HD **Interim 2015 Macquarie Group Ltd Earnings Call - Final**

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Presentation

OPERATOR: The teleconference will commence shortly. (Operator Instructions). Thank you for your patience.

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KAREN KHADI , INVESTOR RELATIONS, MACQUARIE GROUP LIMITED : Good morning, everyone. I'mKaren Khadi , Head of Macquarie Investor Relations Group. For those attending in person I'd like to welcome you to our new building at 50 Martin Place. Before we start, can I kindly ask that you please ensure that your phones are either put on silent or switched off?

Today we'll present Macquarie's result announcement for the six months ended September 30, 2014. In the audience we have with us institutional investors and analysts, teleconference participants, including some members of the media, and webcast viewers.

In addition to our presenters this morning, in the front row we have some of Macquarie's senior management team -- Shemara Wikramanayake, Head of Macquarie Funds, Garry Farrell , Co-Head of Corporate and Asset Finance, Greg Ward , Head of Banking and Financial Services, Steve Vrcelj, Head of Macquarie Securities , Tim Bishop , Head of Macquarie Capital , Mary Reemst , Managing Director and CEO of Macquarie Bank, Stephen Allen , Chief Risk Officer and Stuart Green , our Group Treasurer.

Today you will hear from Nicholas Moore , our Chief Executive Officer and Managing Director of Macquarie Group. Nicholas will present highlights of the results, activity and initiatives across the Group, and also discuss outlook for the remainder of the year. Following that, Patrick Upfold will take you through the results in a bit more detail and provide commentary around key financial highlights. Following their presentations we will open the floor to questions.

On arrival this morning you should have received a pack; within it contained today's media release, the analysts' presentation, the Group's interim report and the management discussion and analysis. Bearing in mind there is another announcement this morning, our aim is to try to finish at 10:30 this morning.

So, with formalities out of the way, I'd now hand you over to Nicholas. Thank you.

NICHOLAS MOORE , MANAGING DIRECTOR AND CEO, MACQUARIE GROUP LIMITED : Thanks, Karen, and thank you all very much for attending this morning. We understand how busy today is so, as Karen said, we'll try to make this as efficient as possible. Also welcome to our new building. I think you'll all agree that our facilities team has done a wonderful job in terms of renovating this great old Sydney icon.

Now, turning to the results, as usual our results start with a description of the Group, the six different businesses within Macquarie. Always essential to understand Macquarie -- to try to understand the six different businesses because, of course, they respond to market conditions, as we've seen in recent years, in different ways.

Turning to the result itself, as you've probably seen, the net profit was AUD678 million, up 35% on where we were this time last year.

The next slide gives a bit of a breakdown in terms of where that income came from. I might just say that the reason the result was slightly ahead of where we indicated in February is the timing of transactions; so a number of transactions actually completed in the half which otherwise would expect to complete in the second half.

Now, turning to the big picture summary, in terms of what was going on there, you see net operating income up 17%, total operating expenses up 11%, operating profit before tax up 38% and after tax bringing down to that profit, as you can see there, of AUD678 **million**, up 35% on where we were this time last year. Earnings per share AUD2.13, up 42% on where we were last year. Now, that's obviously as a result of the Sydney Airport distribution that reduced the number of shares on issue at that time.

Now, in terms of what made up from the operating **group** viewpoint, that step up in result, we can see both the annuity style businesses and the capital markets facing businesses contribute to that step up result.

You can see the annuity style businesses were up 38% on where they were this time last year, and the capital markets facing businesses were up 11% on where they were at this time last year. You can see the return on **equity** for the six months was 12.5%, up on where we were last year at this time, and the **Board** this morning declared a dividend of AUD1.30, which is 40% franked. That's up 30% on the dividend that we declared this time last year.

This next slide gives a summary as to what happened in recent times at Macquarie. I think you'll see across all the different measures of the financial performance of the **Group** a left to right movement in terms of how things have been going; so operating income stepping up, profit moving up, earnings per share stepping up, and dividends per share stepping up as well. You can also see in last year, in the dividends per share the impact of that Sydney Airport distribution last year.

In terms of assets under management, they're broadly flat compared with where we were when we reported after the March result at AUD425 **billion**. That's as a result of some of the fund businesses we have, such as the private markets business and then the joint venture with Jackson Square rolling off, as well as -- that's offsetting a step up in terms of funds under management as a result of inflows of funds and a re-evaluation of funds under management taking place.

In terms of where we derived our income across the **Group** you can see it's pretty similar to where we were back after the March year end; a slight difference in terms of Australia stepping up to 35% of the total, the US 30% of the total. That's partly as a consequence of us exiting the Canadian private wealth business and, obviously, the growth that's been taking place here in Australia, particularly in BFS, our retail banking business.

In terms of how that's moved over the period, you can see the step up in Australia with the growth, particularly the BFS business. You can see the step up in America. Obviously, the last six months of last year a very strong step up in the US coming out of our **energy** business in Houston and ongoing growth taking place in Europe and the Middle East.

Now, turning to the six different divisions, as Karen said, they're represented here by their **Group** Heads. Turning first to the funds business, which is our business business within Macquarie. You can see a very pleasing result up 57% on where we were this time last year, so a big step up. You can see a lot of that has come from the performance fees, from a MIRA viewpoint.

When we look at MIRA we can see -- when we look at the indicators of health of that business they're all very strong. The new funds coming in of AUD4.1 **billion**, invested AUD3.4 **billion**. Obviously very important to raise money against the commitments, but we actually start getting paid when we invest the money. So it's good to see that AUD3.4 **billion** investment taking place.

We actually -- a number of the funds are coming to the end, and so we're divesting assets. You can see AUD2.4 **billion** in **equity** coming back from assets that we divested. Given the way these assets have performed compared with their benchmarks we can see performance fees coming in from Europe in terms of the European Infrastructure Fund, the United States with MIC and the Macquarie Atlas Roads , which is a local listed road fund. In terms of unspent capital we have about AUD9 **billion** of commitments in the MIRA fund at the moment which, in recent times, is probably the highest level that we've seen.

Now turning to our broader funds management business, the MIM business, you can see, as I mentioned before, that funds under management are broadly flat, with the new inflows offsetting the businesses that have left the platform. We see a good performance coming through on those funds, as you can see; a whole range of new initiatives in terms of people coming up with new ideas for funds that are being supported by our investors.

Also, one of the other pleasing elements is the cross-border distribution continues with about AUD18 **billion** worth of funds generated on a cross-border basis across the Macquarie **Group** . The specialised investment solutions business you can also see stepped up over the period.

The CAF business net profit contribution up 18%. Like the funds management business we've seen good strong growth taking place in CAF in recent years, and it's very pleasing to see that up 18% on where we were this time last year. As well as that, we can see the actual book of business giving rise to that income has stepped up 8% over the period, which is, hopefully, a good leading indicator to this business, going forward.

When we look at the different divisions within CAF we can see the lending book now sits at about AUD10 **billion**. That's stepped up 12% on where we were six months ago. You can see the additions to the portfolio are listed there.

The asset finance business, again, you can see that portfolio stepped up 5% over the period. You can see growth in the motor vehicles business, which is largely on Australian business, and growth in the aircraft leasing business stepping up 10% over the period.

Banking and financial services -- this is our Australian retail business. As I mentioned before, we've largely pulled back from the international engagements here and very much focussed on growing the Australian business. You can see operating income from continuing **operations** up 12%. We've taken out the Canadian business out of that from a comparative viewpoint. Net profit contribution up 27% on where we were last year.

So that's a good financial result. Again, when we look at the books of business, driving that profitability today and going forward we see good numbers coming through. So the Australian mortgage business up 16% on the last six months. We can see the platform up 3%, the life business up 9%. In business banking we can see both the deposits stepping up 13% and the lending stepping up 10%, so a good result for banking and financial services.

Banking and financial services has also been very focussed in the private wealth area on the enforceable undertaking. As people recall, we entered into the enforceable undertaking a bit over 18 months ago with ASIC. We reported at the AGM in terms of the progress. Basically, we've completed three of the four stages of this. We're into the last stage.

In terms of what we've completed to date it's a whole range of new platforms, assisting the advisors, new training, new management, a whole new structure in that business. That's very well advanced. In terms of client remediation, we mentioned that we contacted a whole range of clients.

Indeed, we sent out 189,000 letters to all existing and prior clients of MPW, and we're working through that process at the moment. We're continuing, obviously, in that remediation process, to be overseen by ASIC and Deloitte, and we're applying the (inaudible) principles there.

From a Macquarie securities viewpoint we see it's actually the only business that stepped down on where we were last year; so we've stepped down in terms of the results of this business. You can see the top line income is actually holding, so it hasn't gone up, but it hasn't gone backwards. The reason the profit has stepped down is largely as a result of costs associated with new compliance and regulatory requirements for this business around the world. So a lot of new systems going in, a lot of spend taking place in the business.

When we look across the different geographies of the business, we see that Australia is strong, commission revenue up by 15%, ECM obviously we're having a very good market share of ECM at 15.9% in Australia. Asia is our most important business here in this business, so it's about more than 50% of the contribution of our securities business and Asia you can see commission revenues are down, there's less confidence in the financial markets, ECM is down in Asia as well.

North America and Europe you can see up and down, but the most significant issues for us of course are what's happening in the Asian sphere of the world. But good progress happening in both those jurisdictions.

Now turning to Macquarie Capital we see a good result up 49% on where we were this time last year. If you actually look at the number of **transactions** we completed, we completed a similar number of **transactions** in the first half of this year as we completed in the second half of last year. Now there always does seem to be a second half bias for this business, so very positive to see that we're completing the same number in the first half this year as we did in the second half last year.

In terms of the geographies, they're all strong from Macquarie Capital , obviously very strong here in Australia with leading market positions in MNA, leading market positions in RDIPO and ECM markets here in Australia. But also good strength in the United States. You recall last time we reviewed Macquarie Capital , we made the point that the US business actually contributed more than Australia in gross net revenue last year. The US business continues to be performing very well, as does the European and the Asian business for Macquarie Capital .

The FICC business, you can see it's up on where we were last year, you can see it's up 23% albeit it's below where we were in the second half of last year. And you recall in the second half of last year we had a very strong performance coming through from the **energy** market in, the **energy**, I don't know what that is, the energy markets in -- very strong performance coming through from energy markets in the second half of last year.

Energy continues to generate strong results fully in line with where we were in the first half of last year. The MEC business still seeing low levels of activity, obviously given where metals prices are at the moment. But the impairments coming through that business have stepped down in this period. The MAST business is seeing improved results but still that's relatively low volatility in that business. Our FICC business itself is doing well, it is credit trading in futures is a consistent performer.

Now turning to the overall or balance sheet of the Group, it continues to be strong. Retail deposit growth you can see 6% there stepping up to AUD35.3 billion. And term funding, very important for us of course, AUD11.2 billion of term funding. Now very important for the structure of our balance sheet, as you know we tend to fund our term assets with term liabilities, that continues as with the growth of retail deposits that we just touched on before.

From a regulatory viewpoint, pretty consistent with where we were last time we spoke to you, from a APRA viewpoint we're expecting a conglomerate rules, we still haven't seen them. At this stage from what we know, from APRA the conglomerate rules, we think we have sufficient capital to meet their requirements. Certainly the leverage ratio, the Basel III leverage ratio of 3%, we estimate our ratio of about 5.5%. So again we should comfortably meet that.

A new requirement coming in is the liquidity coverage ratio the LCR, it's effective January 1, 2015, with the committed liquidity facilities now finalised. Our LCR would comfortably exceed 120% as of September 30.

In terms of our capital position, again not a lot of change taken place here. Last time we spoke, you can see on the left hand side we had about AUD4.1 billion of surplus capital using current harmonised requirements. Rolling that forward we can see AUD500,000 go in AUD500,000 go out, bringing us back to AUD4.1 billion on a harmonised basis. Looking at it from an Australian viewpoint, we have the super equivalence deduction that takes place, brings us down to about AUD2.5 billion. As of September, we're in the process of doing hybrid transactions, you know at September, which steps up that capital, that surplus capital. And today's Australian requirements for AUD2.9 billion. Looking at the 2016 requirements, that surplus is AUD1.8 billion in terms of where we stand today.

The interim dividend as I mentioned earlier, the Board announced, declared a dividend this morning of AUD1.30, 40% franked at 62% ratio, that's obviously within our stated policy of 60% to 80% payout. Given the growth taking place in the business, particularly here in Australia, the Board has resolved to issue shares to satisfy the Dividend Reinvestment Plan for the first half, and to reintroduce a discount to the prevailing market price of 1.5%.

Now the Board is also very pleased to announce that Gordon Cairns has agreed to join our Board, an outstanding new director with a very impressive history in Australian international business, and a very good track record as a non-executive director in more recent times. Now I'd like to hand over to Patrick for more detail on the results, thank you.

PATRICK UPFOLD , CFO, MACQUARIE GROUP LIMITED : Thanks Nicholas and good morning everyone. Now I'm going to take you through a bit more detail of our financial results. And I've also included a couple of additional slides as I've tended to do, just in areas of investor focus.

So here we go, here's the income statement. Just a few highlights, points that I'll highlight here. You can see the step up in net interest and trading income, it's largely being driven by the growth in the CAF and the BFS lending books. But also the improved first half results that Nicholas mentioned in FIC.

The fee and commission income, is giving a step up there, largely off the back of increased performance fees in (inaudible) I'll come to that tick in a minute. Impairments down largely reflecting the fact that the MEC business has fewer direct impairments this year. You can see operating, other operating income down there up on the first half of last year, and that's generally reflecting gains from that CAF principle book, as said realised a few investments. Of course the second half of last year included the gain on Sydney Airport. Expenses have generally increased, reflecting the increased activity in costs across most parts of the Group. But the costs compliance playing its part there.

Now turning first to the funds business, the first of our annuity style business, you can see base fees have continued to improve, reflecting the underlying strengths of funds that we have. Of course the main item to highlight here is the substantial increase in performance fees for the half, I suppose listed and unlisted funds making significant contributions.

Now following a capital rating for MIC this fund has performed very strongly and as a result we've benefited from additional performance fees for this half. And on the unlisted front, MEIF1 which you recall was established in 2004 and which is now in its liquidation phase. And we had a number of assets, underlying assets now being realised including in the first half of this year. And as a result we've been able to recognise performance fees.

Here's one of those slides that I referred to just around our accounting policy for unlisted funds and how do we, how we go about recognising performance fees. We have a long standing policy in this area, and which is of course consistent with applicable accounting standards. Now in simple terms under this policy, two questions need to be answered in the affirmative before any fees can be recognised. And those two questions are can a fee be reliably measured and if so is the risk of not receiving the fee highly improbable?

Now I've highlighted some of the factors behind me that we take into account in making the assessment. Now the key factors being that the point in the lifecycle of a fund, it's obviously going to be more difficult to answer these questions in the affirmative for a fund that is not in its final stages of liquidation. We also look at what returns of course the investors have received, and we also look at the value of assets that remain to be **sold**. Now obviously all of this ultimately requires the exercise of some judgment, but hopefully as you can see there it's based on objective facts.

Second value in this style of businesses is the corporate and asset finance business, another strong result. Largely driven by the lending book which saw a number of early loan repayments help push that interest income come up. Nicholas referred to a bit of a timing impact on our results here, and certainly in this business it has been, some of these repayments we expected to occur in the second half of the year, actually occurred a little earlier.

Now lending book also had a significant **transaction** in relation to a business we acquired back in 2010. Now this business had a number of operating leases that over the course of the last six months, we've renegotiated into a very long dated single finance lease. Now under accounting rules, this is treated as a **sale** of an asset, and this has had an impact in the few areas that you can see here.

The first is you can see the gain on disposables and operating lease asset, we've also dispensed good will. When we acquired this business we had some goodwill because we're disposing of a single asset. We are required to impair the residual goodwill that we hold, and so you can see that coming through in the impairment charges there. And you can see there's a step up in the operating expenses, part of that relates to some costs that we incurred in the renegotiation of that lease, that lease facility.

The final or our annuity style businesses is BFS, as Nicholas said broadly flat when you look at the headline number, but there's a lot going on underneath it. There's a change in composition of the income. You can see net interest income up reflecting the growth in the Australian lending books. Now this is both for mortgage business, but also the banking business which is up very strongly. And most pleasingly the growth in deposits, there's been strong growth in deposits to help fund this, and they're now over AUD35 **billion**.

The lift in net interest income was also assisted by the growth in credit cards, and some of you recall that we acquired the Woolworths credit card portfolio during the half, this effectively doubled the size of our credit card business. Now the platform and brokerage and commission revenues, you can see they were down on the first half of 2014. But collectively broadly in line with the second half of 2014, and this is explained largely by MPW Canada we **sold** that business in November last year. You can also see the impact of MPW Canada coming through in our operating expense line, that you can see the reduction there. Partly that has been offset by increased platform spend and underlying headcount growth in the residual businesses.

Macquarie Securities , first of our capital market facing businesses, although operating income has been broadly flat, what you can see there is that operating expenses have increased. 13% if you compare to the first half of last year and this cost is largely associated with platform technology and meeting new a raft of new regulatory requirements.

Now in relation to the operating income, Australia has experienced more favourable market conditions. This has led to higher ECM which you can see in the Mac Cap results, but also improved brokerage and commissioning. You can see the ECM come to that other fee and commission income. Europe also saw improved brokerage commission but Asia which is half of this business and US experienced lower market turnover with the result and effect on the commission levels we received there.

Macquarie Capital the key drivers here have been the high levels of ECM income which are referred to, particularly out of Australia. But also very strong growth in the DCM income which is largely driven out of our US **operations**. I mentioned this at the start but there have been better market conditions that provided opportunities for the realisation of some of our principle investments, and you can see that coming through there in investments and other income.

The last of the businesses, FICC compared with 2014 commodities related income is up, it was referred to the strong result in March and that more than offset the lower hedging activity that was experienced in the metals and energies capital business. Particularly in relation to gold. The energy market business was brought in line with first half 2014 and I note the exceptionally strong second half of 2014 results. That business in its North American gas operations.

Now on the credit interest rate and foreign exchange side, both up on -- up on both first half 2014 and second half 2014, largely as a result of improved client flow and trading, particularly stemming from the volatility in the Australian dollar. Then of course the impairments there, you can see that they're down, that's reflecting the fewer impairments being taken in the MEC equity portfolio.

Now another of the slides that I've introduced into this pack, really just consolidating what I've said in the past, but it provides, it sets it out in a relatively simple way. I'll make a few observations about our tax expense. The key one is that where our income falls is going to be the main driver of our tax rate and in pretty simple terms, if our income is derived in the US where we get taxed at up to 45%, then our tax rate will go up. Importantly, tax is based on net income, not revenue, so can sometimes be hard to line up the geographical splits of income that we provide you with, with our overall tax rate. The MIC performance is a good example of that. It has no offsetting expenses, so it gets taxed fully at 45%.

You will also note that there can be quite significant changes or differences between the statutory rate and the actual tax rate that we experience in a region. A really good example of this is the [CFC] regime which applies to all Australian headquarter companies, such as Macquarie and basically under these, are about to expire, basically under these, well Australian companies are required to pay what we colloquially call top up tax on certain types of income in lower tax jurisdictions.

So for example in our trading businesses in Hong Kong and Singapore, we effectively have a 30% tax rate. Losses are not transferrable between countries and sometimes even within countries we cannot transfer tax losses. As a result, we do get occasions where tax losses get trapped and these need to be written off. Now all of this makes, as you can imagine, forecasting a long term tax rate somewhat difficult, but subject to the limitations that I've put up behind me, we'd expect the tax rate to be somewhere in the mid to low 30s on a long term basis.

Another aspect of our tax expense that we've referred to before is tax uncertainties. The tax law is, unfortunately, complex and can give rise to uncertainties which we deal with by making provisions and this has been a very longstanding practise here at Macquarie. Tax authorities regularly review what we do, whether it's part of their normal assessment process or was part of their review and audit programs. Now outside of Australia, these reviews tend to be more real time, so when there are differences that arise, these can be quickly addressed. In Australia, tax reviews and audits tended to be some years after the end of the relevant tax years.

With our current audit, there are a handful of matters, a few unresolved from the earlier year audits and we're working with the Tax Office through those and for the latter year audits, the ATO is making good progress through the remaining matters. Now pleasingly, in more recent years, we've moved to more of a real time review basis that I've mentioned is pretty common in offshore jurisdictions, so going forward, we would expect fewer issues with tax matters to arise.

So that deals with the profit and loss and then we turn to balance sheet. I think Nicholas has covered this, strong funding, we've raised AUD11.2 billion, AUD17.5 billion for the actual, for the calendar year across a range of markets and products and it's been very deliberate. We continue to diversify our funding, whether it be by currency, tenor, product type, region and Stuart and Gus and the team were very diligent in diversifying our investor base. This has resulted in a much better understanding of Macquarie with resultant lower pricing for our debts, so very pleasing.

Of course one of the key features of our funding strategy is deposit growth and Greg and the team are doing a terrific job. Our deposits now represent over 35% of our funding sources for our funding balance sheet. Here is where you can see that all those efforts are going to funds and you see our loan portfolio growth there, pretty much across every category we've listed down there we've experienced growth. Equity investments are up a little. What you can see is that about 40% of our equity investors relate to mirror managed funds.

Nicholas has largely covered this, we did buy on-markets and MEREPs and our dividend at the full year we've announced we're going to issue for the dividend this year and include a discount for the DRP. In respect of the Bank Capital Notes, I'm pleased to say that they were completed on October 8 and APRA have confirmed that they're eligible for inclusion in Tier 1 capital.

You can see that we remain very well capitalised. The Group's surplus including the BCNs I've just referred to at AUD1.8 billion over the APRA 2016 requirement largely hasn't moved when you take that effect into account. When you look at our CET1 ratio and I think the important one here is to look at the harmonised Basel III ratio, we sit there at 10.8%. If we took the surplus which we're holding in the non-bank and put that down into the Bank, we'd be at 11.6%, so very strong on an APRA fully loaded 2016 basis, 8.7%, but with that surplus, at 9.6%.

So with that, I'll hand back to Nicholas.

NICHOLAS MOORE : Thanks Patrick. As people probably know, we take this opportunity to update our outlook to the market and the way we do it is we look at each individual business and provide a bit of an outlook in terms of where they're seeing the next six months. As well as this on the slide, we've put in the historic performance on an average basis, but also on where we were in the last year.

Now as you can see here, there's been no change for any of the outlooks for any of the businesses from when Patrick spoke to the market in September. So that means overall when we look at these different businesses, we can see that the Funds are expecting to be up for the year, Banking and Financial Services are expecting to be up for the year, Macquarie Capital is expecting to be up for the year. CAF is expecting to be broadly in line with the year as is FICC, with Securities the only group that is actually expecting to be down on where it was last year.

So bringing the contribution of all those different groups together, we expect that the step up in terms of the performance of those operating groups will offset the one-off profit we made in the second half of last year from Sydney Airport. Given the tax rate is largely constant for the reasons that Patrick mentioned, we expect overall the Group to be slightly up on the full year 2014. Now that outlook, of course, is subject to the usual caveats about market conditions. We are in many different financial markets and that will impact on the result as we go forward. That's the short term outlook, unchanged from when we last spoke to the market in September.

Medium term outlook actually is unchanged not just from September, but for actually the last few years where we continue to express confidence in how the Group is placed on a medium term viewpoint. That confidence comes from the expertise that we have across the Group, both in the annuity style businesses that we're seeing actually delivering very well at the moment, but also in the capital markets facing businesses, where the markets are responding; we're seeing those businesses responding well to better market conditions. As well as that, the balance sheet that Patrick talked about, spoke about, is essential for the strength of the Group. It is a strong balance sheet from a capital and funding viewpoint and overall of course is our risk management framework that has kept the Group safe for 45 years.

Now this chart gives a bit of an indication in terms of where we have our capital deployed across the Group and you'll see where we were six months ago, there's been a bit of a step up in terms of the capital in the annuity style businesses. As well as that, you'll see the annuity style businesses performances actually stepped up to this 24%. That of course is largely a function of those performance fees coming through in the first half as we mentioned before. In terms of the capital markets facing businesses, they're a little bit down on where they were last time you saw this slide. That obviously is a consequence of not having that very strong half we had for FICC at the end of last year in those numbers. This slide also gives an indication of the surplus capital of the Group.

So that's the end of our presentation and we're available to take questions. Thank you Karen.

KAREN KHADI : Thanks Nicholas. We'll now open for some questions. We'll start with questions from the floor and then after that we'll take some from the teleconference. For those of you in the audience, if you could please wait until a microphone comes to you before proceeding and just a reminder, this is a briefing for institutional investors and analysts, so we will not be taking questions from media. There will be a separate briefing for them at midday today. So we'll start with the questions, at the back there.

Questions and Answers

BRETT LE MESURIER, ANALYST, BBY: A few questions for you Nicholas and Patrick. Firstly, the impaired assets went up from about AUD850 million to AUD950 million in the half. Could you give us some indication about what was happening there? Secondly, I was interested in, was there any of the income tax expense in the current half related to prior years? Also the asset revaluation reserve is fairly stable, there was a transfer to profit of I think AUD110 million out of that and the reserve was replenished. So I was wondering about the level of conservatism that you have in your asset values in the balance sheet.

PATRICK UPFOLD : Sorry, I missed the second one.

NICHOLAS MOORE : Income tax expense.

PATRICK UPFOLD : Income tax. Yeah, well there's obviously impairments that we get across the Group. The move in impairment is not ultimately that significant as in relation to some secured positions that we have and we've taken appropriate provisions against those during the half. The tax result, we're always providing for uncertainties. As we've said, it's been a longstanding practise of ours, so where there is some ambiguity in the law, we do have a Group that looks at those ambiguities and as a result, we set aside amounts for those. So there'd be some of that going through the half of this year. Your third comment is the ABS, well we apply the accounting rules with nothing particularly in respect of movements in the ABS that I think's worth highlighting.

KAREN KHADI : I might just ask Brett to pass the microphone to James Freeman and just take a question while we're there, thank you.

JAMES FREEMAN, ANALYST, DEUTSCHE BANK : Just two questions, firstly on the dividend, you've gone down to a 62% payout, a little bit lower than where you have been averaging growth obviously increasing DRP being turned on, just a bit of an idea as to where we'll be in that payout range as growth starts to improve. Should we be assuming we go to the bottom end? Second question, just on Securities business, obviously the regulatory spend up substantially coming through, just where we're at in terms of that spend, do you think you've sort of broken the back of it? Is Asia actually profitable as they pay out 50% of the contribution, but is it actually making money?

NICHOLAS MOORE : Sure. Well on the securities regulation, I mean Steve might be able to give us a more specific, but there is a lot of, as you know, the regulatory spend taking place across the world and for people who aren't in the industry, basically there's a whole new reporting framework that's been brought in not just in the United States but in Europe as well, which is actually requiring constant reporting amongst other things. But maybe Steve you can give an idea in terms of where we are in the cycle of responding to that regulatory spend.

STEVAN VRCELJ , HEAD OF MACQUARIE SECURITIES , MACQUARIE GROUP LIMITED : Yeah, we would say that there's about another 18 months, two years of this sort of spend because the regulators continue to come out with new rules in numerous different jurisdictions, everything from transaction reporting to OTC reporting, so we continue to see it being out there. But we're not expecting that that run rate that we've got needs to go up. The run rate we've got is sufficient to meet the requirements of that spend.

NICHOLAS MOORE : In terms of the profitability for the different elements of the Group, part of the difficulty is there are some legacy positions in Asia that you're looking at those sort of derivative positions, they would put the whole business into loss from an Asian viewpoint, but from a cash viewpoint today, we're operating in a positive management account viewpoint. That's right.

STEVAN VRCELJ : That's right, and the other thing to highlight just re the Asian market is that a lot of them fit into the emerging markets bucket and what we've seen in the last 12 to 18 months is really investors focus has been on developed markets, in particular US and Europe and to some extent the Asian markets have been trading sideways and so the volumes haven't been -- we haven't seen the levels of activity we've seen in the past.

NICHOLAS MOORE : In terms of the dividend, as you know the dividend on an ongoing basis for the Board. The payout range we put out there is 605 to 80%, we're not changing the payout range. What we have changed obviously is the DRP and that's obviously, as we've said, reflective of the underlying growth taking place in the business. From a Macquarie viewpoint of course we've always been a -- had a strong capital position. As the business grows that uses capital, and you can see that on that final slide we've put in terms of where we're using capital across the Group and you can see the step-up that's taken place in the annuities sale business. So given we are using more capital and using them in those businesses we think it's appropriate to have the dividend setting that we did declare this morning.

KAREN KHADI : We might take some questions from the phone here.

JOHN MOTT, ANALYST, UBS : John Mott from UBS . Just following up on that comment that you just made. Six months ago you were buying back the DRP and the MEREP and now we go forward and we're seeing the capital surplus for the AUD1.4 billion, which is the lowest since the GFC and you have put the hybrid in place and now you're putting a discount on the DRP. So a lot more capital is being raised, you mentioned, to fund the growth, but what can you actually do to improve the capital efficiency of the business?

A lot of the times you should be looking to free up capital in other parts of the business, rather than just spend, and why such a large step-up in usage of capital in the last six months?

NICHOLAS MOORE : Well, that's a -- the large step-up is obviously, as I mentioned before, because the businesses are growing, as you can see in terms of those asset numbers. So when we talk about how the asset numbers have moved you need capital obviously to support those asset numbers. So that's where the capital is going to.

In terms of looking at where we have capital across the **Group**, obviously we do look at that on a constant basis. We look at the returns on capital that the businesses are getting, and that's why we actually report that in terms of that medium outlook slide, so I think we've been very transparent for many years in terms of saying this is where our capital is deployed. You can see how that has changed over the years when you compare them.

So I think when we started producing the chart the capital markets versus annuity was broadly equal in terms of disposition -- looking at Stuart, who did the slide -- and you can see the growth that's taken place since then. The capital markets have largely been flat with the growth taking place in the annuity-style businesses. So you can see the actual deployment of capital, you can see where it's being used and you can see the returns obviously coming through.

JOHN MOTT: Just following up from that, assets under management were flat and you did mention that there was a couple of disposals.

NICHOLAS MOORE : That's right.

JOHN MOTT: But also that the Australian dollar fell quite substantially during that period, especially towards the end, so that should have offset that. So why -- you were saying you're utilising it in other parts -- shouldn't we have seen a jump-up in the assets under management to reflect that?

NICHOLAS MOORE : Well, as you said there is a movement in terms of the valuation of the assets as well, but remember there are **equity** markets in there, there's bond assets in there as well as the Australian dollar. The impact of the Australian dollar point to point, Patrick, do you have that to hand?

PATRICK UPFOLD : On the balance sheet it would be 6% or 7%, on the balance sheet for that -- from an income point of view not material.

JOHN MOTT: For the funds under management, right? So the management (inaudible)?

PATRICK UPFOLD : Yes, and it depends -- remember they're not all US dollar funds.

JOHN MOTT: No, so it's against a lot of other currencies as well.

PATRICK UPFOLD : There's a lot of -- exactly, so there's a whole bunch of movements in it but broadly speaking as we've said, the reason that we've stayed constant in movement in the valuation of the assets over the period which offset the exiting of various fund businesses that we've highlighted there in the presentation.

So maybe just Shemara, is there anything you'd like to add to that?

SHEMARA WIKRAMANAYAKE, HEAD OF MACQUARIE FUNDS, MACQUARIE **GROUP** LIMITED : Yeah, we did have -- on deconsolidating that US business we had a few tens of **billions** step-down in assets under management, so what we've managed to do is cover that loss. And if you look at the base fee figures you can see they're up substantially compared to the prior comparable half which is running about 640 versus 610. So you can see that we've not only had inflows to cover the losses but we've also had inflows into high fee-paying areas, principally US equities.

The FX movement, we left that to [AUM] because it went up just at the end of this half, but the fees weren't really impacted dramatically by FX because the exchange rate, the Aussie dollar only really dropped in the last months. So you can probably (inaudible) fees more the fact that we've had material inflows into high fee-paying asset classes offsetting the deconsolidation for the (inaudible) itself.

KAREN KHADI : Okay, I might take some questions from the teleconference line. Thanks.

OPERATOR: Our first question is from the line of Craig Williams from Citigroup . Please go ahead, your line is open.

CRAIG WILLIAMS , ANALYST, CITIGROUP : Thank you. A couple of questions if I may, please. Firstly perhaps a question for Shemara around Mac Funds though MIEF1 has about three assets yet to be realised I think. You've already met your 8% hurdle rate of return. As things stand today, what's the outlook for the expected performance fee in the second half result versus the first half contribution, and what's the state of play with [GIFT] 2 in terms of asset sales having progressed, if any, and the IRR on that one, how is that looking relative to that 8% benchmark, please?

SHEMARA WIKRAMANAYAKE: Yeah, the short answer is everything we should be accounting for is reflected in this half year result. MIEF1 had eight assets in it. We've realised the two utilities, which were Thames Water and [Wells] in the West, we've realised this year three other assets, so five have been realised being the A-Train which is the Swedish Rail link, Bristol Airport and the APRR interest. We have three assets left to go. And the way we recognise the performance fee at this half, as Patrick said, is because it can be reliably measured. We looked at the remaining assets and we calculated what the fee would be based on the valuation of those, using a test of the risk of the fee being reversed being highly improbable. So you've got our best estimate there in the half-year numbers to 30 September based on what we can reliably see at this point.

NICHOLAS MOORE : Future fees will, in part, be driven by the realisations that take place in the remaining assets.

SHEMARA WIKRAMANAYAKE: Exactly, so there's a lot of uncertainty around our performances fees, it depends not just on what we are getting but how markets are moving, how currencies are moving et cetera. So we've given our best estimate at the half year spread to September.

CRAIG WILLIAMS : So just to clarify the performance fee that you've recognised thus far is on an expectation of the assets that you have actually realised in this stage? Or your expectation of the total performance fees that you might recognise across the, I think, eight assets that you're calling it out. That was (inaudible).

NICHOLAS MOORE : Yeah I think it's a combination of both of course. Patrick would you just like to take a -- just if I could put this note in on performance fees.

PATRICK UPFOLD : Yeah Craig if you go back to--

NICHOLAS MOORE : Which is new to this year so Patrick will just show how that works in practice.

PATRICK UPFOLD : So if you go back to slide--

KAREN KHADI : Twenty nine.

PATRICK UPFOLD : Slide 29. What I've done here is I've set out the things that we think about when booking performance fees. Well, as Shemara says, the number of the assets within MEIF1 have been **sold**. So that's obviously a very important factor for us. But not all the assets have been **sold**. Can we go back to those two questions that I'd say must be answered in the affirmative. Which is you've got to be able to reliably measure the fee and the risk of not receiving the fee has to be highly improbable. So when you look forward at those assets that remain unsold, we run some sensitivities around those and we look at historically what the highs and lows have been in respect of those types of assets. In doing so that gets factored into the amount of fee income that we think we can recognise. Ultimately, what we get from MEIF1 in terms of performance fees, is going to depend on the prices that we achieve for those remaining three assets and, of course, when those assets are actually **sold**.

CRAIG WILLIAMS : Okay and a second question if I could please. Just your expansion in Australian mortgages has been rapid, sort of growing at 5 or 6 times system. What are your thoughts on this pace of growth in a mature market and the risk thereof and are you getting any directives from regulators around growth in high [LBR] lending I suppose? (inaudible) [potential policy] by stealth if you like.

NICHOLAS MOORE : Yeah sure. Well maybe Greg can provide a little bit more detail on it but I think it's important to recognise that we've been in the Australian mortgage market for some time. Obviously, before the crisis, that was being funded through securitisation. In more recent times it's been funded by deposits on balance sheet. As you can see those deposits have grown over the period from a relatively small amount to actually a substantial amount at the moment. So the amount of deposits we have provides us with the wherewithal to fund these mortgages on balance sheet. I think now Greg, we're still behind where we were in terms of total volumes on a pre-crisis basis.

In terms of how we're growing the book, obviously we're very careful in terms of how we approach it. We're very considered but Greg, perhaps can give more details in terms of how we're approaching the growth of the business which is bringing us back to where we were in 2008.

GREG WARD , HEAD OF BANKING AND FINANCIAL SERVICES, MACQUARIE **GROUP** LIMITED : Yeah quite right Nicholas. So we've got a number of very important and strategic relationships with the major originators and aggregated groups. So with those relationships give us a reasonable amount of flow in their relationships, as Nicholas said, that goes back, in some cases, 10 years or 20 years. Like, I think, a lot of other institutions we've been very cognisant of the rapid rise in house prices in some geographies and, where that's the case, we're very mindful of that and careful around [LVR] ratios and servicing.

KAREN KHADI : We've got a few more questions on the teleconference so we might continue with that.

OPERATOR: Our next question is from the line of Frank Podrug from Merrill Lynch , please go ahead, your line is open.

FRANK PODRUG, ANALYST, MERRILL LYNCH : Good morning guys, two questions from me. The first on cap, just your thoughts on how (inaudible) would be environmentally impacting that (inaudible) assets on CAP. For instance **sale** on [leasing] aircraft or rail [leasing]. At what point do you think you consider it a bit more attractive to have a net seller rather than a buyer of these assets. The second one (inaudible), are you seeing any evidence here of the exodus that [appears from (inaudible) commodity trading is bringing back some pricing power to you and how do you think about the competitive threat from private commodity trading houses? Thanks.

NICHOLAS MOORE : Okay, from a CAP viewpoint you're right, there is obviously increasing amounts of liquidity. But the big threshold point was really in the 2010, 2011 period I guess, Garry -- in terms of when things change. So we've been in the post liquidity world, if there is such a thing, for a while now. In terms of the point you made on the rail and the aircraft assets is actually quite right. The key thing though is you can't double the aircraft fleet of the world or the rail fleet of the world in a short period of time. So the lease rates we're seeing are the benefits of the improving economy coming through those businesses. The value of the assets probably, as you say rightly, have increased. But given we're a long term holder it's more the lease rates that we're deriving on those assets where we see the improvement. Gary is there any comment you'd like to make on that?

GARRY FARRELL , CO-HEAD OF CORPORATE AND ASSET FINANCE, MACQUARIE **GROUP** LIMITED : Yes, thanks Nicholas and Frank for the question. Now clearly with the fall in rates and the global liquidity, it's difficult to actually win **sale** and lease backed **transactions**, whether it's in rail or air or any of our big ticket leasing businesses.

NICHOLAS MOORE : So they're new **transactions**.

GARRY FARRELL : They're new **transactions** so it's difficult to grow that book and the returns on capital are not satisfactory to us. We have, over the last few years, we've continued to opportunistically look at acquisitions to make our **acquisition** amounts don't really work. But we're continually hopeful that we'll find a, find situations out there where the sellers do need to move out of assets. Now in terms of us disposing of assets, we looked at - in the normal course of our operating lease businesses which was we looked to dispose of assets through the cycle, a few assets each, each year a certain percentage. With the air book in the last six months we actually haven't that's just a normal part of an operating lease portfolio. You would -- if the prices are right, you sell a number of aircraft. None in the last six months, but over the last year there's been a few, probably six, eight or 10. So we continue to look for opportunities, so we're comfortable with the portfolio and it's [throwing up] very good (inaudible) returns.

NICHOLAS MOORE : Yep so we take your point that in terms of the value of the assets, they probably big picture have gone up and we are running our business with that recognition, but as Gary said, we keep our eyes open for opportunities always. From the FICC business, as you say, there's less competition from financial institutions but as you quite rightly say, there's no shortage of competition from non-financial institutions. So as in most of our markets, the competition continues. I think it's probably too early to say that we're actually seeing any material improvements in terms of profitability so it's always been a competitive space and continues to be.

FRANK PODRUG: All right, thanks guys.

KAREN KHADI : We'll take one more -- sorry, we'll take one more question from the teleconference line.

OPERATOR: Our last question is from the line of Brian Johnson from CLSA. Please go ahead, your line is open.

BRIAN JOHNSON, ANALYST, CLSA: Hi, Brian Johnson. Nicholas, I wanted to ask four separate questions if I may, but I'd like to go through each one of them in some detail?

NICHOLAS MOORE : Sure, go (inaudible).

BRIAN JOHNSON: The first one is, congratulations as a shareholder, but I'**m** pretty confident the staff will be congratulating you even more. Nicholas, can we confirm with the ROE above 12% that you've fully accrued for the bonus pool methodology in this?

NICHOLAS MOORE : Yes, as you know Brian, we don't give benchmarks about how the bonus pool works but of course we've created a provision for what we expect to be the -- for all the expenses of the **Group** including staff costs.

BRIAN JOHNSON: Okay, thank you. Second one is that when I have a look on slide 49 which is the capital allocation, it's saying that the annuity businesses did a 24% return on **equity** during the period.

NICHOLAS MOORE : Yes.

BRIAN JOHNSON: But that's premised on the assertion that there's AUD1.4 **billion** of surplus ordinary **equity**.

NICHOLAS MOORE : Yes.

BRIAN JOHNSON: Now when I actually have a look at the slide where you talk about regulatory capital, the AUD1.4 **billion** is based on the minimum regulatory capital requirement and it feels to me as though you're capital adequate as opposed to really having a surplus.

NICHOLAS MOORE : Yes, that's right. I mean--

BRIAN JOHNSON: If you--

NICHOLAS MOORE : Your points you make are right, Brian, and that's why we put all the details there in terms of the surplus capital and the capital we're using in the business and the implication is, I think you're making is that we'll always have a surplus of capital and I think that's a fair comment, but we've broken that out for investors to make their own judgments about.

BRIAN JOHNSON: Okay that brings me on to the third question. Nicholas, when we actually have a look in there at banking and financial services --

NICHOLAS MOORE : Yes.

BRIAN JOHNSON: When I have a look at slide 31, the cost to income ratio in this business before allocation of bonuses and central costs is very, very high.

NICHOLAS MOORE : That's right.

BRIAN JOHNSON: If I was to notionally go back and allocate that AUD1.4 **billion** in surplus **equity** back across each of the divisions, then the ROE in BFS if you were to notionally have an attempt at going back to allocate everything isn't all that flash. Could we get a feeling as to why that is? Is it that there's -- is that it hasn't yet reached scale or why is the return on **equity** in BFS not substantially higher and is it in fact that probably if you fully load it, is it in fact below your cost capital?

NICHOLAS MOORE : Yes well I think we're -- there's quite a few components, as you're saying there Brian, in terms of how we look at these things. I think importantly with BFS, we've got a combination of businesses that use quite a substantial amount of capital. If you look at the lending businesses for example, but as well as that, we have businesses that actually don't use a lot of capital but have high expense levels. So if you think of MPW, there's not a lot of capital that gets deployed in that business but obviously it's got a lot of expenses flowing through. So it's hard to draw too many conclusions in terms of the cost to revenue ratio. As you say, it is high when you look at it, but you have to look at the different component parts to actually make an overall judgment.

The second point you make I think is true as well, though we are actually -- when you are in a growth mode for a mortgage book or an insurance book or anything else like that, obviously you're putting the capital ahead of the revenue, so there is, as you say, a bit of a bias to see that capital going out first and of course the profitability will follow, and we are seeing that as well.

So I think your observations are right, that our cost to revenue ratio overall is high, but we'd say that is largely because of the low capital using businesses that are within BFS. The second point you make that when you are growing a book, you tend to get a lower return on capital because you're incurring expenses up front and getting the income later, that is also true.

BRIAN JOHNSON: Nicholas, are you happy with the returns in that business at the moment?

NICHOLAS MOORE : Yes I think we're very happy with the progress taking place in BFS. I think we're -- it's a different business because of our funding situation which is coming through BFS, so in terms of what they've been doing with the deposits, in terms of what they're doing in business banking. You see that growth there over the last six months of 10% growth in lending and 13% in deposits. In terms of what's happening with mortgages, with what's happening with [Wrap], there's a whole lot of really good things happening. MPW, obviously we have the enforceable undertaking. It's a very substantial investment taking place with the new regulatory environment as well as the enforceable undertaking in MPW which we think will deliver returns in years to come.

BRIAN JOHNSON: Okay. Nicholas, just a final one if I may. Slide 14 on CAF, it talks about during the period how you acquired AUD600 million of corporate loans in the secondary market and AUD200 million of commercial real estate loans in the secondary market. Now, if you have a look at Macquarie Bank , we've just gone through a period of horrible impairments where you were holding assets on your balance sheet and basically, you know, values fell and everyone basically got fairly senselessly rogered on them. Can I just -- could you just detail for us, what is the strategy there? Is it taking a punt that you're buying loans cheaply or is it deploying the surplus liquidity? What's driving that little bit of the business there?

NICHOLAS MOORE : Yes no, it's -- we've been able to build up a very high quality team in this credit area. We've done a lot of work on each one of these transactions, a huge amount of work goes in from our risk team under Steve Allen and before that Mary from the Credit side. These are secured, very largely secured positions. They are very high quality positions and we're seeing them through the life cycle of our ownership, as you see as the book has been rolling over on a pretty regular basis. So there's been quite a degree of activity taking place there. We are careful obviously in terms of how we approach this lending, this secured lending that's taking place.

The team we have we think is very good and certainly our risk framework we think is very much up to the mark.

BRIAN JOHNSON: All right, thank you very much and my apologies for not being able to attend in person.

NICHOLAS MOORE : Thanks Mike.

KAREN KHADI : Thanks Mike for all of those. We might take one question from Scott Manning on the floor.

SCOTT MANNING, ANALYST, JP MORGAN : Two questions. Firstly, just on the mortgage book, you talked about the growth and the operational leverage argument, so maybe some further comments around looking at the core IT platform, the amount efficiency you can get, what type of scale you need to achieve going forward and when you think that timeframe will be to get some leverage to the upside on the operational platform?

Secondly in terms of funding the growth at the moment you've got a certain proportion of securitisation funding, if I go back to prior presentations all of the growth was funded through the rundown of excess liquids, so given where the LCR is now do you still think you've got excess cash and the right mix of securitisation to fund growth going forward or will it slow at some point as you start to utilise those excess capacity at the moment?

NICHOLAS MOORE : Okay, well I think they're very good questions about the mortgage business and ones that we do focus on. So from a funding view point, as you say, a business like mortgages, indeed all banking business, has to be driven from the funding side of the equation and as we mentioned it's deposits, it's the growth of deposits for Macquarie that's actually funding the growth of this on balance sheet mortgage business. So in terms of how it will grow going forward obviously it will be limited by our amount of deposits and as you say securitisation is a feature, as it was historically and that will feature in it going forward.

From a cost view point we think our -- the scale benefits will continue as the portfolio continues to grow but I think it's worthwhile just mentioning again we had this business bigger than this before the crisis, our systems and what have you we've invested we've continued to invest in them since then. So we certainly think we have the scale to carry on this business in an effective long term view point and both these issues, making sure that we are competitive from a cost view point and secondly that we have funding, are the issues that we consider when we think about this mortgage business on an ongoing basis but perhaps I'll hand over to Greg to provide a bit more detail, particularly on the second point about our efficiency and what our back office is looking like.

GREG WARD : Yes, that's absolutely right. So cost efficiency particularly on boarding mortgages and doing the credit assessment and then settlement and servicing very, very important and being such a large market there's an incredible amount of data in terms of what different participants in the market, what the norms are for the various life cycles of a mortgage and we ourselves have 25 years of data. So what we're seeing at the moment is a sort of peaking of costs from a cost to revenue ratio in 2014 as we accelerated our originations as Nicholas said to grow our book to make use of the deposits we have and so forth to get it back to where it was several years ago.

We've seen that cost to revenue ratio come off in the first half of this year as we've got more scale and some of those investments are no longer required and we'll see that sort of trend continue over the next couple of years bringing it back down to a ratio more normal to the one we had several years ago and more normal to mortgage providers in the industry.

SCOTT MANNING: The second question just on the security business obviously there's a lot of spend going on, so a lot of that is really as you said to keep up with regulatory requirements but how do you think about that business, the global footprint, the level of profit coming out of that business? Are you happy to run it with little to no profit in that business as part of the broader global footprint and broader global offering or do you really feel that that needs to be running at a high degree of profitability as a standalone business?

NICHOLAS MOORE : Yeah, okay. I think fundamentally of course we want to see profit coming out of all of our businesses and all of our Groups and we expect that to happen in the medium term. So profitability, as a standalone unit, is something that we fully expect but we recognise that there are current challenges to the securities business, there are challenges obviously in terms of market conditions particularly in Asia which, as I mentioned before, is our largest market and secondly, as you mentioned from the regulatory compliance view point where the costs are stepping up materially across the world in terms of that business.

So the way we look at it, the way I think people categorise it, there are cyclical issues there and there are structural issues in the business. From our view point we take a step back and say, well is the role that securities businesses play, is that going to fundamentally change going forward and the answer is yes of course there'll be new technology and new regulation but from an underlying view point we think securities plays a very important role in the capital markets in terms of writing research that's required by investors and valued by investors and secondly bringing **transactions** to market is obviously essential for the corporate sector and also essential for investors.

So that fundamental role that we perform in securities of providing good insights to the world and bringing good **transactions** to the world we think that need will continue and we do think that we'll be able to do that on a profitable basis, on a medium term basis.

KAREN KHADI : I think we've got one more question that's just come through on the teleconference.

OPERATOR: Our next question is from Richard Wiles from Morgan Stanley . Please go ahead, your line is open.

RICHARD WILES , ANALYST, MORGAN STANLEY : Good morning, everyone. Nicholas you say on applied, the same I think is that (inaudible) their partners and the MIM private market value end was up 7% in the half. Could you provide a bit more detail on both in the Delaware business and could you also give a bit of commentary on how (inaudible) looks income business in the US?

NICHOLAS MOORE : Okay, well I didn't quite hear Richard but the good thing is Shemara did. Shemara can -- did you hear that question Shemara?

SHEMARA WIKRAMANAYAKE: Yes, I did.

NICHOLAS MOORE : Okay.

SHEMARA WIKRAMANAYAKE: I think you were asking about flows in the US and around the business. We've had a period of really good flows, so as I mentioned earlier and as you mentioned we had our assets under management drop compared to the last half because of the Jackson Square deconsolidation and the management buyout of the private **equity** [fund] business.

They also -- they affected the assets under management by tens of **billions** and the run rate base fee revenue by tens of **millions**. We've managed to fill that hole and step up certainly in the run rate base fee revenues. I mentioned earlier we're having good flows in US equities. We've also been having good flows in US fixed incomes. We've had net positive flows in the half year in fixed income and equities.

Partly what's going on with PIMCO but also our diversified fixed income products in the US are particularly well-performing in the mutual fund channel. So we've had on institutional and retail positive flows, but we've had positive flows around the world. Our Asian long only equities has basically hit capacity this year with AUD1 **billion** plus in-flows, hedge funds are going very well. Australia fixed income we've had very good in-flows, particularly the wholesale channel where we're getting a lot of traction with our diversified fixed income products, Neo particularly.

Our global absolute return fixed income strategy is getting flows. Generally the way we run this business is on the multi-boutique basis. We have about 25 underlying strategies and we really focus on being in the right spaces and out-performing our peers in those sub-categories and I would say the vast majority of those little engines are firing very well and in addition to that our cost sales around the world are going excellently. So we've had really good fund-raising in the two regions where we don't do a lot of manufacturing -- being Asia and Europe, as well as raising money in Australia and the US.

And you can see that in the continuing increase in our base fee run rate. If you go back over five years it's just stepping up, stepping up, stepping up. Now, some of that picks up from the MIRA business where you were seeing this half we raised another AUD4 billion of equity commitments and we made another AUD3.5 billion odd if investments, so the MIRA business is obviously picking up in base fee run rate as well despite the divestments we're undertaking. But the MIM which is fixed income equities business is, at the moment, you know firing on all cylinders as you can't get complacent about this, but at the moment we've got good stuff happening all around the world.

RICHARD WILES : Thank you.

KAREN KHADI : Okay, I think from what I can see we have no further questions this morning. I'd like to thank everyone for attending or dialling in today. For those of you who are able to stay we have some morning tea outside if you'd like to join us. The webcast and podcast of today's briefing will be available on the Group's website later this evening. Thank you.

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