

Interim Financial Report

Macquarie Group
Half-year ended 30 September 2016



MACQUARIE GROUP 2016 INTERIM FINANCIAL REPORT

This Interim Financial Report has been prepared in accordance with Australian Accounting Standards and does not include all the notes of the type normally included in an annual financial report.

The material in this report has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is current at the date of this report. It is general background information about Macquarie's activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Interim Financial Report

for the half-year ended 30 September 2016

Contents

Directors' Report	1
Auditor's independence declaration	7
Consolidated income statement	9
Consolidated statement of comprehensive income	10
Consolidated statement of financial position	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15
1 Summary of significant accounting policies	15
2 Profit for the period	17
3 Segment reporting	20
4 Income tax expense	25
5 Dividends and distributions paid or provided for	26
6 Earnings per share	28
7 Trading portfolio assets	29
8 Investment securities available for sale	29
9 Other assets	29
10 Loan assets held at amortised cost	30
11 Impaired financial assets	31
12 Interests in associates and joint ventures accounted for using the equity method	31
13 Trading portfolio liabilities	31
14 Other liabilities	31
15 Debt issued at amortised cost	32
16 Contributed equity	33
17 Reserves, retained earnings and non-controlling interests	35
18 Notes to the consolidated statement of cash flows	37
19 Contingent liabilities and commitments	38
20 Fair values of financial assets and liabilities	39
21 Acquisitions and disposals of subsidiaries and businesses	48
22 Events after the reporting date	50
Directors' declaration	51
Independent auditor's review report	52
Ten year history	53

The Financial report was authorised for issue by the Directors on 28 October 2016.
The Board of Directors has the power to amend and reissue the Financial report.

Interim Financial Report

for the half-year ended 30 September 2016

This page has been intentionally left blank.

Directors' Report

for the half-year ended 30 September 2016

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL or the Company), the Directors submit herewith the financial statements of the Company and its subsidiaries (the Consolidated Entity, the Group) at the end of, and during, the financial period ended on 30 September 2016 and report as follows:

Directors

At the date of this report, the Directors of Macquarie are:

Independent Directors

P.H. Warne, Chairman
G.R. Banks AO
G.M. Cairns
M.J. Coleman
P.A. Cross
D.J. Grady AM
M.J. Hawker AM
N.M. Wakefield Evans

Executive Voting Director

N.W. Moore, Managing Director and Chief Executive Officer

The Directors listed above each held office as a Director of Macquarie throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Result

The financial report for the half-year ended 30 September 2016 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was \$A1,050 million (half-year to 31 March 2016: \$A993 million; half-year to 30 September 2015: \$A1,070 million).

Operating and Financial Review

Review of Group performance and financial position

Group performance

Overview

Profit attributable to ordinary equity holders of \$A1,050 million for the half-year ended 30 September 2016 decreased 2% from \$A1,070 million in the prior corresponding period⁽¹⁾ and increased 6% from \$A993 million in the prior period⁽²⁾.

	30 Sep 2016	30 Sep 2015	Movement
	\$A million	\$A million	%
Net operating income	5,218	5,318	(2)
Operating expenses	(3,733)	(3,699)	1
Income tax expense	(438)	(530)	(17)
Loss/(profit) attributable to non-controlling interests	3	(19)	*
Profit attributable to ordinary equity holders	1,050	1,070	(2)

⁽¹⁾ Prior corresponding period refers to the six months to 30 September 2015.

⁽²⁾ Prior period refers to the six months to 31 March 2016.

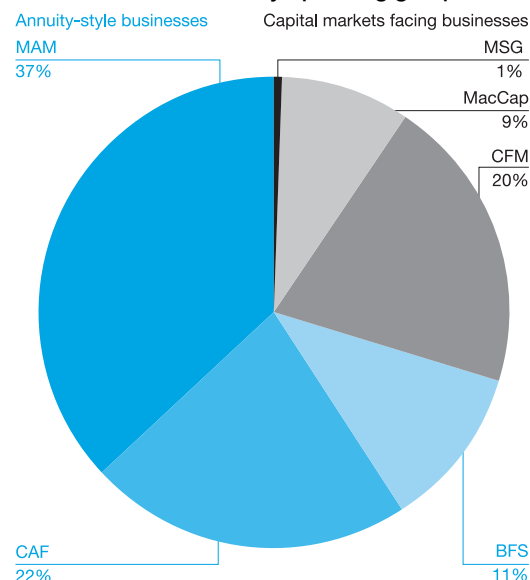
* Indicates that the result was a gain in one period and a loss in another, or vice versa.

Directors' Report

for the half-year ended 30 September 2016

continued

Net Profit Contribution⁽³⁾ by operating group



⁽³⁾ Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Macquarie's annuity-style businesses – Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) – generated a combined net profit contribution for the half-year ended 30 September 2016 of \$A1,639 million, down 15% on the prior corresponding period. MAM's result included higher investment-related income, although the overall net profit contribution for the business was down on the prior corresponding period which benefited from significant performance fees. While CAF benefited from acquisitions of a portfolio of aircraft from AWAS Aviation Capital Limited (the 'AWAS portfolio acquisition'; transition completed by 31 March 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a lower overall net profit contribution mainly driven by lower income due to the timing of prepayments and realisations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. BFS' net profit contribution benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased expenses mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity investments and intangible assets. Additionally, BFS disposed of Macquarie Life's⁽⁴⁾ risk insurance business and its remaining US mortgages portfolio during the half-year ended 30 September 2016, generating an overall net gain on the disposals.

Macquarie's capital markets facing businesses – Macquarie Securities Group (MSG), Macquarie Capital and Commodities and Financial Markets (CFM) – delivered a combined net profit contribution for the half-year ended 30 September 2016 of

\$A695 million, broadly in line with the prior corresponding period. MSG's net profit contribution decreased significantly on the prior corresponding period, which benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half-year ended 30 September 2016 were limited due to market uncertainty. Macquarie Capital's net profit contribution was up on the prior corresponding period due to increased income from principal realisations, while CFM reported a higher net profit contribution driven by increased income from the sale of equity investments and reduced provisions for impairment compared to the prior corresponding period.

Net operating income

Net operating income of \$A5,218 million for the half-year ended 30 September 2016 decreased 2% from \$A5,318 million in the prior corresponding period. Decreases across net interest and trading income and fee and commission income were partially offset by higher net operating lease income, an increase in net gains on sale of investments and businesses, and lower provisions for impairment.

Combined net interest and trading income of \$A1,864 million for the half-year ended 30 September 2016 decreased 18% from \$A2,273 million in the prior corresponding period. The reduction was across a number of operating groups. MSG was impacted by limited trading opportunities due to market uncertainty. In CAF, there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realisations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. CFM also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in oil. Partially offsetting these declines was increased net interest and trading income in BFS, mainly driven by volume growth in the Australian loan and deposit portfolios.

Total fee and commission income of \$A2,202 million for the half-year ended 30 September 2016 decreased 21% from \$A2,794 million in the prior corresponding period. Performance fees were \$A170 million for the half-year ended 30 September 2016, down 73% on the prior corresponding period which benefited from significant performance fees of \$A629 million, while mergers and acquisitions, advisory and underwriting fees of \$A471 million for the current period decreased 12% from \$A537 million in the prior corresponding period due to more subdued equity capital markets activity in most key regions. Brokerage and commissions income of \$A419 million was also down on the prior corresponding period as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Net operating lease income of \$A476 million for the half-year ended 30 September 2016 increased 20% from \$A397 million in the prior corresponding period, mainly driven by the AWAS portfolio acquisition by CAF.

⁽⁴⁾ This reference relates to the disposal of Macquarie Life Limited's (Macquarie Life) risk insurance business to Zurich Australia Limited.

Other operating income of \$A684 million for the half-year ended 30 September 2016 was a significant improvement from a charge of \$A83 million in the prior corresponding period. The primary drivers were increased gains on the sale of investments and businesses; and lower provisions for impairment mainly due to reduced exposures to underperforming commodity-related loans in CFM. Gains on the sale of businesses and investments included a significant gain from BFS' sale of Macquarie Life's risk insurance business, as well as increased contributions from Macquarie Capital, CFM and MAM, partially offset by a loss on the sale of BFS' US mortgage portfolio.

Operating expenses

Total operating expenses of \$A3,733 million for the half-year ended 30 September 2016 increased 1% from \$A3,699 million in the prior corresponding period.

Employment expenses of \$A2,290 million for the half-year ended 30 September 2016 were broadly in line with the prior corresponding period, giving rise to a compensation ratio of 41.0% for the half-year ended 30 September 2016, up from 39.8% in the prior corresponding period largely due to an increase in share based payments expense.

Brokerage, commission and trading-related expenses of \$A418 million for the half-year ended 30 September 2016 decreased 6% from \$A444 million in the prior corresponding period mainly due to decreased trading-related activity, while non-salary technology expenses of \$A344 million for the current period increased 20% from \$A287 million in the prior corresponding period mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

Other operating expenses of \$A480 million for the half-year ended 30 September 2016 decreased 5% from \$A503 million in the prior corresponding period mainly due to lower amortisation of intangibles expense, partially offset by the impact of portfolio acquisitions in CAF.

Income tax expense

Income tax expense for the half-year ended 30 September 2016 was \$A438 million, a 17% decrease from \$A530 million in the prior corresponding period. The decrease was mainly due to an 8% decrease in operating profit before income tax to \$A1,485 million in the half-year ended 30 September 2016 from \$A1,619 million in the prior corresponding period, as well as changes in the geographic composition of earnings, with increased income being generated in Australia and the UK, and lower income in the US. The effective tax rate for the half-year ended 30 September 2016 was 29.4%, down from 33.1% in the prior corresponding period.

Group financial position

Balance Sheet

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

Total assets of \$A193.1 billion at 30 September 2016 decreased 2% from \$A196.8 billion at 31 March 2016 mainly due to a reduction in Loan assets held at amortised cost, Derivative assets and Investment securities available for sale. These decreases were partially offset by an increase in Trading portfolio assets and Other assets.

Loan assets held at amortised cost of \$A78.0 billion at 30 September 2016 decreased 3% from \$A80.4 billion at 31 March 2016. Most businesses saw a reduction in volumes, including:

- CAF's loan and finance lease portfolios decreased 2% to \$A28.1 billion at 30 September 2016 from \$A28.8 billion at 31 March 2016 mainly due to repayments in the Lending portfolio, and
- BFS' disposal of the US mortgage portfolio and the run-down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes.

Derivative assets at 30 September 2016 of \$A15.2 billion (down 16% from \$A18.0 billion at 31 March 2016) and Derivative liabilities of \$A12.9 billion (down 12% from \$A14.7 billion at 31 March 2016) both decreased mainly as a result of price movements in underlying physical commodities, particularly oil and gas, as well as the revaluation of interest rate and foreign currency derivatives in CFM.

Investment securities available for sale of \$A7.9 billion at 30 September 2016 decreased 31% from \$A11.5 billion at 31 March 2016 mainly due to Treasury's funding and liquidity management activities during the period.

Other notable decreases in asset balances since 31 March 2016 included lower Property, plant and equipment mainly due to the sale of eight aircraft in CAF, and lower Interests in associates and joint ventures mainly due to the sale of a number of principal investments in Macquarie Capital.

Trading portfolio assets of \$A27.2 billion at 30 September 2016 increased 16% from \$A23.5 billion at 31 March 2016 mainly due to an increase in holdings of physical commodities, particularly oil, base and precious metals, and an increase in holdings of government and corporate bonds within CFM. In addition, Other assets of \$A15.4 billion at 30 September 2016 increased 23% from \$A12.5 billion at 31 March 2016 as a result of an increase in debt underwriting volumes in Macquarie Capital at period end, and an increase in recent trading activity in both CFM and MSG.

Total liabilities decreased 2% to \$A177.6 billion at 30 September 2016 from \$A181.1 billion at 31 March 2016 mainly driven by Treasury's funding and liquidity management activities during the period including the repayment of Debt issued at amortised cost (down 10% to \$A57.6 billion at 30 September 2016 from \$A63.7 billion at 31 March 2016) resulting from the reduction in Total assets combined with an increase in Deposits (up 6% to \$A55.4 billion at 30 September 2016 from \$A52.2 billion at 31 March 2016).

Total equity decreased 1% to \$A15.5 billion at 30 September 2016 from \$A15.7 billion at 31 March 2016. The decrease was mainly due to purchases of shares for the Macquarie Employee Retained Equity Plan during the period and lower Reserves, including a decrease in the Available for Sale reserve due to the disposal of a number of investments, partially offset by increased valuations of listed investments, and a reduction of the Foreign currency translation reserve driven by the appreciation of the Australian Dollar against the British Pound since 31 March 2016. These reductions were partially offset by retained earnings generated during the half-year ended 30 September 2016 (net of the payment of the 2016 final dividend).

Directors' Report

for the half-year ended 30 September 2016

continued

Funding

Macquarie has a stable funding base with minimal reliance on short-term wholesale funding markets. At 30 September 2016, the Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.5 years at 30 September 2016.

As at 30 September 2016, customer deposits⁽⁵⁾ represented \$A46.1 billion, or 38% of the Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$7.3 billion, or 6% of total funding, and other debt funding maturing within 12 months represented \$A9.9 billion, or 8% of total funding.

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2016, Macquarie has continued to raise term wholesale funding across various products and currencies.

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

From 1 April 2016 to 30 September 2016, the Group raised \$A4.0 billion of term funding, including \$A2.4 billion of AWAS Term Loan, \$A0.8 billion of secured funding, \$A0.5 billion of senior and subordinated debt and \$A0.3 billion of syndicated loan facility.

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

Capital

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

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

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

The Group has satisfied its regulatory capital requirements throughout the half-year. At 30 September 2016, the Bank Group had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 12.6% and a Harmonised Basel III Tier 1 Capital Ratio of 13.7%. The Bank Group's APRA Basel III Common Equity Tier 1 Capital Ratio was 10.4% and its APRA Basel III Tier 1 Capital Ratio was 11.5% as at 30 September 2016. The Group remains well capitalised with APRA Basel III Group capital of \$A16.9 billion at 30 September 2016 of which \$A3.7 billion of eligible capital is in excess of Macquarie's minimum regulatory capital requirements⁽⁶⁾.

Operations

For internal performance measurement management purposes, Macquarie is divided into six operating groups and a corporate segment. These segments have been set up based on the different core products and services offered.

A summary of the performance of Macquarie's operating segments is provided below. Further information on Macquarie's operating segments can be found in Note 3 to the financial statements in the Interim Financial Report.

Macquarie Asset Management is a global asset manager offering a diverse range of products.

MAM's net profit contribution of \$A857 million for the half-year ended 30 September 2016 decreased 25% from \$A1,139 million in the prior corresponding period, and increased 70% from \$A505 million in the prior period, mostly due to performance fees and investment-related income. Performance fee income in the half-year ended 30 September 2016 decreased 72% from a particularly strong prior corresponding period of \$A609 million, and increased 102% from \$A84 million in the prior period and included performance fees from Macquarie Atlas Roads (MQA), Macquarie Korea Infrastructure Fund (MKIF), Australian managed accounts and from co-investors in respect of infrastructure assets.

Investment-related income included gains from the partial sale of Macquarie Infrastructure Real Assets' holding in MQA, gains on sale of unlisted real estate holdings in Macquarie Infrastructure Real Assets (MIRA) and income from the sell down of infrastructure debt in Macquarie Specialist Investment Solutions (MSIS). Base fee income was broadly in line as investments made by MIRA-managed funds, growth in the MSIS infrastructure Debt business and positive market movements in MIM, largely offset small net AUM outflows in the MIM business, asset realisations by MIRA-managed funds and foreign exchange impacts. Assets under management of \$A491.3 billion decreased 2% on 30 September 2015.

Corporate and Asset Finance specialises in corporate and real estate lending, and asset financing across aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

CAF's net profit contribution of \$A521 million for the half-year ended 30 September 2016 decreased 15% from \$A611 million in the prior corresponding period. The decrease was mainly driven by lower income due to the timing of prepayments and realisations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. This was partially offset by profit from the AWAS portfolio acquisition and the acquisition of the Esanda dealer finance portfolio in the prior year. The AWAS and Esanda acquisitions have been successfully integrated and continue to perform in line with expectations. CAF's asset and loan portfolio of \$A38.1 billion increased 17% on 30 September 2015.

⁽⁵⁾ Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

⁽⁶⁾ Calculated at 8.5% of the Bank Group's Risk Weighted Assets (RWA) which includes the capital conservation buffer (CCB), per APRA Prudential Standard 110. The APRA Basel III Group surplus is \$A5.1 billion calculated at 7% RWA, per the internal minimum Tier 1 ratio of the Bank Group.

Banking and Financial Services provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients.

BFS' net profit contribution of \$A261 million for the half-year ended 30 September 2016 increased 54% from \$A170 million in the prior corresponding period. The improved result reflects increased income from growth in Australia lending, deposit and platform volumes, as well as a gain on sale of Macquarie Life's risk insurance business. This was partially offset by a loss on the disposal of the US mortgages portfolio, increased costs mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform and increased impairment charges on loans, equity investments and intangible assets. BFS deposits of \$A42.2 billion increased 9% on 30 September 2015 and funds on platform of \$A62.1 billion increased 33% on 30 September 2015. The Australian mortgage portfolio of \$A28.6 billion increased 4% on 30 September 2015, representing approximately 2% of the Australian mortgage market.

Macquarie Securities is a global institutional securities house with strong Asia-Pacific foundations.

MSG's net profit contribution of \$A18 million for the half-year ended 30 September 2016 decreased from \$A240 million in the prior corresponding period. The prior corresponding period benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half-year ended 30 September 2016 were limited due to market uncertainty. Macquarie was ranked No.1 in Australia for IPOs and No.2 for equity, equity-linked and rights deals in calendar year 2016.

Macquarie Capital offers expertise across a range of advisory and capital raising services.

Macquarie Capital's net profit contribution of \$A205 million for the half-year ended 30 September 2016 increased 21% from \$A170 million in the prior corresponding period. The increase was predominately due to increased income from principal realisations, partially offset by reduced fee and commission income from subdued market conditions particularly in equity capital markets in the Australian business, and increased operating expenses. During the half-year ended 30 September 2016, Macquarie Capital advised on 201 transactions valued at \$A65 billion.

Commodities and Financial Markets provides a variety of trading, risk management, sales, structuring, financing and market analysis and strategy services.

CFM's net profit contribution for the half-year ended 30 September 2016 was \$A472 million, an increase of 67% from \$A282 million in the prior corresponding period. The result reflects an increase in income generated from the sale of equity investments and a reduction in provisions for impairment compared to prior periods. This was partially offset by reduced commodities-related net interest and trading income compared to the prior corresponding period which benefited from higher levels of volatility across a number of commodities, particularly oil. CFM continued to experience strong results across the energy platform, particularly from Global Oil and North American Gas, and increased customer activity in foreign exchange, interest rates and futures markets due to ongoing market volatility.

Business strategy

Consistent with the principles of Opportunity, Accountability and Integrity, Macquarie adopts a business strategy focused on the medium-term with the following key aspects:

- **conducting a mix of annuity-style and capital markets facing businesses** that deliver solid returns in a range of market conditions. In recent years Macquarie has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie shareholders and certainty to clients
- **operating a diversified set of businesses** across different locations and service offerings: banking, financial, advisory, investment and funds management services. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to the Group, as highlighted in the challenging global markets of recent years
- **utilising proven deep expertise** has allowed Macquarie to establish leading market positions as a global specialist in sectors including infrastructure, resources and commodities, energy, financial institutions and real estate, with a deep knowledge of Asia-Pacific financial markets
- **expanding progressively by pursuing adjacencies** through new organic opportunities and selective acquisitions in products and geographies that are adjacent to its established areas of expertise, by building expertise in these disciplines and expanding into associated activities. This results in sustainable evolutionary growth
- **pursuing growth opportunities** through recognising the value of ideas and innovation. Macquarie starts with real knowledge and skill, and encourages innovation, ingenuity and entrepreneurial spirit coupled with accountability. Macquarie seeks to identify and realise opportunity for its clients, community, shareholders and its staff. Ideas for new businesses are typically generated in the operating groups. Additionally, there are no specific businesses, markets, or regions in which Macquarie's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the *Risk Appetite Statement (RAS)* approved by the Board
- **adopting a conservative approach to risk management** through Macquarie's strong risk management framework that is embedded across all operating groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie can survive a worst case outcome from any new or existing activity
- **maintaining a strong and conservative balance sheet** consistent with its longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie remains well funded, with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

Directors' Report

for the half-year ended 30 September 2016

continued

Outlook

Macquarie currently expects the combined net profit contribution from operating groups for the financial year ending 31 March 2017 to be broadly in line with the financial year ended 31 March 2016.

The tax rate for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

Accordingly, the Group's result for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

The Group's short-term outlook remains subject to a range of challenges including market conditions, the impact of foreign exchange and potential regulatory changes and tax uncertainties.

Macquarie remains well positioned to deliver superior performance in the medium-term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet and a proven risk management framework and culture.

Events after the reporting date

There were no material events subsequent to 30 September 2016 that have not been reflected in the financial statements.

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2016 of \$A1.90 per fully paid ordinary MGL share on issue at 9 November 2016.

The dividend will be 45% franked and paid on 14 December 2016.

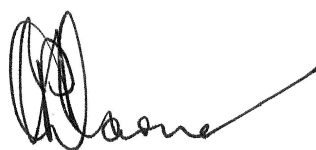
Auditor's independence declaration

A copy of the Auditor's independence declaration, as required under section 307C of the *Corporations Act 2001 (Cth)*, is set out on page 7.

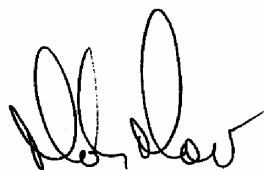
Rounding of amounts

In accordance with *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, amounts in the Directors' Report and the half-year Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

This report is made in accordance with a resolution of the Directors.



Peter H Warne
Independent Director and
Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
28 October 2016

Auditor's independence declaration

for the half-year ended 30 September 2016



As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2016, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001 (Cth)* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Group Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'K.G. Smith'.

K.G. Smith
Partner
PricewaterhouseCoopers
Sydney
28 October 2016

This page has been intentionally left blank.

Consolidated income statement

for the half-year ended 30 September 2016

	Notes	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Interest and similar income	2	2,660	2,784	2,677
Interest expense and similar charges	2	(1,564)	(1,670)	(1,512)
Net interest income		1,096	1,114	1,165
Fee and commission income	2	2,202	2,068	2,794
Net trading income	2	768	959	1,108
Net operating lease income	2	476	483	397
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	2	(8)	67	(63)
Other operating income and charges	2	684	126	(83)
Net operating income		5,218	4,817	5,318
Employment expenses	2	(2,290)	(1,981)	(2,263)
Brokerage, commission and trading-related expenses	2	(418)	(448)	(444)
Occupancy expenses	2	(201)	(195)	(202)
Non-salary technology expenses	2	(344)	(300)	(287)
Other operating expenses	2	(480)	(497)	(503)
Total operating expenses		(3,733)	(3,421)	(3,699)
Operating profit before income tax		1,485	1,396	1,619
Income tax expense	4	(438)	(397)	(530)
Profit after income tax		1,047	999	1,089
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Securities	5	(8)	(8)	(8)
Macquarie Income Preferred Securities	5	–	–	(1)
Other non-controlling interests		11	2	(10)
Loss/(profit) attributable to non-controlling interests		3	(6)	(19)
Profit attributable to ordinary equity holders of Macquarie Group Limited		1,050	993	1,070
			Cents per share	
Basic earnings per share	6	311.8	295.4	324.5
Diluted earnings per share	6	304.8	291.7	310.0

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income for the half-year ended 30 September 2016

	Notes	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Profit after income tax		1,047	999	1,089
Other comprehensive (expense)/income ⁽¹⁾ :				
Available for sale investments, net of tax		(78)	52	60
Cash flow hedges, net of tax	17	(70)	(56)	22
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	17	(2)	–	1
Exchange differences on translation of foreign operations, net of hedge and tax		(80)	(662)	474
Total other comprehensive (expense)/income		(230)	(666)	557
Total comprehensive income		817	333	1,646
Total comprehensive income/(expense) attributable to:				
Ordinary equity holders of Macquarie Group Limited		821	341	1,623
Macquarie Income Securities holders		8	8	8
Macquarie Income Preferred Securities holders		–	–	5
Other non-controlling interests		(12)	(16)	10
Total comprehensive income		817	333	1,646

⁽¹⁾ All items of other comprehensive (expense)/income may be reclassified subsequently to profit or loss.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 September 2016

	Notes	As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
Assets				
Receivables from financial institutions		33,260	33,128	36,954
Trading portfolio assets	7	27,207	23,537	31,337
Derivative assets		15,233	17,983	22,307
Investment securities available for sale	8	7,857	11,456	10,707
Other assets	9	15,421	12,496	13,742
Loan assets held at amortised cost	10	77,976	80,366	76,690
Other financial assets at fair value through profit or loss		1,378	1,649	2,101
Property, plant and equipment		10,957	11,521	10,383
Interests in associates and joint ventures accounted for using the equity method	12	2,048	2,691	2,779
Intangible assets		993	1,078	1,182
Deferred tax assets		763	850	908
Total assets		193,093	196,755	209,090
Liabilities				
Trading portfolio liabilities	13	5,714	5,030	8,702
Derivative liabilities		12,949	14,744	20,018
Deposits		55,438	52,245	51,915
Other liabilities	14	13,676	13,103	15,610
Payables to financial institutions		23,736	23,860	23,525
Debt issued at amortised cost	15	57,617	63,685	65,466
Other financial liabilities at fair value through profit or loss		3,018	2,672	2,309
Deferred tax liabilities		540	543	546
Total liabilities excluding loan capital		172,688	175,882	188,091
Loan capital		4,942	5,209	5,782
Total liabilities		177,630	181,091	193,873
Net assets		15,463	15,664	15,217
Equity				
Contributed equity	16	6,234	6,422	5,836
Reserves	17	1,295	1,536	2,090
Retained earnings	17	7,392	7,158	6,705
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		14,921	15,116	14,631
Non-controlling interests	17	542	548	586
Total equity		15,463	15,664	15,217

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 30 September 2016

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
Balance at 1 April 2015		5,947	1,656	6,306	13,909	487	14,396
Profit after income tax		–	–	1,070	1,070	19	1,089
Other comprehensive income, net of tax		–	553	–	553	4	557
Total comprehensive income		–	553	1,070	1,623	23	1,646
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs							
		1	–	–	1	–	1
Purchase of shares by MEREP Trust	16	(383)	–	–	(383)	–	(383)
Sale of Treasury shares	16	6	–	–	6	–	6
Dividends paid	5,17	–	–	(667)	(667)	–	(667)
Non-controlling interests:							
Change in non-controlling ownership interest							
		–	–	(4)	(4)	85	81
Dividends and Distributions paid or provided for							
		–	–	–	–	(9)	(9)
Other equity movements:							
MEREP expense							
	17	–	157	–	157	–	157
Additional deferred tax benefit on MEREP expense							
	17	–	6	–	6	–	6
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards							
	17	–	(17)	–	(17)	–	(17)
– to contributed equity for equity settled awards							
	16,17	240	(240)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity							
	16,17	42	(42)	–	–	–	–
Transfer from share-based payments capital reduction reserve to contributed equity							
	16,17	(17)	17	–	–	–	–
		(111)	(119)	(671)	(901)	76	(825)
Balance at 30 September 2015		5,836	2,090	6,705	14,631	586	15,217
Profit after income tax		–	–	993	993	6	999
Other comprehensive expense, net of tax		–	(652)	–	(652)	(14)	(666)
Total comprehensive (expense)/income		–	(652)	993	341	(8)	333
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs							
		531	–	–	531	–	531
Sale of Treasury shares	16	14	–	–	14	–	14
Dividends paid	5,17	–	–	(541)	(541)	–	(541)
Non-controlling interests:							
Change in non-controlling ownership interests							
	17	–	–	1	1	(7)	(6)
Dividends and Distributions paid or provided for							
		–	–	–	–	(23)	(23)
Other equity movements:							
MEREP expense							
	17	–	141	–	141	–	141
Additional deferred tax expense on MEREP expense							
	17	–	(2)	–	(2)	–	(2)
Transfer from share-based payments reserve to contributed equity for equity settled awards							
	16,17	31	(31)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense to contributed equity							
	16,17	13	(13)	–	–	–	–
Transfer from share-based payments capital reduction reserve to contributed equity							
	16,17	(3)	3	–	–	–	–
		586	98	(540)	144	(30)	114
Balance at 31 March 2016		6,422	1,536	7,158	15,116	548	15,664

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
Balance at 1 April 2016		6,422	1,536	7,158	15,116	548	15,664
Profit/(loss) after income tax		-	-	1,050	1,050	(3)	1,047
Other comprehensive expense, net of tax		-	(229)	-	(229)	(1)	(230)
Total comprehensive (expense)/income		-	(229)	1,050	821	(4)	817
Transactions with equity holders in their capacity as ordinary equity holders:							
Contributions of ordinary equity, net of transaction costs							
		1	-	-	1	-	1
Purchase of shares by MEREP Trust	16	(433)	-	-	(433)	-	(433)
Dividends paid	5,17	-	-	(816)	(816)	-	(816)
Non-controlling interests:							
Change in non-controlling ownership interest							
		-	-	-	-	8	8
Dividends and Distributions paid or provided for							
		-	-	-	-	(10)	(10)
Other equity movements:							
MEREP expense							
	17	-	214	-	214	-	214
Additional deferred tax benefit on MEREP expense							
	17	-	18	-	18	-	18
Transfer from share-based payments reserve to contributed equity for equity settled awards							
	16,17	240	(240)	-	-	-	-
Transfer of additional deferred tax benefit on MEREP expense to contributed equity							
	16,17	17	(17)	-	-	-	-
Transfer from share-based payments capital reduction reserve to contributed equity							
	16,17	(13)	13	-	-	-	-
		(188)	(12)	(816)	(1,016)	(2)	(1,018)
Balance at 30 September 2016		6,234	1,295	7,392	14,921	542	15,463

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the half-year ended 30 September 2016

	Notes	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Cash flows (used in)/from operating activities				
Interest received		2,663	2,872	2,583
Interest and other costs of finance paid		(1,399)	(1,648)	(1,477)
Dividends and distributions received		110	26	200
Fees and other non-interest income received		2,330	2,769	2,408
Fees and commissions paid		(462)	(441)	(394)
Operating lease income received		846	854	687
Net receipts/(payments) on trading portfolio assets and other financial assets/liabilities		2,028	1,468	(2,795)
Payments to suppliers		(802)	(2,271)	(558)
Employment expenses paid		(2,539)	(1,587)	(2,515)
Income tax paid		(522)	(355)	(823)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		683	370	686
Life investment contract payments, acquisition of investment assets and other unitholder redemptions		(570)	(337)	(635)
Net loan assets realised/(granted)		333	2,452	(3,465)
Net margin money received/(placed)		358	1,375	(1,061)
Net (decrease)/increase in payables to other financial institutions, deposits and other borrowings		(6,802)	4,292	10,828
Proceeds from the disposal of operating lease assets		224	36	–
Payments for the acquisition of operating lease assets		(111)	(36)	(685)
Net cash flows (used in)/from operating activities	18	(3,632)	9,839	2,984
Cash flows from/(used in) investing activities				
Net proceeds from/(payments to) investment securities available for sale		3,094	(2,001)	(405)
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		1,399	1,181	716
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(307)	(10,932)	(3,648)
Proceeds from the disposal of property, plant and equipment, finance lease assets and intangible assets		–	–	34
Payments for the acquisition of property, plant and equipment, finance lease assets and intangible assets		(147)	–	(183)
Net cash flows from/(used in) investing activities		4,039	(11,752)	(3,486)
Cash flows used in financing activities				
Proceeds from the issue of ordinary shares		–	529	1
Proceeds from/(payments to) non-controlling interests		6	(47)	167
Proceeds from the issue of loan capital		–	540	963
Redemption of loan capital		(221)	(718)	–
Redemption of Macquarie Income Preferred Securities		–	–	(82)
Dividends and distributions paid		(824)	(549)	(679)
Payments for acquisition of treasury shares		(433)	–	(383)
Proceeds from sale of treasury shares		–	20	–
Net cash flows used in financing activities		(1,472)	(225)	(13)
Net decrease in cash and cash equivalents		(1,065)	(2,138)	(515)
Cash and cash equivalents at the beginning of the period		14,320	16,458	16,973
Cash and cash equivalents at the end of the period	18	13,255	14,320	16,458

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

Note 1

Summary of significant accounting policies

Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2016 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

This half-year financial report comprises the consolidated financial report of Macquarie Group Limited (Macquarie, MGL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity or the Group).

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2016 and any public announcements made by MGL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

The Consolidated Entity is of a kind referred to in *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' Report and the half-year financial report have been rounded off in accordance with that Legislative Instrument to the nearest million dollars unless otherwise indicated.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of the Group for the year ended 31 March 2016 other than where disclosed. Where necessary, certain comparatives have been restated for consistency in presentation at 30 September 2016.

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2016.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably

possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from Macquarie's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current financial year:

AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

AASB 2015-5 introduces a choice in application of the equity method by a non-investment entity investor to an investment entity investee. When a non-investment entity investor applies the equity method to an investment entity associate or joint venture, the investor may retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries, or reverse the fair value measurement to conform to the accounting policies of the investor.

AASB 2015-5 is required to be retrospectively applied. Application in the current period did not have a material impact on the financial position nor performance of the Consolidated Entity.

New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective

AASB 9 Financial Instruments

AASB 9 *Financial Instruments: Recognition and Measurement* will replace AASB 139 *Financial Instruments: Recognition and Measurement* with an effective date of 1 April 2018. The new standard results in changes to accounting policies for financial assets and liabilities covering three broad areas including classification and measurement, impairment and hedge accounting.

Transition: The Consolidated Entity does not intend to early adopt AASB 9. Changes in accounting policies from the adoption of the standard will be applied from 1 April 2018 with no restatement of comparative periods. Differences arising in the carrying value of financial assets and liabilities will be recognised as an adjustment to opening retained earnings and reserves at 1 April 2018.

AASB 9 allows an entity to early adopt the guidance on recognising fair value gains and losses relating to the entity's own credit risk on fair value liabilities through other comprehensive income separately from the other requirements of AASB 9. The Consolidated Entity is currently assessing whether to early adopt this requirement of AASB 9.

The key changes to accounting policies from the transition are included in the 2016 Annual Report on pages 109 and 110.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 1

Summary of significant accounting policies continued

Implementation Project: A project was initiated in 2015 to ensure the implementation of AASB 9 while considering all available accounting and regulatory guidance. The project is jointly sponsored by the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). A steering committee has been set up that is responsible for governance of the project and includes senior executives from the Financial Management Group, Risk Management Group and Corporate Operations Group.

The key responsibilities of the steering committee include setting scope and milestones for the project, ensuring proper resourcing, setting accounting policy, making key project decisions and communicating the impact of the program.

The classification and measurement stream is currently performing an in depth assessment of business models and testing for financial assets. This will determine those financial assets that will be carried at amortised cost and those that will be carried at fair value. The current focus is on finalising the accounting policy and the detailed design of the future operating model.

The impairment stream of the project is currently focused on policy decisions and the development of impairment models. Until the models have been developed and tested, the Consolidated Entity will not provide a quantitative assessment of the potential impact of the adoption of the standard.

The hedging stream is currently focused on assessing the impact of the new requirements.

AASB 15 Revenue from Contracts with Customers

AASB 15 specifies how and when revenue is recognised, based on the concept of recognising revenue for performance obligations as they are satisfied. This could affect the timing and amount recognised for asset management fees, and contracts with multiple services. AASB 15 also requires enhanced disclosures.

AASB 15 is effective for annual periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018.

The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 16 Leases

AASB 16 will replace AASB 117 *Leases*. It requires recognition of a right of use asset along with the associated lease liability where the Consolidated Entity is a lessee. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting would largely remain unchanged. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Consolidated Entity will first apply AASB 16 in the financial year beginning 1 April 2019. The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Note 2

Profit for the period

Net interest income

Interest and similar income received/receivable	2,660	2,784	2,677
Interest expense and similar charges paid/payable	(1,564)	(1,670)	(1,512)
Net interest income	1,096	1,114	1,165

Fee and commission income

Base fees	794	791	791
Performance fees	170	85	629
Mergers and acquisitions, advisory and underwriting fees	471	425	537
Brokerage and commissions	419	427	461
Other fee and commission income	348	340	376
Total fee and commission income ⁽¹⁾	2,202	2,068	2,794

Net trading income⁽²⁾

Equities	179	222	375
Commodities ⁽³⁾	510	734	540
Credit, interest rate and foreign exchange products	79	3	193
Net trading income	768	959	1,108

Net operating lease income

Rental income ⁽⁴⁾	833	854	687
Depreciation on operating lease assets	(357)	(371)	(290)
Net operating lease income	476	483	397

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

(8)	67	(63)
-----	----	------

⁽¹⁾ Includes life investment income and insurance premium income of \$149 million (half-year to 31 March 2016: \$118 million; half-year to 30 September 2015: \$148 million) and related expenses of \$115 million (half-year to 31 March 2016: \$85 million; half-year to 30 September 2015: \$109 million).

⁽²⁾ Included in net trading income are fair value losses of \$108 million (half-year to 31 March 2016: \$125 million; half-year to 30 September 2015: \$37 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This amount includes \$31 million loss (half-year to 31 March 2016: \$49 million gain; half-year to 30 September 2015: \$nil) in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the Consolidated Entity's credit risk. Fair value changes relating to derivatives are also reported in net trading income which principally offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value except for changes in the Consolidated Entity's credit risk. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

⁽³⁾ Includes transportation and storage costs of \$130 million (half-year to 31 March 2016: \$105 million; half-year to 30 September 2015: \$195 million).

⁽⁴⁾ Includes net supplemental rent on aircraft (adjusted for maintenance expense) of \$69 million (half-year to 31 March 2016: \$80 million; half-year to 30 September 2015: \$50 million).

Notes to the consolidated financial statements

for the half-year ended 30 September 2016

continued

	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Note 2			
Profit for the period continued			
Other operating income and charges			
Net gain on sale of investment securities available for sale	345	58	130
Impairment charge on investment securities available for sale	(36)	(46)	(75)
Net gain on sale of interests in associates and joint ventures	256	134	88
Impairment charge on interests in associates and joint ventures	(20)	(8)	(16)
Gain on disposal of operating lease assets	15	5	3
Net gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale ⁽¹⁾	239	147	5
Impairment charge on intangibles and other non-financial assets	(75)	(60)	(17)
Dividends/distributions received/receivable from investment securities available for sale	45	78	78
Collective allowance for credit loss provided for during the period:			
Loan assets (Note 10)	(3)	(6)	(20)
Individually assessed provisions and write-offs:			
Loan assets provided for during the period (Note 10)	(129)	(187)	(283)
Other receivables provided for during the period	(14)	(17)	(8)
Recovery of loans previously provided for (Note 10)	13	23	9
Recovery of other receivables previously provided for	18	–	4
Loans written off	(51)	(64)	(48)
Recovery of loans previously written off	15	13	10
Other income	66	56	57
Total other operating income and charges⁽²⁾	684	126	(83)
Net operating income	5,218	4,817	5,318

⁽¹⁾ Includes \$240 million gain on sale of Macquarie Life's risk insurance business. Refer Note 21 – Acquisitions and disposals of subsidiaries and businesses.

⁽²⁾ Prior comparative periods have been restated to conform to current period presentation. Refer to Note 2 page 17 for net operating lease income previously reported as a component of total other operating income and charges.

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Note 2

Profit for the period continued

Employment expenses

Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,896)	(1,688)	(1,923)
Share-based payments ⁽¹⁾	(231)	(155)	(184)
(Provision for)/reversal of long service leave and annual leave	(14)	4	(11)
Total compensation expenses	(2,141)	(1,839)	(2,118)
Other employment expenses including on-costs, staff procurement and staff training	(149)	(142)	(145)
Total employment expenses	(2,290)	(1,981)	(2,263)

Brokerage, commission and trading-related expenses

Brokerage and other trading-related expenses	(326)	(343)	(345)
Other fee and commission expenses	(92)	(105)	(99)
Total brokerage, commission and trading-related expenses	(418)	(448)	(444)

Occupancy expenses

Operating lease rentals	(112)	(105)	(125)
Depreciation: buildings, furniture, fittings and leasehold improvements	(36)	(36)	(34)
Other occupancy expenses	(53)	(54)	(43)
Total occupancy expenses	(201)	(195)	(202)

Non-salary technology expenses

Information services	(98)	(94)	(85)
Depreciation: equipment	(14)	(13)	(12)
Service provider and other non-salary technology expenses	(232)	(193)	(190)
Total non-salary technology expenses	(344)	(300)	(287)

Other operating expenses

Professional fees	(170)	(194)	(157)
Auditor's remuneration	(17)	(21)	(13)
Travel and entertainment expenses	(77)	(90)	(83)
Advertising and promotional expenses	(38)	(46)	(39)
Communication expenses	(20)	(17)	(17)
Amortisation of intangibles	(17)	(20)	(41)
Depreciation: infrastructure assets	(8)	(10)	(8)
Other expenses	(133)	(99)	(145)
Total other operating expenses	(480)	(497)	(503)

Total operating expenses	(3,733)	(3,421)	(3,699)
---------------------------------	----------------	----------------	----------------

⁽¹⁾ Includes \$17 million (half-year to 31 March 2016: \$14 million; half-year to 30 September 2015: \$27 million) of share-based payment expense for cash settled awards.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 3

Segment reporting

(i) Operating segments

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

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

The operating groups comprise:

Macquarie Asset Management (MAM) provides clients with access to a diverse range of capabilities and products, including infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities.

Corporate and Asset Finance (CAF) delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment.

Banking and Financial Services (BFS) provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisors, brokers and business clients.

Macquarie Securities Group (MSG) is a global institutional securities house with strong Asia-Pacific foundations covering sales, research, equity capital markets, execution and trading activities.

Macquarie Capital provides corporate finance advisory and capital markets services to corporate and government clients involved in public and private M&A, debt and equity fund raisings, private equity raisings and corporate debt restructuring.

Commodities and Financial Markets (CFM) provides clients with risk and capital solutions across physical and financial markets.

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

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

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

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

Internal funding arrangements

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

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

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

Transactions between operating groups

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central service groups

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

Performance-related profit share and share-based payments expense

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

Income tax

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

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m
Note 3			
Segment reporting continued			
(i) Operating segments continued			
The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the period:			
Net interest and trading (expense)/income	(21)	354	498
Fee and commission income/(expense)	1,064	21	256
Net operating lease income	6	467	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	41	–	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	14	(61)	(78)
Other other operating income and charges	255	51	201
Internal management revenue/(charge)	14	3	1
Net operating income	1,373	835	879
Total operating expenses	(516)	(315)	(618)
Profit/(loss) before tax	857	520	261
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	1	–
Net profit/(loss) attributable to ordinary equity holders	857	521	261
Reportable segment assets	6,086	39,726	38,648
Net interest and trading (expense)/income	(24)	388	485
Fee and commission income	987	30	244
Net operating lease income/(expense)	6	486	–
Share of net profits of associates and joint ventures accounted for using the equity method	22	5	1
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	(19)	(144)	(29)
Other other operating income and charges	69	37	23
Internal management revenue/(charge)	–	58	4
Net operating income	1,041	860	728
Total operating expenses	(536)	(342)	(548)
Profit/(loss) before tax	505	518	180
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	1	–
Net profit/(loss) attributable to ordinary equity holders	505	519	180
Reportable segment assets	6,726	41,005	39,522
Net interest and trading income	9	460	456
Fee and commission income/(expense)	1,517	13	282
Net operating lease income	6	379	–
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(38)	2	–
Other operating income and charges			
Impairment charges, write-offs and provisions, net of recoveries	5	(23)	(14)
Other other operating income and charges	170	30	12
Internal management revenue/(charge)	–	2	–
Net operating income	1,669	863	736
Total operating expenses	(517)	(252)	(566)
Profit/(loss) before tax	1,152	611	170
Tax expense	–	–	–
Profit attributable to non-controlling interests	(13)	–	–
Net profit/(loss) attributable to ordinary equity holders	1,139	611	170
Reportable segment assets	7,824	34,764	39,890

Macquarie Securities Group \$m	Macquarie Capital \$m	Commodities and Financial Markets \$m	Corporate \$m	Total \$m
Half-year to 30 September 2016				
161	11	774	87	1,864
313	416	134	(2)	2,202
-	-	-	3	476
-	(20)	(10)	(20)	(8)
7	(92)	(58)	(14)	(282)
-	244	156	59	966
2	10	6	(36)	-
483	569	1,002	77	5,218
(465)	(375)	(529)	(915)	(3,733)
18	194	473	(838)	1,485
-	-	-	(438)	(438)
-	11	(1)	(8)	3
18	205	472	(1,284)	1,050
31,671	4,560	63,671	8,731	193,093
Half-year to 31 March 2016				
165	(15)	916	158	2,073
325	369	111	2	2,068
-	-	-	(9)	483
-	1	8	30	67
5	(58)	(154)	47	(352)
6	327	3	13	478
1	15	-	(78)	-
502	639	884	163	4,817
(474)	(363)	(590)	(568)	(3,421)
28	276	294	(405)	1,396
-	-	-	(397)	(397)
-	5	-	(12)	(6)
28	281	294	(814)	993
22,899	4,578	69,774	12,251	196,755
Half-year to 30 September 2015				
375	31	829	113	2,273
369	501	117	(5)	2,794
-	-	-	12	397
(1)	(12)	(6)	(8)	(63)
(21)	(129)	(176)	(86)	(444)
2	125	45	(23)	361
(6)	-	2	2	-
718	516	811	5	5,318
(478)	(346)	(529)	(1,011)	(3,699)
240	170	282	(1,006)	1,619
-	-	-	(530)	(530)
-	-	-	(6)	(19)
240	170	282	(1,542)	1,070
35,843	4,180	74,241	12,348	209,090

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 3

Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:

- **Asset and Wealth Management:** distribution and manufacture of funds management products
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products
- **Capital Markets:** corporate and structured finance, advisory, underwriting, facilitation, broking, principal investments and real estate/property development, and
- **Lending:** banking activities, mortgages and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
Half-year to 30 September 2016					
Revenues from external customers	1,707	1,753	1,346	2,858	7,664
Half-year to 31 March 2016					
Revenues from external customers	1,370	1,877	1,182	2,944	7,373
Half-year to 30 September 2015					
Revenues from external customers	1,958	2,116	1,220	2,574	7,868

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Revenues from external customers			
Australia	3,388	3,783	2,396
Europe, Middle East and Africa ⁽¹⁾	1,913	1,707	1,999
Americas ⁽²⁾	1,705	1,423	2,566
Asia Pacific	658	460	907
Total	7,664	7,373	7,868

⁽¹⁾ Included within this balance is external revenue generated in the UK of \$1,455 million (half-year to 31 March 2016: \$1,098 million; half-year to 30 September 2015: \$1,665 million).

⁽²⁾ Included within this balance is external revenue generated in the USA of \$1,562 million (half-year to 31 March 2016: \$1,436 million; half-year to 30 September 2015: \$2,393 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Note 4

Income tax expense

(i) Numerical reconciliation of income tax expense to prima facie tax payable

Prima facie income tax expense on operating profit ⁽¹⁾	(446)	(419)	(486)
Tax effect of amounts which are non-assessable/(non deductible) in calculating taxable income:			
Rate differential on offshore income	24	9	(30)
Other items	(16)	13	(14)
Total income tax expense	(438)	(397)	(530)

(ii) Tax (expense)/benefit relating to items of other comprehensive income

Available for sale reserves	5	2	19
Cash flow hedges	(8)	(3)	(11)
Foreign currency translation reserve	–	–	3
Share of other comprehensive expense/(income) of associates and joint ventures	1	(1)	–
Total tax (expense)/benefit relating to items of other comprehensive income	(2)	(2)	11

⁽¹⁾ Prima facie income tax expense on operating profit is calculated at the rate of 30%.

Revenue authorities undertake risk reviews and audits as part of their normal activities.

The Group has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Half-year to 30 Sep 2016	Half-year to 31 Mar 2016	Half-year to 30 Sep 2015
\$m	\$m	\$m

Note 5

Dividends and distributions paid or provided for

(i) Dividends paid

Ordinary share capital and exchangeable shares

2016 final dividend paid \$2.40 per share (half-year to 30 September 2015: \$2.00 per share)⁽¹⁾

816	–	667
-----	---	-----

Interim dividend paid \$nil per share (half-year to 31 March 2016: \$1.60 per share)^{(2),(3)}

–	541	–
---	-----	---

Total dividends paid (Note 17)

816	541	667
-----	-----	-----

⁽¹⁾ Final dividend paid by the Consolidated Entity includes \$7 million (half-year to 31 March 2016: \$nil; half-year to 30 September 2015: \$6 million) of dividend equivalent amount paid during the period to Deferred Share Units (DSUs) holders.

⁽²⁾ Interim dividend paid by the Consolidated Entity includes \$nil (half-year to 31 March 2016: \$5 million; half-year to 30 September 2015: \$nil) of dividend equivalent amount paid during the period to DSUs holders.

⁽³⁾ Interim dividend paid by the Consolidated Entity includes \$nil (half-year to 31 March 2016: \$1 million; half-year to 30 September 2015: \$nil) of dividend paid to holders of exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in Note 16 – Contributed equity.

The final dividend paid during the period was 40% franked based on tax paid at 30% (half-year to 31 March 2016: 40% franked; half-year to 30 September 2015: 40% franked). The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 16 – Contributed equity.

(ii) Dividends not recognised at the end of the period

Since the end of the period, the Directors have recommended the payment of an interim dividend for the half-year ended 30 September 2016 of \$1.90 per fully paid ordinary MGL share on issue on 9 November 2016, 45% franked. The aggregate amount of the proposed dividend expected to be paid on 14 December 2016 from retained profits at 30 September 2016, but not recognised as a liability at the end of the period is \$646 million. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 30 September 2016.

Cash dividend per ordinary share (distribution of current period profits)	\$1.90	\$2.40	\$1.60
--	--------	--------	--------

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities

Distributions paid (net of distributions previously provided for)	5	5	5
Distributions provided for	3	3	3
Total distributions paid or provided for	8	8	8

Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided for)	-	-	1
Total distributions paid	-	-	1

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Macquarie Income Preferred Securities (MIPS) were redeemed in June 2015. Refer to Note 17 – Reserves, retained earnings and non-controlling interests for further details on MIS.

Notes to the consolidated financial statements

for the half-year ended 30 September 2016

continued

Half-year to
30 Sep 2016

Half-year to
31 Mar 2016

Half-year to
30 Sep 2015

Note 6

Earnings per share

	Cents per share		
Basic earnings per share	311.8	295.4	324.5
Diluted earnings per share	304.8	291.7	310.0
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	\$m	\$m	\$m
Profit after income tax	1,047	999	1,089
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Securities	(8)	(8)	(8)
Macquarie Income Preferred Securities	–	–	(1)
Other non-controlling interests	11	2	(10)
Total profit attributable to ordinary equity holders of MGL	1,050	993	1,070
Less profit attributable to participating unvested MEREP awards	(49)	(50)	(62)
Total earnings used in the calculation of basic earnings per share	1,001	943	1,008
Add back: Profit attributable to dilutive participating unvested MEREP awards	29	33	46
Adjusted interest expense on loan capital ⁽¹⁾	58	73	22
Total earnings used in the calculation of diluted earnings per share	1,088	1,049	1,076

	Number of shares		
Total weighted average number of ordinary shares (net of treasury shares) used in the calculation of basic earnings per share	321,039,695	319,251,239	310,604,171
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid ordinary shares (net of treasury shares)	321,039,695	319,251,239	310,604,171
Potential ordinary shares: Weighted average unvested MEREP awards	12,203,259	15,031,527	18,027,083
Weighted average loan capital ⁽¹⁾	23,724,349	25,316,282	18,472,392
Total weighted average number of ordinary shares (net of treasury shares) and potential ordinary shares used in the calculation of diluted earnings per share	356,967,303	359,599,048	347,103,646

⁽¹⁾ For details of loan capital, refer to Note 26 – Loan capital in the 2016 Annual Report.

	As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
--	-----------------------------	-----------------------------	-----------------------------

Note 7

Trading portfolio assets

Equities			
Listed	10,362	9,774	14,610
Unlisted	43	45	54
Commodities	6,129	4,462	5,968
Commonwealth government securities	4,993	4,857	4,850
Foreign government securities and treasury notes	3,807	2,125	2,541
Corporate loans and securities	1,817	2,220	3,234
Other	56	54	80
Total trading portfolio assets	27,207	23,537	31,337

Note 8

Investment securities available for sale

Debt securities ⁽¹⁾	5,520	9,078	8,217
Equity securities			
Listed	1,167	1,104	986
Unlisted	1,170	1,274	1,504
Total investment securities available for sale	7,857	11,456	10,707

⁽¹⁾ Included within this balance is \$936 million (31 March 2016: \$3,842 million; 30 September 2015: \$3,252 million) of Negotiable Certificates of Deposit (NCD) issued by financial institutions.

Note 9

Other assets

Security settlements	7,311	5,961	6,136
Debtors and prepayments	5,851	4,169	5,553
Life investment linked contracts and other unitholder assets	760	850	966
Interests in associates held for sale	590	656	510
Income tax receivable	539	463	269
Investment property	283	288	224
Other	87	109	84
Total other assets	15,421	12,496	13,742

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 10

Loan assets held at amortised cost

	As at 30 Sep 2016			As at 31 Mar 2016			As at 30 Sep 2015		
	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m
Residential mortgage loans	30,622	(5)	30,617	31,378	(14)	31,364	31,389	(13)	31,376
Lease and retail financing	19,962	(76)	19,886	19,480	(55)	19,425	12,424	(34)	12,390
Corporate and commercial lending	17,686	(438)	17,248	18,651	(343)	18,308	21,047	(768)	20,279
Margin money placed	7,451	–	7,451	8,526	–	8,526	9,513	–	9,513
Relationship banking mortgages	2,365	–	2,365	2,241	–	2,241	2,221	–	2,221
Investment and insurance premium lending	900	(1)	899	1,023	(1)	1,022	1,387	(1)	1,386
Total loan assets before collective allowance for credit losses	78,986	(520)	78,466	81,299	(413)	80,886	77,981	(816)	77,165
Less collective allowance for credit losses			(490)			(520)			(475)
Total loan assets held at amortised cost⁽¹⁾			77,976			80,366			76,690

(1) Included within this balance are loans of \$16,637 million (31 March 2016: \$18,087 million; 30 September 2015: \$17,944 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Individually assessed provisions for impairment			
Balance at the beginning of the period	413	816	621
Provided for during the period (Note 2)	129	187	283
Loan assets written off or sold, previously provided for	(31)	(514)	(110)
Recovery of loans previously provided for (Note 2)	(13)	(23)	(9)
Net transfer from collective provisions	23	–	–
Foreign exchange movements	(1)	(53)	31
Balance at the end of the period	520	413	816
Individually assessed provisions as a percentage of total gross loan assets	0.66%	0.51%	1.05%
Collective allowance for credit losses			
Balance at the beginning of the period	520	475	428
Provided for during the period (Note 2)	3	6	20
(Sale)/acquisitions during the period	(7)	56	10
Net transfer (to specific)/from other provisions	(23)	–	5
Foreign exchange movements	(3)	(17)	12
Balance at the end of the period	490	520	475

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identified.

As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
-----------------------------	-----------------------------	-----------------------------

Note 11

Impaired financial assets

Debt investment securities available for sale before cumulative impairment loss	68	131	67
Cumulative impairment loss	(65)	(68)	(67)
Debt investment securities available for sale	3	63	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	1,262	915	1,603
Less individually assessed provisions for impairment	(596)	(483)	(881)
Loan assets and other financial assets after individually assessed provisions for impairment	666	432	722
Total net impaired financial assets	669	495	722

Note 12

Interests in associates and joint ventures accounted for using the equity method

Loans and investments without provisions for impairment	1,943	2,580	2,410
Loans and investments with provisions for impairment	298	296	1,079
Less provisions for impairment	(193)	(185)	(710)
Loans and investments at recoverable amount	105	111	369
Total interests in associates and joint ventures accounted for using the equity method^{(1),(2)}	2,048	2,691	2,779

(1) Includes \$1,613 million (31 March 2016: \$2,012 million; 30 September 2015: \$2,217 million) relating to interests in associates and \$435 million (31 March 2016: \$679 million; 30 September 2015: \$562 million) relating to interests in joint ventures.

(2) Financial statements of associates have various reporting dates. There are no associates individually material to the Consolidated Entity.

Note 13

Trading portfolio liabilities

Listed equity securities	4,851	4,310	7,782
Foreign government securities	789	649	779
Corporate securities	74	71	121
Commodities	–	–	20
Total trading portfolio liabilities	5,714	5,030	8,702

Note 14

Other liabilities

Due to brokers and customers	7,065	5,855	6,030
Accrued charges, income received in advance and other	2,556	3,033	2,725
Creditors	2,175	2,203	4,929
Aircraft and rail maintenance liabilities	788	772	728
Life investment linked contracts and other unitholder liabilities	754	771	906
Income tax payable	338	469	292
Total other liabilities	13,676	13,103	15,610

Notes to the consolidated financial statements

for the half-year ended 30 September 2016

continued

	As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
Note 15			
Debt issued at amortised cost			
Debt issued at amortised cost ⁽¹⁾	57,617	63,685	65,466
Total debt issued at amortised cost	57,617	63,685	65,466

⁽¹⁾ Included within this balance are amounts payable to SPE note holders and debt holders of \$13,629 million (31 March 2016: \$14,939 million; 30 September 2015: \$16,553 million).

The Consolidated Entity has not had any defaults of principal, interest or other breaches with respect to its debt during the periods reported.

Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent)

United States dollars	30,501	33,185	34,282
Australian dollars	15,405	15,903	16,218
Euro	6,127	7,295	6,307
Swiss franc	1,997	2,013	1,855
Japanese yen	1,425	1,275	1,294
Great British pounds	1,185	3,055	3,480
Hong Kong dollars	226	224	260
Yuan renminbi	225	230	235
Norwegian krone	171	164	169
Canadian dollars	127	129	1,095
Korean won	109	104	111
South African rand	76	69	83
New Zealand dollars	43	–	18
Singapore dollars	–	39	59
Total by currency	57,617	63,685	65,466

The Consolidated Entity's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance.

	Number of shares	Total \$m
Note 16		
Contributed equity		
Ordinary share capital⁽¹⁾		
Balance at 1 April 2015	333,457,777	6,901
Issue of shares on exercise of MEREP awards	12,545	1
Issue of shares on retraction of exchangeable shares	61,638	4
For employee MEREP awards that have vested and forfeited during the period:		
Transfer of MEREP expense from share-based payments reserve	–	240
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	–	42
Transfer from treasury shares for shares withdrawn	–	(260)
Transfer from share-based payments capital reduction reserve	–	(17)
Balance at 30 September 2015	333,531,960	6,911
Issue of shares on exercise of MEREP awards	416	–
Issue of shares pursuant to Employee Share Plan (ESP) at \$82.13 per share	13,284	1
Issue of shares pursuant to Institutional Private Placement at \$80.00 per share, net of transaction costs	5,000,000	393
Issue of shares pursuant to Share Purchase Plan (SPP) at \$78.40 per share	1,747,944	137
Issue of shares on retraction of exchangeable shares	8,785	1
For employee MEREP awards that have vested and forfeited during the period:		
Transfer of MEREP expense from share-based payments reserve	–	31
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	–	13
Transfer from treasury shares for shares withdrawn	–	(38)
Transfer from share-based payments capital reduction reserve	–	(3)
Balance at 31 March 2016	340,302,389	7,446
Issue of shares on exercise of MEREP awards	19,126	1
Issue of shares on retraction of exchangeable shares	16,959	1
For employee MEREP awards that have vested and forfeited during the period:		
Transfer of MEREP expense from share-based payments reserve	–	240
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	–	17
Transfer from treasury shares for shares withdrawn	–	(248)
Transfer from share-based payments capital reduction reserve	–	(13)
Balance at 30 September 2016	340,338,474	7,444

(1) Ordinary shares are fully-paid and have no par value.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

	Number of shares	Total \$m	
Note 16			
Contributed equity continued			
Treasury shares⁽¹⁾			
Balance at 1 April 2015	(23,244,122)	(971)	
Purchase of shares for employee MEREP awards	(4,746,285)	(383)	
Transfer of shares withdrawn/exercised for vested MEREP awards	7,044,335	260	
Sale of shares for cash settled awards by MEREP trust	76,855	6	
Purchase of shares for DRP share issue	(847,709)	(68)	
Allocation of shares under DRP scheme	847,709	68	
Balance at 30 September 2015	(20,869,217)	(1,088)	
Transfer of shares withdrawn/exercised for vested MEREP awards	567,419	38	
Sale of shares for cash settled awards by MEREP trust	247,919	14	
Purchase of shares for DRP share issue	(575,964)	(48)	
Allocation of shares under DRP scheme	575,964	48	
Balance at 31 March 2016	(20,053,879)	(1,036)	
Purchase of shares for employee MEREP awards	(6,045,273)	(433)	
Transfer of shares withdrawn/exercised for vested MEREP awards	6,119,201	248	
Sale of shares for cash settled awards by MEREP trust	7,094	-	
Purchase of shares for DRP share issue	(871,590)	(64)	
Allocation of shares under DRP scheme	871,590	64	
Balance at 30 September 2016	(19,972,857)	(1,221)	
⁽¹⁾ Under MEREP the staff retained profit share is held in the shares of the Company by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) and presented as Treasury shares.			
Exchangeable shares⁽²⁾			
Balance at 1 April 2015	245,455	17	
Retraction of exchangeable shares, exchangeable to shares in MGL	(65,302)	(4)	
Balance at 30 September 2015	180,153	13	
Retraction of exchangeable shares, exchangeable to shares in MGL	(9,307)	(1)	
Balance at 31 March 2016	170,846	12	
Retraction of exchangeable shares, exchangeable to shares in MGL	(17,967)	(1)	
Balance at 30 September 2016	152,879	11	
⁽²⁾ The exchangeable shares were issued by a subsidiary as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 <i>Financial Instruments: Presentation</i> . As per terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at MGL's discretion and will pay dividends equal to MGL dividends during their legal life. However, subsequent to the approval of consolidation of MGL ordinary shares by MGL's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL.			
	As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
Contributed equity	6,234	6,422	5,836

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Note 17

Reserves, retained earnings and non-controlling interests

Reserves

Foreign currency translation reserve

Balance at the beginning of the period	377	1,025	555
Exchange differences on translation of foreign operations, net of hedge and tax	(79)	(648)	470
Balance at the end of the period	298	377	1,025

Available for sale reserve

Balance at the beginning of the period	555	503	443
Revaluation movement for the period, net of tax	156	58	94
Transfer to income statement on impairment, net of tax	19	33	53
Transfer to income statement on realisation, net of tax	(253)	(39)	(87)
Balance at the end of the period	477	555	503

Share-based payments reserve

Balance at the beginning of the period	754	659	795
MEREP expense	214	141	157
Additional deferred tax benefit/(expense) on MEREP expense	18	(2)	6
Transfer to other liabilities on vesting or reclassification of MEREP awards ⁽¹⁾	–	–	(17)
Transfer to ordinary share capital on vesting of MEREP awards	(240)	(31)	(240)
Transfer of additional deferred tax benefit to ordinary share capital on vesting of MEREP awards	(17)	(13)	(42)
Balance at the end of the period	729	754	659

Share-based payments capital reduction reserve

Balance at the beginning of the period	(33)	(36)	(53)
Transfer to ordinary share capital related to vested and forfeited awards	13	3	17
Balance at the end of the period	(20)	(33)	(36)

Cash flow hedging reserve

Balance at the beginning of the period	(118)	(62)	(84)
Revaluation movement for the period, net of tax	(70)	(56)	22
Balance at the end of the period	(188)	(118)	(62)

Share of reserves of interests in associates and joint ventures accounted for using the equity method

Balance at the beginning of the period	1	1	–
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	(2)	–	1
Balance at the end of the period	(1)	1	1
Total reserves at the end of the period	1,295	1,536	2,090

Retained earnings

Balance at the beginning of the period	7,158	6,705	6,306
Profit attributable to ordinary equity holders of MGL	1,050	993	1,070
Dividends paid (Note 5)	(816)	(541)	(667)
Profit/(loss) on change in ownership interest	–	1	(4)
Balance at the end of the period	7,392	7,158	6,705

(1) Represents vested MEREP awards settled through cash.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 17

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The MIS issued by MBL, a subsidiary, were listed for trading on the Australian Securities Exchange on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7% per annum (31 March 2016: 1.7% per annum; 30 September 2015: 1.7% per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

	As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
Macquarie Income Securities			
4,000,000 Macquarie Income Securities of \$100 each	400	400	400
Less transaction costs for original placement	(9)	(9)	(9)
Total Macquarie Income Securities	391	391	391
Other non-controlling interests⁽¹⁾			
Share capital and partnership interests	220	212	213
Foreign currency translation reserve	(12)	(11)	3
Retained earnings	(57)	(44)	(21)
Total other non-controlling interests	151	157	195
Total non-controlling interests	542	548	586

⁽¹⁾ Other non-controlling interests represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
-----------------------------	-----------------------------	-----------------------------

Note 18

Notes to the consolidated statement of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the consolidated statement of cash flows are reconciled to related items in the consolidated statement of financial position as follows:

Receivables from financial institutions ⁽¹⁾	8,923	9,110	9,897
Trading portfolio assets ⁽²⁾	906	288	807
Debt investment securities available for sale ⁽³⁾	763	1,491	2,562
Loan assets held at amortised cost ⁽⁴⁾	2,663	3,431	3,192
Cash and cash equivalents at the end of the period⁽⁵⁾	13,255	14,320	16,458

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$5,526 million (31 March 2016: \$5,559 million; 30 September 2015: \$6,011 million) in escrow accounts which are restricted for use and held by collateralised securitisation vehicles in segregated deposit funds.

Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
------------------------------------	------------------------------------	------------------------------------

Reconciliation of profit after income tax to net cash flows (used in)/from operating activities

Profit after income tax	1,047	999	1,089
Adjustments to profit after income tax:			
Depreciation and amortisation	432	458	377
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	285	562	(110)
Provision and impairment charge on financial and non-financial assets	297	375	444
Interest on available for sale financial assets	(20)	61	(72)
Net gain on sale of investment securities available for sale, associates and joint ventures and operating lease assets	(855)	(68)	(221)
Share-based payments expense	214	141	157
Write-off/(capitalisation) of development costs of intangibles	14	(79)	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	8	(67)	63
Changes in assets and liabilities:			
Change in dividends receivable	–	(100)	100
Change in values of associates due to dividends received	64	47	23
Change in fees and non-interest income receivable	99	458	(363)
Change in fees and commissions payable	(44)	7	50
Change in tax balances	(84)	46	(297)
Change in provisions for employee entitlements	10	(22)	21
Change in lease assets, net of depreciation, foreign exchange and impairment	113	(6)	(705)
Change in loan assets	333	2,428	(3,441)
Change in margin money placed	358	1,375	(1,061)
Change in debtors, prepayments, accrued charges and creditors	(267)	(1,030)	(96)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	974	(34)	(3,816)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	(6,610)	4,288	10,842
Net cash flows (used in)/from operating activities	(3,632)	9,839	2,984

Notes to the consolidated financial statements

for the half-year ended 30 September 2016

continued

As at 30 Sep 2016 \$m	As at 31 Mar 2016 \$m	As at 30 Sep 2015 \$m
-----------------------------	-----------------------------	-----------------------------

Note 19

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:

Letters of credit	805	765	719
Performance related contingents	299	315	268
Guarantees	228	249	291
Indemnities	134	84	259
Total contingent liabilities^{(1),(2)}	1,466	1,413	1,537

Commitments exist in respect of:

Undrawn credit facilities and securities underwriting ⁽³⁾	7,590	7,111	10,474
Forward asset purchases	270	1,066	3,411
Total commitments	7,860	8,177	13,885
Total contingent liabilities and commitments	9,326	9,590	15,422

⁽¹⁾ Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

⁽²⁾ It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

⁽³⁾ Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 20

Fair values of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Consolidated Entity uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of

- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for non collateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Group's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 20

Fair values of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread, and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

Carrying value \$m	Fair value \$m
--------------------------	----------------------

Note 20

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost:

	As at 30 September 2016	
Assets		
Receivables from financial institutions	33,260	33,260
Other financial assets	11,658	11,658
Loan assets held at amortised cost	77,976	78,430
Total assets	122,894	123,348
Liabilities		
Deposits	55,438	55,471
Other financial liabilities	9,158	9,158
Payables to financial institutions	23,736	23,810
Debt issued at amortised cost	57,617	58,183
Loan capital	4,942	5,021
Total liabilities	150,891	151,643
Assets	As at 31 March 2016	
Receivables from financial institutions	33,128	33,128
Other financial assets	9,109	9,109
Loan assets held at amortised cost	80,366	80,665
Total assets	122,603	122,902
Liabilities		
Deposits	52,245	52,267
Other financial liabilities	7,805	7,805
Payables to financial institutions	23,860	23,820
Debt issued at amortised cost	63,685	63,642
Loan capital	5,209	5,158
Total liabilities	152,804	152,692
Assets	As at 30 September 2015	
Receivables from financial institutions	36,954	36,954
Other financial assets	10,972	10,972
Loan assets held at amortised cost	76,690	76,797
Total assets	124,616	124,723
Liabilities		
Deposits	51,915	51,922
Other financial liabilities	10,720	10,720
Payables to financial institutions	23,525	23,542
Debt issued at amortised cost	65,466	65,926
Loan capital	5,782	5,860
Total liabilities	157,408	157,970

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 20

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				
As at 30 September 2016				
Receivables from financial institutions	8,890	24,370	–	33,260
Other financial assets	–	11,658	–	11,658
Loan assets held at amortised cost	7,396	6,706	64,328	78,430
Total assets	16,286	42,734	64,328	123,348
Liabilities				
Deposits	47,596	7,875	–	55,471
Other financial liabilities	–	9,158	–	9,158
Payables to financial institutions	1,769	22,041	–	23,810
Debt issued at amortised cost	–	51,665	6,518	58,183
Loan capital	1,924	3,097	–	5,021
Total liabilities	51,289	93,836	6,518	151,643
Assets				
As at 31 March 2016				
Receivables from financial institutions	9,175	23,953	–	33,128
Other financial assets	–	9,109	–	9,109
Loan assets held at amortised cost	8,486	8,293	63,886	80,665
Total assets	17,661	41,355	63,886	122,902
Liabilities				
Deposits	43,383	8,884	–	52,267
Other financial liabilities	–	7,805	–	7,805
Payables to financial institutions	1,579	22,241	–	23,820
Debt issued at amortised cost	–	56,670	6,972	63,642
Loan capital	1,845	3,313	–	5,158
Total liabilities	46,807	98,913	6,972	152,692
Assets				
As at 30 September 2015				
Receivables from financial institutions	9,968	26,986	–	36,954
Other financial assets	–	10,972	–	10,972
Loan assets held at amortised cost	9,539	9,564	57,694	76,797
Total assets	19,507	47,522	57,694	124,723
Liabilities				
Deposits	41,587	10,335	–	51,922
Other financial liabilities	–	10,720	–	10,720
Payables to financial institutions	4,083	19,459	–	23,542
Debt issued at amortised cost	930	57,717	7,279	65,926
Loan capital	1,986	3,874	–	5,860
Total liabilities	48,586	102,105	7,279	157,970

Note 20

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				
As at 30 September 2016				
Trading portfolio assets	17,099	9,554	554	27,207
Derivative assets	688	14,131	414	15,233
Investment securities available for sale	4,424	1,572	1,861	7,857
Other financial assets at fair value through profit or loss	97	1,244	37	1,378
Other financial assets ⁽¹⁾	82	671	7	760
Total assets	22,390	27,172	2,873	52,435
Liabilities				
Trading portfolio liabilities	3,764	1,950	–	5,714
Derivative liabilities	378	12,304	267	12,949
Other financial liabilities at fair value through profit or loss	–	2,963	55	3,018
Other financial liabilities ⁽²⁾	–	747	7	754
Total liabilities	4,142	17,964	329	22,435
Assets				
As at 31 March 2016				
Trading portfolio assets	15,121	7,609	807	23,537
Derivative assets	940	16,633	410	17,983
Investment securities available for sale	7,698	1,790	1,968	11,456
Other financial assets at fair value through profit or loss	74	1,529	46	1,649
Other financial assets ⁽¹⁾	71	772	79	922
Total assets	23,904	28,333	3,310	55,547
Liabilities				
Trading portfolio liabilities	2,829	2,201	–	5,030
Derivative liabilities	1,169	13,374	201	14,744
Other financial liabilities at fair value through profit or loss	–	2,618	54	2,672
Other financial liabilities ⁽²⁾	–	764	7	771
Total liabilities	3,998	18,957	262	23,217
Assets				
As at 30 September 2015				
Trading portfolio assets	20,089	9,949	1,299	31,337
Derivative assets	1,211	20,670	426	22,307
Investment securities available for sale	6,770	1,743	2,194	10,707
Other financial assets at fair value through profit or loss	100	1,768	233	2,101
Other financial assets ⁽¹⁾	162	804	–	966
Total assets	28,332	34,934	4,152	67,418
Liabilities				
Trading portfolio liabilities	5,784	2,918	–	8,702
Derivative liabilities	1,362	18,304	352	20,018
Other financial liabilities at fair value through profit or loss	–	2,290	19	2,309
Other financial liabilities ⁽²⁾	161	745	–	906
Total liabilities	7,307	24,257	371	31,935

(1) This balance includes \$760 million (31 March 2016: \$850 million; 30 September 2015: \$966 million) of life investment linked contracts and other unitholder assets which are included in Note 9 – Other assets.

(2) This balance includes \$754 million (31 March 2016: \$771 million; 30 September 2015: \$906 million) of life investment linked contracts and other unitholder liabilities which are included in Note 14 – Other liabilities.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 20

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial periods ended 30 September 2016, 31 March 2016 and 30 September 2015:

	Trading portfolio assets \$m	Investment securities available for sale \$m
Balance at 1 April 2015	697	2,201
Purchases	358	161
Sales	(157)	(328)
Settlements	–	(72)
Transfers into Level 3	458	279
Transfers out of Level 3	(73)	(139)
Fair value gains recognised in the income statement ⁽¹⁾	16	51
Fair value gains recognised in other comprehensive income ⁽¹⁾	–	41
Balance at 30 September 2015	1,299	2,194
Fair value gains for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	16	41
Balance at 1 October 2015	1,299	2,194
Purchases	33	141
Sales	(50)	(238)
Settlements	–	(17)
Transfers into Level 3	–	–
Transfers out of Level 3	(360)	(62)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement ⁽¹⁾	(115)	(45)
Fair value losses recognised in other comprehensive income ⁽¹⁾	–	(5)
Balance at 31 March 2016	807	1,968
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	(115)	(95)
Balance at 1 April 2016	807	1,968
Purchases	163	143
Sales	(372)	(168)
Settlements	–	(103)
Transfers into Level 3	74	69
Transfers out of Level 3	(76)	(41)
Fair value losses recognised in the income statement ⁽¹⁾	(42)	(3)
Fair value losses recognised in other comprehensive income ⁽¹⁾	–	(4)
Balance at 30 September 2016	554	1,861
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	(42)	(17)

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$414 million (31 March 2016: \$410 million; 30 September 2015: \$426 million) and derivative liabilities are \$267 million (31 March 2016: \$201 million; 30 September 2015: \$352 million).

Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other financial liabilities at fair value through profit or loss \$m	Other financial liabilities \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
190	–	(22)	–	94	3,160
37	–	–	–	47	603
(4)	–	–	–	(48)	(537)
–	–	2	–	–	(70)
1	–	–	–	(26)	712
–	–	–	–	(14)	(226)
9	–	1	–	21	98
–	–	–	–	–	41
233	–	(19)	–	74	3,781
9	–	1	–	19	86
233	–	(19)	–	74	3,781
(36)	–	(45)	–	67	160
(2)	–	8	–	(103)	(385)
–	–	(2)	–	–	(19)
6	7	–	(7)	36	42
(75)	–	–	–	42	(455)
(65)	65	–	–	–	–
(15)	7	4	–	93	(71)
–	–	–	–	–	(5)
46	79	(54)	(7)	209	3,048
(8)	7	4	–	105	(102)
46	79	(54)	(7)	209	3,048
–	–	–	–	123	429
–	(72)	–	–	(108)	(720)
(5)	–	1	–	–	(107)
–	–	–	–	(16)	127
–	–	–	–	(31)	(148)
(4)	–	(2)	–	(30)	(81)
–	–	–	–	–	(4)
37	7	(55)	(7)	147	2,544
1	–	(2)	–	(30)	(90)

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 20

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period the Consolidated Entity did not have any significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the period.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Balance at the beginning of the period	112	70	56
Deferral on new transactions	22	77	31
Amounts recognised in the income statement during the period	(19)	(35)	(17)
Balance at the end of the period	115	112	70

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
Product type	As at 30 September 2016			
Equity and equity linked products	7	102	(24)	(100)
Other products	113	26	(97)	(26)
Total	120	128	(121)	(126)
Product type	As at 31 March 2016			
Equity and equity linked products	6	117	(6)	(114)
Other products	204	39	(154)	(32)
Total	210	156	(160)	(146)
Product type	As at 30 September 2015			
Equity and equity linked products	11	122	(11)	(114)
Other products	163	55	(142)	(45)
Total	174	177	(153)	(159)

Note 20

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair values of the instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
As at 30 September 2016						
Equity and equity linked products	1,150	19	Discounted cash flows Pricing model Market comparability	Discount rate Earnings multiple Price in % ⁽¹⁾	8.0% 1.3x	13.8% 12.6x
Other products	1,723	310	Discounted cash flows Pricing model Market comparability	Discount rate Volatility Correlation Price in % ⁽¹⁾	8.0% 10.0% (0.6)	8.0% 85.0% 1.0
Total	2,873	329				
As at 31 March 2016						
Equity and equity linked products	1,540	20	Discounted cash flows Pricing model Market comparability	Discount rate Earnings multiple Price in % ⁽¹⁾	7.0% 0.6x	14.0% 13.5x
Other products	1,770	242	Discounted cash flows Pricing model Market comparability	Discount rate Volatility Correlation Price in % ⁽¹⁾	7.0% (51.0%) (0.6)	20.0% 200.0% 1.0
Total	3,310	262				
As at 30 September 2015						
Equity and equity linked products	1,507	21	Discounted cash flows Pricing model Market comparability	Discount rate Earnings multiple Price in % ⁽¹⁾	1.0% 1.1x	17.0% 19.4x
Other products	2,645	350	Discounted cash flows Pricing model Market comparability	Discount rate Volatility Correlation Price in % ⁽¹⁾	7.0% 11.0% (0.5)	20.0% 150.0% 1.0
Total	4,152	371				

⁽¹⁾ The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

Notes to the consolidated financial statements for the half-year ended 30 September 2016

continued

Note 20

Fair values of financial assets and liabilities continued

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

Note 21

Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control:

There were no significant entities businesses acquired or consolidated due to acquisition of control during the period.

Other entities or businesses acquired or consolidated due to acquisition of control:

Sparks Battery Holdings, LLC, Hybrid- Electric Building Technologies Irvine 1, LLC, Hybrid- Electric Building Technologies Irvine 2, LLC, Hybrid- Electric Building Technologies West Los Angeles 1, LLC and Hybrid- Electric Building Technologies West Los Angeles 2, LLC.

During half-year end 31 March 2016 other entities or businesses acquired or consolidated due to acquisition of control were Esanda Dealer Finance Portfolio, Macquarie Holdings South Africa (Pty) Limited, Macquarie Equities South Africa (Pty) Ltd, Macquarie Capital South Africa (Pty) Ltd and NewZoom Inc.

The Esanda Dealer Finance portfolio was acquired from Australia and New Zealand Banking Group Limited. The portfolio comprised retail receivables and motor vehicle dealer finance.

During half-year end 30 September 2015 other entities or businesses acquired or consolidated due to acquisition of control were AWAS Aviation Capital Portfolio, Energetics Topco Limited, Advantage Funding Management Co. Inc. and Macquarie Beteiligungsportfolio Nr 4 GmbH & Co. KG.

The AWAS Aviation Capital Limited acquisition comprised of 83 commercial passenger aircraft.

Significant entities or businesses disposed of or deconsolidated due to loss of control:

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the period.

Other entities or businesses disposed of or deconsolidated due to loss of control:

Macquarie Life's risk insurance business, US Mortgages, Macquarie Equities New Zealand Limited and Macquarie Equity Custodians Limited.

Note 21

Acquisitions and disposals of subsidiaries and businesses continued

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	Half-year to 30 Sep 2016 \$m	Half-year to 31 Mar 2016 \$m	Half-year to 30 Sep 2015 \$m
Carrying value of assets and liabilities disposed of or deconsolidated			
Receivables from financial institutions	39	29	2
Trading portfolio assets	77	–	–
Other assets	137	37	8
Loan assets held at amortised cost	427	31	51
Property, plant and equipment	–	161	22
Interests in associates and joint ventures accounted for using the equity method	–	80	–
Intangible assets	–	44	20
Other liabilities	(103)	(58)	(14)
Payables to financial institutions	–	(177)	(62)
Provisions	(26)	–	–
Non-controlling interests	–	(2)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	551	145	27
Consideration			
Cash consideration	374	121	87
Purchase price asset ⁽¹⁾	400	17	–
Consideration received in equity	–	2	–
Investment retained	–	109	–
Total consideration	774	249	87
Direct costs relating to disposal	(18)	–	–
Net cash inflow			
Cash consideration	374	121	87
Less cash and cash equivalents disposed of or deconsolidated	(39)	(31)	–
Cash outflow on direct costs related to disposal	(3)	–	–
Net cash inflow	332	90	87

(1) On 22 September 2016, the Federal Court approved the sale of Macquarie Life's risk insurance business to Zurich Australia Limited leading to loss of control. In management's judgement, the business carried out in Statutory Fund 4, is a separate entity on the basis that:

- it has its own capital and regulatory requirements, and
- information about its financial position and performance is presented separately in the financial statements of the related subsidiary.

On the date of loss of control, the related assets and liabilities were deconsolidated from Macquarie's financial statements and a purchase price asset of \$400 million was recorded, with a corresponding gain on loss of control of \$240 million. Macquarie received the purchase price on 1 October 2016.

The 31 March 2016 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control:

IHS Lothian Corporate Holdings Limited, EduWest Equity Trust, EduWest Project Holding Trust, EduWest Project Trust, M-Icheon Company Limited, GGB inBalans Investco B.V, GGB inBalans B.V, Vineyards business, Dacuri Investco Limited, Macquarie Water Heater Rentals Holdings 2, Wala Holdings 2 Limited, Juris Partnership MCHPL Project Holding Trust and Juris Partnership MCHPL Project Trust.

The 30 September 2015 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control:

IHS Lothian Investments Limited, IHS Lothian Corporate Limited, IHS Lothian Corporate Holdings Limited, MJL Bay Ltd, Macquarie Almond Orchards business and Australian Energy Consortium Pty Ltd.

Notes to the consolidated financial statements

for the half-year ended 30 September 2016

continued

Note 22

Events after the reporting date

There were no material events subsequent to 30 September 2016 that have not been reflected in the financial statements.

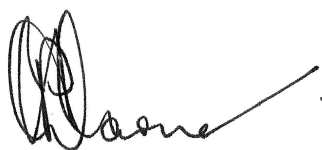
Directors' declaration

for the half-year ended 30 September 2016

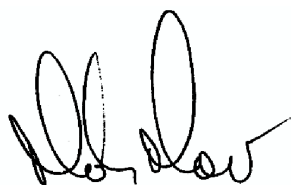
In the Directors' opinion

- a) the financial statements and notes for the half-year ended 30 September 2016 set out on pages 9 to 50 are in accordance with the *Corporations Act 2001 (Cth)* including:
 - i) complying with the accounting standards, and
 - ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2016 and performance for the half-year ended on that date
- b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable, and
- c) the financial statements also comply with International Financial Reporting Standards (see Note 1 set out on page 15).

This declaration is made in accordance with a resolution of the Directors.



Peter H Warne
Independent Director and
Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
28 October 2016

Independent auditor's review report to the members of Macquarie Group Limited



Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 September 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001 (Cth)* including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*. As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001 (Cth)*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Group Limited is not in accordance with the *Corporations Act 2001 (Cth)* including:

1. giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*.

The PricewaterhouseCoopers logo is a stylized, cursive script of the firm's name.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'K.G. Smith'.

K.G. Smith
Partner

Sydney
28 October 2016

Macquarie Group Limited

Ten year history

The financial information for the full years ended 31 March 2008–2016 and half-year ended 30 September 2016 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Years ended 31 March	2008	2009	2010	2011	2012	2013	2014	2015	2016	First Half 2017
Income statement (\$ million)										
Total income	8,248	5,526	6,638	7,665	6,963	6,657	8,132	9,262	10,135	5,218
Total expenses	(6,043)	(4,537)	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	(6,740)	(7,120)	(3,733)
Operating profit before income tax	2,205	989	1,294	1,271	1,049	1,405	2,106	2,522	3,015	1,485
Income tax expense	(317)	(15)	(201)	(282)	(287)	(533)	(827)	(899)	(927)	(438)
Profit for the year	1,888	974	1,093	989	762	872	1,279	1,623	2,088	1,047
Macquarie Income Securities distributions	(34)	(33)	(21)	(26)	(26)	(21)	(18)	(18)	(16)	(8)
Macquarie Income Preferred Securities distributions	(50)	(45)	(8)	(4)	(4)	(4)	(4)	(5)	(1)	–
Other non-controlling interests	(1)	(25)	(14)	(3)	(2)	4	8	4	(8)	11
Profit attributable to ordinary equity holders	1,803	871	1,050	956	730	851	1,265	1,604	2,063	1,050
Statement of financial position (\$ million)										
Total assets	167,250	149,144	145,940	157,568	153,626	144,748	153,904	187,976	196,755	193,093
Total liabilities	157,189	139,584	134,171	145,636	141,894	132,793	141,990	173,580	181,091	177,630
Net assets	10,061	9,560	11,769	11,932	11,732	11,955	11,914	14,396	15,664	15,463
Total loan assets	53,213	47,080	45,660	47,222	46,380	50,793	58,712	72,762	80,366	77,976
Impaired loan assets (net of provisions)	121	916	551	340	357	368	365	594	418	615
Share information⁽¹⁾										
Dividends per share (cents per share)										
Interim	145	145	86	86	65	75	100	130	160	190
Final	200	40	100	100	75	125	160	200	240	n/a
Special	–	–	–	–	–	–	116	–	–	n/a
Total	345	185	186	186	140	200	376	330	400	190
Basic earnings per share (cents per share)	670.6	309.6	320.2	282.5	210.1	251.2	383.6	502.3	619.2	311.8
Share price at 31 March (\$) ^{(1),(2)}	52.82	27.05	47.25	36.60	29.08	37.15	57.93	76.67	66.09	81.94
Ordinary share capital (million shares)	274.6	283.4	344.2	346.8	348.6	339.5	321.1	333.5	340.3	340.3
Market capitalisation at 31 March (fully paid ordinary shares) (\$ million) ^{(1),(2)}	14,504	7,666	16,263	12,693	10,137	12,613	18,601	25,569	22,491	27,887
Net tangible assets per ordinary share (\$)	30.35	27.89	28.40	28.91	28.12	29.94	31.71	38.19	41.23	40.91
Ratios (%)										
Return on average ordinary shareholders' funds	23.7	9.9	10.1	8.8	6.8	7.8	11.1	14.0	14.7	14.6
Ordinary dividend payout ratio	52.2	60.2	60.4	67.3	66.4	79.0	66.8	67.6	65.7	61.5
Expense/income ratio	73.3	82.1	80.5	83.4	84.9	78.9	74.1	72.8	70.25	71.5
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.3	1.9	0.8	0.4	0.5	0.4	0.4	0.7	1.0	0.3
Assets under management (\$ billion)	232.0	243.1	325.7	309.8	326.9	347.4	426.9	486.3	478.6	493.1
Staff numbers	13,107	12,716	14,657	15,556	14,202	13,663	13,913	14,085	14,372	13,816

⁽¹⁾ The MBL (now MGL) ordinary shares were quoted on the Australian Securities Exchange on 29 July 1996.

⁽²⁾ At 30 September for the first half 2017.

This page has been intentionally left blank.

CONTACT DETAILS**Macquarie Group
Principal Administrative Office**

50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Fax: +61 2 8237 1899

macquarie.com