2011 fiscal year. In the half year ended September 30, 2014, Asia (including New Zealand) contributed A$134 million (3%) of our revenues from external customers as compared to A$102 million (2%) in the half year ended September 30, 2013.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2014, MBL Group employed over 400 staff across the United Kingdom, Germany, Austria, Ireland, Switzerland, South Africa, Abu Dhabi and Dubai. In the half year ended September 30, 2014, Europe, Middle East & Africa contributed A$1.2 billion (26%) of our revenues from external customers as compared to A$471 million (11%) in the half year ended September 30, 2013.

For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment overview" and Note 3 to our 2015 interim financial statements.

Recent developments within MBL Group

Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)

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

Fixed Income, Currencies & Commodities contributed A$232 million to MBL Group's net profit for the half year ended September 30, 2014 and, as at September 30, 2014, had over 800 staff operating across 13 countries, with locations in Australia, Asia, the Middle East, North and South America, and the United Kingdom and Europe. For further information on Fixed Income, Currencies & Commodities' results of operation and financial condition for the half year ended September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Fixed Income, Currencies & Commodities" in this Report.

During the half year ended September 30, 2014, the Commodities Markets division established a Wholly Foreign Owned Enterprise ("*WFOE*"), Macquarie Commodities Trading (Shanghai) Co., Ltd, in the Shanghai Free Trade Zone in China. In addition, the Energy Markets division maintained its ranking by Platts as the No.4 US physical gas marketer in North America.

For further information and a description of the divisions within Fixed Income, Currencies & Commodities and their respective activities, see "Macquarie Bank Limited — Operating groups — Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)" beginning on page 37 of our 2014 Annual U.S. Disclosure Report.

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

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

Macquarie Securities contributed a net loss of A$20 million to MBL Group's net profit for the half year ended September 30, 2014 and, as at September 30, 2014, had over 100 staff operating across 6 countries, including Australia, Hong Kong, India, Singapore, the United Kingdom and the United States. For further information on Macquarie Securities' results of operation and financial condition for the half year ended September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Macquarie Securities (excluding the Cash division and the Derivatives division, in each case, in certain jurisdictions)" in this Report.

During the half year ended September 30, 2014, Macquarie Securities continued the wind-down of certain of its legacy businesses, including in particular, its structured products businesses in Asia and Europe due to unfavorable market conditions. During June 2014, Macquarie Securities closed its retail equity structured products in Asia.

In addition, during the half year ended September 30, 2014, Macquarie Securities has continued its investment in technology to support the ongoing additional regulatory compliance requirements of the business, including in particular, increased reporting requirements to various regulators in the changing financial services environment.

For further information and a description of the divisions within Macquarie Securities and their respective activities, see "Macquarie Bank Limited — Operating groups — Macquarie Securities (excluding the Cash division and the Derivatives division, in each case, in certain jurisdictions)" beginning on page 39 of our 2014 Annual U.S. Disclosure Report.

Banking & Financial Services

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

Banking & Financial Services contributed A$141 million to MBL Group's net profit for the half year ended September 30, 2014 and, as at September 30, 2014, had over 2,500 staff operating predominantly in Australia. For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Banking & Financial Services" in this Report.

Cash deposits continued to be a major focus of Banking & Financial Services, with retail cash deposits growing from A$33.3 billion at March 31, 2014 to A$35.3 billion at September 30, 2014. This was primarily due to increased Macquarie Cash Management Account deposits and at call deposits.

Banking & Financial Services' Australian mortgages business has grown from A$17.0 billion at March 31, 2014 to A$19.8 billion at September 30, 2014. Banking & Financial Services intends to continue to grow its Australian mortgage portfolio through organic growth, while continuing to assess acquisition opportunities as they arise. Macquarie platform assets under administration have grown from A$40.3 billion at March 31, 2014 to A$41.7 billion at September 30, 2014. In addition, Macquarie Life insurance inforce premiums have grown from A$190 million at March 31, 2014 to A$207 million at September 30, 2014.

During the half year ended September 30, 2014, Banking & Financial Services signed an agreement as credit card issuing partner for the Woolworths Money Everyday and Woolworths Money Qantas Credit Cards.

During the half year ended September 30, 2014, Banking & Financial Services has continued its investment in technology projects to support business growth, including in particular, the implementation of a new Core Banking system.

For further information and a description of the divisions within Banking & Financial Services and their respective activities, see “Macquarie Bank Limited — Operating groups — Banking & Financial Services” beginning on page 40 of our 2014 Annual U.S. Disclosure Report.

Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)

Macquarie Funds operates businesses in both the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Funds offers a diverse range of capabilities and products including securities investment management and fund and equity-based solutions. In the Non-Banking Group, Macquarie Funds manages alternative assets, specializing in infrastructure, energy, real estate and agriculture via public and private funds, co-investments, partnerships and separately managed accounts. With a strong client focus, disciplined investment processes and success in product innovation, Macquarie Funds has built a reputation as a leading provider of investment solutions.

Macquarie Funds contributed A$248 million to MBL Group’s net profit for the half year ended September 30, 2014 and, as at September 30, 2014, Macquarie Funds had over 900 staff operating across 9 countries across Australia, the Americas, Europe and Asia. As at September 30, 2014, Macquarie Funds had Assets under Management of A$309.1 billion. For further information on Macquarie Funds’ results of operation and financial condition for the half year ended September 30, 2014, see “Management’s discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Macquarie Funds” in this Report. For further information on Macquarie Funds’ Assets under Management, see “— Funds management business — Assets under Management” in this Report.

In the Banking Group, Macquarie Funds launched a number of new products and continued to strengthen the global distribution team and to grow the infrastructure debt management business. In addition, it created the Jackson Square Partners joint venture, which is jointly owned by Delaware Investments and its former Focus Growth investments team, and acts as a sub-adviser to Delaware Investments’ mutual funds, other pooled vehicles and separately managed accounts. Macquarie Funds also completed the sale of the Macquarie Investment Management Private Markets business to its management. Collectively, the creation of Jackson Square Partners and the sale of the Macquarie Investment Management Private Markets business reduced Macquarie Funds’ Assets under Management by A$22 billion.

In April 2014, Macquarie Funds received a discretionary investment management license from the Ministry of Finance in Japan that allows Macquarie Investment Management (Banking Group) to conduct direct business with Japanese pension funds via the Macquarie Asset Management Japan, Co. entity. The license carries a minimum regulatory capital requirement of JPY50 million.

For further information and a description of the divisions within Macquarie Funds, see “Macquarie Bank Limited — Operating groups — Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)” beginning on page 41 of our 2014 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance is in the Banking Group and provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance has broad, specialist asset finance and corporate debt capabilities across aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$464 million to MBL Group’s net profit for the half year ended September 30, 2014 and, as at September 30, 2014, had over 1,000 staff operating across 15 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance’s results of operation and financial condition for the half year ended September 30, 2014, see “Management’s discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Corporate & Asset Finance” in this Report.

At September 30, 2014, Corporate & Asset Finance managed lease and loan assets of A$27.3 billion, which represents an increase of 8% from A$25.3 billion at March 31, 2014. The asset finance portfolio of A$17.3 billion increased 5% from A$16.4 billion at March 31, 2014, mostly driven by growth in the motor vehicle portfolio and aircraft acquisitions. The mining, rail and technology businesses continued to perform well, with volumes in line with March 31, 2014.

The funded loan portfolio of A$10.0 billion at September 30, 2014 increased 12% from A$9.0 billion at March 31, 2014, largely driven by net acquisitions. During the half year ended September 30, 2014, there were A$2.0 billion of portfolio additions, comprising A$1.2 billion of new primary financings across corporate and real estate, weighted towards customized originations, A$0.6 billion of corporate loans and similar assets acquired in the secondary market and A$0.2 billion of commercial real estate loans acquired in the secondary market. Notable transactions included the £76.5 million financing of a portfolio of 47 hospitality properties on long-term leases to Spirit, the provision of US$150 million funding to Vertex Pharmaceutical and the €294 million acquisition of a German residential mortgage portfolio. Corporate & Asset Finance believes that asset quality remained sound and the portfolio continued to generate strong overall returns.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Bank Limited — Operating groups — Corporate & Asset Finance" beginning on page 42 of our 2014 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of MBL Group

Corporate

Items of income and expense within the Corporate segment includes earnings on capital, group treasury operations, earnings from certain legacy assets and businesses, certain corporate costs not recharged to operating businesses, employment related costs, share based payments expense, income tax expense, amounts attributable to non-controlling interests and internal management accounting adjustments and charges. In addition, during the half year ended September 30, 2012, the legacy assets of the former Real Estate Banking division were transferred to the Corporate segment.

Corporate contributed a net loss of A$662 million to MBL Group's net profit for the half year ended September 30, 2014. The result was impacted by investment in technology platforms and increased regulatory compliance requirements, primarily in Australia.

For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Corporate" in this Report.

Funds management business

For a description of MBL Group's funds management businesses, see "Macquarie Bank Limited — Funds management business" beginning on page 43 of our 2014 Annual U.S. Disclosure Report.

Assets under Management

MBL Group had an aggregate of A$311.2 billion of Assets under Management as at September 30, 2014, from which it derived an aggregate of A$402 million of funds management base fees for the half year ended September 30, 2014.

The table below illustrates MBL Group's Assets under Management by operating group, region and type as at September 30, 2014, March 31, 2014 and September 30, 2013.

Assets under Management by operating group, region and type as at September 30, 2014, March 31, 2014 and September 30, 2013

	As at			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$b	A$b	A$b	%	%
Assets under Management by operating group					
Macquarie Investment Management	307.3	310.5	264.6	(1)	16
Macquarie Specialised Investment Solutions	1.8	1.5	1.7	20	6
Other Macquarie Funds	-	-	6.6	-	(100)
Total Macquarie Funds[1]	**309.1**	**312.0**	**272.9**	(1)	13
Other operating groups	2.1	2.1	4.1	-	(49)
Total Assets under Management	**311.2**	**314.1**	**277.0**	(1)	12
Assets under Management by region					
Americas	212.4	206.8	197.9	3	7
Europe, Middle East and Africa	10.7	13.5	15.7	(21)	(32)
Australia	60.2	63.9	55.8	(6)	8
Asia	27.9	29.9	7.6	(7)	267
Total Assets under Management	**311.2**	**314.1**	**277.0**	(1)	12
Assets under Management by type					
Fixed income	183.7	174.2	146.9	5	25
Equities	90.9	99.1	89.4	(8)	2
Cash	17.3	16.7	16.7	4	4
Direct real estate	-	-	6.6	-	(100)
Currency	8.3	8.1	5.8	2	43
Alternatives	1.2	5.1	4.9	(76)	(76)
Multi-asset allocation solutions	8.1	9.4	4.5	(14)	80
Specialist investments	1.8	1.5	2.2	20	(18)
Direct infrastructure	-	-	-	-	-
Total Assets under Management	**311.2**	**314.1**	**277.0**	(1)	12

1 Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

Assets under Management of A$311.2 billion at September 30, 2014 increased 12% from A$277.0 billion at September 30, 2013. The increase in Assets under Management was mainly due to favorable currency and market movements across Macquarie Funds, the acquisition of ING Investment Management Korea (MIM Korea) and positive net flows in the securities investment management business, partly offset by asset transfers and disposals, including the formation of the Jackson Square Partners joint venture and the management buyout of the Macquarie Investment Management Private Markets business.

Macquarie Funds. Macquarie Funds' Assets under Management increased 13% to A$309.1 billion at September 30, 2014 from A$272.9 billion at September 30, 2013. This was mainly due to the acquisition of MIM Korea, the favorable impact of the depreciation of the Australian dollar since September 30, 2013, positive market and valuation movements and positive net flows in the Macquarie Funds Delaware business, primarily into higher margin products. These were offset by the formation of the Jackson Square Partners joint venture and the management buyout of the Macquarie Investment Management Private Markets business. Other Macquarie Funds' Assets under Management decreased from A$6.6 billion at September 30, 2013 to nil in the current period.

For further information on Macquarie Funds' results of operation and financial condition for the half year ended September 30, 2014, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment analysis — Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)" in this Report.

MBL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform pre-determined benchmarks. For listed funds, incentive income is earned for outperformance of a benchmark rate of return. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of the performance fee for subsequent periods. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return. Unlisted performance fees are generally payable upon the occurrence of a "liquidity event", such as the conclusion of an unlisted fund's investment term where capital is returned to investors following completion of an asset sale or with a fund listing. MBL Group's policy is to recognize a performance fee only once the fee can be reliably measured and the risk of not receiving the fee is highly improbable. The timing and quantum of these fees are therefore unpredictable, can require significant judgment and will vary depending on the specific factors relevant for each fund.

Base fees of A$402 million for the half year ended September 30, 2014 increased 5% from A$382 million in the prior corresponding period. In Macquarie Funds, base fees increased 8% from A$364 million to A$393 million, primarily driven by an increase in Assets under Management. Performance fees of A$9 million for MBL Group for the half year ended September 30, 2014 were broadly in line with A$10 million in the prior corresponding period.

For further detail on MBL Group's income from funds management, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Results analysis — Fee and commission income — Base and performance fees" in this Report.

Legal proceedings and other provisions

In the half year ended September 30, 2014, both the proceedings commenced by ASIC against a number of banking institutions, including MBL, in relation to Storm, were resolved without any adverse findings against MBL. For further information, refer to the discussion under the heading "Macquarie Bank Limited — Legal proceedings and regulatory matters — Legal proceedings" on page 45 of our 2014 Annual U.S. Disclosure Report.

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case by case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in the Notes to our 2015 interim financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Revenue authorities undertake risk reviews and audits as part of their normal activities. MBL Group is currently subject to risk review and audit by the ATO. In prior years, MBL received amended assessments from the ATO. A number of these matters have been resolved. MBL has not received any amended assessments from the ATO in the half year ended September 30, 2014. In accordance with ATO practice, MBL has paid a portion of the primary tax and interest in respect of the unresolved amended assessments, pending resolution, and this amount has been included in the Bank's 2015 interim financial statements as part of tax receivables. See Note 4 to the Bank's 2015 interim financial statements for further information. In addition, MBL Group also carries a provision for tax uncertainties that arise due to the complex nature of tax law and revenue authority regulation in the countries in which MBL conducts its business and reviews such tax uncertainties and provisions periodically. We have assessed those matters which have been identified in such reviews and audits, as well as other taxation claims and litigation, including seeking independent advice as necessary, and consider that MBL Group currently holds appropriate provisions.

Competition

For a description of the competition MBL Group faces in the markets in which it operates, see "Macquarie Bank Limited — Competition" beginning on page 46 of our 2014 Annual U.S. Disclosure Report.

Regulatory and supervision developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group, its businesses and the funds it manages in, and outside of, Australia, are subject to is set out under "Regulation and supervision" beginning on page 48 of our 2014 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in the markets in which we operate", "Risk factors — We may incur losses as a result of ineffective risk management processes and strategies" and "Risk factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events" on pages 11, 16 and 18, respectively, of our 2014 Annual U.S. Disclosure Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia, the United States, the United Kingdom and other jurisdictions for MBL Group that have occurred since the release of our 2014 Annual U.S. Disclosure Report on May 15, 2014.

Australia

APRA's prudential supervision - Capital requirements for the supervision of conglomerates

In August 2014, APRA issued its planned framework for the supervision of conglomerate groups ("*Level 3 groups*"), which includes the MGL Group, although APRA has deferred its final implementation until the recommendations of the Financial System Inquiry are known (see further "*– Financial System Inquiry*" below), and the Australian Government's response to them, has been announced.

The impact of this framework is subject to consultation with APRA, with our current assessment being that MGL has sufficient capital to meet the minimum APRA capital requirements for Level 3 groups. However, it is not possible to predict how APRA will implement, or how the Australian Government's response to the Financial System Inquiry will affect, these rules and, in particular, how these matters will impact the capital structure or businesses of the MBL Group.

RBA's release of legal documentation for a Committed Liquidity Facility

In September 2014, the RBA released legal documentation for a Committed Liquidity Facility ("*CLF*"), including the terms and conditions of the CLF ("*CLF Terms and Conditions*"). The commitment of the RBA under a CLF to the relevant participating ADI ("*CLF participant*") will be available on and from January 1, 2015, with the applicable commitment fee set at 0.15%.

If there is any failure of, or breach by, the RBA in respect of a CLF, the liability of the RBA to the relevant CLF participant in respect of claims the CLF is expressly limited and, notwithstanding such limitations, is capped at A$50 million in aggregate.

Amounts owing to the RBA in respect of a CLF by the relevant CLF participant (which may include, without limitation, fees due but unpaid and amounts owing under an indemnity provided by the CLF participant under the CLF Terms and Conditions) may, in a winding-up of the CLF Participant, be mandatorily preferred over other debts of the CLF Participant (including, pursuant to section 13A(3)(d) of the Australian Banking Act and section 86 of the Reserve Bank Act 1959 of Australia).

ASIC

On January 29, 2013, Macquarie Equities Limited (a subsidiary of MBL) agreed an Enforceable Undertaking ("*EU*") with ASIC. The EU raised concerns about the effectiveness of compliance within Macquarie Private Wealth ("*MPW*"), in particular processes, controls and systems previously in place such as recordkeeping, monitoring and supervision. MPW is MGL's retail financial advice business within Banking & Financial Services and is primarily engaged in retail broking and equities advice. MGL acknowledged ASIC's concerns within the EU.

MPW has completed three of the four phases of the EU implementation program, which is subject to independent oversight by ASIC and an Independent Expert, KPMG. The fourth and final phase is ongoing with continued investment in new technology tools to support supervision and monitoring of advisers. A client remediation approach has also commenced based on the consistent application of the Financial Ombudsman Service principles and is subject to oversight by Deloitte and ASIC.

Financial System Inquiry

The Australian Government is currently undertaking a review of the Australian financial system, called the Financial System Inquiry. The Financial System Inquiry has released an interim report containing a number of observations and potential policy options but has not made any recommendations for policy changes at this stage. The Financial System Inquiry's final report is currently expected to be released before the end of 2014. At this stage, it is not possible to predict with any certainty the impact that the Financial System Inquiry will have or the reforms that may be adopted by the Australian Government and, in particular, their impact on the capital structure or businesses of MBL, however, such new requirements could have a material effect on our business. See "Risk Factors – Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate" in our 2014 Annual Disclosure Report.

United States

The CFTC continues to issue final and proposed regulations, statements of guidance and no-action letters that may affect certain members of the MBL Group. As a non-U.S. swap dealer registered with the CFTC, MBL currently benefits from relief from an obligation to report to the CFTC swaps with non-U.S. persons. This relief is due to expire on December 1, 2014. We currently expect the CFTC to extend this relief, or provide similar relief. This expectation is based on, among other factors, the relief having been provided to permit the CFTC to conduct an assessment as to the equivalence of Australia's transaction reporting regime, which has not yet been completed. Despite this, the timing and content of any potential extension, or a substituted compliance determination, is uncertain. The expiration of this relief without an extension would require MBL to comply with rules that it might not be able to satisfy immediately. See "Regulation and Supervision – International – United States" in our 2014 Annual U.S. Disclosure Report for further information.

United Kingdom

The PRA and the FCA have announced major changes that are to be made to the way individuals working for PRA supervised firms, including MBIL and MBL LB, are assessed and held accountable for the roles they perform. The changes are in response to perceived shortcomings in behavior and culture within firms following the financial crisis and recent conduct scandals. The changes are significant and will introduce (i) a new Senior Managers Regime which will clarify the lines of responsibility at the top of banks, enhance the regulator's ability to hold senior individuals accountable and require banks to regularly evaluate their senior managers for fitness and propriety; (ii) a Certification Regime requiring firms to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers; and (iii) a new set of "conduct" rules setting out high level principles and standards of behavior that will apply to all bank employees except those in ancillary service functions such as IT and catering. The FCA/PRA consultation period on such rules is due to close at the end of October 2014 with the new rules due to come into force at the beginning of 2015 and compliance required by mid 2015.

MALL and MEFL are required to apply for full consumer credit authorization between August 1, 2015 and October 31, 2015 as notified to them by the FCA. A full license will be required to continue our consumer credit activities. In the meantime, the FCA has granted MALL and MEFL an interim license with effect from April 1, 2014 (being the date when the FCA took over as the regulatory body for consumer credit).

European Union Financial Transaction Tax ("FTT")

On May 6, 2014, a joint statement was issued by ten of the participating Member States of the European Union which indicated an intention to implement the FTT in stages so that the initial stage would be implemented by January, 1, 2016 and would only relate to shares and certain derivatives.

Other regulators

In April 2014, Macquarie Funds received a discretionary investment management license from the Ministry of Finance in Japan that allows Macquarie Investment Management (Banking Group) to conduct direct business with Japanese pension funds via the Macquarie Asset Management Japan, Co. entity. The license carries a minimum regulatory capital requirement of JPY50 million.

In June 2014, MBL's WFOE business application was approved by the Ministry for Commerce in China. Registration and operation of WFOEs are governed by the Wholly Foreign Owned Enterprise Law of the People's Republic of China.

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

Investors should be aware that the discussion set forth in this Report is not complete and should be read in conjunction with the discussion under "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2014 Annual U.S. Disclosure Report.

For further information on the preparation of our 2015 interim financial statements, see "Financial information presentation" in this Report and the discussion in this Report under "— Half year ended September 30, 2014 compared to half year ended September 30, 2013 — Segment overview — Basis of preparation".

Recent developments post September 30, 2014

On October 8, 2014, MBL issued approximately A$429 million of BCN. BCN are convertible subordinated notes that are included as Additional Tier 1 Capital for MBL. Subject to various conditions, BCN are callable on March 24, 2020, September 24, 2020 and March 24, 2021, and if still in force, will be mandatorily exchanged for a variable number of MGL Ordinary Shares on March 24, 2023.

On October 27, 2014, MBL issued US$1.75 billion Senior Medium Term Notes under its Rule 144A/Regulation S Medium Term Note Program.

Critical accounting policies and significant judgments

Note 1 to our 2014 annual financial statements provides a list of our significant accounting policies. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, further information on policies we have identified as particularly involving critical accounting estimates and requiring management's exercise of judgment is set out in detail under "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2014 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments for the half year ended September 30, 2014 are otherwise consistent with those referred to above. These critical accounting policies should be read in conjunction with the discussion set out in our 2014 Annual U.S. Disclosure Report and Note 1 to our 2014 annual financial statements.

Trading conditions and market update

The half year ended September 30, 2014 was characterized by mixed trading conditions for MBL's capital markets-facing businesses. Macquarie Securities was impacted by subdued secondary equity and derivative market volumes across most regions. Fixed Income, Currencies & Commodities experienced mixed market conditions across its business. Subdued mining equity markets and low prices in metals and bulk commodities continued to impact the timing of asset realizations and new project financings. Lower levels of volatility in base and precious metals markets impacted client hedging and trading activity. Foreign exchange markets experienced increased volatility, leading to improved trading conditions. Debt origination and securitization business deal flow remained steady in Australia and continued to increase in Europe, the Middle East and Africa.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the half year ended September 30, 2014, see "— Half year ended September 30, 2014 compared to half year ended September 30, 2013" below for further information.

Half year ended September 30, 2014 compared to half year ended September 30, 2013

Results overview

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Financial performance summary					
Net interest income	942	867	848	9	11
Fee and commission income	804	857	828	(6)	(3)
Net trading income	766	929	673	(18)	14
Share of net profits of associates and joint ventures accounted for using the equity method	7	2	12	250	(42)
Other operating income and charges	321	275	195	17	65
Net operating income	**2,840**	**2,930**	**2,556**	(3)	11
Employment expenses	(859)	(892)	(792)	(4)	8
Brokerage, commission and trading-related expenses	(360)	(362)	(335)	(1)	7
Occupancy expenses	(64)	(71)	(69)	(10)	(7)
Non-salary technology expenses	(49)	(44)	(56)	11	(13)
Other operating expenses	(813)	(755)	(715)	8	14
Total operating expenses	**(2,145)**	**(2,124)**	**(1,967)**	1	9
Operating profit before income tax	695	806	589	(14)	18
Income tax expense	(290)	(408)	(213)	(29)	36
Profit after income tax	405	398	376	2	8
Profit attributable to non-controlling interests	(2)	(2)	(2)	-	-
Profit attributable to equity holders of Macquarie Bank Limited	**403**	**396**	**374**	2	8
Distributions paid or provided for on Macquarie Income Securities	(9)	(9)	(9)	-	-
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**394**	**387**	**365**	2	8

Profit attributable to ordinary equity holders of A$394 million for the half year ended September 30, 2014 increased 8% from A$365 million in the prior corresponding period and increased 2% from A$387 million in the prior period.

MBL's annuity style businesses - Macquarie Funds, Corporate & Asset Finance and Banking & Financial Services - continued to perform well, generating a combined net profit contribution for the half year ended September 30, 2014 of A$853 million, an increase of 18% on the prior corresponding period. Macquarie Funds benefited from increased base fee income due to growth in Assets under Management and gains on the formation of the Jackson Square Partners joint venture and management buy-out of the Macquarie Investment Management Private Markets business. Corporate & Asset Finance's higher profit contribution result was largely driven by increased income from early repayments, loan sales and a gain on disposal of operating lease assets, while Banking & Financial Services' improved profit contribution was largely driven by volume growth in mortgages, business lending, deposits and the Wrap platform.

MBL's capital markets facing businesses - Macquarie Securities and Fixed Income, Currencies & Commodities - delivered a combined net profit contribution for the half year ended September 30, 2014 of A$212 million, an increase of 4% on the prior corresponding period. Fixed Income, Currencies & Commodities' improved profit contribution was mainly driven by increased income across commodities, interest rates and foreign exchange platforms and a decrease in listed equity impairments compared to the prior corresponding period. Macquarie Securities reported a loss of A$20 million for the half year ended September 30, 2014 largely due to increased technology spend driven by additional regulatory compliance requirements.

Net operating income of A$2,840 million for the half year ended September 30, 2014 increased 11% from A$2,556 million in the prior corresponding period. Key drivers of the changes from the prior corresponding period were:

- A 12% increase in combined net interest and trading income to A$1,708 million for the half year ended September 30, 2014 from A$1,521 million in the prior corresponding period. Most operating groups contributed to the increase, with key drivers being improved trading conditions for certain businesses in Fixed Income, Currencies & Commodities, income earned from early repayments and the sale of loan assets in Corporate & Asset Finance and higher loan and deposit volumes in Banking & Financial Services; and

- A 65% increase in other operating income and charges to A$321 million for the half year September 30, 2014 from A$195 million in the prior corresponding period driven by gains on the disposal of operating lease assets of A$97 million in the half year ended September 30, 2014 mainly due to a gain on a renegotiation of a lease facility in Corporate & Asset Finance, combined with a reduction in aggregate impairment charges on investment securities available for sale, associates and joint ventures, and non-financial assets of 52% to A$52 million for the half year ended September 30, 2014 from A$109 million in the prior corresponding period. While impairment charges were down considerably in Fixed Income, Currencies & Commodities, mining equity markets remained subdued during the period; which was partially offset by:

- A 3% decrease in fee and commission income to A$804 million for the half year ended September 30, 2014 from A$828 million in the prior corresponding period. Base fees of A$402 million for the half year ended September 30, 2014 increased 5% from A$382 million in the prior corresponding period primarily due to an increase in assets under management driven by favorable currency and market movements across Macquarie Funds. Brokerage and commissions income of A$190 million for the half year to September 30, 2014 decreased 23 per cent from A$248 million in the prior corresponding period primarily due to the sale of Macquarie Private Wealth Canada in November 2013 and lower client activity in institutional cash equities in Asia.

Total operating expenses increased 9% from A$1,967 million in the prior corresponding period to A$2,145 million for the half year ended September 30, 2014 mainly reflecting higher performance-related staff compensation due to the improved performance of MBL Group and increased business activity, investment in technology platforms and regulatory compliance requirements. Headcount decreased 4% from 5,828 at September 30, 2013 to 5,587 at September 30, 2014, mainly driven by the sale of Macquarie Private Wealth Canada in November 2013.

Income tax expense for the half year ended September 30, 2014 was A$290 million, up 36% from A$213 million in the prior corresponding period with an effective tax rate of 41.8%. The effective tax rate reflects the geographical mix of income and tax uncertainties.

See “Results analysis” below for further information on each of these drivers.

Results analysis

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

Net interest and trading income

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Net interest income	942	867	848	9	11
Net trading income	766	929	673	(18)	14
Net interest and trading income	**1,708**	**1,796**	**1,521**	(5)	12

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 assets and liabilities, realized and unrealized fair value changes and foreign exchange movements.

For businesses that predominantly earn income from trading activities (Macquarie Securities; Fixed Income, Currencies & Commodities), the relative contribution of net interest income and trading income from 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 & Asset Finance; Banking & Financial Services), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally recognized at a total consolidated level, however for segment reporting derivatives are accrual accounted in the Operating Segments and changes in fair value are recognized within the Corporate segment offset by the effect of hedge relationships at the total consolidated level.

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

See "— Segment analysis — Macquarie Securities (excluding the Cash division and the Derivatives division, in each case, in certain jurisdictions)" and "— Segment analysis — Fixed Income, Currencies & Commodities" for further discussion of MBL's trading activities.

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Macquarie Funds[1]	55	29	45	90	22
Corporate & Asset Finance	319	378	270	(16)	18
Banking & Financial Services	406	373	366	9	11
Macquarie Securities[2]	127	94	137	35	(7)
Fixed Income, Currencies & Commodities[3]					
Commodities	413	734	390	(44)	6
Credit, interest rates and foreign exchange	251	152	223	65	13
Corporate	137	36	90	281	52
Net interest and trading income	**1,708**	**1,796**	**1,521**	(5)	12

1 Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division that remains part of the Non-Banking Group.

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

3 Fixed Income, Currencies & Commodities as reported for MBL Group excludes certain assets of the Credit Trading business and some other less financially significant activities that remains part of the Non-Banking Group.

Net interest and trading income of A$1,708 million increased 12% from A$1,521 million in the prior corresponding period. Most operating groups contributed to the increase with key drivers being the impact of the depreciation of the Australian dollar, improved trading conditions for certain businesses in Fixed Income, Currencies & Commodities, income earned from early repayments and the sale of loan assets in the Lending portfolio in Corporate & Asset Finance and higher loan and deposit volumes in Banking & Financial Services.

Net interest and trading income for the half year ended September 30, 2014 decreased 5% from A$1,796 million for the six months ended March 31, 2014, which benefited from strong customer flow in Fixed Income, Currencies & Commodities' Energy Markets business

Macquarie Funds

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

Net interest and trading income of A$55 million for the half year ended September 30, 2014 increased 22% from A$45 million in the prior corresponding period primarily due to lower funding costs associated with balance sheet investments.

Corporate & Asset Finance

Net interest and trading income in Corporate & Asset Finance predominantly relates to income from the corporate lending and asset financing portfolios, offset by the funding costs associated with assets subject to operating leases.

Net interest and trading income of A$319 million for the half year ended September 30, 2014 increased 18% from A$270 million in the prior corresponding period. This was driven by growth in the loan and finance lease portfolios and income earned from early repayments and the sale of loan assets in the Lending portfolio.

Banking & Financial Services

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

Net interest and trading income of A$406 million for the half year ended September 30, 2014 increased 11% from A$366 million in the prior corresponding period, primarily due to growth in lending and deposit volumes.

Retail deposits increased 7% to A$35.3 billion at September 30, 2014 from A$33.1 billion at September 30, 2013.

The total Australian loan portfolio of A$25.3 billion at September 30, 2014 increased 33% from A$19.0 billion at September 30, 2013 primarily due to 36% increase in the Australian mortgage portfolio to A$19.8 billion at September 30, 2014 from A$14.6 billion at September 30, 2013. The majority of the growth in lending and deposit volumes was organic, with the acquisition of the Woolworths credit card portfolio in May 2014 being the key driver of the growth in credit card volumes from A$0.3 billion at September 30, 2013 to A$0.6 billion at September 30, 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins, including reduced average margins on the Australian mortgages portfolio as higher margin loans continue to run off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined A$4.6 billion at September 30, 2014, down 31% from A$6.7 billion at September 30, 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 A$127 million for the half year ended September 30, 2014 decreased 7% from A$137 million in the prior corresponding period mainly due to lower demand for retail warrant products, particularly in Hong Kong and Thailand. This was partially offset by higher income from improved trading opportunities in Asia and Europe.

Fixed Income, Currencies & Commodities

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

Commodities trading income

Commodities trading income of A$413 million for the half year ended September 30, 2014 increased 6% from A$390 million in the prior corresponding period, underpinned by continued growth in the trading and financing of physical commodities, while lower levels of volatility in certain markets led to reduced levels of client hedging activity.

The Energy Markets business remained a significant contributor to commodities trading income, benefitting from strong customer flows and trading opportunities across its global platform during the period, particularly in the European Gas, European Power and Global Oil businesses. In the prior period the Energy Markets business benefited from strong customer flows, particularly in the US Gas business, which was the main driver of the significant increase in Commodities trading income to A$734 million for the six months ended March 31, 2014.

The Metals & Agriculture Sales and Trading business continued to grow its trading and financing of physical commodities, which resulted in higher overall income for the half year ended September 30, 2014 compared to the prior corresponding period, partially offset by the impact of low volatility in base metals markets which dampened customer hedging activity.

These increases in income were partially offset by the impact of reduced client hedging activity in the Metals and Energy Capital business compared to the prior corresponding period due to low levels of volatility in precious metals markets during the period.

Credit, interest rates and foreign exchange trading income

Net interest and trading income from credit, interest rates and foreign exchange products of A$251 million for the half year ended September 30, 2014 increased 13% from A$223 million in the prior corresponding period. In foreign exchange markets, increased volatility compared to the prior corresponding period drove higher client hedging and trading activity, which resulted in increased income. This was partially offset by the impact of a mixed credit environment influenced by downward rate movements, liquidity volatility driven by investor risk appetite and general global uncertainty. However, debt origination and issuances continued to increase in the United Kingdom and Europe.

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing liquidity for MBL, 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 A$137 million for the half year ended September 30, 2014 increased 52% from A$90 million in the prior corresponding period due to favorable non-trading derivative volatility in the half year ended September 30, 2014 compared to the prior corresponding period. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

Fee and commission income

Total fee and commission income of A$804 million for the half-year ended September 30, 2014 decreased 3% from A$828 million in the prior corresponding period largely due to lower brokerage and commissions income following the sale of Macquarie Private Wealth Canada; partially offset by growth in base fee income resulting from the impact of favorable market movements, net flows and acquisitions on Assets under Management.

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Base fees	402	415	382	(3)	5
Performance fees	9	46	10	(80)	(10)
Mergers and acquisitions, advisory and underwriting fees	19	15	24	27	(21)
Brokerage and commissions	190	219	248	(13)	(23)
Other fee and commission income	184	162	164	14	12
Total fee and commission income	**804**	**857**	**828**	(6)	(3)

Base and performance fees

Base fees, which are typically generated from funds management activities, of A$402 million for the half year ended September 30, 2014 increased 5% from A$382 million in the prior corresponding period. In Macquarie Funds, base fees increased 8% from A$364 million to A$393 million, primarily driven by an increase in Assets under Management, up 13% from A$272.9 billion at September 30, 2013 to A$308.8 billion at September 30, 2014. This was largely due to favorable market movements, positive net flows in the securities investment management business particularly into higher margin products and the acquisition of MIM Korea in December 2013. These were partially offset by the impact of the formation of the Jackson Square Partners joint venture and the management buyout of the Macquarie Investment Management Private Markets business. See “Recent Developments — Funds management business — Assets under Management” for further discussion on the movements in Assets under Management during the period.

Performance fees, which are typically generated from Macquarie-managed funds that have outperformed pre-defined benchmarks, of A$9 million for the half year ended September 30, 2014 decreased from A$10 million in the prior corresponding period and primarily related to fees earned by Quant Hedge funds and various fixed income and equities funds outperforming their respective benchmarks.

Brokerage and commissions

Brokerage and commissions income of A$190 million for the half year ended September 30, 2014 decreased 23% from A$248 million in the prior corresponding period. The decrease was mainly due to the sale of Macquarie Private Wealth Canada by Banking & Financial Services in November 2013 and lower client activity in institutional cash equities in Asia in Macquarie Securities.

Other fee and commission income

Other fee and commission income of A$184 million for the half year ended September 30, 2014 increased 12% from A$164 million in the prior corresponding period. 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 True Index products. The increase from the prior corresponding period was mostly due to increased income from end of lease buyouts in Corporate & Asset Finance’s equipment finance business, while Banking & Financial Services reported higher fee income from growth in the credit card portfolio and increased platform commissions driven by higher assets under administration on the Wrap platform. Macquarie platform assets under administration closed at A$41.7 billion on September 30, 2014 an increase of 10% from A$37.8 billion at September 30, 2013 due mainly to favorable market movements and net inflows, partially offset by the sale of Macquarie Private Wealth Canada in November 2013.

Share of net profits of associates and joint ventures

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Share of net profits of associates and joint ventures accounted for using the equity method	**7**	**2**	**12**	250	(42)

Share of net equity accounted profits of associates and joint ventures decreased 42% to A$7 million for the half year ended September 30, 2014 from A$12 million in the prior corresponding period. The result reflects the underlying performance of associates and joint ventures. There was no individual investment that was the principal driver of the decrease.

Other operating income and charges

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Net gains on sale of investment securities available for sale	28	107	59	(74)	(53)
Impairment charge on investment securities available for sale	(18)	(19)	(71)	(5)	(75)
Net gains on sale of associates and joint ventures	12	7	2	71	*
Impairment charge on interest in associates and joint ventures	(3)	(10)	(14)	(70)	(79)
Gain on disposal of operating lease assets	97	13	14	*	*
Impairment charge on non-financial assets	(31)	(3)	(24)	*	29
Net operating lease income	273	275	256	(<1)	7
Dividends/distributions received/receivable	9	10	22	(10)	(59)
Collective allowance for credit losses (provided for)/written back during the period	(19)	(35)	(18)	(46)	6
Specific provisions	(63)	(87)	(69)	(28)	(9)
Other income	36	17	38	112	(5)
Total other operating income and charges	**321**	**275**	**195**	17	65

[1] "*" 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.

Total other operating income and charges of A$321 million for the half year ended September 30, 2014 increased 65% from A$195 million in the prior corresponding period.

Net gains on sale of equity investments (including available-for-sale, associates and joint venture investments) totaled A$40 million for the half year ended September 30, 2014, a decrease of 34% from A$61 million in the prior corresponding period. The decrease was due to the prior corresponding period including an internal gain on sale of a business between divisions within Macquarie Funds and the realization of equity exposures in Corporate & Asset Finance.

Impairment charges on investment securities available for sale, associates and joint ventures, and non-financial assets totaled A$52 million for the half year ended September 30, 2014, a decrease of 52% from A$109 million in the prior corresponding period. Mining equity markets remained subdued, resulting in further equity impairments for Fixed Income, Currencies & Commodities, albeit down considerably from the prior corresponding period.

Gain on disposal of operating lease assets of A$97 million for the half year ended September 30, 2014 increased significantly from A$14 million in the prior corresponding period. The increase predominantly related to the restructure of an operating lease facility in Corporate & Asset Finance resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable.

Net operating lease income, which is predominantly earned by Corporate & Asset Finance, totaled $A273 million for the half year ended September 30, 2014, an increase of 7% from $A256 million in the prior corresponding period. The increase was broadly in line with growth of the operating lease portfolio from A$5.7 billion at September 30, 2013 to A$5.9 billion at September 30, 2014, which was primarily driven by acquisitions in the Aviation portfolio and the favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets.

Net charges for specific and collective provisions of A$82 million for the half year ended September 30, 2014 decreased 7% from A$87 million in the prior corresponding period, mainly due to additional collective provisions in Fixed Income, Currencies & Commodities relating to loan assets in the resource and energy sectors. This was partly offset by write backs within Corporate & Asset Finance and Banking & Financial Services due to the recovery of previously written off loan and lease assets.

Other income of A$36 million for the half year ended September 30, 2014 decreased 5% from A$38 million in the prior corresponding period. The prior corresponding period was impacted by losses on the partial repurchase of Macquarie's Government guaranteed debt securities, partially offset by gains on the realization of net profit interests in Fixed Income, Currencies & Commodities.

Operating expenses

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Employment expenses:					
Salary and salary related costs including commissions, superannuation and performance-related profit share	(764)	(839)	(727)	(9)	5
Share based payments	(89)	(54)	(62)	65	44
(Provision for)/ reversal of annual leave and long service leave	(6)	1	(3)	*	100
Total employment expenses	**(859)**	**(892)**	**(792)**	(4)	8
Brokerage, commission and trading-related expenses	(360)	(362)	(335)	(1)	7
Occupancy expenses	(64)	(71)	(69)	(10)	(7)
Non-salary technology expenses	(49)	(44)	(56)	11	(13)
Other operating expenses:					
Professional fees	(92)	(85)	(85)	8	8
Auditor's remuneration	(8)	(8)	(8)	-	-
Travel and entertainment expenses	(31)	(34)	(30)	(9)	3
Advertizing and communication expenses	(37)	(38)	(36)	(3)	3
Amortization of intangibles	(22)	(21)	(33)	5	(33)
Other expenses	(623)	(569)	(523)	9	19
Total other operating expenses	**(813)**	**(755)**	**(715)**	8	14
Total operating expenses	**(2,145)**	**(2,124)**	**(1,967)**	1	9

1 "*" 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.

Total operating expenses of A$2,145 million for the half year ended September 30, 2014 increased 9% from A$1,967 million in the prior corresponding period mainly due to higher performance-related employment expenses driven by the improved performance of MBL Group.

Employment expenses of A$859 million for the half year ended September 30, 2014 increased 8% from A$792 million in the prior corresponding period mainly due to higher performance-related staff compensation due to the improved performance of MBL Group, increased investment in technology platforms and increased compliance requirements. This was partially offset by reduced headcount and adviser commissions as a result of the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage, commission and trading-related expenses of A$360 million for the half year ended September 30, 2014 increased 7% from A$335 million in the prior corresponding period mainly due to higher sub-advisory expenses in the Macquarie Funds Delaware business as a result of the formation of the Jackson Square Partners joint venture and costs associated with the rewards program of the Woolworths credit card portfolio acquired by Banking & Financial Services in May 2014.

Total other operating expenses of A$813 million for the half year ended September 30, 2014 increased 14% from A$715 million in the prior corresponding period, largely driven by an increase in business activity, investment in platforms and increased regulatory compliance requirements.

Headcount

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
				%	%
Headcount by operating group					
Macquarie Funds	976	1,013	964	(4)	1
Corporate & Asset Finance	1,045	1,020	959	2	9
Banking & Financial Services	2,568	2,419	2,891	6	(11)
Macquarie Securities	148	171	156	(13)	(5)
Fixed Income, Currencies & Commodities	803	786	776	2	3
Total headcount — operating groups	5,540	5,409	5,746	2	(4)
Total headcount — Corporate	47	55	82	(15)	(43)
Total headcount	**5,587**	**5,464**	**5,828**	2	(4)
Headcount by region					
Australia	3,605	3,483	3,363	4	7
International:					
Americas	1,188	1,197	1,783	(<1)	(33)
Asia	349	380	320	(8)	9
Europe, Middle East and Africa	445	404	362	10	23
Total headcount — International	1,982	1,981	2,465	<1	(20)
Total headcount	**5,587**	**5,464**	**5,828**	2	(4)
International headcount ratio (%)	**35**	**36**	**42**		

Total headcount of 5,587 at September 30, 2014 decreased 4% from 5,828 at September 30, 2013. The sale of Macquarie Private Wealth Canada in November 2013 by Banking & Financial Services was the main driver of the decrease since September 30, 2013, which was partially offset by headcount increases for the implementation of a new Core Banking system and to support business growth. Corporate & Asset Finance's headcount increased 9% from 959 at September 30, 2013 to 1,045 at September 30, 2014, primarily in Europe, Middle East and Africa to support growth of the business.

Income tax expense

	Half year ended		
	Sep 14	Mar 14	Sep 13
	A$m	A$m	A$m
Operating profit before income tax	695	806	589
Prima facie tax @ 30%	(209)	(242)	(177)
Income tax permanent differences	(81)	(166)	(36)
Income tax expense	(290)	(408)	(213)
Effective tax rate (%)[1]	**41.8%**	**50.7%**	**36.3%**

[1] The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduced net profit before tax by A$2 million for the half year ended September 30, 2014 (half year ended March 31, 2014: A$2 million; half year ended September 30, 2013: A$2 million). 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 outside of Australia.

Income tax expense for the half-year ended September 30, 2014 was A$290 million, up 36% from A$213 million in the prior corresponding period. The increase was mainly driven by an 18% increase in operating profit before income tax, from A$589 million in the prior corresponding period to A$695 million in the half-year ended September 30, 2014, in addition to a 125% increase in income tax permanent differences, which includes the impact of offshore income tax rate differentials and tax uncertainties, from A$36 million in the prior corresponding period to A$81 million in the half-year ended September 30, 2014.

The effective tax rate was 41.8% for the half-year ended September 30, 2014, increased from 36.3% in the prior corresponding period. The effective tax rate reflects the geographic mix of income and tax uncertainties.

Segment overview

Basis of preparation

MBL Group segments

AASB 8 "Operating Segments" requires the "management approach" to disclosing information about MBL'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 income statement.

For internal reporting, performance measurement and risk management purposes, MBL Group is divided into five operating groups:

- Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division);
- Corporate & Asset Finance;
- Banking & Financial Services;
- Macquarie Securities (excluding the Cash division and the Derivatives division, in each case, in certain jurisdictions); and
- Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities).

In addition, there is a Corporate segment which includes Group Treasury, head office and central support functions, 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 MBL, earnings on capital, non-trading derivative volatility, earnings from non-core investments, income tax expense and distributions to holders of MIS and MIPS. Central support functions recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis.

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 maintaining funding for MBL Group, and operating groups obtain 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 only source funding directly from external sources when there is recourse only to the assets being funded and not to MBL Group.

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

Transactions between operating groups

Operating groups that enter into arrangements with other operating groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions.

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

Costs recovery of central support functions

Central support functions recover their costs to operating groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Risk Management, Legal and Governance, Financial Management and Corporate Operations.

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognize an operating group's contribution to income tax expense and benefits. Non-assessable income generated by an operating group results in a benefit added to that group's operating result. Conversely a non-deductible expense results in a charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognized 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 summarized by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with the most relevant information.

Summary of segment results

	Macquarie Funds	Corporate & Asset Finance	Banking & Financial Services	Macquarie Securities	Fixed Income, Currencies & Commodities	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2014							
Net interest and trading income	55	319	406	127	664	137	1,708
Fee and commission income/(expense)	480	22	262	29	55	(44)	804
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	15	1	1	-	2	(12)	7
Other operating income and charges	29	337	(4)	-	(39)	(2)	321
Internal management (charge)/revenue	(4)	3	-	-	(1)	2	-
Net operating income	575	682	665	156	681	81	2,840
Total operating expenses	(327)	(218)	(524)	(176)	(449)	(451)	(2,145)
Profit/ (loss) before tax	248	464	141	(20)	232	(370)	695
Tax expense	-	-	-	-	-	(290)	(290)
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	(2)	(2)
Profit attributable to equity holders	248	464	141	(20)	232	(662)	403
Distributions paid or provided for on MIS	-	-	-	-	-	(9)	(9)
Net profit/(loss) attributable to ordinary equity holders	248	464	141	(20)	232	(671)	394
Half year ended March 31, 2014							
Net interest and trading income	29	378	373	94	886	36	1,796
Fee and commission income/(expense)	530	29	259	71	68	(100)	857
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(1)	(2)	-	-	8	(3)	2
Other operating income and charges	39	210	19	(1)	(13)	21	275
Internal management revenue/(charge)	2	6	3	1	(12)	-	-
Net operating income/(charge)	599	621	654	165	937	(46)	2,930
Total operating expenses	(349)	(195)	(504)	(162)	(483)	(431)	(2,124)
Profit/ (loss) before tax	250	426	150	3	454	(477)	806
Tax expense	-	-	-	-	-	(408)	(408)
Profit attributable to non-controlling interests	-	-	-	-	-	(2)	(2)
Profit attributable to equity holders	250	426	150	3	454	(887)	396
Distributions paid or provided for on MIS	-	-	-	-	-	(9)	(9)
Net profit/(loss) attributable to ordinary equity holders	250	426	150	3	454	(896)	387

	Macquarie Funds	Corporate & Asset Finance	Banking & Financial Services	Macquarie Securities	Fixed Income, Currencies & Commodities	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2013							
Net interest and trading income	45	270	366	137	613	90	1,521
Fee and commission income/(expense)	453	7	317	26	47	(22)	828
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(4)	4	1	-	16	(5)	12
Other operating income and charges	25	282	(19)	(5)	(64)	(24)	195
Internal management revenue/(charge)	2	7	2	-	5	(16)	-
Net operating income	521	570	667	158	617	23	2,556
Total operating expenses	(300)	(180)	(556)	(143)	(428)	(360)	(1,967)
Profit/ (loss) before tax	221	390	111	15	189	(337)	589
Tax expense	-	-	-	-	-	(213)	(213)
Profit/(loss) attributable to non-controlling interests	1	-	-	-	-	(3)	(2)
Profit attributable to equity holders	222	390	111	15	189	(553)	374
Distributions paid or provided for on MIS	-	-	-	-	-	(9)	(9)
Net profit/(loss) attributable to ordinary equity holders	222	390	111	15	189	(562)	365

Segment analysis

Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)

	Half year ended			Movement[1]	
	Sep 14	**Mar 14**	**Sep 13**	**Mar 14**	**Sep 13**
	A$m	**A$m**	**A$m**	**%**	**%**
Net interest and trading income	**55**	**29**	**45**	90	22
Fee and commission income					
Base fees	393	405	364	*(3)*	*8*
Performance fees	9	46	9	*(80)*	-
Brokerage and commissions	1	4	2	*(75)*	*(50)*
Other fee and commission income	77	75	78	3	(1)
Total fee and commission income	**480**	**530**	**453**	(9)	6
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**15**	**(1)**	**(4)**	*	*
Other operating income and charges					
Net gains/(losses) on sale of equity investments	1	13	19	(92)	(95)
Impairment (charge)/reversal on equity investments and non-financial assets	(13)	(1)	(2)	*	*
Specific provisions and collective allowance for credit losses	1	3	-	(67)	*
Other income	40	24	8	67	*
Total other operating income and charges	**29**	**39**	**25**	(26)	16
Internal management revenue[2]	**(4)**	**2**	**2**	*	*
Net operating income	**575**	**599**	**521**	(4)	10
Operating expenses					
Employment expenses	(91)	(108)	(91)	(16)	-
Brokerage, commission and trading-related expenses	(85)	(71)	(72)	20	18
Other operating expenses	(151)	(170)	(137)	(11)	10
Total operating expenses	**(327)**	**(349)**	**(300)**	(6)	9
Non-controlling interests[3]	-	-	1	-	(100)
Net profit attributable to ordinary equity holders	**248**	**250**	**222**	(1)	12
Other metrics					
Macquarie Funds Assets under Management (A$ billion)	308.8	312.0	272.9	(1)	13
Headcount	**976**	**1,013**	**964**	(4)	1

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

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

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

Macquarie Funds' net profit contribution of A$248 million for the half year ended September 30, 2014 increased 12% from A$222 million in the prior corresponding period, primarily driven by growth in annuity base fee income from higher assets under management.

Net interest and trading income

Net interest and trading income was A$55 million for the half year ended 30 September 2014, up from an expense of A$45 million in the prior corresponding period primarily due to lower funding costs associated with balance sheet investments.

Fee and commission income

Base fees

Base fee income of A$393 million for the half year ended September 30, 2014 increased 8% from A$364 million in the prior corresponding period. This was primarily driven by an increase in Assets under Management, up 13% from A$272.9 billion at September 30, 2013 to A$308.8 billion at September 30, 2014. This was largely due to favorable currency and market movements, positive net flows in the securities investment management business, particularly into higher margin products. These were partially offset by the impact of the formation of the Jackson Square Partners joint venture and the management buyout of the Macquarie Investment Management Private Markets business.

Performance fees

Performance fee income of A$9 million for the half year ended September 30, 2014 was in line with the prior corresponding period, primarily related to fees earned by Quant Hedge funds and various fixed income funds outperforming their respective benchmarks.

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 recognized in brokerage, commission and trading-related expenses. Other fee and commission income of A$77 million for the half year ended September 30, 2014 was broadly in line with the prior corresponding period.

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 A$15 million for the half year ended September 30, 2014 increased from net losses of A$4 million in the prior corresponding period. The half year ended September 30, 2014 included MFG's share of income from the Jackson Square Partners joint venture.

Other operating income and charges

Net gains on sale of equity investments

Net gains on sale of equity investments of A$1 million for the half year ended September 30, 2014 decreased from A$19 million in the prior corresponding period. Income in the prior corresponding period primarily related to an internal gain on sale of a business between divisions within Macquarie Funds.

Other Income

Other income of A$28 million for the half year ended September 30, 2014 increased from A$6 million in the prior corresponding period. The increase was primarily driven by gains on the Jackson Square Partners and Macquarie Investment Management Private Markets transactions and fees earned from the provision of transitional services to the new owners of these businesses.

Operating expenses

Total operating expenses of A$327 million for the half year ended September 30, 2014 increased 9% from A$300 million in the prior corresponding period. The increase was primarily driven by higher sub-advisory expenses in the Macquarie Funds Delaware business as a result of the Jackson Square Partners transaction, the impact of the acquisition of MIM Korea in December 2013 and additional headcount to support business growth, partially offset by reduced costs resulting from the Jackson Square Partners and Macquarie Investment Management Private Markets transactions.

Corporate & Asset Finance

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Net interest and trading income	**319**	**378**	**270**	(16)	18
Fee and commission income	**22**	**29**	**7**	(24)	214
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**1**	**(2)**	**4**	*	(75)
Other operating income and charges					
Impairment charge on equity investments and non-financial assets	(15)	(14)	(2)	7	*
Gain on disposal of operating lease assets	97	13	14	*	*
Net operating lease income	265	265	255	-	4
Specific provisions and collective allowance for credit losses	(19)	(42)	(27)	(55)	(30)
Other income	9	(12)	56	*	(79)
Total other operating income and charges	**337**	**210**	**282**	60	20
Internal management revenue[2]	**3**	**6**	**7**	(50)	(57)
Net operating income	**682**	**621**	**570**	10	20
Operating expenses					
Employment expenses	(96)	(93)	(81)	3	19
Brokerage, commission and trading-related expenses	(4)	(7)	(6)	(43)	(33)
Other operating expenses	(118)	(95)	(93)	24	27
Total operating expenses	**(218)**	**(195)**	**(180)**	12	21
Non-controlling interests[3]	-	-	-	-	-
Net profit attributable to ordinary equity holders	**464**	**426**	**390**	9	19
Other metrics					
Loan and finance lease portfolio (A$ billion)	21.4	19.6	18.7	9	14
Operating lease portfolio (A$ billion)	5.9	5.7	5.7	4	4
Headcount	1,045	1,020	959	2	9

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

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

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

Corporate & Asset Finance's net profit contribution of A$464 million for the half year ended September 30, 2014 increased 19% from A$390 million in the prior corresponding period. The result was largely driven by increased income from early repayments, loan sales and a gain on disposal of operating lease assets.

Net interest and trading income

Net interest and trading income of A$319 million for the half year ended September 30, 2014 increased 18% from A$270 million in the prior corresponding period. This was driven by increased income from early repayments and the sale of loan assets in the Lending portfolio, combined with portfolio growth.

The loan and finance lease portfolios of A$21.4 billion at September 30, 2014 increased 14% from the prior corresponding period driven by organic growth.

Impairment charge on equity investments and non-financial assets

Impairment charge on equity investments and non-financial assets of A$15 million for the half year ended September 30, 2014 increased from A$2 million in the prior corresponding period mainly due to the write-off of intangible assets realized through the restructure of an operating lease as outlined below.

Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of A$97 million for the half year ended September 30, 2014 predominantly related to the restructure of an operating lease facility resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. This gain was partially offset by costs and charges associated with the transaction (refer "— Impairment charge on equity investments and non-financial assets" above, and "— Operating expenses" below).

Other operating income and charges

Net operating lease income

Net operating lease income of A$265 million for the half year ended September 30, 2014 increased 4% from A$255 million in the prior corresponding period. The increase was broadly in line with growth of the operating lease portfolio from A$5.7 billion at September 30, 2013 to A$5.9 billion at September 30, 2014, which was primarily driven by acquisitions in the Aviation portfolio and the favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$19 million for the half year ended September 30, 2014 decreased 30% from A$27 million in the prior corresponding period mainly due to the recovery of previously written off loan and finance lease assets, partially offset by increased collective allowances reflecting growth of the lending and finance leasing portfolios.

Other income

Other income of A$9 million for the half year ended September 30, 2014 decreased 79% from A$42 million in the prior corresponding period, which included income from the favorable settlement of a claim in relation to the UK Energy Leasing business and gains from the realization of equity exposures.

Operating expenses

Total operating expenses of A$218 million for the half year ended September 30, 2014 increased 21% from A$180 million in the prior corresponding period primarily due to a 9% increase in headcount, investment in platforms and expenses associated with a lease renegotiation (refer "— Gain on disposal of operating lease assets" above).

Banking & Financial Services

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Net interest and trading income	**406**	**373**	**366**	9	11
Fee and commission income					
Base fees	6	8	16	(25)	(63)
Brokerage and commissions	64	73	106	(12)	(40)
Other fee and commission income	192	178	195	8	(2)
Total fee and commission income	**262**	**259**	**317**	1	(17)
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	**-**	**1**	*	-
Other operating income and charges					
Net gains/(losses) on sale of equity investments	4	49	1	(92)	300
Impairment charge on equity investments and disposal groups held for sale	(1)	-	(2)	*	(50)
Specific provisions and collective allowance for credit losses	(14)	(24)	(23)	(42)	(39)
Other income	7	(6)	5	*	40
Total other operating income and charges	**(4)**	**19**	**(19)**	*	(79)
Internal management revenue[2]	**-**	**3**	**2**	(100)	(100)
Net operating income	**665**	**654**	**667**	2	(<1)
Operating expenses					
Employment expenses	(190)	(186)	(218)	2	(13)
Brokerage, commission and trading-related expenses	(95)	(80)	(88)	19	8
Other operating expenses	(239)	(238)	(250)	<1	(4)
Total operating expenses	**(524)**	**(504)**	**(556)**	4	(6)
Net profit attributable to ordinary equity holders	**141**	**150**	**111**	(6)	27
Other metrics					
Funds under management/advice/administration[3] (A$ billion)	132.6	127.7	136.8	4	(3)
Australian loan portfolio[4] (A$ billion)	25.3	21.5	19.0	18	33
Legacy loan portfolio[5] (A$ billion)	4.6	5.5	6.7	(16)	(31)
Retail deposits (A$ billion)	35.3	33.3	33.1	6	7
Headcount	2,568	2,419	2,891	6	(11)

1 "*" 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.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

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

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

5 The legacy loan portfolio primarily comprises residential mortgages in Canada and the United States.

Banking & Financial Services' net profit contribution of A$141 million for the half year ended September 30, 2014 increased 27% from A$111 million in the prior corresponding period.

In the half year ended September 30, 2014, Banking & Financial Services benefited from strong volume growth in mortgages, business lending, deposits and the Wrap platform, partially offset by higher distribution costs and increased investment in technology projects to support growth in the business, including the implementation of a new Core Banking system.

Net interest and trading income

Net interest and trading income of A$406 million for the half year ended September 30, 2014 increased 11% from A$366 million in the prior corresponding period primarily due to growth in lending and deposit volumes, including:

- a 36% increase in Australian mortgage volumes from A$14.6 billion at September 30, 2013 to A$19.8 billion at September 30, 2014;
- a 23% increase in business lending volumes from A$3.9 billion at September 30, 2013 to A$4.8 billion at September 30, 2014;
- a 7% increase in retail deposits from A$33.1 billion at September 30, 2013 to A$35.3 billion at September 30, 2014; and
- a 100% increase in credit card volumes from A$0.3 billion at September 30, 2013 to A$0.6 billion at September 30, 2014.

The majority of the growth in lending and deposit volumes was organic, with the acquisition of the Woolworths credit card portfolio in May 2014 being the key driver of the growth in credit card volumes.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins, including reduced average margins on the Australian mortgages portfolio as higher margin loans continue to run off.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the US, are in run-off and closed at a combined A$4.6 billion at September 30, 2014, down 31% from A$6.7 billion at September 30, 2013.

Fee and commission income

Base Fees

Base fee income of A$6 million for the half year ended September 30, 2014 decreased 63% from A$16 million in the prior corresponding period principally due to the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage and commissions

Brokerage and commissions income of A$64 million for the half year ended September 30, 2014 decreased 40% from A$106 million in the prior corresponding period mainly due to the sale of Macquarie Private Wealth Canada in November 2013. The remaining income, which was largely derived from the provision of retail equities broking services in Australia, decreased from the prior corresponding period mainly due to a reduction in retail market activity.

Other fee and commission income

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

Other fee and commission income of A$192 million for the half year ended September 30, 2014 decreased 2% from A$195 million in the prior corresponding period. Lower income due to the sale of Macquarie Private Wealth Canada in November 2013 was largely offset by higher fee income from growth in the credit card portfolio and increased platform commissions driven by growth of assets under administration on the Wrap platform.

Macquarie platform assets under administration closed at A$41.7 billion on 30 September 2014, an increase of 10% from A$37.8 billion at September 30, 2013. This increase was mainly due to favorable market movements and net inflows.

Net gains on sale of equity investments

Net gains on sale of equity investments of A$4 million for the half year ended September 30, 2014 predominantly related to the sale of a minority investment in a mortgage aggregator. The net gain on sale of equity investments in the prior period 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 A$14 million for the half year ended September 30, 2014 decreased 39% from A$23 million in the prior corresponding period due to the recovery in the current period of loans to business lending clients previously provided for.

Operating expenses

Total operating expenses of A$524 million for the half year ended September 30, 2014 decreased 6% from A$556 million in the prior corresponding period.

Employment expenses

Employment expenses of A$190 million for the half year ended September 30, 2014, decreased 13% from A$218 million in the prior corresponding period mainly due to reduced headcount and commissions paid to internal advisers as a result of the sale of Macquarie Private Wealth Canada in November 2013, partially offset by an increase in headcount to support business growth.

Brokerage, commission and trading-related expenses

Brokerage, commission and trading-related expenses, which are mainly paid to external advisers for product distribution, of A$95 million for the half year ended September 30, 2014 increased 8% from A$88 million in the prior corresponding period largely due to costs associated with the rewards program of the Woolworths credit card portfolio acquired in May 2014.

Other operating expenses

Other operating expenses of A$239 million for the half year ended September 30, 2014 decreased 4% from A$250 million in the prior corresponding period mainly driven by the sale of Macquarie Private Wealth Canada in November 2013, partially offset by investment in technology projects to support business growth, including the implementation of a new Core Banking system.

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

	Half year ended			Movement[1]	
	Sep 14	**Mar 14**	**Sep 13**	**Mar 14**	**Sep 13**
	A$m	**A$m**	**A$m**	**%**	**%**
Net interest and trading income	**127**	**94**	**137**	35	(7)
Fee and commission income					
Brokerage and commissions	76	95	90	(20)	(16)
Other fee and commission expense	(47)	(24)	(64)	96	(27)
Total fee and commission income/(loss)	**29**	**71**	**26**	(59)	12
Share of net profits of associates and joint ventures accounted for using the equity method	**-**	**-**	**-**	-	-
Other operating income and charges	**-**	**(1)**	**(5)**	(100)	(100)
Internal management revenue[2]	**-**	**1**	**-**	(100)	-
Net operating income	**156**	**165**	**158**	(5)	(1)
Operating expenses					
Employment expenses	(24)	(23)	(19)	4	26
Brokerage, commission and trading-related expenses	(51)	(45)	(43)	13	19
Other operating expenses	(101)	(94)	(81)	7	25
Total operating expenses	**(176)**	**(162)**	**(143)**	9	23
Net profit/ (loss) attributable to ordinary equity holders	**(20)**	**3**	**15**	*	*
Other metrics					
Headcount	148	171	156	(13)	(5)

1 "*" 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.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

Macquarie Securities' net loss of A$20 million for the half year ended September 30, 2014 decreased from net profit of A$15 million in the prior corresponding period largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs including the exit of the Structured Products during the period.

Net interest and trading income

Net interest and trading income of A$127 million for the half year ended September 30, 2014 decreased 7% from A$137 million in the prior corresponding period mainly due to lower demand for retail warrants products, particularly in Hong Kong and Thailand. This was partially offset by higher income driven by improved trading opportunities in Asia and Europe.

Fee and commission income

Brokerage and commissions

Brokerage and commissions income of A$76 million for the half year ended September 30, 2014 decreased 16% from A$90 million in the prior corresponding period reflecting lower client activity in institutional cash equities in Asia.

Other fee and commission expense

Other fee and commission income, which mainly consists of tax transfer pricing charges, of A$47 million for the half year ended September 30, 2014 decreased 27% from A$64 million in the prior corresponding period due to a decrease in transfer pricing charges from Asian warrants trading.

Operating expenses

Total operating expenses of A$176 million for the half year ended September 30, 2014 increased 23% from A$143 million in the prior corresponding period largely due to increased technology spend driven by additional regulatory compliance requirements, as well as restructuring costs including the exit of the Structured Products business during the period.

Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)

	Half year ended			Movement[1]	
	Sep 14	**Mar 14**	**Sep 13**	**Mar 14**	**Sep 13**
	A$m	**A$m**	**A$m**	**%**	**%**
Net interest and trading income					
Commodities	413	734	390	(44)	6
Credit, interest rates and foreign exchange	251	152	223	65	13
Net interest and trading income	**664**	**886**	**613**	(25)	8
Fee and commission income					
Brokerage and commissions	49	49	49	-	-
Other fee and commission (expense)/income	6	19	(2)	(68)	*
Total fee and commission income	**55**	**68**	**47**	(19)	17
Share of net profits of associates and joint ventures accounted for using the equity method	**2**	**8**	**16**	(76)	(88)
Other operating income and charges					
Net gains on sale of equity investments	23	27	18	(15)	28
Impairment charge on equity investments	(24)	(14)	(103)	71	(77)
Specific provisions and collective allowance for credit losses	(48)	(61)	(29)	(21)	66
Other income	10	35	50	(71)	(80)
Total other operating income and charges	**(39)**	**(13)**	**(64)**	200	(39)
Internal management revenue[2]	**(1)**	**(12)**	**5**	(92)	*
Net operating income	**681**	**937**	**617**	(27)	10
Operating expenses					
Employment expenses	(113)	(120)	(103)	(6)	10
Brokerage, commission and trading-related expenses	(122)	(156)	(124)	(22)	(2)
Amortization of intangibles	(2)	(2)	(15)	-	(87)
Other operating expenses	(212)	(205)	(186)	3	14
Total operating expenses	**(449)**	**(483)**	**(428)**	(7)	5
Net profit/ (loss) attributable to ordinary equity holders	**232**	**454**	**189**	(49)	23
Other metrics					
Headcount	803	786	776	2	3

1 "*" 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.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

Fixed Income, Currencies & Commodities' net profit contribution for the half year ended September 30, 2014 was A$232 million, an increase of 23% from A$189 million in the prior corresponding period, but down 49% from A$454 million in the prior period which benefited from strong customer flow in the Energy Markets business.

The result for the half year ended September 30, 2014 reflected improved returns across commodities, interest rates and foreign exchange platforms. Listed equity impairments were down significantly compared to the prior corresponding period, however continued subdued mining equity markets and low prices in both metals and bulk commodities have again impacted the timing of asset realizations and new project financings.

Net interest and trading income

Commodities

Commodities trading income of A$413 million for the half year ended September 30, 2014 increased 6% from A$390 million in the prior corresponding period, underpinned by continued growth in the trading and financing of physical commodities, while lower levels of volatility in certain markets led to reduced levels of client hedging activity.

The Energy Markets business remained a significant contributor to commodities trading income, benefitting from strong customer flows and trading opportunities across its global platform during the period, particularly in the European Gas, European Power and Global Oil businesses. In the prior period the Energy Markets business benefited from strong customer flows, particularly in the US Gas business, which was the main driver of the significant increase in Commodities trading income to A$734 million for the six months ended March 31, 2014.

The Metals & Agricultural Sales and Trading business continued to grow its trading and financing of physical commodities, which resulted in higher overall income for the half year ended September 30, 2014 compared to the prior corresponding period, partially offset by the impact of low volatility in base metals markets which dampened customer hedging activity.

These increases in income were partially offset by the impact of reduced client hedging activity in the Metals and Energy Capital business compared to the prior corresponding period due to low levels of volatility in precious metals markets during the period.

Credit, interest rates and foreign exchange

Net interest and trading income from credit, interest rates and foreign exchange products of A$251 million for the half year ended September 30, 2014 increased 13% from A$223 million in the prior corresponding period. In foreign exchange markets, increased volatility compared to the prior corresponding period drove higher client hedging and trading activity, which resulted in increased income. This was partially offset by the impact of a mixed credit environment influenced by downward rate movements, liquidity volatility driven by investor risk appetite and general global uncertainty. However, debt origination and issuances continued to increase in the United Kingdom and Europe.

Fee and commission income

Other fee and commission income of A$6 million for the half year ended September 30, 2014 increased from a loss of A$2 million in the prior corresponding period driven by improved transaction flows across global debt markets for the securitization and origination parts of the business.

Other operating income and charges

Net gains on sale of equity investments

Net gains on sale of equity investments of A$23 million for the half year ended September 30, 2014 improved 28% from A$18 million in the prior corresponding period, however continued subdued mining equity markets have again impacted the timing of asset realizations in the Metals and Energy Capital business.

Impairment charge on equity investments

Impairment charges on equity investments of A$24 million for the half year ended September 30, 2014 decreased 77% from A$103 million in the prior corresponding period as mining equity markets stabilized.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of A$48 million for the half year ended September 30, 2014 increased 66% from A$29 million in the prior corresponding period. The charges in the current period predominantly related to loan assets in the resource and energy sectors.

Other income

Other income of A$10 million for the half year ended September 30, 2014 decreased 80% from A$50 million in the prior corresponding period, which included significant gains on the realization on net profit interests.

Operating expenses

Total operating expenses of A$449 million for the half year ended September 30, 2014 increased 5% from A$428 million in the prior corresponding period.

Employment expenses

Employment expenses of A$113 million for the half year ended September 30, 2014 increased 10% from A$103 million in the prior corresponding period mainly driven by increased headcount associated with regulatory compliance requirements.

Brokerage, commission and trading-related expenses

Brokerage, commission and trading-related expenses of A$122 million for the half year ended September 30, 2014 were broadly in line with the prior corresponding period. The expense was driven by physical commodities financing activities which result in 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.

Amortization of intangibles

Amortization of intangibles relate to investments in net profit interests which are amortized based on the production output of the investment. The expense of A$2 million for the half year ended September 30, 2014 was down 87% from A$15 million in the prior corresponding period, consistent with a reduced level of operating income from net profit interests during the period.

Other operating expenses

Other operating expenses of A$212 million for the half year ended September 30, 2014 increased 14% from A$186 million in the prior corresponding period mainly due to increased investment in technology to meet additional regulatory compliance requirements globally

Corporate

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Net interest and trading income	**137**	**36**	**90**	281	52
Fee and commission expense	**(44)**	**(100)**	**(22)**	(56)	100
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(12)**	**(3)**	**(5)**	300	140
Other operating income and charges					
Net gains on sale of debt and equity securities	11	21	9	(48)	22
Impairment write back/(charge) on debt and equity securities	1	(1)	-	*	*
Dividends and distributions received	-	(7)	8	(100)	(100)
Specific provisions and collective allowance for credit losses	(2)	-	(3)	*	(33)
Other (expense)/income	(12)	8	(38)	*	(68)
Total other operating income and charges	**(2)**	**21**	**(24)**	*	(92)
Internal management charge[2]	**2**	**-**	**(16)**	*	*
Net operating income/(loss)	**81**	**(46)**	**23**	*	252
Operating expenses					
Employment expenses	(345)	(362)	(280)	(5)	23
Brokerage, commission and trading-related expenses	(3)	(3)	(2)	-	50
Other operating expenses	(104)	(67)	(78)	55	33
Total operating expenses	**(451)**	**(431)**	**(360)**	5	25
Tax expense	(290)	(408)	(213)	(29)	36
Macquarie Income Preferred Securities	(2)	(2)	(3)	-	(33)
Macquarie Income Securities	(9)	(9)	(9)	-	-
Non-controlling interests[3]	-	-	-	-	-
Net loss attributable to ordinary equity holders	**(671)**	**(896)**	**(562)**	(25)	19
Other metrics					
Headcount	47	55	82	(15)	(43)

1 "*" 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.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

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

The Corporate segment includes 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 half year ended September 30, 2014 was a net loss of A$671 million, an increase of 19% from a net loss of A$562 million in the prior corresponding period, mainly driven by higher staff compensation resulting from the improved performance of MBL Group and increased tax expense.

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for MGL Group, 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 A$137 million for the half year ended September 30, 2014 increased 52% from A$90 million in the prior corresponding period mainly due to favorable non-trading derivative volatility in the half year ended September 30, 2014 compared to the prior corresponding period. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

Fee and commission expense

Fee and commission expenses primarily relate to internal transactions with operating groups. External fee and commission expense/income is minimal. Fee and commission expenses increased to A$44 million for the half year ended September 30, 2014 compared to A$22 million for the prior corresponding period, and included a higher level of internal fees paid out of the Corporate segment.

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

Share of net losses of associates and joint ventures was A$12 million for the half year ended September 30, 2014 compared to A$5 million in the prior corresponding period, which included income from legacy assets. There were no individually significant items during the current period.

Other operating income and charges

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of A$11 million for the half year ended September 30, 2014 increased from A$9 million in the prior corresponding period due to gains from the disposal of securities undertaken in managing MBL Group's liquidity.

Other(expense)/ income

Other expenses of A$12 million for the half year ended September 30, 2014 compared to A$38 million in the prior corresponding period. The loss in the prior corresponding period was predominantly due to the partial repurchase of MBL's Government guaranteed debt securities.

Operating expenses

Employment expenses

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

For the half year ended September 30, 2014 employment expenses were A$345 million, an increase of 23% from A$280 million in the prior corresponding period. The increase was mainly attributable to the improved performance of MBL Group.

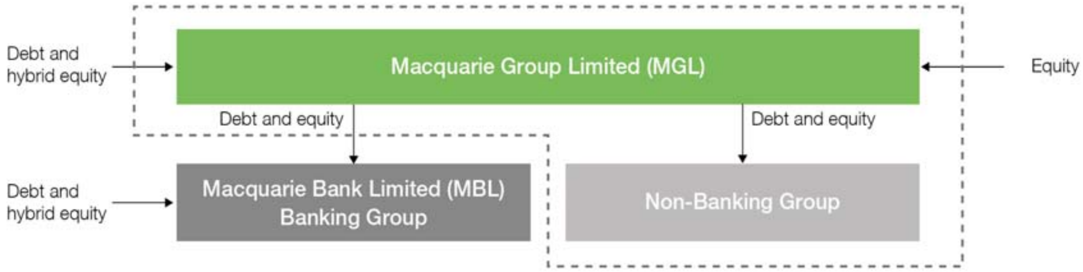
Other operating expenses

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 33% from A$78 million in the prior corresponding period to A$104 million for the half year ended September 30, 2014, which reflected the increased cost base of central support functions resulting from investment in technology platforms and increased regulatory compliance costs.

Liquidity

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

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



Liquidity management

MGL Group's liquidity risk management framework is designed to ensure that both MGL Group and MBL Group 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 MGL Group's Asset and Liability Committee and the Risk Management Group. MGL Group's 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 MGL Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Business Group Heads.

Risk Management 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

The MBL liquidity policy outlines the liquidity requirements for the Banking 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.

The liquidity risk appetite is supported by a number of risk tolerances and principles MBL applies to managing liquidity risk in 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 (including MBL) in MGL are subject to constraints where required.

Liquidity Management Principles

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

Scenario analysis

Scenario analysis is central to MGL Group's and MBL 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 modeling 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 Banking Group, Non-Banking Group and MGL 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 MBL or other counterparties. The remainder must be approved by Group Treasury and Risk Management Group before inclusion in the liquid asset portfolio. As at September 30, 2014, 100% 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 U.S. dollars or other currencies are held where appropriate.

MBL Group had A$19.5 billion in cash and liquid assets as at September 30, 2014 (March 31, 2014: A$17.3 billion).

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire MGL Group and defines roles, 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 Risk Management Group and is submitted to the Board for approval.

MBL 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, recognizing 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

As at September 30, 2014, the credit ratings for MBL Group were as follows:

	Macquarie Bank Limited		
Rating agency[1]	**Short-term rating**	**Long-term rating**	**Long-term rating outlook**
Fitch Ratings	F-1	A	Stable
Moody's Investors Service	P-1	A2	Stable
Standard & Poor's	A-1	A	Stable

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

Regulatory developments

In December 2013, APRA released its final liquidity standard (APS 210) and Prudential Practice Guide 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 finalized calibrating this metric. Regulators in other jurisdictions where MBL 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. LCR requirements will be effective from January 1, 2015. With its Committed Liquidity Facility (CLF) allocation in place, MBL Group's LCR would exceed 120% as at September 30, 2014. For further information, refer to the discussion under the heading "Recent Developments — Regulatory and supervision developments — Australia" of this Report.

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.

MBL has limited reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, MBL's internal liquidity policy requires that term assets are funded with term liabilities. MBL expects that it will meet the overall requirements of the NSFR, however, the ratio is subject to change over the consultation period.

MBL continues to monitor developing liquidity regulations. See "Regulation and supervision — Australia — APRA" for further information.

Funded balance sheet

MBL's statutory balance sheet is prepared based on AGAAP and includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of MBL.

The table below reconciles the reported assets of the consolidated MBL Group to the net funded assets at September 30, 2014.

MBL Group	**As at Sep 14**
	A$b
Total assets per MBL statutory balance sheet	**146.6**
Accounting deductions:	
Self funded trading assets[1]	(13.9)
Derivative revaluation accounting gross-ups[2]	(14.2)
Life investment contracts and other segregated assets[3]	(5.6)
Outstanding trade settlement balances[4]	(2.9)
Short-term working capital assets[5]	(3.8)
Intercompany gross-ups	(6.1)
Non-recourse funded assets:	
Securitized assets and non-recourse warehouses[6]	(15.4)
Net funded assets	84.7

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

2 *Derivative revaluation accounting gross-ups.* MBL Group's derivative activities are mostly client driven with client positions hedged by offsetting positions. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

3 *Life investment contracts and other segregated assets.* These represent the assets and liabilities that are recognized where MBL Group provides products such as investment-linked policy contracts or where MBL holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount and hence do not require funding.

4 *Outstanding trade settlement balances.* At any particular time MBL Group's broking business will have outstanding trades to settle with other brokers. These amounts (payables) can be offset in terms of funding by amounts that MBL Group is owed at the same time by brokers on other trades (receivables).

5 *Short-term working capital assets.* As with the broker settlement balances above, MBL Group through its day-to-day operations generates working capital assets (e.g., receivables and prepayments) and working capital liabilities (e.g., creditors and accruals) that produce a 'net balance' that either requires or provides funding.

6 *Securitized assets and non-recourse warehouses.* These represent assets that are funded by third parties with no recourse to MBL including lending assets (mortgages and leasing) sold down into external securitization entities.

Term funding initiatives

The table below sets out MBL Group's term funding transactions since March 31, 2014:

Funding source	**Banking Group**
	A$bn
Secured Funding	
Term securitization and other secured finance	4.7
Issued paper	
Senior debt	6.1
Loan Capital	
Macquarie Bank Capital Notes (BCN)	0.4
Total	**11.2**

Since March 31, 2014, MBL Group raised A$11.2 billion of term funding, including A$4.7 billion of term secured finance, A$6.1 billion of term wholesale funding including A$2.0 billion of senior unsecured debt under its US Rule 144A/Regulation S Medium Term Note Program on October 27, 2014 and A$0.4 billion of BCN issuance (which was completed in October 2014).

Under its Rule 144A/Regulation S Medium Term Note Program, MBL issued US$1.5 billion of senior unsecured debt during the half year ended September 30, 2014.

Wholesale term issuance of A$6.1 billion includes A$4.1 billion in U.S. dollar denominated senior unsecured debt issuance, A$0.4 billion in private placements and structured notes and A$1.6 billion senior unsecured issuance in the Euro and Sterling markets. Term secured finance of A$4.7 billion includes A$2.4 billion of PUMA RMBS, A$1.5 billion of SMART auto & equipment ABS, A$0.3 billion of Macquarie Equipment Finance ABS and a net increase of A$0.5 billion of warehouse funding for SMART.

Funding profile for the Banking Group

The funded statement of financial position of the Banking Group as at September 30, 2014:

	As at Sep 14 A$b
Banking Group	
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	1.7
Commercial paper	10.0
Net trade creditors[2]	1.0
Structured notes[3]	1.7
Secured funding[4]	6.0
Bonds[5]	13.0
Other loans[6]	0.6
Deposits:[7]	
Retail deposits	35.3
Corporate and wholesale deposits	3.5
Loan capital[8]	2.5
Equity and hybrid[9]	9.4
Total	**84.7**
Funded assets	
Cash and liquid assets[10]	19.5
Self securitization[11]	7.9
Net trading assets[12]	15.2
Loan assets less than one year[13]	11.0
Loan assets greater than one year[13]	29.8
Debt investment securities[14]	2.7
Non-Banking Group deposit with MBL	(3.7)
Co-investment in Macquarie-managed funds and other equity investments[15]	1.1
Property, plant and equipment and intangibles	1.2
Net trade debtors[16]	-
Total	**84.7**

1 *Wholesale issued paper.* Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

2 *Net trade creditors / (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.

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

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

8 *Loan capital.* Long-term subordinated debt.

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

10 *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.

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

12 *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.

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

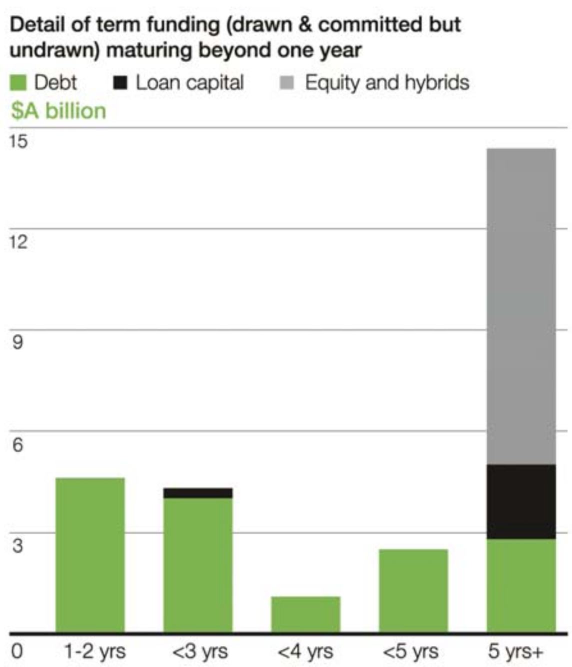
14 *Debt investment securities.* These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

15 *Co-investment in Macquarie-managed funds and other equity investments.* These equity securities include co-investments in Macquarie-managed funds.

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

As at September 30, 2014, deposits represented A$38.8 billion, or 46% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A$11.7 billion, or 14% of total funding, and other debt funding maturing within 12 months represented A$7.3 billion, or 9% of total funding.

The following chart and table provides details of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2014:



	As at					
	Sep 14					
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+	Total
Banking Group	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**
Structured notes	-	0.4	0.1	0.1	0.9	1.5
Secured funding	1.8	0.1	0.3	-	0.3	2.5
Bonds	2.8	3.8	0.8	2.4	1.2	11.0
Other loans	-	-	-	-	-	-
Total debt	4.6	4.3	1.2	2.5	2.4	15.0
Loan capital	-	0.3	-	-	2.2	2.5
Equity and hybrid	-	-	-	-	9.4	9.4
Total funding sources drawn	4.6	4.6	1.2	2.5	14.0	26.9
Undrawn	-	-	-	-	-	-
Total funding sources drawn and undrawn	**4.6**	**4.6**	**1.2**	**2.5**	**14.0**	**26.9**

The Banking 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 3.7 years.

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

- US$25 billion Regulation S Debt Instrument Program, incorporating both Government guaranteed and unguaranteed securities including Euro Certificates of Deposit, Euro Commercial Deposits, Euro Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had US$7.6 billion of debt securities outstanding at September 30, 2014;

- US$10 billion Commercial Paper Program under which US$7.2 billion of debt securities were outstanding at September 30, 2014;

- US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government guaranteed and unguaranteed securities. At September 30, 2014 issuances outstanding amounted to US$7 billion under the Rule 144A/Regulation S Medium Term Note Program; and

- US$5 billion Structured Note Program under which US$1.2 billion of funding from structured notes was outstanding at September 30, 2014.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At September 30, 2014, MBL Group had A$1.7 billion of these securities outstanding.

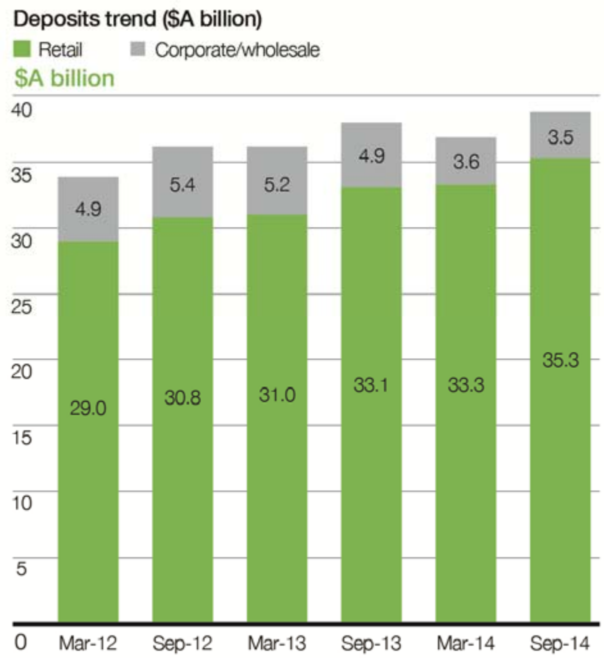
At September 30, 2014, MBL Group had internally securitized A$7.9 billion of its own mortgages. MBL, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations.

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 generally represents a more stable and reliable source of funding and reduces MBL's reliance on wholesale funding markets. In particular, MBL has focused on the quality and composition of the retail deposit base by targeting transactional and relationship based deposits such as the CMA.

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

The chart below illustrates the retail deposit growth since March 2012.



Lease commitments, contingent liabilities and assets

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 35 "Lease commitments" to our 2014 annual financial statements for further information. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at September 30, 2014, MBL Group had A$7.9 billion of contingent liabilities and commitments, including A$1.3 billion of contingent liabilities and A$5.8 billion of commitments under undrawn credit facilities. See Note 19 "Contingent liabilities and commitments" to our 2015 interim financial statements which shows MBL Group's contingent liabilities and commitments at September 30, 2014.

Quantitative and qualitative disclosures about market risk

Each year we prepare a detailed analysis of market risk as it applies to MBL Group and a quantitative analysis of MBL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 38 "Financial risk management" to MBL Group's 2014 annual financial statements for a quantitative and qualitative discussion of these risks.

Capital analysis

Overview

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

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

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and

- The Non-Banking Group capital requirement, calculated using MGL's ECAM. Transactions internal to MGL are eliminated.

Banking Group capital

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

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

Capital disclosures in this section include Harmonized Basel III[2] and APRA Basel III[3]. The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects MBL's regulatory requirements under APRA Basel III rules.

Common Equity Tier 1 capital

MBL'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 recapitalized by MGL as required to support projected business growth.

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

MIPS were issued when the London Branch of MBL issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return

---

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

[3] APRA Basel III relates to the Prudential Standards released by APRA for the period effective January 1, 2013.

of 6.177% per annum until April 2020. As at September 30, 2014, MBL had £42.5 million of MIPS on issue which are held by parties not associated with MBL. MIPS are eligible for transitional arrangements under Basel III rules.

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

On October 8, 2014, MBL issued approximately A$429 million of "Macquarie Bank Capital Notes" ("BCN"). BCN are convertible subordinated notes that are included as Additional Tier 1 Capital for MBL. Subject to various conditions, BCN are callable on March 24, 2020, September 24, 2020 and March 24, 2021 and if still in force, will be mandatorily exchanged for a variable MGL Ordinary Shares on March 24, 2023. Subject to payment tests, including the discretion of MBL, BCN pay semi-annual distributions of BBSW + 3.30%, reduced to the extent that franking credits are attached.

Pillar 3

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

These disclosures are required to be published by MBL within 40 business days of the reporting date. Pillar 3 documents are available on MBL's U.S. Investors' Website.

Banking Group Basel III Tier 1 capital

	As at Sep 14	
	Harmonized Basel III	APRA Basel III
	A$m	A$m
Common Equity Tier 1 capital		
Paid-up ordinary share capital	7,709	7,709
Retained earnings	1,113	1,113
Reserves	169	169
Gross Common Equity Tier 1 capital	**8,991**	**8,991**
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	109	109
Deferred tax assets	105	201
Net other fair value adjustments	(30)	(30)
Intangible component of investments in subsidiaries and other entities	438	438
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	173
Equity exposures	–	1,361
Shortfall in provisions for credit losses	317	348
Other Common Equity Tier 1 capital deductions	120	285
Total Common Equity Tier 1 capital deductions	**1,059**	**2,885**
Net Common Equity Tier 1 capital	**7,932**	**6,106**
Additional Tier 1 Capital:		
Additional Tier 1 capital instruments[1]	659	659
Gross Additional Tier 1 capital	**659**	**659**
Deduction from Additional Tier 1 capital	**–**	**–**
Net Additional Tier 1 capital	**659**	**659**
Total Tier 1 capital	**8,591**	**6,765**

1 Impact of A$429 million of BCN issued on October 8, 2014 not included.

ACTIVE 203670395v.20

Banking Group Basel III Risk-Weighted Assets ("RWA")

	As at Sep 14	
	Harmonized Basel III	APRA Basel III
	A$m	A$m
Credit risk		
Subject to IRB approach:		
Corporate	19,768	19,768
SME Corporate	1,822	1,822
Sovereign	487	487
Bank	1,454	1,454
Residential mortgage	3,629	4,913
Other Retail	5,258	5,258
Total RWA subject to IRB approach	**32,418**	**33,702**
Specialized lending exposures subject to slotting criteria	**5,227**	**5,227**
Subject to Standardized approach:		
Corporate	763	763
Residential mortgage	1,783	1,783
Other Retail	1,324	1,324
Total RWA subject to Standardized approach	3,870	3,870
Credit risk RWA for securitization exposures	1,104	1,038
Credit Valuation Adjustment RWA	2,455	2,455
Exposures to Central Counterparties RWA	1,830	1,830
RWA for Other Assets	7,207	6,763
Total Credit risk RWA	54,111	54,885
Equity risk exposures RWA	4,254	–
Market risk RWA	4,659	4,659
Operational risk RWA	8,377	8,377
Interest rate risk in banking book RWA	–	–
Scaling factor (6%) applied to RWA subject to IRB approach	1,945	2,022
Total Banking Group RWA	73,346	69,943
Capital ratios		
Banking Group Common Equity Tier 1 capital ratio (%)	10.8	8.7
Banking Group Tier 1 capital ratio (%)[1]	11.7	9.7

[1] Impact of A$429 million of BCN issued on October 8, 2014 not included.

Statutory consolidated statement of financial position

	As at			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$m	A$m	A$m	%	%
Assets					
Receivables from financial institutions	18,070	16,151	15,788	12	14
Trading portfolio assets	25,384	21,640	21,469	17	18
Derivative assets	14,518	12,468	14,473	16	<1
Investment securities available-for-sale	7,289	12,182	13,612	(40)	(46)
Other assets	7,458	8,302	7,693	(10)	(3)
Loan assets held at amortized cost	62,800	57,170	54,574	10	15
Other financial assets at fair value through profit or loss	1,798	2,195	2,524	(18)	(29)
Due from related body corporate entities	1,395	2,244	861	(38)	62
Property, plant and equipment	6,339	6,045	5,983	5	6
Interests in associates and joint ventures accounted for using the equity method	563	551	588	2	(4)
Intangible assets	784	785	834	(<1)	(6)
Deferred tax assets	185	178	234	4	(21)
Total assets	**146,583**	**139,911**	**138,633**	5	6
Liabilities					
Trading portfolio liabilities	3,679	2,459	1,796	50	105
Derivative liabilities	14,412	11,748	13,967	23	3
Deposits	44,122	42,302	42,573	4	4
Other liabilities	7,814	8,521	7,805	(8)	<1
Payables to financial institutions	13,086	16,573	16,235	(21)	(19)
Other financial liabilities at fair value through profit or loss	841	937	663	(10)	27
Due to related body corporate entities	6,240	7,443	6,045	(16)	3
Debt issued at amortized cost	43,608	37,255	37,032	17	18
Provisions	102	86	110	19	(7)
Deferred tax liabilities	710	625	643	14	10
Total liabilities excluding loan capital	**134,614**	**127,949**	**126,869**	5	6
Loan capital					
Subordinated debt at amortized cost	2,534	2,464	2,399	3	6
Total loan capital	**2,534**	**2,464**	**2,399**	3	6
Total liabilities	**137,148**	**130,413**	**129,268**	5	6
Net assets	**9,435**	**9,498**	**9,365**	(1)	1
Equity					
Contributed equity	8,101	8,101	8,087	-	<1
Reserves	126	(68)	(74)	*	*
Retained earnings	1,129	1,388	1,281	(19)	(12)
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**9,356**	**9,421**	**9,294**	(1)	1
Non-controlling interests	**79**	**77**	**71**	3	11
Total equity	**9,435**	**9,498**	**9,365**	(1)	1

[1] "*" 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.

Total assets of A$146.6 billion at September 30, 2014 increased 5% from A$139.9 billion at March 31, 2014. The depreciation of the Australian dollar since March 31, 2014 resulted in growth of both assets and liabilities denominated in foreign currencies. Other key movements included:

- Receivables from financial institutions increased 12% from A$16.2 billion at March 31, 2014 to A$18.1 billion at September 30, 2014, predominantly due to an increase in reverse repurchase balances. This reflects an increase in surplus liquidity combined with an increase in balances with financial institutions within Fixed Income and Currencies. This was partly offset by a decrease in holdings required to cover short positions due to lower stock borrowing activity within Macquarie Securities.

- Trading portfolio assets increased 17% from A$21.6 billion at March 31, 2014 to A$25.4 billion at September 30, 2014, predominantly due to increased trading activity in Macquarie Securities and Fixed Income, Currencies & Commodities.

- Derivative assets increased 16% from A$12.5 billion at March 31, 2014 to A$14.5 billion at September 30, 2014, predominantly due to increased trading activity within Fixed Income, Currencies & Commodities.

- Investment securities available-for-sale decreased 40% from A$12.2 billion at March 31, 2014 to A$7.3 billion at September 30, 2014 mainly due to liquidity management activities within Group Treasury.

- Loan assets held at amortized cost increased 10% from A$57.2 billion at March 31, 2014 to A$62.8 billion at September 30, 2014 predominantly due to organic growth of the loan book in Mortgages and banking portfolio in Banking & Financial Services, and new deals in retail Australia Leasing, Equipment financing in Corporate & Asset Finance.

Total liabilities (excluding loan capital) increased 5% from A$127.9 billion at March 31, 2014 to A$134.6 billion at September 30, 2014 as a result of items below.

- Trading portfolio liabilities increased 50% from A$2.5 billion at March 31, 2014 to A$3.7 billion at September 30, 2014 largely due to an increase in trading activity in Macquarie Securities.

- Derivative liabilities increased 23% from A$11.7 billion at March 31, 2014 to A$14.4 billion at September 30, 2014 predominantly due to increased trading activity within Fixed Income, Currencies & Commodities.

- Deposits increased 4% from $A42.3 billion at March 31, 2014 to $A44.1 billion at September 30, 2014 primarily due to growth in cash deposits and interest related products in Banking & Financial Services.

- Payables to financial institutions decreased 21% from A$16.6 billion at March 31, 2014 to A$13.1 billion at September 30, 2014 largely due to a decline in business funding requirements resulting in a decrease in short term funding activities conducted by Group Treasury.

- Debt issued at amortized cost increased 17% from A$37.3 billion at March 31, 2014 to A$43.6 billion at September 30, 2014 largely due to new debt issuances by Group Treasury and Corporate and Asset Finance, partly offset by the maturity of Government guaranteed securities during the half year ended September 30, 2014.

Total equity of A$9.4 billion at September 30, 2014 is broadly in line with equity of A$9.5 billion at March 31, 2014.

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

	Half year ended			Movement[1]	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$b	A$b	A$b	%	%
Loan assets at amortized cost per statutory balance sheet	62.8	57.2	54.6	10	15
Other loans held at fair value[1]	0.4	0.6	0.9	(33)	(56)
Operating lease assets	6.0	5.7	5.7	5	5
Other reclassifications[2]	0.5	0.6	0.3	(17)	67
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3]	(15.3)	(13.6)	(12.8)	13	20
Less: segregated funds[4]	(2.2)	(2.2)	(1.3)	0	69
Less: margin balances (reclassed to trading)[5]	(3.5)	(2.3)	(2.9)	52	21
Total loan assets per funded balance sheet[6]	**48.7**	**46.0**	**44.5**	6	9

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

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

3 Excludes notes held by MBL Group in consolidated Special Purpose Entities ("SPE").

4 These represent the assets and liabilities that are recognized where MBL provides products such as investment-linked policy contracts. The policy (contract) liability will be matched by assets held to the same amount and hence does not require funding.

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

6 Total loan assets per the funded balance sheet include self securitization assets.

For the half years ended September 30, 2014, March 31, 2014 and September 30, 2013, funded loan assets of MBL Group consisted of:

	Half year ended			Movement	
	Sep 14	Mar 14	Sep 13	Mar 14	Sep 13
	A$b	A$b	A$b	%	%
Mortgages:					
Australia	12.6	10.5	8.4	20	50
Canada, United States & Other	5.2	5.7	6.8	9	(24)
Total Mortgages	**17.8**	**16.2**	**15.2**	10	17
Structured investments	2.1	3.5	4.0	(40)	(48)
Banking	4.9	4.2	4.1	17	20
Real estate	2.9	2.5	2.6	16	12
Resources and commodities	2.6	2.4	2.1	8	24
Leasing (financing and operating)	10.5	10.5	10.4	0	1
Corporate lending	5.7	5.3	4.7	8	21
Other lending	2.2	1.4	1.4	57	57
Total	**48.7**	**46.0**	**44.5**	6	9

Our funded loan asset portfolio comprises diverse, secured assets:

Loan category	Asset security
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.
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.
Banking	Secured relationship managed 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.
Real estate..........	Loans secured against real estate assets, generally subject to regular independent valuations.
Resources and commodities	Diversified loan portfolio to the resources sector that are primarily secured by the underlying assets.
Leasing (finance and operating)...................	Secured by underlying leased assets (aircraft, motor vehicles and specialized equipment), diversified portfolio by geography and security asset class.
Corporate lending	Diversified secured corporate lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.
Other lending.............	Includes deposits with financial institutions held as collateral for trading positions.

Equity investments

Equity investments are reported in the following categories in the statutory balance sheet:

- 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 MBL Group 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.

The tables below set out the composition of these categories of equity investments for the half years ended September 30, 2014, March 31, 2014 and September 30, 2013.

Equity investments reconciliation

	As at		
	Sep 14	**Mar 14**	**Sep 13**
	A$m	**A$m**	**A$m**
Equity investments			
Statutory balance sheet			
Equity investments within other financial assets at fair value through profit or loss	1,150	1,222	1,210
Equity investments within investment securities available-for-sale	392	398	459
Interests in associates and joint ventures accounted for using the equity method	563	551	588
Total equity investments per statutory balance sheet	**2,105**	**2,171**	**2,257**
Adjustment for funded balance sheet			
Equity hedge positions[1]	(1,037)	(1,136)	(1,112)
Total funded equity investments	**1,068**	**1,035**	**1,145**
Adjustments for equity investments			
Available-for-sale reserves[2]	(78)	(59)	(96)
Associates reserves[3]	-	(1)	(1)
Total adjusted equity investments[4]	**990**	**975**	**1,048**

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

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

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

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

Euro-zone exposures

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

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

	As at Sep 30, 2014			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure**
	A$m	**A$m**	**A$m**	**A$m**
Italy				
Loans, receivables & commitments[1]	-	-	29.4	29.4
Derivative assets[2]	-	-	16.5	16.5
Italy totals	-	-	**45.9**	**45.9**
Spain				
Loans, receivables & commitments[1]	-	0.9	103.9	104.8
Traded debt securities	-	-	8.0	8.0
Derivative assets[2]	-	-	1.6	1.6
Spain totals	-	**0.9**	**113.5**	**114.4**
Portugal				
Loans, receivables & commitments[1]	-	1.6	32.5	34.1
Traded debt securities	-	-	27.2	27.2
Derivative assets[2]	-	-	-	-
Portugal totals	-	**1.6**	**59.7**	**61.3**
Ireland				
Loans, receivables & commitments[1]	0.2	1.0	148.4	149.6
Derivative assets[2]	-	-	7.3	7.3
Traded debt securities	-	-	23.2	23.2
Ireland totals	**0.2**	**1.0**	**178.9**	**180.1**
Greece				
Loans, receivables & commitments[1]	-	-	34.3	34.3
Derivative assets[2]	-	-	0.9	0.9
Greece totals	-	-	**35.2**	**35.2**
Cyprus				
Loans, receivables & commitments[1]	-	-	-	-
Derivative assets[2]	-	-	-	-
Cyprus totals	-	-	-	-
Total exposure	**0.2**	**3.5**	**433.2**	**436.9**

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

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

In addition, during the half year ended September 30, 2014, the political situation in Russia and Ukraine negatively affected market sentiment toward those countries. As of September 30, 2014, MBL's total credit and market exposure to Russia and Ukraine was not material.

MACQUARIE
BANK