MACQUARIE FINANCIAL HOLDINGS LIMITED

INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2010

MACQUARIE

INSIDE FRONT COVER

Financial report
for the half-year ended 30 September 2010
Contents

The Financial report was authorised for issue by the Directors on 9 November 2010.
The consolidated entity has the power to amend and reissue the Financial report.

Financial report
for the half-year ended 30 September 2010

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Directors' report
for the half-year ended 30 September 2010

In accordance with a resolution of the Directors of Macquarie Financial Holdings Limited (MFHL or the Company), the Directors submit herewith the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended 30 September 2010, and the consolidated statement of financial position as at 30 September 2010, of the Company and its subsidiaries (the consolidated entity) for the half-year ended on that date (the period) and report as follows:

Directors

The following persons have held office as Directors of the Company throughout the period and until the date of this report, unless otherwise stated:

R.N. Upfold

M. Ferrier

K. Bennett (resigned on 21 October 2010)

C. Lynam (appointed on 21 October 2010)

Principal activities

The principal activity of the Company is to act as a holding company of the Non-Banking Group within the Macquarie Group. The Non-Banking Group comprises most of the activities of Macquarie Capital and certain Macquarie Securities Group and Fixed Income, Currencies and Commodities activities.

Result

The financial report for the half-year ended 30 September 2010, and the results herein, are prepared in accordance with Australian Accounting Standards.

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $110 million (half-year to 31 March 2010: $219 million; half-year to 30 September 2009: $204 million).

Review of operations

Consolidated profit after income tax attributable to ordinary equity holders of $110 million for the half-year ended 30 September 2010 decreased 46 per cent from $204 million in the prior corresponding period, and decreased 50 per cent from $219 million in the prior period.

Net operating income of $1,239 million for the half-year ended 30 September 2010 decreased 10 per cent from $1,381 million in the prior corresponding period and decreased 20 per cent from $1,552 million in the prior period.

Total operating expenses of $1,139 million for the half-year ended 30 September 2010 was in line with the prior corresponding period and the prior period.

Events occurring after balance sheet date

There were no material events subsequent to 30 September 2010 that have not been reflected in the financial statements.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 2.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 (as amended), 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.

Robert Upfold
Director

Sydney
9 November 2010

Auditor's independence declaration
for the half-year ended 30 September 2010

PRICEWATERHOUSECOOPERS

As lead auditor for the review of Macquarie Financial Holdings Limited for the half-year ended 30 September 2010, 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* 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 Financial Holdings Limited and the entities it controlled during the period.

DH Armstrong
Partner

PricewaterhouseCoopers

Sydney
9 November 2010

Consolidated income statement
for the half-year ended 30 September 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Interest and similar income		**280**	266	244
Interest expense and similar charges		**(400)**	(396)	(358)
Net interest expense	2	**(120)**	(130)	(114)
Fee and commission income	2	**1,191**	1,230	1,433
Net trading income	2	**77**	96	32
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	**61**	(38)	(186)
Other operating income and charges	2	**30**	394	216
Net operating income		**1,239**	1,552	1,381
Employment expenses	2	**(709)**	(726)	(711)
Brokerage and commission expenses	2	**(53)**	(49)	(48)
Occupancy expenses	2	**(112)**	(118)	(128)
Non-salary technology expenses	2	**(58)**	(55)	(49)
Other operating expenses	2	**(207)**	(229)	(230)
Total operating expenses		**(1,139)**	(1,177)	(1,166)
Operating profit before income tax		**100**	375	215
Income tax benefit/(expense)	3	**1**	(145)	(13)
Profit after income tax		**101**	230	202
Loss/(profit) attributable to non-controlling interests		**9**	(11)	2
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Limited		**110**	219	204

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 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Profit after income tax for the period		**101**	230	202
Other comprehensive income/(expense):				
Available for sale investments, net of tax	15	**81**	(102)	77
Cash flow hedges, net of tax	15	**6**	4	36
Share of other comprehensive income of associates and joint ventures, net of tax	15	**18**	35	26
Exchange differences on translation of foreign operations, net of tax		**(70)**	28	(101)
Total other comprehensive income/(expense) for the period		**35**	(35)	38
Total comprehensive income for the period		**136**	195	240
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of Macquarie Financial Holdings Limited		**139**	189	258
Non-controlling interests		**(3)**	6	(18)
Total comprehensive income for the period		**136**	195	240

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 2010

	Notes	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Assets				
Due from banks		**2,130**	1,752	1,720
Cash collateral on securities borrowed and reverse repurchase agreements		**994**	1,065	916
Trading portfolio assets	4	**766**	814	920
Loan assets held at amortised cost	5	**423**	464	612
Other financial assets at fair value through profit or loss		**1,514**	1,988	2,200
Derivative financial instruments – positive values		**7**	20	75
Other assets	7	**6,037**	5,641	7,626
Investment securities available for sale	8	**2,481**	1,471	1,872
Intangible assets		**460**	508	414
Due from related body corporate entities		**7,527**	7,465	5,958
Interests in associates and joint ventures accounted for using the equity method	9	**1,808**	3,111	3,650
Property, plant and equipment		**291**	287	377
Deferred income tax assets		**640**	512	743
Non-current assets and assets of disposal groups classified as held for sale	10	**75**	76	27
Total assets		**25,153**	25,174	27,110
Liabilities				
Due to banks		**633**	838	738
Cash collateral on securities lent and repurchase agreements		**645**	289	235
Trading portfolio liabilities	11	**310**	511	382
Derivative financial instruments – negative values		**51**	68	105
Deposits		**165**	141	132
Debt issued at amortised cost	12	**41**	55	72
Other financial liabilities at fair value through profit or loss	13	**1,758**	1,826	2,309
Other liabilities		**5,617**	5,474	7,063
Current tax liabilities		**21**	32	77
Due to related body corporate entities		**11,076**	11,252	11,528
Provisions		**70**	66	62
Deferred income tax liabilities		**2**	11	26
Total liabilities excluding loan capital		**20,389**	20,563	22,729
Loan capital				
Macquarie Convertible Preference Securities		**600**	600	600
Subordinated debt at amortised cost		**11**	11	5
Total loan capital		**611**	611	605
Total liabilities		**21,000**	21,174	23,334
Net assets		**4,153**	4,000	3,776

Consolidated statement of financial position
as at 30 September 2010
continued

	Notes	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Equity				
Contributed equity				
Ordinary share capital	14	**16,759**	16,757	16,756
Equity contribution from ultimate parent entity	14	**284**	265	231
Reserves	15	**(14,149)**	(14,177)	(14,143)
Retained earnings	15	**1,204**	1,094	875
Total capital and reserves attributable to ordinary equity holders of Macquarie Financial Holdings Limited		**4,098**	3,939	3,719
Non-controlling interests	15	**55**	61	57
Total equity		**4,153**	4,000	3,776

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 2010

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2009		17,145	(14,195)	671	3,621	80	3,701
Total comprehensive income/(expense) for the period		–	54	204	258	(18)	240
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	4	–	–	4	–	4
Reduction of capital	14	(200)	–	–	(200)	–	(200)
Contributions from ultimate parent entity in relation to share based payments	14	38	–	–	38	–	38
Reserves arising from group restructure of combining entities under common control	15	–	(2)	–	(2)	–	(2)
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	(4)	(4)
Profit attributable to non-controlling interests		–	–	–	–	(1)	(1)
		(158)	(2)	–	(160)	(5)	(165)
Balance at 30 September 2009		16,987	(14,143)	875	3,719	57	3,776
Total comprehensive (expense)/income for the period		–	(30)	219	189	6	195
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	1	–	–	1	–	1
Contributions from ultimate parent entity in relation to share based payments	14	34	–	–	34	–	34
Reserves arising from group restructure of combining entities under common control	15	–	(4)	–	(4)	–	(4)
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	(5)	(5)
Profit attributable to non-controlling interests		–	–	–	–	3	3
		35	(4)	–	31	(2)	29
Balance at 31 March 2010		**17,022**	**(14,177)**	**1,094**	**3,939**	**61**	**4,000**
Total comprehensive income/(expense) for the period		**–**	**29**	**110**	**139**	**(3)**	**136**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	**2**	**–**	**–**	**2**	**–**	**2**
Contributions from ultimate parent entity in relation to share based payments	14	**19**	**–**	**–**	**19**	**–**	**19**
Reserves arising from group restructure of combining entities under common control	15	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Non-controlling interests:							
Profit attributable to non-controlling interests		**–**	**–**	**–**	**–**	**(3)**	**(3)**
		21	**(1)**	**–**	**20**	**(3)**	**17**
Balance at 30 September 2010		**17,043**	**(14,149)**	**1,204**	**4,098**	**55**	**4,153**

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 2010

	Notes	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Cash flows from operating activities				
Interest received		209	261	165
Interest and other costs of finance paid		(412)	(385)	(358)
Dividends and distributions received		85	95	204
Fees and other non-interest income received		1,207	1,467	1,410
Fees and commissions paid		(61)	(35)	(49)
Net receipts from trading portfolio assets and other financial assets/liabilities		649	391	142
Payments to suppliers		(250)	(436)	(325)
Employment expenses paid		(1,011)	(637)	(831)
Income tax paid		(38)	(45)	(49)
Net loan assets (granted)/repaid		(816)	2,587	(1,743)
Net decrease in amounts due to other financial institutions, deposits and other borrowings		(206)	(435)	(577)
Net cash flows (used in)/from operating activities	16	(644)	2,828	(2,011)
Cash flows from investing activities				
Net proceeds from financial assets available for sale and at fair value through profit or loss		477	441	624
Payments for interests in associates		(80)	(385)	(289)
Proceeds from the disposal of associates		71	220	15
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		–	–	8
Payments for the acquisition of subsidiaries and businesses, excluding disposal groups, net of cash acquired		29	(76)	(28)
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		7	(114)	524
Payments for property, plant and equipment		(58)	(72)	(38)
Proceeds from the disposal of management rights		–	428	–
Net cash flows from investing activities		446	442	816
Cash flows from financing activities				
Proceeds from/(payments to) non-controlling interests		3	(7)	(21)
Net cash flows from/(used in) financing activities		3	(7)	(21)
Net (decrease)/increase in cash and cash equivalents		(195)	3,263	(1,216)
Cash and cash equivalents at the beginning of the period		7,248	3,985	5,201
Cash and cash equivalents at the end of the period	16	7,053	7,248	3,985

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

Note 1

Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2010 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This half-year financial report comprises the consolidated financial report of Macquarie Financial Holdings Limited (MFHL or the Company) and the entities it controlled at the end of, or during, the period (the consolidated entity).

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 2010.

The consolidated entity is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 (as amended), relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' report and half-year financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of MFHL for the year ended 31 March 2010. Certain comparatives have been restated for consistency in presentation at 30 September 2010.

Accounting standards effective in the current period

AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* were issued in March 2008 and became applicable in the current period. These Standards amend the accounting for certain aspects of business combinations and changes in ownership interests in subsidiaries. Consequential amendments were also made to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

As a result of these revised Standards:

- transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;
- contingent obligations are measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) without regard to the probability of having to make a future payment, and all subsequent changes in fair value are recognised in profit or loss;
- changes in control are considered significant economic events, thereby requiring ownership interests to be re-measured to their fair value (and the gain/loss recognised in profit or loss) when control of a subsidiary is gained or lost; and
- changes in a parent's ownership interest in a subsidiary that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity.

The application of these revised Standards in the current period has resulted in the recognition of a loss in profit or loss as a result of the re-measurement of our retained ownership interest to fair value, on the loss of significant influence of an investment in an associate. This retained interest is accounted for as an available for sale investment.

As a result of now applying the revised AASB 3, the definition of a business is now modified: a) to require inputs and processes to always exist, but not necessarily include all inputs or processes that the seller used; b) to clarify the meanings of inputs and processes; and c) for the integrated activities and assets to only be capable of being conducted and managed for the purpose. Distinguishing between whether assets or a business is acquired therefore involves more judgement. Some of the factors that the consolidated entity uses in identifying a business combination are:

- the nature of the consolidated entity's industry and business model, which affects the nature of an input, process or output;
- whether the acquisition included at least a majority of the critical inputs (e.g. tangible or intangible assets, and intellectual property) and processes (e.g. strategic processes, skilled and experienced workforce);
- the relative ease of replacing critical processes not acquired by either integrating within the consolidated entity's existing processes or sub-contracting them to third parties; and
- the presence of goodwill.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010
continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 2			
Profit for the period			
Net interest expense			
Interest and similar income received/receivable:			
Other entities	**195**	150	185
Related body corporate entities	**85**	116	59
Interest expense and similar charges paid/payable:			
Other entities	**(132)**	(139)	(153)
Related body corporate entities	**(268)**	(257)	(205)
Net interest expense	**(120)**	(130)	(114)
Fee and commission income			
Base fees	**181**	220	242
Performance fees	**7**	1	12
Mergers and acquisitions, advisory and underwriting fees	**378**	474	574
Brokerage and commissions	**409**	380	410
Other fee and commission income	**216**	155	195
Total fee and commission income	**1,191**	1,230	1,433
Net trading income[1]			
Equities	**41**	53	(54)
Commodities	**(1)**	1	1
Foreign exchange products	**(8)**	(9)	16
Interest rate products	**45**	51	69
Net trading income	**77**	96	32
Share of net profit/(losses) of associates and joint ventures accounted for using the equity method	**61**	(38)	(186)

1 Included in net trading income are fair value losses of $175 million (half-year to 31 March 2010: $25 million gain; half-year to 30 September 2009: $52 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. 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.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains/(losses) on sale of investment securities available for sale	8	8	(5)
Impairment charge on investment securities available for sale	–	(1)	–
Net gains on sale of associates (including associates held for sale) and joint ventures	7	16	46
Impairment (charge)/write-back on investments in associates (including associates held for sale) and joint ventures[1]	(8)	23	(306)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	24	128	75
Loss on reclassification of retained investments[2]	(37)	–	–
Impairment (charge)/write-back on non-financial assets	(1)	17	(30)
Sale of management rights[3]	–	83	345
Net operating lease income[4]	30	27	40
Dividends/distributions received/receivable:			
Investment securities available for sale	58	4	6
Management fees, group service charges and cost recoveries	5	10	9
Collective allowance for credit losses written back during the period (note 5)	–	1	2
Specific provisions:			
Loan assets provided for during the period (note 5)	(4)	–	(1)
Other receivables provided for during the period	(10)	(4)	(14)
Recovery of other receivables previously provided for	–	7	5
Loan losses written off	–	(1)	(1)
Other (charges)/income	(42)	76	45
Total other operating income and charges	30	394	216
Net operating income	1,239	1,552	1,381

1 Includes impairment reversals of $nil (half-year to 31 March 2010: $43 million; half-year to 30 September 2009: $nil).

2 Includes loss on re-measurement of retained ownership interest to fair value on the loss of significant influence of an investment in an associate.

3 Sale of management rights to Macquarie Airports, Macquarie Media Group and Macquarie Infrastructure Group as part of the internalisation of the management of these funds.

4 Includes rental income of $42 million (half-year to 31 March 2010: $42 million; half-year to 30 September 2009: $54 million) less depreciation of $12 million (half-year to 31 March 2010: $15 million; half-year to 30 September 2009: $14 million) in relation to operating leases where the consolidated entity is the lessor.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010
continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	(639)	(629)	(670)
Share based payments	(61)	(88)	(38)
Provision for annual leave	(9)	(7)	(3)
Provision for long service leave	–	(2)	–
Total employment expenses	(709)	(726)	(711)
Brokerage and commission expenses			
Brokerage expenses	(48)	(41)	(43)
Other fee and commission expenses	(5)	(8)	(5)
Total brokerage and commission expenses	(53)	(49)	(48)
Occupancy expenses			
Operating lease rentals	(68)	(69)	(74)
Depreciation: furniture, fittings and leasehold improvements	(31)	(36)	(37)
Other occupancy expenses	(13)	(13)	(17)
Total occupancy expenses	(112)	(118)	(128)
Non-salary technology expenses			
Information services	(38)	(38)	(34)
Depreciation: computer equipment	(9)	(8)	(7)
Other non-salary technology expenses	(11)	(9)	(8)
Total non-salary technology expenses	(58)	(55)	(49)
Other operating expenses			
Professional fees	(43)	(61)	(49)
Auditor's remuneration	(3)	(10)	(3)
Travel and entertainment expenses	(46)	(50)	(39)
Advertising and promotional expenses	(5)	(3)	(2)
Communication expenses	(10)	(9)	(10)
Amortisation of intangibles	(9)	(6)	(4)
Depreciation: communication equipment	(1)	(1)	(2)
Other expenses[1]	(90)	(89)	(121)
Total other operating expenses	(207)	(229)	(230)
Total operating expenses	**(1,139)**	(1,177)	(1,166)

1 Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and central support functions.

	Half-year to 30 Sep 2010 $m	Half-year-to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 3

Income tax expense

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

Prima facie income tax expense on operating profit[1]	(30)	(112)	(65)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	39	(12)	60
Share based payments expense	(8)	(7)	(12)
Other items	–	(14)	4
Total income tax benefit/(expense)	1	(145)	(13)

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

Available for sale investments	(35)	42	(9)
Cash flow hedges	(2)	(2)	(16)
Share of other comprehensive income of associates and joint ventures	(8)	(15)	(11)
Foreign currency translation reserve	19	52	–
Total tax (expense)/benefit relating to items of other comprehensive income	(26)	77	(36)

1 Prima facie income tax expense on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2010: 30 per cent; half-year to 30 September 2009: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 4

Trading portfolio assets

Listed equity securities	600	646	797
Corporate bonds	76	–	–
Promissory notes	72	–	–
Bank bills	10	86	43
Certificates of deposit	8	82	77
Treasury notes	–	–	3
Total trading portfolio assets	766	814	920

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 5			
Loan assets held at amortised cost			
Due from clearing houses	72	71	51
Due from governments[1]	54	38	30
Due from other entities			
Other loans and advances	264	313	511
Less specific provisions for impairment	(18)	(15)	(15)
	246	298	496
Lease receivables	53	59	39
Less specific provisions for impairment	–	–	(1)
Total due from other entities	299	357	534
Total loan assets before collective allowance for credit losses	425	466	615
Less collective allowance for credit losses	(2)	(2)	(3)
Total loan assets held at amortised cost	423	464	612

1 Governments include federal, state and local governments and related enterprises in Australia.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Specific provisions for impairment			
Balance at the beginning of the period	15	16	17
Provided for during the period (note 2)	4	–	1
Loan assets written off, previously provided for	(1)	(1)	–
Transfer to related body corporate entities	–	–	(2)
Balance at the end of the period	18	15	16
Specific provisions as a percentage of total gross loan assets	4.06%	3.12%	2.54%
Collective allowance for credit losses			
Balance at the beginning of the period	2	3	5
Written back during the period (note 2)	–	(1)	(2)
Balance at the end of the period	2	2	3

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

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 6

Impaired financial assets

Impaired loan assets and other financial assets with specific provisions for impairment	**104**	95	107
Less specific provisions for impairment	**(77)**	(74)	(55)
Total impaired financial assets	**27**	21	52

Note 7

Other assets

Security settlements[1]	**4,486**	4,034	5,430
Debtors and prepayments	**1,007**	1,043	1,605
Assets under operating leases	**537**	549	565
Other	**7**	15	26
Total other assets	**6,037**	5,641	7,626

1 Security settlements are receivable within three working days of the relevant trade date.

Note 8

Investment securities available for sale

Equity securities			
Listed	**1,888**	582	100
Unlisted	**110**	112	168
Debt securities[1, 2]	**483**	777	1,604
Total investment securities available for sale	**2,481**	1,471	1,872

1 Includes $nil (31 March 2010: $381 million; 30 September 2009: $1,242 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $nil (31 March 2010: $nil; 30 September 2009: $21 million) of bank bills.

2 Included within this balance are debt securities of $106 million (31 March 2010: $316 million; 30 September 2009: $250 million), which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The consolidated entity does not have legal title to these assets, but has full economic exposure to them.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

Note 9
Interests in associates and joint ventures accounted for using the equity method

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Loans and investments without provisions for impairment	**1,311**	2,616	2,322
Loans and investments with provisions for impairment	**898**	885	2,160
Less provisions for impairment	**(401)**	(390)	(832)
Loans and investments at recoverable amount	**497**	495	1,328
Total interests in associates and joint ventures accounted for using the equity method	**1,808**	3,111	3,650

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by $104 million (31 March 2010: $665 million; 30 September 2009: $383 million).

Summarised information of interests in material associates and joint ventures accounted for using the equity method is as follows:

			Ownership interest		
Name of entity	Country of incorporation	Reporting date	As at 30 Sep 2010 %	As at 31 Mar 2010 %	As at 30 Sep 2009 %
Brisconnections Unit Trusts [1, a]	Australia	30 June	**46**	46	43
European Directories SA[1, b]	Luxembourg	31 December	**14**	14	14
Macquarie AirFinance Limited [1, a]	Bermuda	31 December	**38**	38	38
Macquarie Infrastructure Group [2, 3, a]	Australia	30 June	**–**	–	14
MAp [2, 4, 5, a]	Australia	31 December	**–**	22	21
Miclyn Express Offshore Limited [1, 6, c]	Bermuda	30 June	**34**	34	59
New World Gaming Partners Holdings British Columbia Limited [1, d]	Canada	31 December	**–**	31	31
Redford Australian Investment Trust [1, a]	Australia	31 December	**25**	25	29
Southern Cross Media Group [1, 7, e]	Australia	30 June	**26**	25	25

1 Significant influence arises due to the consolidated entity's voting power and board representation.

2 The consolidated entity had significant influence due to its fiduciary relationship as manager of these entities.

3 Due to a restructure of ownership these interests have now been classified as investment securities available for sale.

4 Previously known as Macquarie Airports.

5 During the period significant influence was lost and the investment is now classified as an investment security available for sale.

6 Miclyn Express Offshore Limited was listed on the Australian Securities Exchange during the half-year ended 31 March 2010. Prior to that it was known as MEO Holdings Limited.

7 Previously known as Macquarie Media Group.

a Infrastructure

b Directories business

c Metals, mining and energy

d Gaming Infrastructure

e Media, television, gaming and internet investments

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 10

Non-current assets and disposal groups classified as held for sale

Non-current assets and assets of disposal groups classified as held for sale			
Associates	75	76	27
Total non-current assets and assets of disposal groups classified as held for sale	75	76	27

All of the above non-current assets and assets of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale unless events or circumstances occur that are beyond the control of the consolidated entity, and the consolidated entity remains committed to its plan to sell the assets.

Summarised information of interests in material associates and joint ventures classified as held for sale is as follows:

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2010 %**	As at 31 Mar 2010 %	As at 30 Sep 2009 %
Retirement Villages Group [1, a]	Australia	30 June	10	10	10
US Senior Living Trust [a]	USA	31 December	–	–	50

All associates and joint ventures classified as held for sale are unlisted entities.

Voting power is equivalent to ownership interest unless otherwise stated.

1 The consolidated entity's interest in this entity was reclassified from interests in associates and joint ventures to held for sale during the half-year to 31 March 2010.

a Retirement homes

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 11

Trading portfolio liabilities

Listed equity securities	310	511	382
Total trading portfolio liabilities	310	511	382

Note 12

Debt issued at amortised cost

Debt issued at amortised cost	41	55	72
Total debt issued at amortised cost	41	55	72

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 13			
Other financial liabilities at fair value through profit or loss			
Debt issued at fair value	**1,243**	1,541	1,996
Equity linked notes	**445**	191	173
Exchangeable shares [1]	**70**	94	140
Total other financial liabilities at fair value through profit or loss	**1,758**	1,826	2,309

[1] Exchangeable shares were issued by two subsidiaries:

Issued in November 2007 as cash consideration for the acquisition of Orion Financial Inc. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (MGL) (subject to staff trading restrictions) and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.

Issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (MGL) (subject to staff trading restrictions) or cash at MGL's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:			
South African rand	**1,381**	1,565	2,007
Korean won	**337**	177	76
Canadian dollars	**70**	94	140
Euro	**11**	31	61
United States dollars	**–**	14	97
Total by currency	**1,799**	1,881	2,381

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. Securities can be issued for terms varying from one day to 30 years.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 14

Contributed equity

Ordinary share capital			
Opening balance of 16,711,909,270 (1 October 2009: 16,711,885,957; 1 April 2009: 16,911,925,667) fully paid ordinary shares	**16,757**	16,756	16,952
Issue of 40,964 shares (half-year to 31 March 2010: 23,313; half-year to 30 September 2009: 138,366) to Macquarie Group Limited on retraction of exchangeable shares in the range of $37.94 to $47.05 per share (half-year to 31 March 2010: $47.22 to $49.12; half-year to 30 September 2009: $27.75 to $49.23)	**2**	1	4
Capital reduction of 200,178,076 shares on 1 April 2009 at $1.00 per share in exchange for the distribution in specie by the Company of all Macquarie NB US Holdings Inc. Common Stock to Macquarie Group Limited	**–**	–	(200)
Closing balance of 16,711,950,234 (31 March 2010: 16,711,909,270; 30 September 2009: 16,711,885,957) fully paid ordinary shares	**16,759**	16,757	16,756
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**265**	231	193
Additional paid up capital	**19**	34	38
Balance at the end of the period	**284**	265	231

Notes to the consolidated financial statements
for the half-year ended 30 September 2010
continued

Note 15
Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	(95)	(128)	(43)
Currency translation differences arising during the period, net of hedge	(76)	33	(85)
Balance at the end of the period	**(171)**	(95)	(128)
Available for sale reserve			
Balance at the beginning of the period	(56)	46	(31)
Revaluation movement for the period, net of tax	81	(102)	77
Balance at the end of the period	**25**	(56)	46
Cash flow hedging reserve			
Balance at the beginning of the period	33	29	(7)
Revaluation movement for the period, net of tax	6	4	36
Balance at the end of the period	**39**	33	29
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	(34)	(69)	(95)
Share of reserves during the period	18	35	26
Balance at the end of the period	**(16)**	(34)	(69)
Reserves arising from group restructure of combining entities under common control			
Balance at the beginning of the period	(14,025)	(14,021)	(14,019)
Arising from acquisitions of subsidiaries from the Banking Group (note 18)	(1)	(4)	(2)
Balance at the end of the period	**(14,026)**	(14,025)	(14,021)
Total reserves at the end of the period	**(14,149)**	(14,177)	(14,143)
Retained earnings			
Balance at the beginning of the period	1,094	875	671
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Limited	110	219	204
Balance at the end of the period	**1,204**	1,094	875

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 15

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests			
Ordinary share capital	32	32	32
Preference share capital	–	–	5
Foreign currency translation reserve	(7)	(13)	(8)
Retained earnings	30	42	28
Total non-controlling interests	55	61	57

Note 16

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 is reconciled to related items in the consolidated statement of financial position as follows:

Due from related body corporate entity[1]	4,668	5,090	905
Due from other financial institutions			
Due from banks[2]	2,012	1,609	1,718
Trading securities[3]	373	549	1,362
Cash and cash equivalents at the end of the period	7,053	7,248	3,985

1 This comprises cash balances held with Macquarie Bank Limited.

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

3 Includes certificates of deposit and bank bills.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010
continued

Note 16

Notes to the consolidated statement of cash flows continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Reconciliation of profit after income tax to net cash flows (used in)/from operating activities			
Profit after income tax	101	230	202
Adjustments to profit:			
Depreciation and amortisation	62	66	64
Dividends received/receivable from associates	74	88	206
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	(7)	(48)	64
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	(24)	(128)	(75)
Impairment charge/(write-back) on financial and non-financial assets	23	(42)	345
Interest on available for sale financial assets	(18)	(15)	(64)
(Gain)/loss on disposal of property, plant and equipment	–	(2)	2
Net losses/(gains) on sale of investment securities available for sale and associates and joint ventures	22	(24)	(41)
Sale of management rights	–	(83)	(345)
Share based payments expense	19	34	38
Share of net (profits)/losses of associates and joint ventures accounted for using the equity method	(61)	38	186
Changes in assets and liabilities:			
Change in dividends receivable	(47)	3	(8)
Change in fees and non-interest income receivable	11	109	(131)
Change in fees and commissions payable	(8)	14	(1)
Change in tax balances	(39)	100	(36)
Change in provisions for employee entitlements	(11)	4	(3)
Change in loan assets	(816)	2,587	(1,743)
Change in debtors, prepayments, accrued charges and creditors	(88)	99	482
Change in net trading portfolio assets and liabilities and net derivative financial instruments	433	212	(561)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	(270)	(414)	(592)
Net cash flows (used in)/from operating activities	(644)	2,828	(2,011)

Note 17

Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Contingent liabilities exist in respect of:			
Guarantees	**41**	103	85
Total contingent liabilities[1]	**41**	103	85
Commitments exist in respect of:			
Undrawn credit facilities	**94**	42	20
Forward asset purchase	**797**	915	935
Total commitments[2]	**891**	957	955
Total contingent liabilities and commitments	**932**	1,060	1,040

1 Contingent liabilities exist in respect of claims and potential claims against the consolidated entity. They are reported as the maximum potential liability without considering the value of recovery of assets. Where necessary, appropriate provisions have been made in the financial statements. The Directors do not consider that the outcome of any such claims known to exist at the date of the half-year financial report, either individually or in aggregate, are likely to have a material effect on the results of its operations or its financial position.

2 Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

Note 18

Acquisitions and disposals of subsidiaries and businesses

Significant businesses acquired or consolidated due to acquisition of control:

- **Sal. Oppenheim**
  On 7 April 2010 a subsidiary of MFHL acquired the equity derivatives, cash equities sales and research businesses of Sal. Oppenheim jr. & Cie.

Other entities acquired or consolidated due to acquisition of control during the period are as follows:
Liberty Green Renewables Indiana LLC and Shinhan Macquarie Financial Advisory Co. Ltd.

Aggregate details of the above entities and businesses acquired or consolidated due to acquisition of control are as follows:

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Fair value of net assets acquired[1]			
Cash, other financial assets and other assets	37	190	112
Goodwill and other intangible assets	10	126	60
Property, plant and equipment	–	7	–
Payables, provisions, borrowings and other liabilities	(20)	(136)	(55)
Total fair value of net assets acquired[2]	27	187	117
Purchase consideration			
Cash consideration and costs directly attributable to acquisition	2	113	64
Deferred consideration	–	70	55
Total purchase consideration	2	183	119
Net cash flow			
Cash consideration and costs directly attributable to acquisition	(2)	(113)	(64)
Less cash and cash equivalents acquired	31	37	36
Net cash inflow/(outflow)	29	(76)	(28)

[1] In relation to acquisitions of subsidiaries from the Banking Group, assets and liabilities acquired are recognised at carrying amounts. In accordance with the consolidated entity's accounting policy, the difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in reserves. For the half-year to 30 September 2010 $1 million (half-year to 31 March 2010: $4 million; half-year to 30 September 2009: $2 million) was recognised in reserves – Reserves arising from group restructure of combining entities under common control.

[2] In connection with the acquisition of Sal. Oppenheim, the business was acquired at a $27 million discount to fair value, which included amounts received to cover expenses relating to integrating the business. The actual incurred expenses have been offset against the amount received within note 2 – Profit for the period.

The operating results of the acquisitions have not had a material impact on the results of the consolidated entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above.

The 31 March 2010 and 30 September 2009 comparatives relate principally to Tristone Capital Global Inc. and Fox-Pitt Kelton Group, being the significant entities acquired or consolidated due to acquisition of control.

Note 18

Acquisitions and disposals of subsidiaries and businesses continued

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

Other entities disposed of or deconsolidated during the period are as follows:
SiCURAnt InvestCo LP SPRL and Turramurra Limited.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash, other financial assets and other assets	2	48	562
Goodwill and other intangible assets	–	18	–
Property, plant and equipment	–	89	–
Payables, provisions, borrowings and other liabilities	(2)	(67)	(111)
Total carrying value of assets and liabilities disposed of or deconsolidated	–	88	451
Consideration received			
Consideration received in cash and cash equivalents	7	(80)	524
Consideration received in equity	–	85	–
Deferred consideration	–	14	–
Total consideration received	7	19	524
Net cash flow			
Cash received	7	(80)	524
Less cash and cash equivalents disposed of or deconsolidated	–	(34)	–
Net cash inflow/(outflow)	7	(114)	524

The 30 September 2009 comparatives relate principally to Macquarie Communications Infrastructure Management Limited and certain subsidiaries of MFHL, being the significant entities disposed of or deconsolidated due to loss of control. There were no significant disposals during the half-year to 31 March 2010.

During the half-year to 30 September 2009, the Company made an in-specie distribution of a subsidiary to its ultimate parent entity, MGL, with a corresponding reduction of its capital amounting to $200 million.

Note 19

Events occurring after balance sheet date

There were no material events subsequent to 30 September 2010 that have not been reflected in the financial statements.

Macquarie Financial Holdings Limited
Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 3 to 25 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Macquarie Financial Holdings Limited will be able to pay its debts as and when they become due and payable.

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

Robert Upfold
Director

Sydney
9 November 2010

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

PRICEWATERHOUSECOOPERS

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Macquarie Financial Holdings Limited, which comprises the statement of financial position as at 30 September 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Macquarie Financial Holdings Limited Group (the consolidated entity). The consolidated entity comprises both Macquarie Financial Holdings Limited (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* and for such 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 Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 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*. As the auditor of Macquarie Financial Holdings 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

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 Financial Holdings Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
9 November 2010

Financial report
for the half-year ended 30 September 2010

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