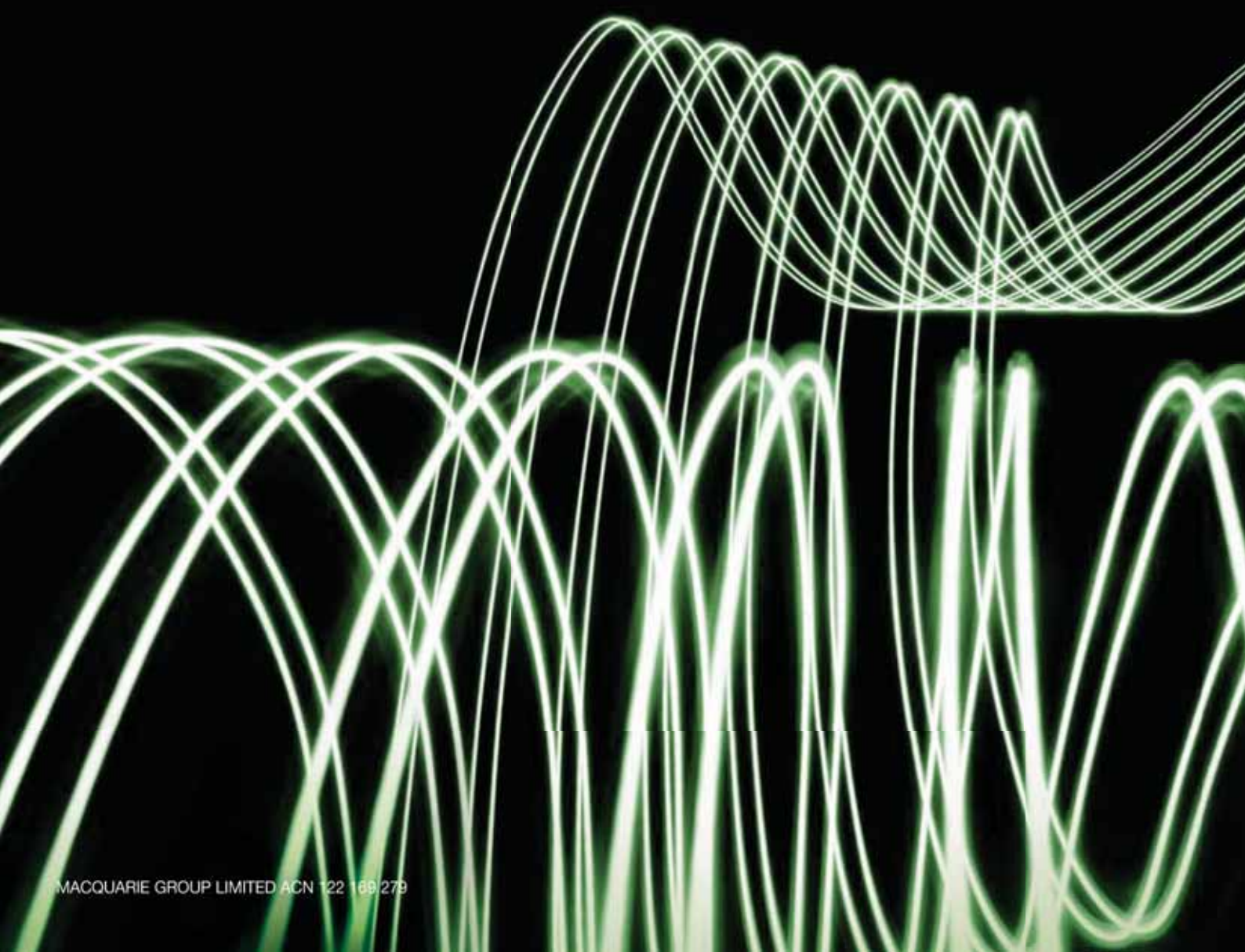


**MACQUARIE GROUP**  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED 31 MARCH 2009



MACQUARIE



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### **The Holey Dollar**

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for the Macquarie Group.



### **Cover image: Constellation Energy**

Constellation Energy is one of the largest marketers of natural gas in North America, providing physical natural gas to distribution companies, power generators, retail aggregators and large end-users in the United States and Canada.

The acquisition and integration of the Constellation downstream gas trading portfolio makes Macquarie Group's North American gas trading business, Macquarie Cook Energy, a leading participant in this key wholesale gas market.

Cover photograph Getty Images

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Comparative figures have been restated, where necessary, to conform with changes in current year financial presentation and group restructures.

All amounts in this report are in Australian dollars, unless otherwise stated. Movements over 300% are denoted as 'large' in the tables in this report.

References to the prior year are referring to the year ended 31 March 2008. References to the first half are referring to the six months ended 30 September 2008.

#### **Extracts from the Financial Report**

The financial information presented in the income statement in section 1.0 and balance sheet in section 5.6 have been extracted from the Macquarie Group Limited Financial Report for the year ended 31 March 2009, which was subject to independent audit by PricewaterhouseCoopers. PricewaterhouseCoopers' Independent Auditor's Report to the members of Macquarie Group Limited was unqualified.

# 1.0 Result overview

	Half year to			Full year to		
	Mar 09 \$m	Sep 08 \$m	Movement %	Mar 09 \$m	Mar 08 \$m	Movement %
<b>Income statement</b>						
Net interest income	418	520	(20)	938	817	15
Fee and commission income	1,890	2,155	(12)	4,045	4,645	(13)
Net trading income	435	722	(40)	1,157	1,835	(37)
Asset and equity investment income	(66)	(402)	(84)	(468)	839	(156)
Other income	(121)	(25)	large	(146)	112	(230)
Total operating income	2,556	2,970	(14)	5,526	8,248	(33)
Employment expenses	(1,094)	(1,265)	(14)	(2,359)	(4,177)	(44)
Brokerage and commission expenses	(374)	(311)	20	(685)	(702)	(2)
Other expenses	(826)	(667)	24	(1,493)	(1,164)	28
Total operating expenses	(2,294)	(2,243)	2	(4,537)	(6,043)	(25)
Operating profit before income tax	262	727	(64)	989	2,205	(55)
Income tax expense	64	(79)	(181)	(15)	(317)	(95)
Profit from ordinary activities after income tax	326	648	(50)	974	1,888	(48)
Distributions paid or provided on:						
Macquarie Income Preferred Securities	(22)	(23)	(4)	(45)	(50)	(10)
Macquarie Income Securities	(14)	(19)	(26)	(33)	(34)	(3)
Other minority interests	(23)	(2)	large	(25)	(1)	large
Profit attributable to minority interests	(59)	(44)	34	(103)	(85)	21
Profit attributable to ordinary equity holders of Macquarie Group Limited	267	604	(56)	871	1,803	(52)
<b>Income statement metrics</b>						
Expense to income ratio (%)	89.7	75.5		82.1	73.3	
Compensation ratio (%)	41.4	40.1		40.7	47.0	
Effective tax rate (%)	(19.9)	11.6		1.7	15	
Earnings per share:						
Basic earnings per share (cents per share)	94.1	216.6	(57)	309.6	670.6	(54)
Diluted earnings per share (cents per share)	94.1	215.2	(56)	308.6	653.5	(53)
Dividends per share (cents per share)	40.0	145.0	(72)	185.0	345.0	(46)
Dividend payout ratio (%)	42.7	67.4		60.2	52.2	
<b>Balance sheet metrics</b>						
Return on equity (%)	6.0	13.9		9.9	23.7	
Net loan losses as % of loan assets <sup>1</sup> (%)	1.9	0.6		1.9	0.3	
Net tangible assets per ordinary share <sup>2</sup> (dollars per share)	23.72	27.24	(13)	23.72	28.18	(16)
<b>Non-GAAP metrics</b>						
Total international income <sup>3</sup> (\$ million)	1,091	1,256	(13)	2,347	4,293	(45)
International income/total income <sup>3</sup> (%)	55	49		52	57	
Headcount	12,716	13,898	(9)	12,716	13,107	(3)
International headcount/total headcount (%)	43	43		43	40	
Assets under management (\$ billion)	243.1	239.2	2	243.1	232.0	5

1 Excludes securitisation SPVs and segregated futures funds.

2 Includes intangibles (net of associated deferred tax assets and deferred tax liabilities) within assets and disposal groups held for sale.

3 Excludes earnings on capital and other corporate items.

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## 1.0 Result overview

### continued

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Consolidated net profit after income tax attributable to ordinary equity holders for the year to 31 March 2009 was \$871 million, a 52% decrease from \$1,803 million in the prior year. The result was delivered in extremely difficult global financial market conditions and includes significant write-downs, impairment provisions, and equity accounted losses.

The lower result is reflected in a decrease in earnings per share from \$6.71 per share in the prior year to \$3.10 for the year to 31 March 2009. The final dividend declared of \$0.40 per share brings the total dividends for the year to \$1.85 per share (2008: \$3.45 per share), and the dividend payout ratio to 60% (2008: 52%).

Return on equity for the year to 31 March 2009 was 9.9%, down from 23.7% for the prior year. The decrease in the current year result combined with capital growth initiatives in recent years were the main drivers of the reduction in return on equity.

In July 2008 Macquarie further increased its regulatory capital base through the \$600 million issue of Macquarie Convertible Preference Securities (CPS). At 31 March 2009, Macquarie's regulatory capital surplus was \$3.1 billion.

Macquarie's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. In October 2008 the Australian Government established a program to guarantee deposits and wholesale funding of Australian Authorised Deposit-taking Institutions (ADI). Since the introduction of the program, Macquarie, via Macquarie Bank Limited (MBL), has issued \$14.0 billion of term wholesale funding under the guarantee. Cash and liquid assets increased from \$20.8 billion at 31 March 2008 to \$30.3 billion at 31 March 2009. Cash and liquid assets now represent over 40% of Macquarie's net funded assets.

#### Operating income

Total operating income for the year to 31 March 2009 was \$5,526 million, a 33% decrease on the prior year operating income of \$8,248 million. Reasonable corporate finance deal flow and an increased contribution from energy markets, particularly US gas and electricity trading, were offset by a significant decline in Macquarie Securities and retail broking income, especially in the second half of the year as global equity markets were severely impacted by challenging market conditions.

Income from asset and equity investments was a net loss for the year to 31 March 2009 of \$468 million due to a significant decrease in asset realisations combined with equity accounted losses and an increase in impairments on equity investments. The net loss for the year to 31 March 2009 was well down on the very strong prior year which included a number of significant realisations, including the IPO of Boart Longyear and the disposal of an investment in Macquarie-IMM Investment Management Co. Limited (Macquarie-IMM).

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Assets under management (AUM) at 31 March 2009 were \$243.1 billion, a 5% increase since 31 March 2008. Although AUM have shown an overall net increase, the result was in part due to the weakening of the Australian dollar against major global currencies, which in turn increased the value of AUM denominated in foreign currencies. In addition, the acquisition of the remaining shares in Allegiance Investment Management, a US fund manager, increased AUM by \$5.1 billion. This increase offset reductions in AUM due to falling equity indices impacting the value of listed securities, especially those funds managed by Macquarie Funds Group. Consequently, base management fees were marginally down on the prior year. Performance fees were down 39% on the prior year, from \$384 million to \$234 million, with minimal performance fees earned in the six months to 31 March 2009.

During the year Macquarie sold the majority of its Italian Mortgages portfolio, recognising a loss on the sale of \$189 million in addition to operating losses and other restructuring and redundancy costs for the business.

Included within operating income was an amount recognised as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value of \$274 million. In addition, Macquarie's financing of the acquisition of £150 million of Macquarie Income Preferred Securities (MIPS) contributed \$197 million to operating income.

International income amounted to 52% of Macquarie's total operating income for the year to 31 March 2009. International income was adversely impacted by the loss recognised on the Italian Mortgages portfolio sale.

### Operating expenses

Operating expenses were down 25% on the prior year from \$6,043 million to \$4,537 million.

Employment expenses, the largest contributor to operating expenses, were down 44% on the prior year from \$4,177 million to \$2,359 million primarily due to lower performance-related profit share expense. Performance related profit share expense is driven by net profit after tax and return on equity. The overall compensation ratio reduced from 47.0% in the prior year to 40.7% for the year to 31 March 2009.

The expense to income ratio for the year to 31 March 2009 was 82.1%, up from 73.3% in the prior year. The expense to income ratio has been adversely impacted by significant write-downs, impairment provisions and equity accounted losses recognised in the current year.



## 2.0 Segment analysis

### 2.1 Overview

	Macquarie Capital \$m	Treasury & Commodities \$m	Macquarie Securities \$m	Banking & Financial Services \$m
<b>Full year ended 31 March 2009</b>				
Net interest income/(expense)	(381)	34	13	425
Fee and commission income	2,072	166	844	697
Trading income	(239)	893	362	(38)
Asset and equity investment income	(291)	10	—	(167)
Other income/(expense)	361	(66)	125	(112)
Total operating income	1,522	1,037	1,344	805
Total operating expenses	(1,240)	(529)	(1,069)	(898)
Profit before tax	282	508	275	(93)
Tax expense	—	—	—	—
MIPS	—	—	—	—
MIS	—	—	—	—
Other minority interests	(31)	1	—	(6)
Profit contribution	251	509	275	(99)
<b>Full year ended 31 March 2008</b>				
Net interest income/(expense)	(289)	(84)	(190)	338
Fee and commission income	2,319	160	1,046	783
Trading income	(37)	744	1,078	29
Asset and equity investment income	719	108	—	(2)
Other income/(expense)	411	79	233	(7)
Total operating income	3,123	1,007	2,167	1,141
Total operating expenses	(887)	(405)	(950)	(901)
Profit before tax	2,236	602	1,217	240
Tax expense	—	—	—	—
MIPS	—	—	—	—
MIS	—	—	—	—
Other minority interests	1	—	—	(2)
Profit contribution	2,237	602	1,217	238



	Macquarie Funds \$m	Corporate & Asset Finance \$m	Real Estate Banking \$m	Corporate \$m	Total \$m
<b>Full year ended 31 March 2009</b>					
Net interest income/(expense)	65	129	(4)	657	938
Fee and commission income	285	14	55	(88)	4,045
Trading income	(10)	(9)	(6)	204	1,157
Asset and equity investment income	(15)	—	(149)	144	(468)
Other income/(expense)	12	77	(158)	(385)	(146)
Total operating income	337	211	(262)	532	5,526
Total operating expenses	(292)	(143)	(94)	(272)	(4,537)
Profit before tax	45	68	(356)	260	989
Tax expense	—	—	—	(15)	(15)
MIPS	—	—	—	(45)	(45)
MIS	—	—	—	(33)	(33)
Other minority interests	—	(2)	—	13	(25)
Profit contribution	45	66	(356)	180	871
<b>Full year ended 31 March 2008</b>					
Net interest income/(expense)	70	101	2	869	817
Fee and commission income	314	13	67	(57)	4,645
Trading income	21	3	4	(7)	1,835
Asset and equity investment income	105	—	(77)	(14)	839
Other income/(expense)	64	101	(36)	(733)	112
Total operating income	574	218	(40)	58	8,248
Total operating expenses	(269)	(105)	(90)	(2,436)	(6,043)
Profit before tax	305	113	(130)	(2,378)	2,205
Tax expense	—	—	—	(317)	(317)
MIPS	—	—	—	(50)	(50)
MIS	—	—	—	(34)	(34)
Other minority interests	2	(1)	—	(1)	(1)
Profit contribution	307	112	(130)	(2,780)	1,803

## 2.0 Segment analysis

### continued

	Macquarie Capital \$m	Treasury & Commodities \$m	Macquarie Securities \$m	Banking & Financial Services \$m
<b>Half year ended 31 March 2009</b>				
Net interest income/(expense)	(212)	60	(39)	223
Fee and commission income	993	99	372	312
Trading income	(173)	520	(52)	(28)
Asset and equity investment income	(72)	(51)	—	43
Other income/(expense)	173	(98)	110	(36)
Total operating income	709	530	391	514
Total operating expenses	(728)	(306)	(559)	(435)
Profit before tax	(19)	224	(168)	79
Tax expense	—	—	—	—
MIPS	—	—	—	—
MIS	—	—	—	—
Other minority interests	(31)	—	—	(4)
Profit contribution	(50)	224	(168)	75
<b>Half year ended 30 September 2008</b>				
Net interest income/(expense)	(169)	(26)	52	202
Fee and commission income	1,079	67	472	385
Trading income	(66)	373	414	(10)
Asset and equity investment income	(219)	61	—	(210)
Other income/(expense)	188	32	15	(76)
Total operating income	813	507	953	291
Total operating expenses	(512)	(223)	(510)	(463)
Profit before tax	301	284	443	(172)
Tax expense	—	—	—	—
MIPS	—	—	—	—
MIS	—	—	—	—
Other minority interests	—	1	—	(2)
Profit contribution	301	285	443	(174)

	Macquarie Funds \$m	Corporate & Asset Finance \$m	Real Estate Banking \$m	Corporate \$m	Total \$m
<b>Half year ended 31 March 2009</b>					
Net interest income/(expense)	33	81	28	244	418
Fee and commission income	140	6	28	(60)	1,890
Trading income	(6)	(9)	(5)	188	435
Asset and equity investment income	(18)	—	(128)	160	(66)
Other income/(expense)	7	14	(91)	(200)	(121)
Total operating income	156	92	(168)	332	2,556
Total operating expenses	(146)	(79)	(51)	10	(2,294)
Profit before tax	10	13	(219)	342	262
Tax expense	—	—	—	64	64
MIPS	—	—	—	(22)	(22)
MIS	—	—	—	(14)	(14)
Other minority interests	—	(1)	—	13	(23)
Profit contribution	10	12	(219)	383	267
<b>Half year ended 30 September 2008</b>					
Net interest income/(expense)	32	48	(32)	413	520
Fee and commission income	145	8	27	(28)	2,155
Trading income	(4)	—	(1)	16	722
Asset and equity investment income	3	—	(21)	(16)	(402)
Other income/(expense)	5	63	(67)	(185)	(25)
Total operating income	181	119	(94)	200	2,970
Total operating expenses	(146)	(64)	(43)	(282)	(2,243)
Profit before tax	35	55	(137)	(82)	727
Tax expense	—	—	—	(79)	(79)
MIPS	—	—	—	(23)	(23)
MIS	—	—	—	(19)	(19)
Other minority interests	—	(1)	—	—	(2)
Profit contribution	35	54	(137)	(203)	604

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## 2.0 Segment analysis

### continued

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#### Basis of preparation

##### Macquarie segments

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

For internal reporting and risk management purposes, Macquarie is divided into five operating groups and two divisions (generally referred to as "the groups"):

- Macquarie Capital
- Treasury and Commodities Group
- Macquarie Securities Group
- Banking and Financial Services
- Macquarie Funds Group
- Corporate and Asset Finance Division
- Real Estate Banking Division.

The Corporate segment includes Group Treasury, head office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to minority interests. The Corporate segment also includes the impact of changes in credit spread on non-trading financial instruments that are classified as fair value through profit or loss.

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

##### Derivatives economically hedging interest rate risk

Current Australian Accounting Standards require internal derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income so that both sides are eliminated and only external derivatives can form part of a hedge relationship. This has the effect of distorting the analysis of net interest income and trading income in each operating group. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against net interest income in the segments analysis.

##### Group restructures

In April 2008, the activities of the Equity Markets Group and the Macquarie Capital Securities division of Macquarie Capital were combined to form the new operating group called Macquarie Securities Group.

In August 2008, the activities of the Funds Management Group and the funds and funds-based structured products of the Macquarie Securities Group and the Macquarie Capital Products division of Macquarie Capital were combined to form the new operating group called Macquarie Funds Group.

The Macquarie Capital Finance Division of Macquarie Capital transferred to Macquarie Bank Limited during the year and was renamed Corporate and Asset Finance.

During the year the Real Estate Group was restructured resulting in the merger of some businesses into Macquarie Capital. The remaining businesses formed a new division called Real Estate Banking.

The results of these new operating groups and divisions are presented effective 1 April 2008, with the comparative information based on the aggregated results of the businesses that comprise the new operating groups and divisions.

## 2.2 Macquarie Capital

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Net interest income/(expense)</b>	<b>(212)</b>	(169)	25	<b>(381)</b>	(289)	32
<b>Fee and commission income</b>						
Base fees	266	252	6	518	523	(1)
Performance fees	9	210	(96)	219	321	(32)
Mergers and acquisitions, advisory and underwriting	590	566	4	1,156	1,310	(12)
Other fee and commission income	128	51	151	179	165	8
Total fee and commission income	993	1,079	(8)	2,072	2,319	(11)
<b>Net trading income</b>	<b>(173)</b>	(66)	162	<b>(239)</b>	(37)	large
<b>Asset and equity investment income</b>						
Asset and equity investment income	76	329	(77)	405	798	(49)
Impairment charges on equity investments	(148)	(548)	(73)	(696)	(79)	large
Total asset and equity investment income	(72)	(219)	(67)	(291)	719	(140)
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(16)	(17)	(6)	(33)	(11)	200
Operating lease income	54	40	35	94	35	169
Other income	44	—	n/a	44	(2)	(large)
Internal revenue	91	165	(45)	256	389	(34)
Total other income	173	188	(7)	361	411	(12)
Total operating income	709	813	(13)	1,522	3,123	(51)
<b>Operating expenses</b>						
Employment expenses	(354)	(264)	34	(618)	(465)	33
Brokerage and Commission expenses	(89)	(8)	large	(97)	(32)	203
Other operating expenses	(285)	(240)	19	(525)	(390)	35
Total operating expenses	(728)	(512)	42	(1,240)	(887)	40
Outside equity interests	(31)	—	n/a	(31)	1	(large)
<b>Total contribution to profit</b>	<b>(50)</b>	301	(117)	<b>251</b>	2,237	(89)
<b>Non-GAAP metrics</b>						
Equity under management (\$ billion)	53.3	55.8	(4)	53.3	58.0	(8)
Assets under management (\$ billion)	159.5	158.0	1	159.5	148.1	8
Headcount	2,617	3,049	(14)	2,617	2,786	(6)

Write-downs, impairment provisions and equity accounted losses totalled \$1,257 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Net trading income \$176 million (2008: \$50 million)
- Total asset and equity investment income \$1,048 million (2008: \$79 million)
- Specific provisions and collective allowance for credit losses \$33 million (2008: \$11 million).

## 2.0 Segment analysis

### continued

Macquarie Capital's result for the year to 31 March 2009 was \$251 million, down 89% on the record prior year. Macquarie Capital made a lower contribution due to extremely challenging market conditions. The result included impairment provisions, trading losses and equity accounted losses of \$1.3 billion.

#### Net interest income/(expense)

Net interest expense of \$381 million was up 32% on the prior year reflecting increased interest expense on borrowings for principal investments.

#### Base fee income

Base fee income for the year was \$518 million, 1% down on the prior year mainly as a result of a decline in the market capitalisation of listed funds, which was offset by new capital raisings and equity invested by Macquarie Capital unlisted funds. Significant base fees recognised included Macquarie Infrastructure Group (\$44 million), Macquarie Airports (\$34 million) and Macquarie Communications Infrastructure Group (\$22 million).

#### Performance fee income

Performance fees decreased from the prior year to \$219 million. A significant contributor in the first half of the year was the performance fee on the termination of the Advisory Agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited). Performance fees in the first half also included \$27 million from the DUET Group. Minimal performance fees were generated in the second half.

#### Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income for the year was \$1,156 million, down 12% on the prior year. The volume of deals in which Macquarie participated for the year to 31 March 2009 (299 deals valued at \$203 billion) was comparable to the prior year (304 deals valued at \$199 billion).

Significant advisory deals completed for the year ended 31 March 2009 included:

- Origin Energy Limited – exclusive financial adviser to Origin Energy in relation to their defence of BG Group's \$14 billion takeover offer and joint venture with ConocoPhillips of up to \$11 billion
- Rio Tinto Limited – adviser to Rio Tinto Group on its response to the pre-conditional takeover offers from BHP Billiton
- Puget Energy – adviser, sponsor, debt arranger and underwriter on the acquisition of Washington-based Puget Sound Energy and its parent company Puget Energy for \$US7.9 billion
- BAA debt refinance – Macquarie advised BAA Limited on its £16 billion (\$33.6 billion) refinancing
- BUPA/MBF merger – Macquarie advised BUPA on its \$2.4 billion merger with MBF
- Senoko Power acquisition – Macquarie advised a Marubeni-led consortium on the capital raising and acquisition of Senoko Power, the largest power generation company in Singapore
- AED Oil joint venture with Sinopec Group – Macquarie was adviser to AED Oil on the formation of a joint venture with Sinopec Group worth \$584 million
- Macquarie European Infrastructure Fund II (MEIF2) acquisition of GWE – Macquarie advised MEIF2 on the acquisition of GWE, a leading independent energy provider in Germany.

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### Net trading income

The net trading loss of \$239 million for the year included losses in relation to BrisConnections. The net trading loss for the year also included trading losses of \$101 million in relation to a US listed investment.

### Asset and equity investment income

Asset and equity investment income for the year was \$405 million, down 49% on a strong prior year, which included the sale of Boart Longyear Limited.

Asset and equity investment income for the year included the sale of investments in listed securities held as available for sale and the sale or partial sale of unlisted assets classified as held for sale.

Contributors to this income included:

- Dyno Nobel (residual holding)
- Boart Longyear (residual holding)
- Longview Oil and Gas assets
- Red Bee Media
- Tasmanian Gateway Corporation Holdings Pty Limited
- New World Gaming Partners Limited
- Puget Holdings LLC.

Also included in asset and equity investment income is Macquarie Capital's share of equity accounted income from associates. An increased contribution from Macquarie Capital's investment in Macquarie Airports was offset by losses from Macquarie Communications Infrastructure Group and other equity accounted investments.

### Impairment charges on equity investments

Impairment charges on equity investments were \$696 million for the year. These charges related to the write-down of holdings in listed securities of \$355 million (including Macquarie Infrastructure Group, Macquarie Infrastructure Company, Macquarie Media Group, DUET and BrisConnections), certain unlisted equity accounted investments (\$286 million), and the write-down of the US portfolios of asset-backed securities held as available for sale (\$55 million).

### Specific provisions and collective allowance for credit losses

Provisions against loans and receivables for the year were \$33 million, up from \$11 million in the prior year.

### Total operating expenses

Total expenses for the year were \$1,240 million, up 40% on the prior year. Employment expenses increased 33% to \$618 million reflecting a higher average headcount compared to the prior year, a number of one-off costs relating to business restructuring and the weakening of the Australian dollar increasing offshore employment costs.

Brokerage and commission expenses of \$97 million were up from \$32 million in the prior year with the increase predominantly relating to a one-off deal expense in 2009.

Other operating expenses increased 35% to \$525 million with the increase mainly due to the full year impact of operating expenses from consolidated assets, the full year impact of 2008 growth including new offices and increased offshore costs due to the weakening Australian dollar.



## 2.0 Segment analysis

### continued

#### 2.3 Treasury and Commodities

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Income from trading activities (including net interest income)<sup>1</sup></b>						
Commodities	425	225	89	650	409	59
Foreign exchange products	74	90	(18)	164	131	25
Interest rate products	81	32	153	113	120	(6)
Total income from trading activities (including net interest income)	580	347	67	927	660	40
<b>Fee and commission income</b>	99	67	48	166	160	4
<b>Asset and equity investment income</b>						
Asset and equity investment income	35	43	(19)	78	106	(26)
Impairment charges on equity investments	(88)	(32)	175	(120)	(22)	large
Other asset sales	2	50	(96)	52	24	117
Total asset and equity investment income	(51)	61	(184)	10	108	(91)
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(148)	(12)	large	(160)	(32)	large
Other income	21	7	200	28	16	75
Internal revenue	29	37	(22)	66	95	(31)
Total other income	(98)	32	(large)	(66)	79	(184)
Total operating income	530	507	5	1,037	1,007	3
<b>Operating expenses</b>						
Employment expenses	(103)	(72)	43	(175)	(123)	42
Brokerage and commission expenses	(50)	(41)	22	(91)	(93)	(2)
Other operating expenses	(153)	(110)	39	(263)	(189)	39
Total operating expenses	(306)	(223)	37	(529)	(405)	31
Outside equity interests	—	1	(100)	1	—	n/a
<b>Total contribution to profit</b>	224	285	(21)	509	602	(15)
<b>Non-GAAP metrics</b>						
Headcount	680	677	<1	680	611	11

1 The relative contribution of Net interest income and Trading income to Income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients. As such, to obtain a more complete view of the group's trading activities, Net interest income has been combined with Trading income above.

Write-downs and impairment provisions totalled \$330 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Total income from trading activities \$50 million (2008: \$38 million)
- Total asset and equity investment income \$120 million (2008: \$22 million)
- Specific provisions and collective allowance for credit losses \$160 million (2008: \$32 million).

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Treasury and Commodities' (T&C) result for the year was \$509 million, down 15% on the prior year.

#### **Commodities trading income**

Commodities trading income for the year was \$650 million, up 59% on the prior year. Commodity products trading (encompassing metals, energy and agricultural trading) experienced higher volatility, wider margins and an exit of competitors across a number of its markets.

Trading income in the Energy Markets division was significantly up on the prior year. The drivers of the result were increased market volatility and continued growth of various businesses. The biggest contributor was US Gas Trading, whilst other key contributors were US Power, UK Gas and Energy OTC.

The Agricultural and Investor Products division was down on a very strong prior year. Whilst a decline in revenue opportunities for investor products was experienced, increased market volatility resulted in increased activity in agricultural risk management services.

The Metals and Energy Capital division was again a significant contributor during the year. The Metals trading book had a strong year, also benefiting from volatile markets, fewer competitors and wider spreads.

#### **Foreign exchange products trading income**

Trading income on foreign exchange products was \$164 million, up 25% on the prior year. The Foreign Exchange division had a record year, benefiting from volatile currency markets and its positive effect on client demand for foreign exchange products, translating to increased volumes transacted.

#### **Interest rate products trading income**

Trading income on interest rate products was \$113 million for the year, down 6% on the prior year. The current year result included a strong contribution from the Interest Rate Derivative book but was also impacted by difficult market conditions and mark-to-market write-downs of \$50 million on CLO/CDO investments.

#### **Fee and commission income**

Fee and commission income for the year to 31 March 2009 was \$166 million, broadly in line with the prior year. The Futures division remains the key contributor to this income category.

#### **Asset and equity investment income**

Asset and equity investment income for the year to 31 March 2009 was \$78 million, down 26% on the prior year due to lower profits from the sale of equity investments in the resources sector.

#### **Impairment charges on equity investments**

Impairment charges of \$120 million were recognised mainly on listed equity investments in the resources sector.

#### **Other asset sales**

Income from other assets sales for the year to 31 March 2009 of \$52 million reflects the gain on sale of a number of resources related net profit interests in the Metals & Energy Capital division.

#### **Specific provisions and collective allowance for credit losses**

Net loan provisions totalled \$160 million for the year. There were \$135 million in specific provisions raised and an increase in the collective allowance for credit losses of \$25 million.

#### **Operating expenses**

Total operating expenses were \$529 million for the year to 31 March 2009, representing an increase of 31% on the prior year. Employment expenses were up 42% to \$175 million; this was driven by an increase in headcount and costs incurred in restructuring and growing the business. Other operating expenses of \$263 million were up 39% on the prior year mainly as a result of increased investment in IT infrastructure, including the development of new global Loan and Deposits system.

## 2.0 Segment analysis

### continued

#### 2.4 Macquarie Securities

	Half year to			Full year to		
	Mar 09 \$m	Sep 08 \$m	Movement %	Mar 09 \$m	Mar 08 \$m	Movement %
<b>Income from trading activities (including net interest income) – equities<sup>1</sup></b>	<b>(91)</b>	466	(120)	<b>375</b>	888	(58)
<b>Fee and commission income</b>						
Brokerage and commissions	281	407	(31)	688	867	(21)
Other fee and commission income	91	65	40	156	179	(13)
Total fee and commission income	372	472	(21)	844	1,046	(19)
<b>Other income</b>						
Other income	(2)	6	(133)	4	13	(69)
Internal revenue	112	9	large	121	220	(45)
Total other income	110	15	large	125	233	(46)
Total operating income	391	953	(59)	1,344	2,167	(38)
<b>Operating expenses</b>						
Employment expenses	(197)	(142)	39	(339)	(252)	35
Brokerage and commission expenses	(110)	(146)	(25)	(256)	(360)	(29)
Other operating expenses	(252)	(222)	14	(474)	(338)	40
Total operating expenses	(559)	(510)	10	(1,069)	(950)	13
<b>Total contribution to profit</b>	<b>(168)</b>	443	(138)	<b>275</b>	1,217	(77)
<b>Non-GAAP metrics</b>						
Headcount	1,540	1,777	(13)	1,540	1,596	(4)

- 1 The relative contribution of Net interest income and Trading income to Income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients. As such, to obtain a more complete view of the group's trading activities, Net interest income has been combined with Trading income above.

Write-downs and impairment provisions totalled \$35 million for the year ended 31 March 2009. These are reflected in Income from trading activities \$35 million (2008: \$nil).

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Macquarie Securities recorded a result of \$275 million for the year to 31 March 2009, down 77% on the prior year.

#### **Income from trading activities (including net interest income)**

Trading income from equity products (including net interest income) was \$375 million for the 12 months to 31 March 2009, down 58% on the prior year. A significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses contributed to the decline in derivatives trading income. Dislocation in global equity markets and continued volatility delivered arbitrage trading income that was slightly down on the prior year. Hedge fund de-leveraging, redemptions and regulatory changes to short selling resulted in a substantial decline in Synthetic Products revenues. Structured Equity Finance revenues were down significantly as a result of lower stock borrow and loan volumes. In addition, the trading result for the year included a provision for losses on BrisConnections.

#### **Fee and commission income**

Fee and commission income for the 12 months to 31 March 2009 was \$844 million, down 19% on the prior year. This income category largely consists of brokerage and commission income, which predominantly includes transaction related fees from cash equities services provided to institutional clients.

During the year, a decline in equity market values, the de-leveraging of certain market participants and a flight of investors from equities saw significantly lower equity market volumes than the prior year.

The decrease in brokerage income, due to lower overall market turnover (down 25% in Australia and 32% in Asia on the prior year), was partially offset by the full year contribution from secondary market brokerage from the Canadian business (acquired December 2007) and income from the US and European greenfield cash equities businesses that continue to be built out.

#### **Employment expenses**

Employment expenses have increased 35% over the prior year to \$339 million. The increase was mainly driven by the depreciation of the Australian dollar against the US dollar and Euro during the year, impacting remuneration costs of overseas staff. In addition, the current year employment expense includes the full year impact of the Canadian cash equities business (acquired December 2007), and the US and European greenfield cash equities businesses build out. The last quarter of the year has seen re-alignment of resources as a result of the current market activity.

#### **Brokerage and commission expenses**

Brokerage and commission expenses were \$256 million for the 12 months to 31 March 2009, down 29% on the prior year. The decrease in Brokerage and commission expenses was driven by lower trading volumes during the year.

#### **Other operating expenses**

Other operating expenses were \$474 million, representing an increase of 40% on the prior year. The increase was predominantly due to continued investment on enhancing the IT platform for both front and back office functions and the increased offshore expense driven by the depreciation of the Australian dollar against the US dollar and Euro.

## 2.0 Segment analysis

### continued

#### 2.5 Banking and Financial Services

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Net interest income/(expense)</b>	<b>223</b>	202	10	<b>425</b>	338	26
<b>Fee and commission income</b>						
Base fees	109	120	(9)	229	247	(7)
Brokerage and commissions	80	118	(32)	198	256	(23)
Platform and other administration fee income	61	73	(16)	134	144	(7)
Banking, lending and securitisation	42	33	27	75	57	32
Other fee and commission income	4	27	(85)	31	50	(38)
Income from life insurance business and other unit holder businesses	16	14	14	30	29	3
Total fee and commission income	312	385	(19)	697	783	(11)
<b>Net trading income</b>	<b>(28)</b>	(10)	180	<b>(38)</b>	29	(231)
<b>Asset and equity investment income</b>						
Impairment charges on equity investments	(8)	(208)	(96)	(216)	(3)	large
Asset and equity investment income	51	(2)	(large)	49	1	large
Total asset and equity investment income	43	(210)	(120)	(167)	(2)	large
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(45)	(51)	12	(96)	(26)	269
Other income	3	3	—	6	12	(50)
Internal revenue	6	(28)	(121)	(22)	7	(large)
Total other income	(36)	(76)	(53)	(112)	(7)	large
Total operating income	514	291	77	805	1,141	(29)
<b>Operating expenses</b>						
Employment expenses	(180)	(214)	(16)	(394)	(427)	(8)
Brokerage and commission expenses	(73)	(67)	9	(140)	(117)	20
Other operating expenses	(182)	(182)	—	(364)	(357)	2
Total operating expenses	(435)	(463)	(6)	(898)	(901)	<1
Outside equity interests	(4)	(2)	100	(6)	(2)	200
<b>Total contribution to profit</b>	<b>75</b>	(174)	(143)	<b>(99)</b>	238	(142)
<b>Non-GAAP metrics</b>						
Assets under management <sup>1</sup> (\$ billion)	19.2	21.2	(9)	19.2	23.1	(17)
Funds under management/advice/administration <sup>2</sup> (\$ billion)	104.0	106.0	(2)	104.0	114.0	(9)
Headcount	2,598	2,779	(7)	2,598	3,058	(15)

1 The Macquarie CMT, included in BFS AUM above, is a BFS product that is managed by MFG. The CMT closed at \$14.7 billion at 31 March 2009 (30 September 2008: \$16.1 billion; 31 March 2008: \$17.6 billion).

2 Funds under management/advice/administration includes assets under management plus items such as funds on BFS platforms (e.g. Wrap FUA), total BFS loan and deposit portfolios, CHESS holdings of BFS clients, and funds under advice (e.g. assets under advice of Macquarie Private Bank).

Write-downs and impairment provisions totalled \$387 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Net trading income \$44 million (2008: \$nil)
- Total asset and equity investment income \$216 million (2008: \$3 million)
- Specific provisions and collective allowance for credit losses \$96 million (2008: \$26 million)
- Total operating expenses \$31 million (2008: \$nil).

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Banking and Financial Services' (BFS) loss of \$99 million for the year was mainly driven by losses recognised on the sale of the Italian mortgages portfolio.

#### **Net interest income/(expense)**

Net interest income for the year to 31 March 2009 was up 26% on the prior year to \$425 million.

Retail deposits grew 103% over the year to \$13.4 billion. This strong growth in deposits was achieved through issuance of new cash product offerings such as Cash XL, the Cash Management Account and deposits via Macquarie Wrap.

In March 2008, Macquarie announced it would wind back its Australian residential mortgage origination services for both retail and wholesale clients due to the significant increase in funding costs and current conditions in the global mortgage securitisation market. The ongoing business has been profitable as the portfolio runs off. The Australian mortgage book has reduced in size from \$23.7 billion at 31 March 2008 to \$18.3 billion at 31 March 2009.

The Canadian mortgages business is able to access the Canadian Mortgage Bond programme. All Canadian mortgages are insured by an agency backed by the Canadian government.

The US mortgages business has been closed and the book is being run down. Default rates are well below industry averages.

In April 2008 the decision to cease originating new fixed rate Consumer Loans was announced. The business will continue to provide services to existing clients. Outstanding loans were approximately \$120 million at 31 March 2009.

In January 2009 Macquarie sold the majority of its margin lending business. As a result of the sale, combined with poor conditions in equity markets, the investment lending portfolio has fallen from \$6.0 billion at 31 March 2008 to \$2.2 billion at 31 March 2009. Macquarie retained a portfolio of loans related to structured products and a small book of margin loans.

#### **Base fee income**

Base fee income for year to 31 March 2009 was \$229 million, a 7% decrease over the prior year. The Cash Management Trust (CMT) was \$14.7 billion at 31 March 2009, down 16% since March 2008.

The Macquarie Pastoral Fund grew by 256% during the year, with funds under management of \$434 million at 31 March 2009.

#### **Brokerage and commission income**

Brokerage and commission income was down 23% over the prior year. Despite difficult market conditions, Macquarie Private Wealth (MPW) maintained its position as the number one full-service retail stockbroker in Australia in terms of consideration traded. However, MPW's volumes were down 34% on the prior year.

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## 2.0 Segment analysis

### continued

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#### Platform and other administration fee income

Platform and other administration fee income was \$134 million, down 7% on the prior year. Wrap funds under administration (FUA) decreased from \$22.5 billion at 31 March 2008 to \$17.5 billion at 31 March 2009, mainly due to negative market movements offsetting good FUA inflows. Macquarie Wrap was ranked number one for Wrap inflows in the Australian market for the 2008 calendar year.

#### Banking, lending and securitisation fee income

Banking, lending and securitisation fee income was up 32% over the prior year. This mainly relates to the mortgages and Macquarie Relationship Banking servicing and administration fees.

#### Net trading income

The \$20 million loss on the sale of MPW's holding in BrisConnections in the first half was the major contributor to BFS' \$38 million trading loss for the year. BFS had sold all of its holding in BrisConnections by 31 March 2009.

#### Asset and equity investment income

A premium of \$52 million was received on the sale of the margin lending portfolio discussed above. After provisions for redundancies and other closure costs, BFS recognised a profit on sale of \$41 million. This was the main contributor to the \$49 million asset and equity investment income for the year.

#### Impairment charges on asset and equity investments

Impairment charges on asset and equity investments were up substantially on the prior year due to losses of \$189 million recognised on the sale of the Italian mortgages portfolio combined with falling asset values as a result of the conditions in financial markets.

Difficult economic conditions in Italy coupled with the effective closure of international securitisation markets led to the decision to cease originating residential mortgages in Italy in June 2008. Macquarie announced in October 2008 that it had signed an agreement to sell its portfolio of Italian mortgages.

#### Specific provisions and collective allowance for credit losses

Specific and collective provisions against loans for the year were significantly higher than the prior year as additional loan provisions were required across all loan portfolios due to the slow down in economic activity in all markets and falling house prices in the US.

#### Operating expenses

Employment expenses were down 8% on the prior year, in line with a decrease in headcount. Remuneration of some staff (mainly financial planners and advisers) within BFS includes a commission component. Commission payments to staff were down as a result of the decrease in brokerage and commission income.

Brokerage and commissions expenses are driven by fees paid to external distributors of BFS products and/or services. These expenses were up 20% on the prior year to \$140 million, driven by additional fees paid due to growth in insurance related business, including sales of insurance policies and funding of insurance premiums.

Other operating expenses were broadly in line with the prior year.



## 2.6 Macquarie Funds

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Net interest income/(expense)</b>	<b>33</b>	32	3	<b>65</b>	70	(7)
<b>Fee and commission income</b>						
Base fees	76	66	15	142	158	(10)
Performance fees	6	8	(25)	14	45	(69)
Other fee and commission income	58	71	(18)	129	111	16
Total fee and commission income	140	145	(3)	285	314	(9)
<b>Net trading income</b>	<b>(6)</b>	(4)	50	<b>(10)</b>	21	(148)
<b>Asset and equity investment income</b>	<b>(18)</b>	3	(large)	<b>(15)</b>	105	(114)
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(9)	—	n/a	(9)	(2)	large
Other income	13	4	225	17	24	(29)
Internal revenue	3	1	200	4	42	(90)
Total other income	7	5	40	12	64	(81)
Total operating income	156	181	(14)	337	574	(41)
<b>Operating expenses</b>						
Employment expenses	(61)	(44)	39	(105)	(74)	42
Brokerage and commission expenses	(27)	(45)	(40)	(72)	(87)	(17)
Other operating expenses	(58)	(57)	2	(115)	(108)	6
Total operating expenses	(146)	(146)	—	(292)	(269)	9
Outside equity interests	—	—	—	—	2	(100)
<b>Total contribution to profit</b>	<b>10</b>	35	(71)	<b>45</b>	307	(85)
<b>Non-GAAP metrics</b>						
Assets under management <sup>1</sup> (\$ billion)	49.7	44.8	11	49.7	47.3	5
Headcount <sup>2</sup>	583	572	2	583	496	18

1 The Macquarie CMT, excluded from MFG's AUM reported above, is a BFS product that is managed by MFG. The CMT closed at \$14.7 billion at 31 March 2009 (30 September 2008: \$16.1 billion; 31 March 2008: \$17.6 billion).

2 MFG's headcount increased by 198 new staff during the period, offset by a reduction in staff of 111. The acquisition and consolidation of fund managers in the US during the year, as well as the internal transfer of a European distribution business from Macquarie Securities Group, contributed 66 staff members to the headcount increase in 2009.

Write-downs, impairment provisions and equity accounted losses totalled \$25 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Asset and equity investment income \$16 million (2008: \$nil)
- Specific provisions and collective allowance for credit losses \$9 million (2008: \$2 million).

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## 2.0 Segment analysis

### continued

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Macquarie Funds Group's (MFG) result was \$45 million for the year to 31 March 2009, down 85% on the prior year, which included a large gain on the sale of Macquarie-IMM. Excluding the impact of this gain, MFG's result was down 76% on the prior year.

#### Net interest income/(expense)

Net interest income was \$65 million, down 7% on the prior year. This result was driven largely by a decrease in loans provided which fell as a result of redemptions from MFG's structured investment offerings.

#### Base fees

Base fee revenue was \$142 million, down 10% on the prior year due to the decrease in AUM, excluding Allegiance Investment Management AUM acquired in January 2009. Base fee revenue was lower across most asset classes, particularly in real estate and infrastructure.

Total AUM increased 5% to \$49.7 billion at 31 March 2009 from \$47.3 billion at 31 March 2008. The increase included \$5.1 billion AUM from MFG's acquisition of the remaining shares in Allegiance Investment Management in January 2009. Excluding the impact of this, AUM decreased 6% to \$44.6 billion at 31 March 2009. AUM was negatively impacted by market falls and outflows from hedge funds and Asian retail investors, partially offset by inflows from Australian investors. The fall in base fee revenue was greater than the decrease in AUM due to fund redemptions from higher margin products, and also that the decrease in AUM would have been greater but for a \$1.7 billion mandate won in March 2009.

#### Performance fees

Performance fee revenue was \$14 million, down 69% on a strong prior year that included significant performance fees from the Listed Equities division.

#### Other fee and commission income

Other fee and commission income increased 16% during the year to \$129 million. Included in Other fee and commission income are structuring fees, capital protection fees, wholesale threshold management fees and internal fees received for managing BFS products.

Structuring fees were down on the prior year due to lower Australian and European retail product raisings. Wholesale threshold management fees also declined as the base on which these were earned was affected by adverse market conditions. These decreases were offset by significantly higher income from the True Index products due particularly to strong performance by the Real Estate Securities division. Another strong contributor was the income from the German investment distribution business.

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### Net trading income

Net trading income includes the results for MFG's seed investments and some products offered by the Investment Solutions & Distribution division. MFG incurred a trading loss of \$10 million for the year to 31 March 2009, compared to a trading income of \$21 million in the prior year. Seed investments were impacted by the negative performance of markets.

### Asset and equity investment income

Asset and equity investment loss for the year was \$15 million, compared to a gain of \$105 million in the prior year, which included a significant gain on the sale of investment in Macquarie-IMM. The current year result largely consisted of equity accounted losses and diminution in the value of investment securities from Four Corners Capital Management, Fortress Trust, MD Sass Financial Strategies Investment Vehicle, LLC and the UK open-ended investment company, CF Macquarie Global Infrastructure Securities Fund.

### Other income

Other income was \$17 million for the year to 31 March 2009, down 29% on the prior year result, which included profit from the disposal of held for sale investments. The current period result includes dilution gains on the sale of joint venture interests (\$4 million) and seasonal inventory sales associated with the agricultural funds management business (\$9 million).

### Total operating expenses

Total operating expenses were \$292 million, up 9% on the prior year. This was mainly due to higher overall staff numbers as a result of the acquisition and consolidation of Allegiance Investment Management and Four Corners Capital Management in the US, as well as the internal transfer of a European distribution business from the Macquarie Securities Group, which contributed 66 staff members to the overall headcount in 2009. The increase in employment expenses was partially offset by reduced IT system costs associated with a new investment accounting and administration system implemented during the prior year, and lower brokerage and commission expenses associated with lower structured product raisings in the current year.

## 2.0 Segment analysis

### continued

#### 2.7 Corporate and Asset Finance

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Net interest income/(expense)</b>	<b>81</b>	48	69	<b>129</b>	101	28
<b>Fee and commission income</b>	<b>6</b>	8	(25)	<b>14</b>	13	8
<b>Net trading income</b>	<b>(9)</b>	—	n/a	<b>(9)</b>	3	(large)
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(33)	(11)	(200)	(44)	(15)	193
Operating lease income	70	44	59	114	67	70
Other income	(31)	21	(248)	(10)	41	(124)
Internal revenue	8	9	(11)	17	8	113
Total other income	14	63	(78)	77	101	(24)
Total operating income	92	119	(23)	211	218	(3)
<b>Operating expenses</b>						
Employment expenses	(42)	(33)	27	(75)	(55)	36
Other operating expenses	(37)	(31)	19	(68)	(50)	36
Total operating expenses	(79)	(64)	23	(143)	(105)	36
<b>Outside equity interests</b>	<b>(1)</b>	(1)	—	<b>(2)</b>	(1)	100
<b>Total contribution to profit</b>	<b>12</b>	54	(78)	<b>66</b>	112	(41)
<b>Non-GAAP metrics</b>						
Headcount	539	546	(1)	539	545	(1)

Write-downs and impairment provisions totalled \$77 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Specific provisions and collective allowance for credit losses \$44 million (2008: \$15 million)
- Other income \$33 million (2008: \$nil).

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Corporate and Asset Finance's result for the year to 31 March 2009 was \$66 million, down 41% on the strong prior year.

#### **Net interest income**

The 28% increase in net interest income on the combined loan and leasing book was due to portfolio growth, higher margins and the full year impact from the acquisition of Macquarie Equipment Finance US (formerly CIT Equipment Leasing) in December 2007.

#### **Specific provisions and allowances for credit losses**

The charge for specific provisions and allowance for credit losses of \$44 million for the year is a result of portfolio growth and losses incurred across the businesses.

#### **Operating lease income**

Operating lease income, net of depreciation, for the year to 31 March 2009 was \$114 million, up 70% on the prior year reflecting the growth in the operating lease portfolio, particularly the Electronics business.

#### **Other income**

A loss of \$10 million was due to the reduced sales activity in the second six months of the year together with provisions for impairment against the value of inventory and off-lease assets held.

#### **Total operating expenses**

Total expenses were \$143 million for the year to 31 March 2009, up 36% on the prior year. This increase was mainly driven by the full year impact of the additional headcount and other related costs resulting from the acquisition of Macquarie Equipment Finance US (formerly CIT Equipment Leasing) in December 2007.

## 2.0 Segment analysis

### continued

#### 2.8 Real Estate Banking

	Half year to			Full year to		
	Mar 09	Sep 08	Movement	Mar 09	Mar 08	Movement
	\$m	\$m	%	\$m	\$m	%
<b>Net interest income/(expense)</b>	<b>28</b>	(32)	(188)	<b>(4)</b>	2	(300)
<b>Fee and commission income</b>						
Base fees	16	16	—	32	31	3
Performance fees	1	1	—	2	18	(89)
Advisory fee income	10	1	large	11	—	n/a
Other fee and commission income	1	9	(89)	10	18	(44)
Total fee and commission income	28	27	4	55	67	(18)
<b>Net trading income</b>	<b>(5)</b>	(1)	large	<b>(6)</b>	4	(250)
<b>Asset and equity investment income</b>						
Asset and equity investment income	(11)	42	(126)	31	184	(83)
Impairment charges on equity investments and non-financial assets	(117)	(69)	70	(186)	(301)	(38)
Other asset sales	—	6	(100)	6	40	(85)
Total asset and equity investment income	(128)	(21)	large	(149)	(77)	94
<b>Other income</b>						
Specific provisions and collective allowance for credit losses	(101)	(69)	46	(170)	(13)	large
Other income	11	13	(15)	24	16	50
Internal revenue	(1)	(11)	(91)	(12)	(39)	(69)
Total other income	(91)	(67)	36	(158)	(36)	large
Total operating income	(168)	(94)	79	(262)	(40)	large
<b>Operating expenses</b>						
Employment expenses	(16)	(16)	—	(32)	(33)	(3)
Other operating expenses	(35)	(27)	30	(62)	(57)	9
Total operating expenses	(51)	(43)	19	(94)	(90)	4
<b>Total contribution to profit</b>	<b>(219)</b>	(137)	60	<b>(356)</b>	(130)	174
<b>Non-GAAP metrics</b>						
Assets under management (\$ billion)	14.8	15.2	(3)	14.8	13.6	9
Headcount	136	214	(36)	136	213	(36)

Write-downs, impairment provisions and equity accounted losses totalled \$387 million for the year ended 31 March 2009. These are reflected in the following lines above:

- Total asset and equity investment income \$217 million (2008: \$301 million)
- Specific provisions and collective allowance for credit losses \$170 million (2008: \$13 million).

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During the year the majority of the Real Estate Group platform was merged with Macquarie Capital to create an integrated real estate platform in order to maximise domestic and international real estate growth opportunities (including funds management, advisory and principal activities) and to leverage expertise from all Macquarie Capital industry and product teams. The remaining businesses formed a new division called Real Estate Banking.

Real Estate Banking's (REB) loss for the year to 31 March 2009 was \$356 million. The year has been challenging for REB with the financial crisis significantly impacting real estate markets worldwide. Consequently, REB has recognised a number of provisions and impairment charges during the year.

#### **Net interest income/(expense)**

Net interest expense for the year to 31 March 2009 was \$4 million. The change between the first half of the year and the second half reflects additional interest income and fees from the loan portfolio. This includes \$26 million of interest and \$9 million of risk participation fee accruals on loans previously on zero accrual in the Structured Finance loan book and \$19 million on Medallist US shareholder loans to lift the interest rate to entitlement over the prior three years.

#### **Base and performance fee income**

Base management fee income for the year to 31 March 2009 was \$32 million, broadly in line with the prior year.

Minimal performance fee income was recognised in the year to 31 March 2009 as a result of the general downturn in global real estate markets.

#### **Advisory fee income**

Advisory fee income, net of service fee charges from MacCap Advisers for the year to 31 March 2009 was \$11 million. The main fee income for the year related to advisory fees on the sale of the interest in Macquarie Prime REIT and its manager. Additional fees were earned on the capital raising for MGPA Fund III.

#### **Other fee and commission income**

Other fee and commission income of \$10 million in the year to 31 March 2009 included fees recognised on a number of real estate transactions, including property development activities, which declined as a result of reduced activity across all real estate markets.



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## 2.0 Segment analysis

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#### Asset and equity investment income

Asset and equity investment income of \$31 million for the year to 31 March 2009 was driven by REB's share of equity accounted income from associates. Overall income was substantially down on the prior year. Equity accounted income from MGPA provided a solid contribution, which included the underlying receipt of management and performance fees.

The disposal of the Macquarie Goodman Asia business and the exit from Macquarie Prime REIT and its manager contributed a small net profit.

#### Impairment charges on equity investments and non-financial assets

Difficult market conditions have resulted in further impairments of \$186 million. Write-downs during the year included:

- \$30 million on Australian listed (Macquarie CountryWide Trust and Macquarie Office Trust) and unlisted REIT investments;
- \$101 million on offshore listed investments,
- \$3 million of direct property write-downs and \$12 million on Structured Finance equity investments; and
- \$40 million of inventory write-downs.

#### Other asset sales

Other asset sales in 2008 related to the sale of a portfolio of residential and office properties in Japan.

#### Specific provisions and collective allowance for loan losses

Difficult market conditions have resulted in specific provisions and an increase in the collective allowance for credit losses on real estate loans of \$170 million in the year ended 31 March 2009, mostly attributable to loans made to developers with US residential market exposure.

#### Operating expenses

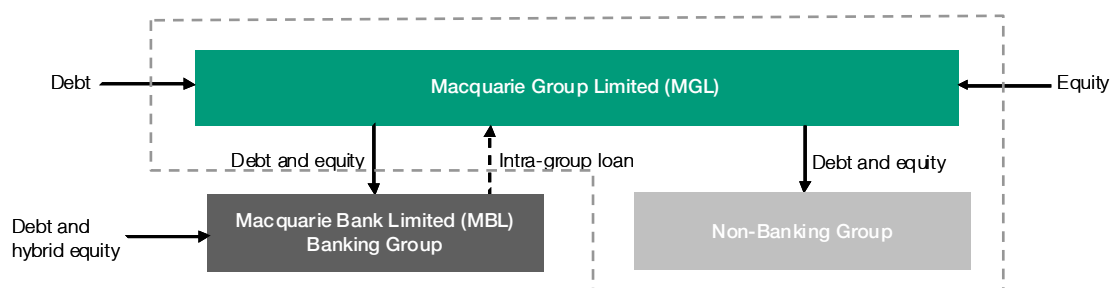
Operating expenses for the year ended 31 March 2009 of \$94 million were broadly in line with the prior year. Recent decreases in headcount have not yet been reflected in employment expenses.

## 3.0 Funding and liquidity

### 3.1 Overview

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

The high level funding relationships of the Group are shown below:



#### Liquidity management

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee, the MGL and MBL Boards and the Risk Management Group (RMG). MGL Group and MBL Group's liquidity policies are approved by their respective Boards after endorsement by the Asset and Liability Committee. The Asset and Liability Committee include the Chief Executive Officer, Chief Financial Officer, Head of RMG, Treasurer and Business Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

#### Liquidity policy and principles

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its repayment obligations for the next 12 months with no access to funding markets.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding. MGL has no short term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its repayment obligations for the next 12 months through a period of constrained access to wholesale funding markets. MBL is funded mainly by capital, long term liabilities and deposits.

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## 3.0 Funding and liquidity continued

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The liquidity management principles apply to both MGL and MBL and include the following:

### Liquidity and funding management

- All liquidity requirements are managed centrally by Group Treasury
- Liquidity risk is managed through setting limits on the maturity profile of assets and liabilities
- A Liquidity Contingency Plan is approved by the Board and reviewed periodically
- A funding plan is prepared annually and the funding position is monitored throughout the year
- Diversity and stability of funding sources is a key priority.

### Liquidity limits

- Term assets must be funded by term liabilities
- Cash and liquid assets are sufficient to cover a 12 months stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash
- Short term assets exceed short term wholesale liabilities.

### Scenario analysis

Scenario analysis is central to the Group's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure MGL and MBL's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 months liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

### Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in both MGL and MBL to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid assets portfolio must be repo eligible with a central bank. The remaining 10% must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2009, 97% of the liquid asset portfolio was eligible for repurchase with central banks.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible Government, Semi-Government, Supranational, government guaranteed bank and unguaranteed bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper. The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in US dollars or other currencies where appropriate.

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### Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

### Funding transfer pricing

An internal funding transfer pricing system is in place which aims to align businesses with the overall funding strategy of the Group. Under this system the costs of long- and short-term funding are charged out, and credits are made to business units that provide long-term stable funding.

### Credit ratings

Credit ratings at 31 March 2009 are detailed below.

	Macquarie Group Limited			Macquarie Bank Limited		
	Short-term rating	Long-term rating	Long-term rating outlook	Short-term rating	Long-term rating	Long-term rating outlook
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Services	P-1	A2	Negative	P-1	A1	Negative
Standard and Poor's	A-2	A-	Negative	A-1	A	Negative

## 3.0 Funding and liquidity continued

### 3.2 Explanation of funded balance sheet

The Group's statutory balance sheet is prepared based on AGAAP and does not represent actual funding requirements. For example, the statutory balance sheet includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of the Group.

The table below reconciles the reported assets of the consolidated Group to the net funded assets at 31 March 2009. This is later split between the Banking Group and Non-Banking Group to assist in the analysis of each of the separate funding profiles of MGL and MBL.

	Notes	As at 31 March 2009 \$b	As at 31 March 2008 \$b
Total assets per MGL statutory balance sheet		149.1	167.2
Accounting deductions:			
Self funded trading assets	1	(10.5)	(28.9)
Derivative revaluation accounting gross-ups	2	(26.1)	(18.6)
Life investment contracts and segregated assets	3	(6.9)	(8.3)
Broker settlement balances	4	(5.5)	(5.8)
Short term working capital assets	5	(5.1)	(6.7)
Non-recourse funded assets:			
Securitised assets and non-recourse warehouses	6	(20.4)	(25.2)
Net funded assets		74.6	73.7

#### Explanatory notes concerning the net funded assets

##### 1. Self funded trading assets

There are a number of entries on the balance sheet that arise from the normal course of trading activity Macquarie conducts with its clients. They typically represent both sides of a transaction. The entries off-set each other as both the bought and sold positions are recorded separately. Where these entries are matched, they do not require funding.

##### 2. Derivative re-valuation accounting gross-ups

Macquarie's derivative activities are client driven with client positions hedged by off-setting positions. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

##### 3. Life investment contracts and other segregated assets

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

##### 4. Broker settlement balances

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

##### 5. Short term working capital assets

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

##### 6. Securitised assets and non-recourse warehouses

Some lending assets (mortgages and leasing) are commonly sold down into external securitisation entities or transferred to external funding warehouses. As a consequence they are non-recourse to Macquarie and are funded by third parties rather than Macquarie.

### 3.3 Funding profile for consolidated MGL Group

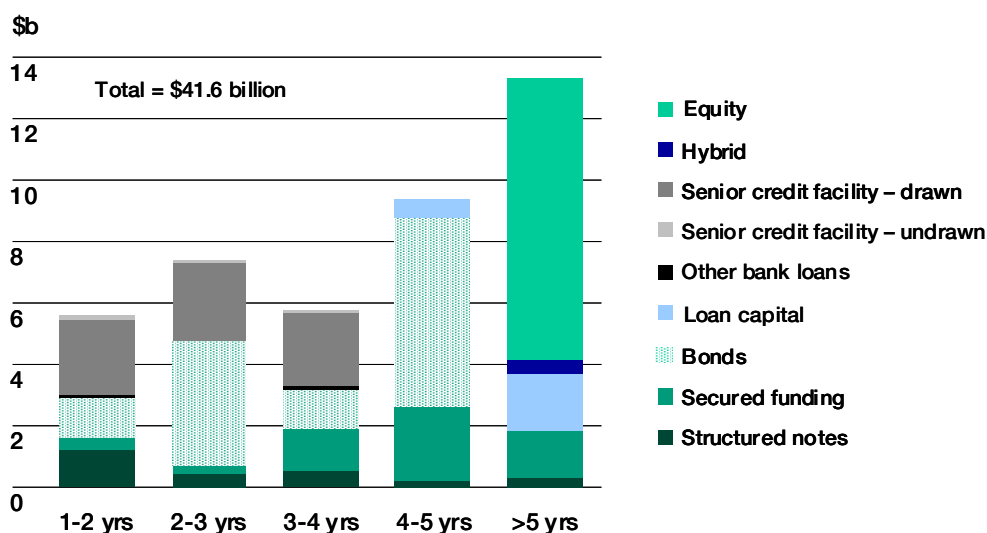
#### Funded balance sheet of the consolidated MGL Group

		As at 31 March 2009	As at 31 March 2008
	Notes	\$b	\$b
<b>Funding sources</b>			
Wholesale issued paper:			
Negotiable certificates of deposits	1	4.7	12.2
Commercial paper		3.0	7.6
Net trade creditors	2	0.4	0.9
Structured notes	3	4.0	6.0
Secured funding	4	6.6	8.2
Bonds	5	16.9	8.1
Other bank loans	6	0.7	0.3
Senior credit facility	7	7.4	4.9
Deposits:	8		
Retail deposits		13.4	6.6
Corporate and wholesale deposits		5.4	6.6
Loan Capital	9	2.5	2.3
Equity and hybrids	10	9.6	10.0
<b>Total</b>		<b>74.6</b>	<b>73.7</b>
<b>Funded assets</b>			
Cash and liquid assets	11	30.3	20.8
Net trading assets	12	9.1	12.2
Loan assets less than one year	13	5.8	12.5
Loan assets greater than one year	13	19.5	17.6
Assets held for sale	14	0.2	0.8
Debt investment securities	15	1.2	2.6
Co-investment in Macquarie-managed funds and equity investments	16	7.2	6.3
Property, plant and equipment and intangibles		1.3	0.9
<b>Total</b>		<b>74.6</b>	<b>73.7</b>

See section 3.6 for notes 1-16.

## 3.0 Funding and liquidity continued

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



As at 31 March 2009

	1-2yrs \$b	2-3yrs \$b	3-4yrs \$b	4-5yrs \$b	5yrs+ \$b
Structured notes	1.2	0.4	0.5	0.2	0.3
Secured funding	0.4	0.3	1.5	2.4	1.5
Bonds	1.3	4.1	1.2	6.2	–
Other bank loans	0.1	–	0.2	–	–
Senior credit facility	2.4	2.5	2.4	–	–
<b>Total debt</b>	<b>5.4</b>	<b>7.3</b>	<b>5.8</b>	<b>8.8</b>	<b>1.8</b>
Loan capital	–	–	–	0.6	1.9
Equity and Hybrid	–	–	–	–	9.6
<b>Total funding sources drawn</b>	<b>5.4</b>	<b>7.3</b>	<b>5.8</b>	<b>9.4</b>	<b>13.3</b>
Undrawn	0.2	0.1	0.1	–	–
<b>Total funding sources drawn and undrawn</b>	<b>5.6</b>	<b>7.4</b>	<b>5.9</b>	<b>9.4</b>	<b>13.3</b>

MGL Group's term funding (including undrawn facilities) maturing beyond one year exceeds term assets. In addition, at 31 March 2009 cash and liquid assets exceeded short term wholesale issued paper.

Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short term funding) increased from 3.5 years at 31 March 2008 to 3.7 years at 31 March 2009.



### Term funding initiatives

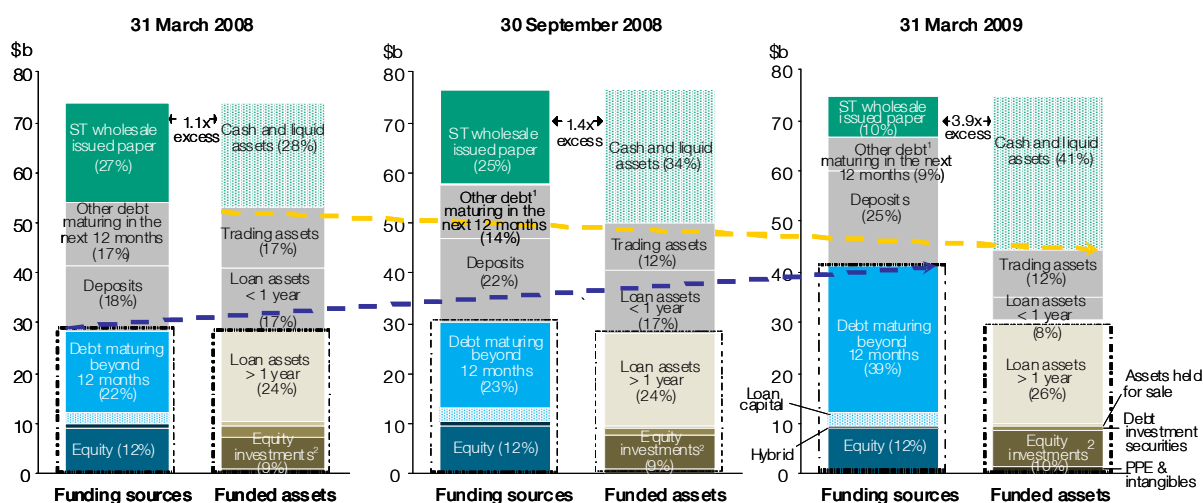
In October 2008 the Australian Government established a program to guarantee deposits and wholesale funding of Australian ADIs. Since the introduction of the scheme, eligible deposits of MBL have been covered by the guarantee and MBL has issued \$14.0 billion of term wholesale funding under the guarantee.

### Detail of term funding raised in the year ended 31 March 2009

		Full year to 31 March 2009		
		Banking Group	Non-Banking Group	Total
		\$b	\$b	\$b
Securitised assets	Term securitisation (PUMA and SMART) as well as other secured finance	5.8	0.5	6.3
Issued paper	Term issued paper/capital markets private placement			
	— Government guaranteed	14.0	—	14.0
	— Unguaranteed	0.1	—	0.1
Hybrid	Convertible preference securities	—	0.6	0.6
Senior Credit Facility	Conversion to term funding of part of the Standby Facility in the Senior Credit Facility	—	0.3	0.3
Other		0.2	—	0.2
Total		20.1	1.4	21.5

### Balance sheet initiatives

During the year ended 31 March 2009 MGL Group implemented a number of initiatives that reduced low-yielding funded balance sheet assets. These initiatives included the winding down of the Australian mortgages division, sale of the majority of the investment lending business, the sale of the Italian mortgages portfolio and some Asian real estate assets. The change in composition of the funded balance sheet is illustrated in the chart below.



1 Includes structured notes, secured funding, bonds, other bank loans maturing within the next 12 months and net trade creditors.

2 This represents the Group's co-investment in Macquarie-managed funds and equity investments.

## 3.0 Funding and liquidity continued

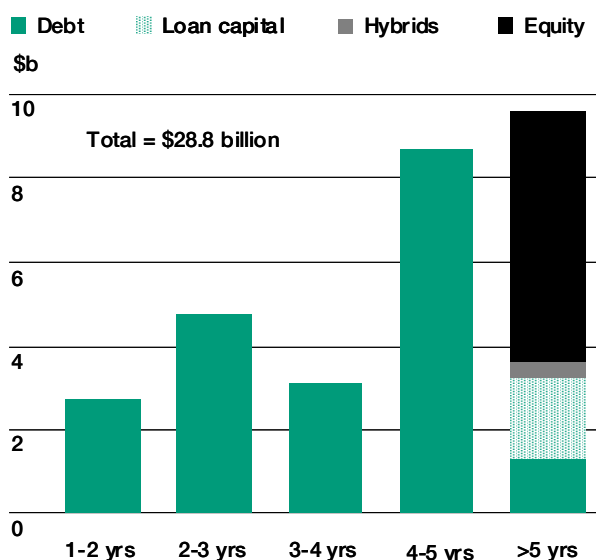
### 3.4 Funding profile for Banking Group

#### Funded balance sheet of the Banking Group

		As at 31 March 2009	As at 31 March 2008
	Notes	\$b	\$b
<b>Funding sources</b>			
Wholesale issued paper:	1		
Negotiable certificates of deposits		4.7	12.2
Commercial paper		3.0	7.6
Net trade creditors	2	0.2	0.2
Structured notes	3	3.7	6.0
Secured funding	4	5.8	7.1
Bonds	5	16.9	8.1
Other bank loans	6	0.4	—
Deposits:	8		
Retail deposits		13.4	6.6
Corporate and wholesale deposits		5.2	6.4
Loan Capital	9	1.9	2.3
Equity and hybrids	10	6.4	6.4
<b>Total</b>		<b>61.6</b>	<b>62.9</b>
<b>Funded assets</b>			
Cash and liquid assets	11	25.5	18.7
Net trading assets	12	8.1	11.4
Loan assets less than one year	13	5.6	11.5
Loan assets greater than one year	13	17.9	13.8
Assets held for sale	14	0.1	—
Debt investment securities	15	0.6	1.9
MBL intra-group loan to MGL		3.8	8.8
Non-Banking Group deposit with MBL		(2.5)	(5.8)
Co-investment in Macquarie-managed funds and equity investments	16	2.1	2.4
Property, plant and equipment and intangibles		0.4	0.2
<b>Total</b>		<b>61.6</b>	<b>62.9</b>

See section 3.6 for notes 1-16.

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



As at 31 March 2009

	1-2yrs \$b	2-3yrs \$b	3-4yrs \$b	4-5yrs \$b	5yrs+ \$b
Structured notes	1.0	0.4	0.5	0.2	0.3
Secured funding	0.4	0.2	1.4	2.3	1.0
Bonds	1.3	4.1	1.2	6.2	—
<b>Total debt</b>	<b>2.7</b>	<b>4.7</b>	<b>3.1</b>	<b>8.7</b>	<b>1.3</b>
Loan capital	—	—	—	—	1.9
Equity and Hybrid	—	—	—	—	6.4
<b>Total funding sources drawn</b>	<b>2.7</b>	<b>4.7</b>	<b>3.1</b>	<b>8.7</b>	<b>9.6</b>
Undrawn	—	—	—	—	—
<b>Total funding sources drawn and undrawn</b>	<b>2.7</b>	<b>4.7</b>	<b>3.1</b>	<b>8.7</b>	<b>9.6</b>

The Banking Group has diversity of funding by both source and maturity. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 4.1 years.

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

- \$US25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities that may be issued including Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US7.7 billion debt securities outstanding at 31 March 2009
- \$US10 billion Commercial Paper Program incorporating Government Guaranteed and unguaranteed securities under which \$US50 million of debt securities were outstanding at 31 March 2009
- \$US10 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 31 March 2009 Government Guaranteed issuance amounted to \$US7.6 billion under the Rule 144A/Regulation S Medium Term Note Program.

## 3.0 Funding and liquidity continued

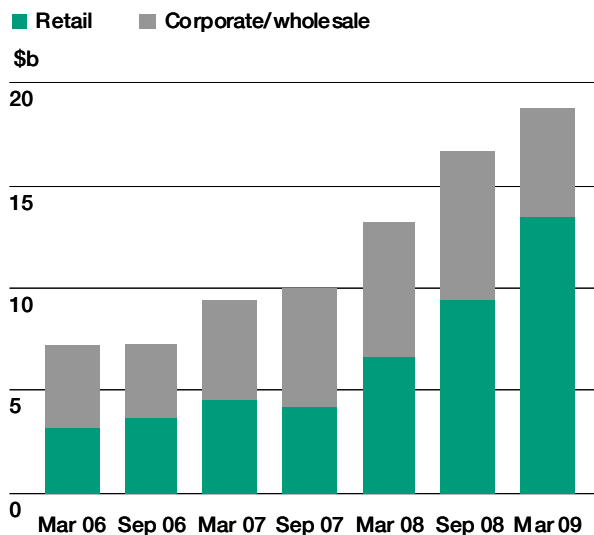
MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits and Transferable Negotiable Certificates of Deposits. At 31 March 2009, MBL Group had \$4.7 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations. At 31 March 2009 MBL Group had internally securitised \$822 million of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

MBL is eligible for the large deposit and wholesale funding guarantees recently announced by the Australian Government. See 'Term funding initiatives' for details on term funding issued to 31 March 2009 under the government guarantee scheme.

### Deposit strategy

Over the course of 2009 MBL has pursued a deposit strategy to further diversify its funding sources. The focus has been on attracting deposits which represent more stable and reliable sources of funding. MBL's total deposit base has grown from \$13.2 billion at March 2008 to \$18.8 billion at March 2009. In particular, the retail deposit base experienced significant growth during this period having grown by \$6.8 billion to \$13.4 billion as at 31 March 2009. The chart below illustrates the deposit growth since March 2006.



### 3.5 Funding profile for Non-Banking Group

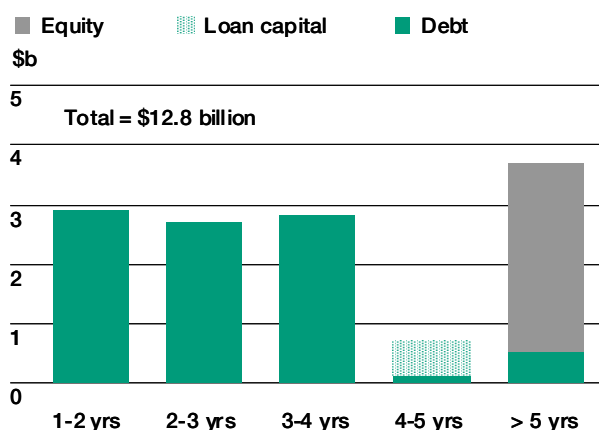
#### Funded balance sheet of the Non-Banking Group

		As at 31 March 2009	As at 31 March 2008
	Notes	\$b	\$b
<b>Funding sources</b>			
MBL intra-group loan to MGL		3.8	8.8
Net trade creditors	2	0.2	0.7
Structured notes	3	0.3	—
Secured funding	4	0.8	1.1
Other bank loans	6	0.3	0.3
Senior credit facility	7	7.4	4.9
Deposits	8	0.2	0.2
Loan Capital	9	0.6	—
Equity	10	3.2	3.6
<b>Total</b>		<b>16.8</b>	<b>19.6</b>
<b>Funded assets</b>			
Cash and liquid assets	11	4.8	2.1
Non-Banking Group deposit with MBL		2.5	5.8
Net trading assets	12	1.0	0.7
Loan assets less than one year	13	0.2	1.0
Loan assets greater than one year	13	1.6	3.8
Assets held for sale	14	0.1	0.8
Debt investment securities	15	0.6	0.8
Co-investment in Macquarie-managed funds and equity investments	16	5.1	3.9
Property, plant and equipment and intangibles		0.9	0.7
<b>Total</b>		<b>16.8</b>	<b>19.6</b>

See section 3.6 for notes 1-16.

## 3.0 Funding and liquidity continued

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



As at 31 March 2009

	1-2yrs \$b	2-3yrs \$b	3-4yrs \$b	4-5yrs \$b	5yrs+ \$b
Structured notes	0.2	—	—	—	—
Secured funding	—	0.1	0.1	0.1	0.5
Other bank loans	0.1	—	0.2	—	—
Senior credit facility	2.4	2.5	2.4	—	—
Intra-group loan <sup>1</sup>	—	—	—	—	—
<b>Total debt</b>	<b>2.7</b>	<b>2.6</b>	<b>2.7</b>	<b>0.1</b>	<b>0.5</b>
Loan capital	—	—	—	0.6	—
Equity	—	—	—	—	3.2
<b>Total funding sources drawn</b>	<b>2.7</b>	<b>2.6</b>	<b>2.7</b>	<b>0.7</b>	<b>3.7</b>
Undrawn	0.2	0.1	0.1	—	—
<b>Total funding sources drawn and undrawn</b>	<b>2.9</b>	<b>2.7</b>	<b>2.8</b>	<b>0.7</b>	<b>3.7</b>

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 2.9 years.

Debt funding of MGL, which primarily funds the activities of the Non-Banking Group, includes:

- Senior Credit Facility, of which at 31 March 2009 was \$7.4 billion drawn and \$0.4 billion undrawn. In March 2009 MGL reduced its senior credit facility by \$1.0 billion through early unwind of the standby facility. The facility was due to mature in May 2009. A further \$0.2 billion of the standby facility matured in November 2008
- \$3.8 billion intra-group loan from MBL. At 31 March 2009, this facility was an unsecured amortising two-year committed term loan, providing funding to MGL.

In addition to the above facilities, other key tools used for accessing funding for the Non-Banking Group include the following MGL facilities:

- \$US10 billion multi-instrument Regulation S Debt Instrument Program, under which securities that may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits and MGL Wholesale Notes. No amounts were outstanding under the Debt Instrument Program at 31 March 2009
- \$US10 billion Rule 144A/Regulation S Medium Term Note Program. No amounts were outstanding under the Rule 144A/Regulation S Medium Term Note Program at 31 March 2009.

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### 3.6 Explanatory notes concerning the funding sources and funded assets

#### Explanatory notes concerning the funding sources

##### 1. Wholesale issued paper

Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

##### 2. Net trade creditors

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

##### 3. Structured notes

These are debt instruments on which the return is linked to commodities, equities, currencies or other assets. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

##### 4. Secured funding

Certain funding arrangements that have been secured against an asset (or pool of assets).

##### 5. Bonds

Unsecured long-term wholesale funding.

##### 6. Other bank loans

Unsecured loans provided by financial institutions.

##### 7. Senior credit facility

MGL's senior credit facility, provided by a syndicate of wholesale lenders.

##### 8. Deposits

Unsecured funding from retail, corporate and wholesale depositors. The Australian Government guarantee is made available on eligible deposits in MBL.

##### 9. Loan capital

Long-term subordinated debt and Convertible Preference Securities.

##### 10. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments includes the MIPS security issues.

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## 3.0 Funding and liquidity continued

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### Explanatory notes concerning the funded assets

#### 11. Cash and liquid assets

Funded cash and liquid assets generally consist of amounts due from banks and short-term debt investment securities available for sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

#### 12. Net trading assets

The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

#### 13. Loan assets

This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets.

#### 14. Assets held for sale

These are the net assets/liabilities of the held for sale categories on the balance sheet.

#### 15. Debt investment securities

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

#### 16. Co-investment in Macquarie-managed funds and equity investments

These equity securities are held with a long-term investment horizon, and include co-investments in Macquarie-managed funds.



## 4.0 Capital

### 4.1 Overview

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

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

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards); and
- The Non-Banking Group capital requirement, calculated using Macquarie's ECAM.

Transactions internal to the Macquarie Group are eliminated.

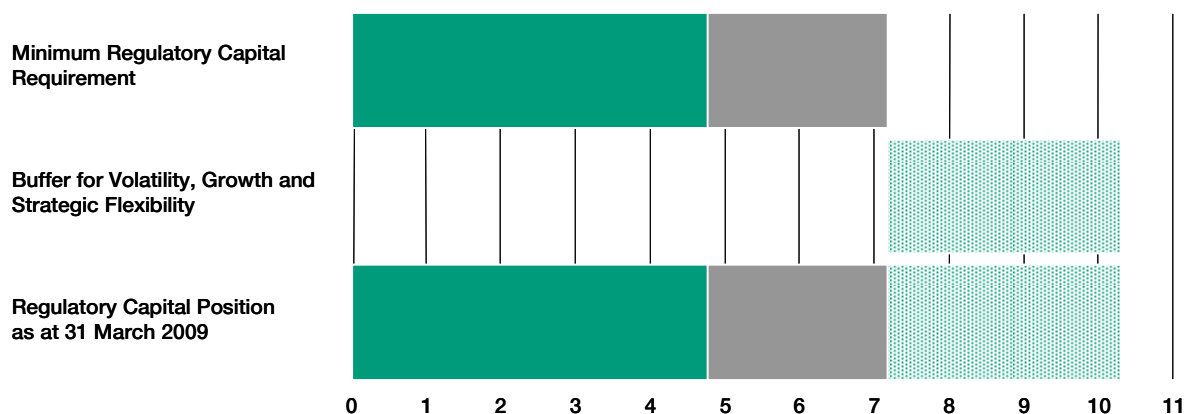
Eligible regulatory capital of the MGL Group consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments currently include the Convertible Preference Securities (CPS) issued by MGL in July 2008 as well as the Macquarie Income Securities (MIS) and Macquarie Income Preferred Securities (MIPS), described in further detail below.

The chart below depicts the regulatory capital position of MGL at 31 March 2009.

#### Regulatory capital position

\$ billion 31 March 2009

Banking Group ■ Non-Banking Group ■ Capital Surplus ▨



## 4.0 Capital continued

### Macquarie Group regulatory capital surplus calculation

	As at	
	Mar 09	Sep 08
	\$m	\$m
<b>Macquarie Group eligible capital</b>		
Bank Gross Tier 1 capital	6,547	5,908
Non-Bank eligible capital	3,827	4,415
Elimination of intra-group holdings of capital <sup>1</sup>	(127)	—
Eligible capital	10,247	10,323
<b>Macquarie Group capital requirement</b>		
<b>Banking Group contribution</b>		
Risk-Weighted Assets (excluding intra-group exposures) <sup>2</sup>	36,765	37,874
Capital required to cover Risk-Weighted Assets <sup>3</sup>	2,574	2,651
Tier 1 deductions (excluding intra-group exposures) <sup>4</sup>	2,136	1,612
Banking Group contribution	4,710	4,263
<b>Non-Banking Group contribution</b>	2,401	2,801
<b>Capital requirement</b>	7,111	7,064
<b>Macquarie Group regulatory capital surplus</b>	3,136	3,259

1 In calculating Macquarie Group eligible capital, intra-group holdings of capital instruments are eliminated.

2 In calculating the Bank's contribution to Group capital requirement, RWA associated with exposures to the Non-Bank are eliminated (\$710 million at 31 March 2009).

3 At the internal minimum Tier 1 ratio of the Banking Group, which is 7%.

4 In calculating the Bank's contribution to Group capital requirement, Tier 1 deductions associated with intra-group exposures are eliminated (\$127 million at 31 March 2009).

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## 4.2 Banking Group capital

In January 2008, the new global capital regime for banks, known as the Basel II Framework, was implemented in Australia by APRA.

Macquarie Bank is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk<sup>1</sup> and the internal model approach for interest rate risk in the banking book.

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

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8% at both Level 1 (ELE Group) and Level 2 (Consolidated Banking Group), with at least half of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios that may be higher than these levels. The MBL Group internal capital policy set by the Board requires capital floors above the minimum regulatory required levels.

### Tier 1 capital

The MBL Group's Tier 1 capital consists of ordinary share capital, retained earnings, certain reserves, MIS and MIPS.

Reserves included in Tier 1 capital are the share based payment reserve and foreign currency translation reserve.

The innovative Tier 1 capital includes MIS and MIPS.

MIS are a perpetual instrument with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at the Bank's discretion on 19 November 2004. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank.

MIPS were issued when the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% until April 2020.

On 11 February 2009, an ELE subsidiary of MBL financed a related party's acquisition of £150 million of MIPS. The treatment of this financing transaction, as agreed with APRA, is that Macquarie will:

- report as a deduction in Tier 1 the amount of MIPS financed to the extent that a portion of the MIPS is eligible Tier 1 capital
- report as a deduction in Upper Tier 2 the amount of MIPS financed to the extent that a portion of the MIPS is eligible Upper Tier 2 capital.

### Tier 2 capital

The MBL Group Upper Tier 2 capital consists of the portion of MIS and MIPS not eligible for inclusion in Tier 1 capital and a portion of equity reserves. The MBL Group Lower Tier 2 capital consists of subordinated debt issued to financial institutions, subject to limits imposed by APRA based on Tier 1 capital. Repayment of this debt is subordinated to the claims of depositors and other creditors but ranks ahead of equity instruments.

### Capital adequacy

The MBL Group's regulatory capital supply and capital ratios at 31 March 2009 are detailed in the tables on the following pages.

### Pillar 3

The APRA Prudential Standard APS 330: Public Disclosure of Prudential Information details the market discipline (Pillar 3) requirements for Australian domiciled banks. APS 330 was effective from 30 September 2008, requiring qualitative and quantitative disclosure of risk management practices and capital adequacy.

These disclosures are required to be published within 40 business days of the reporting date and are available on Macquarie's website.

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<sup>1</sup>Standard approach applied for specific risk on debt securities.

## 4.0 Capital continued

### Banking Group total capital base

	As at			Movement	
	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m	Sep 08 %	Mar 08 %
<b>Tier 1 capital</b>					
Paid-up ordinary share capital	4,560	3,927	3,604	16	27
Reserves	190	180	170	6	12
Retained earnings	882	884	1,025	(<1)	(14)
Innovative Tier 1 capital	915	917	955	(<1)	(4)
Gross Tier 1 capital	6,547	5,908	5,754	11	14
Deductions from Tier 1 capital:					
Goodwill	162	121	62	34	161
Deferred tax assets	53	269	68	(80)	(22)
Changes in the ADI's own creditworthiness on banking book liabilities	340	71	72	large	large
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	128	55	48	133	167
Loan and lease origination fees and commissions paid to mortgage originators and brokers	170	215	252	(21)	(33)
Holding of own Tier 1 capital instruments agreed with APRA	127	—	—	n/a	n/a
Other Tier 1 capital deductions	357	163	98	119	264
Deductions from Tier 1 capital only	1,337	894	600	50	123
Other 50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	112	70	60	60	87
Non-consolidated subsidiaries (50%)	274	268	254	2	8
All other deductions relating to securitisation (50%)	74	39	13	90	large
Shortfall in provisions for credit losses (50%)	294	147	89	100	230
Other 50/50 deductions from Tier 1 capital (50%)	172	194	191	(11)	(10)
Total 50/50 deductions from Tier 1 capital	926	718	607	29	53
Total Tier 1 capital deductions	2,263	1,612	1,207	40	88
Net Tier 1 capital	4,284	4,296	4,547	(<1)	(6)
<b>Tier 2 capital</b>					
Upper Tier 2 capital:					
Excess Tier 1 capital instruments	204	254	188	(20)	9
Other Upper Tier 2 capital	86	89	109	(3)	(21)
Lower Tier 2 capital:					
Term subordinated debt	1,941	2,047	2,275	(5)	(15)
Gross Tier 2 capital	2,231	2,390	2,572	(7)	(13)
Deductions from Tier 2 capital:					
Holding of own Tier 2 capital instruments agreed with APRA	204	—	—	n/a	n/a
50/50 deductions from Tier 2 capital	926	718	607	29	53
Total Tier 2 capital deductions	1,130	718	607	57	86
Net Tier 2 capital	1,101	1,672	1,965	(32)	(44)
<b>Total capital base</b>	<b>5,385</b>	<b>5,968</b>	<b>6,512</b>	<b>(10)</b>	<b>(17)</b>

## Risk-weighted assets

	As at			Movement	
	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m	Sep 08 %	Mar 08 %
<b>Credit risk – Risk-Weighted Assets (RWA)</b>					
Subject to FIRB approach:					
Corporate <sup>1</sup>	9,901	7,960	7,928	24	25
Sovereign	36	54	30	(33)	20
Bank	1,134	958	1,208	18	(6)
Residential mortgage	1,952	1,275	955	53	104
Other retail	680	540	367	26	85
Total RWA subject to FIRB approach	13,703	10,787	10,488	27	31
Specialised lending exposures subject to slotting criteria <sup>2</sup>	3,101	4,163	4,382	(26)	(29)
Subject to Standardised approach:					
Corporate	3,504	4,518	3,662	(22)	(4)
Residential mortgage	197	1,483	1,345	(87)	(85)
Other retail	2,496	2,039	1,847	22	35
Other	3,540	3,608	4,335	(2)	(18)
Total RWA subject to Standardised approach	9,737	11,648	11,189	(16)	(13)
Credit risk RWA for Securitisation exposures	1,074	1,357	1,244	(21)	(14)
Total credit risk RWA	27,615	27,955	27,303	(1)	1
Equity risk exposures RWA	1,189	1,456	1,370	(18)	(13)
Market risk RWA	2,082	2,291	2,213	(9)	(6)
Operational risk RWA	5,761	6,720	5,215	(14)	10
Interest rate risk in banking book RWA	6	98	—	(94)	n/a
APRA scaling factor (6%) applied to IRB exposures	822	647	629	27	31
Total RWA	37,475	39,167	36,730	(4)	2
<b>Capital ratios</b>					
Macquarie Bank Group Tier 1 capital ratio (%)	11.4	11.0	12.4	4	(8)
Macquarie Bank Group Total capital ratio (%)	14.4	15.2	17.7	(6)	(19)

1 Includes \$710 million for exposures to the Non-Banking Group (30 September 2008: \$1,293 million; 31 March 2008: \$2,129 million).

2 Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

## 4.0 Capital continued

### 4.3 Non-Banking Group capital

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Banking Group. The ECAM is based on similar principles and models as the Basel II regulatory capital framework for banks, with both calculating capital at a one year 99.9% confidence level. The key features are:

Risk <sup>1</sup>	Basel II	ECAM
Credit	Capital requirement determined by Basel II formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement determined by Basel II formula, but with internal estimates of some parameters
Equity	Simple risk-weight approach or deductions. Tier 1 capital requirement between 24% and 50% of face value <sup>2</sup>	Extension of Basel II credit model to cover equity exposures. Capital requirement between 32% and 86% of face value; average 47%
Market	3 times 10 day 99% Value at Risk (VaR) plus a specific risk charge	Scenario-based approach. Greater capital requirement than under regulatory regime
Operational	Basel II Advanced Measurement Approach	Basel II Advanced Measurement Approach

- 1 The ECAM also covers risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures as well as non-traded interest rate risks.
- 2 Assuming an 8% Tier 1 ratio, the 300% and 400% risk weightings for equity exposures under Basel II equate to a capital requirement of 24% or 32%. Any deductions required for equity exposure are 50/50 Tier 1 and Tier 2, hence a 50% Tier 1 capital requirement.

## Non-Banking Group regulatory capital requirement

The capital requirement of the Non-Banking Group is set out in the table below.

	As at 31 March 2009		
	Asset \$b	Capital requirement \$m	Equivalent risk weight
<b>Funded assets</b>			
Cash and liquid assets	4.8	16	4%
Loan assets <sup>1</sup>	1.8	186	129%
Assets held for sale	0.1	39	343%
Debt investment securities	0.6	73	154%
Co-investments in Macquarie-managed funds and equity investments – listed	2.7	947	441%
Co-investments in Macquarie-managed funds and equity investments – unlisted	2.4	1,173	617%
Property, plant and equipment and intangibles <sup>2</sup>	0.9	183	250%
Non Banking Group deposits with MBL	2.5	–	–
Net Trading Assets	1.0	–	–
Total funded assets	16.8	2,617	
<b>Self-funded and non-recourse assets</b>			
Self funded trading assets	2.5		
Broker settlement balances	4.3		
Working capital assets	3.1		
Total self-funded and non-recourse assets	9.9		
Total Non-Banking Group assets	26.7		
Off balance sheet exposures, operational, market and other risk and diversification offset <sup>3</sup>		(216)	
<b>Non-Banking Group capital requirement</b>		<b>2,401</b>	

1 Includes leases.

2 Intangibles relating to the acquisition of Orion Financial Inc. are supported 100% by exchangeable shares. These exchangeable shares have not been included in eligible regulatory capital.

3 Includes capital associated with trading assets (e.g. market risk capital).

## 5.0 Supplementary information

### 5.1 Detailed statutory consolidated income statement

	Half year to			Full year to		
	Mar 09 \$m	Sep 08 \$m	Movement %	Mar 09 \$m	Mar 08 \$m	Movement %
<b>Net interest income</b>						
Interest revenue	2,826	3,594	(21)	6,420	6,698	(4)
Interest expense	(2,408)	(3,074)	(22)	(5,482)	(5,881)	(7)
Net interest income	418	520	(20)	938	817	15
<b>Fee and commission income</b>						
Base fees	467	454	3	921	960	(4)
Performance fees	15	219	(93)	234	384	(39)
Mergers and acquisitions, advisory and underwriting	615	614	<1	1,229	1,459	(16)
Brokerage and commissions	444	593	(25)	1,037	1,253	(17)
Financial products	122	74	65	196	143	37
Platform and other administration fee income	60	74	(19)	134	146	(8)
Banking, lending and securitisation	48	40	20	88	66	33
Other fee and commission income	81	70	16	151	199	(24)
Income from life insurance business and other unit holder businesses	38	17	124	55	35	57
Total fee and commission income	1,890	2,155	(12)	4,045	4,645	(13)
<b>Net trading income</b>						
Equities	(219)	363	(160)	144	1,167	(88)
Commodities	405	178	128	583	394	48
Foreign exchange products	(2)	134	(101)	132	255	(48)
Interest rate products	251	47	large	298	19	large
Total net trading income	435	722	(40)	1,157	1,835	(37)
<b>Asset and equity investment income</b>						
Profit on sale of investment securities AVS	18	125	(86)	143	123	16
Profit on sale of associates and joint ventures	18	63	(71)	81	560	(86)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	263	60	large	323	293	10
Net income/(expense) from disposal groups held for sale	71	20	255	91	(28)	(large)
Share of net profits of associates and joint ventures using the equity method	(44)	118	(137)	74	156	(53)
Dividends/distributions received/receivable from investment securities AVS (including associates held for sale)	12	37	(68)	49	91	(46)
Impairment charge on investment in associates and joint ventures	(168)	(546)	(69)	(714)	(300)	138
Impairment charge on investment securities available for sale	(168)	(138)	22	(306)	(120)	155
Impairment charge on disposal group held for sale	5	(197)	(103)	(192)	—	n/a
Impairment on non-financial assets	(75)	—	n/a	(75)	—	n/a
Other asset sales	2	56	(96)	58	64	(9)
Total asset and equity investment income	(66)	(402)	(84)	(468)	839	(156)



	Half year to			Full year to		
	Mar 09 \$m	Sep 08 \$m	Movement %	Mar 09 \$m	Mar 08 \$m	Movement %
<b>Other income</b>						
Impairment charges:						
Collective allowance for credit losses	(95)	5	(large)	(90)	(37)	143
Specific provisions for credit losses	(245)	(166)	48	(411)	(71)	large
Other	219	136	61	355	220	61
Total other income	(121)	(25)	large	(146)	112	(230)
Total operating income	2,556	2,970	(14)	5,526	8,248	(33)
<b>Operating expenses</b>						
Employment expenses:						
Compensation expenses:						
Salary, commissions, superannuation and performance-related profit share	(999)	(1,099)	(9)	(2,098)	(3,720)	(44)
Share based payments	(64)	(64)	—	(128)	(126)	2
Provision for annual leave	1	(20)	(105)	(19)	(21)	(10)
Provision for long service leave	5	(7)	(171)	(2)	(11)	(82)
Total compensation expenses	(1,057)	(1,190)	(11)	(2,247)	(3,878)	(42)
Other employment expenses including on-costs, staff procurement and staff training	(37)	(75)	(51)	(112)	(299)	(63)
Total employment expenses	(1,094)	(1,265)	(14)	(2,359)	(4,177)	(44)
Brokerage and commission expenses	(374)	(311)	20	(685)	(702)	(2)
Occupancy expenses	(241)	(152)	59	(393)	(264)	49
Non-salary technology expenses	(152)	(111)	37	(263)	(214)	23
Professional fees	(191)	(134)	43	(325)	(246)	32
Travel and entertainment	(102)	(102)	—	(204)	(200)	2
Advertising and communication	(45)	(47)	(4)	(92)	(93)	(1)
Other expenses	(95)	(121)	(21)	(216)	(147)	47
Total operating expenses	(2,294)	(2,243)	2	(4,537)	(6,043)	(25)
Profit before income tax	262	727	(64)	989	2,205	(55)
Income tax expense	64	(79)	(181)	(15)	(317)	(95)
Profit after income tax	326	648	(50)	974	1,888	(48)
Distributions paid or provided on:						
Macquarie Income Preferred Securities	(22)	(23)	(4)	(45)	(50)	(10)
Macquarie Income Securities	(14)	(19)	(26)	(33)	(34)	(3)
Other minority interests	(23)	(2)	large	(25)	(1)	large
Profit attributable to minority interests	(59)	(44)	34	(103)	(85)	21
Profit after income tax attributable to ordinary equity holders of Macquarie Group Limited	267	604	(56)	871	1,803	(52)

## 5.0 Supplementary information continued

### 5.2 Base and performance fees

	Half year to		Full year to	
	Mar 09	Sep 08	Mar 09	Mar 08
	\$m	\$m	\$m	\$m
<b>Base fees</b>				
<b>Macquarie Capital</b>				
ConnectEast Group	0.3	0.5	0.8	1.1
DUET Group	3.5	3.5	7.0	7.0
Macquarie Airports	12.2	21.4	33.6	70.7
Macquarie Communications Infrastructure Group	7.7	14.0	21.7	40.1
Macquarie CountryWide Trust	1.3	1.4	2.7	1.5
Macquarie Infrastructure Company	1.7	7.9	9.6	24.9
Macquarie Infrastructure Group	16.1	27.7	43.8	72.7
Macquarie International Infrastructure Fund	1.4	3.8	5.2	12.8
Macquarie Leisure Trust Group	1.7	1.4	3.1	3.4
Macquarie Media Group	—	2.4	2.4	13.6
Macquarie Office Trust	0.7	0.5	1.2	0.8
Macquarie Power and Infrastructure Income Fund	1.1	1.0	2.1	1.9
Unlisted funds	206.4	160.3	366.7	262.6
Managed assets	12.3	5.9	18.2	10.0
<b>Total Macquarie Capital</b>	<b>266.4</b>	<b>251.7</b>	<b>518.1</b>	<b>523.1</b>
<b>Real Estate Banking</b>				
Macquarie Central Office Corporate Restructuring-REIT	0.8	0.8	1.6	1.7
Macquarie CountryWide Trust	3.3	3.4	6.7	8.0
Macquarie Office Trust	10.5	10.2	20.7	21.1
Unlisted funds	0.9	0.5	1.4	—
Managed assets	0.3	0.8	1.1	0.6
<b>Total Real Estate Banking</b>	<b>15.8</b>	<b>15.7</b>	<b>31.5</b>	<b>31.4</b>
<b>Macquarie Funds</b>	<b>75.9</b>	<b>66.4</b>	<b>142.3</b>	<b>158.4</b>
<b>Banking and Financial Services</b>	<b>109.3</b>	<b>119.7</b>	<b>229.0</b>	<b>246.8</b>
<b>Total base fee income</b>	<b>467.4</b>	<b>453.5</b>	<b>920.9</b>	<b>959.7</b>
<b>Performance fees</b>				
<b>Macquarie Capital</b>				
DUET Group	—	27.1	27.1	21.3
Macquarie Infrastructure Company	—	—	—	50.1
Macquarie International Infrastructure Fund	—	—	—	2.4
Macquarie Leisure Trust Group	—	—	—	0.3
Macquarie Power and Infrastructure Income Fund	2.0	—	2.0	3.9
Unlisted funds	6.7	125.9	132.6	203.9
Managed assets	0.1	57.4	57.5	38.6
<b>Total Macquarie Capital</b>	<b>8.8</b>	<b>210.4</b>	<b>219.2</b>	<b>320.5</b>
<b>Real Estate Banking</b>				
Unlisted funds	0.2	0.8	1.0	0.9
Managed assets	0.4	0.3	0.7	17.2
<b>Total Real Estate Banking</b>	<b>0.6</b>	<b>1.1</b>	<b>1.7</b>	<b>18.1</b>
<b>Macquarie Funds</b>	<b>5.9</b>	<b>7.6</b>	<b>13.5</b>	<b>45.2</b>
<b>Total performance fee income</b>	<b>15.3</b>	<b>219.1</b>	<b>234.4</b>	<b>383.8</b>

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## 5.3 Impairment charges and provisions

### Summary of asset impairment accounting policies

#### Loan assets

All loan assets are held at amortised cost and are subject to recurring review and assessment for possible impairment. Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where impairment of individual loans are identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

#### Equity accounted investments

Equity accounted investments are recorded at cost, adjusted for post-acquisition profits or losses recognised in the income statement and its share of post acquisition reserves recognised within equity. Whenever there is an indication an equity accounted investment may be impaired, the investment's carrying amount is compared to its recoverable amount. If the carrying amount exceeds the recoverable amount, an impairment charge is recognised immediately in the income statement. Recoverable amount is determined as the higher of fair value less costs to sell, and the present value of estimated future cash flows expected to arise from the investment.

Subsequent impairment reversal is recognised in the income statement.

#### Investment securities available for sale

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity, until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the income statement.

Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, Macquarie evaluates among other factors, the normal volatility in share price and the amount of time for which the fair value has been below cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

#### Disposal groups classified as held for sale

Assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain would be recognised for any subsequent increase in fair value less costs to sell, limited by the previous cumulative impairment loss recognised. A gain or loss not previously recognised by the date of sale would be recognised at the date of sale.

## 5.0 Supplementary information

### continued

#### Details of impairment charges and provisions

	Full year to 31 March 2009
	\$m
<b>One-off costs relating to Mortgages Italy exit<sup>1</sup></b>	<b>248</b>
<b>Impairment and equity accounted losses<sup>2</sup></b>	
Listed Macquarie-managed funds:	
Macquarie Infrastructure Group	153
Macquarie Communication Infrastructure Group	113
Macquarie Media Group	93
Macquarie Infrastructure Company	42
Macquarie CountryWide Trust	24
Other funds (DUET, MIIF, MOF)	17
Real estate equity investments (including J-REP)	193
US portfolios of ABS held as available for sale	55
Resources equity investments	120
Other equity co-investments (including Japan Airports, Spirit Finance)	663
	<b>1,473</b>
<b>Loan impairment<sup>3</sup></b>	
Real estate loans	170
Resources loans	161
Other loans	165
	<b>496</b>
<b>Impairments recognised on trading asset positions<sup>4</sup></b>	
Other equity investments carried at fair value through profit or loss (including BrisConnections)	265
CLO/CDO exposures held in trading portfolio	61
	<b>326</b>
<b>Total impairment charges and provisions</b>	<b>2,543</b>

1 Includes loss on sale of loan portfolio, write off of capitalised acquisition costs, loan impairment provisions, closure/redundancies costs.

2 \$394 million equity accounted losses included on the basis impairment write-downs would have been recognised on Macquarie's co-investments if these equity accounted losses had not been recognised.

3 Includes specific credit provisions and collective allowance for credit losses recognised in the year ended 31 March 2009.

4 Selected items included are carried in the trading portfolio at fair value. Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as trading income or expense in the income statement in the period in which they arise.

## 5.4 International income

### International income by region

	Half year to			Full year to		
	Mar 09 \$m	Sep 08 \$m	Movement %	Mar 09 \$m	Mar 08 \$m	Movement %
Americas	149	210	(29)	359	852	(58)
Asia Pacific	589	483	22	1,072	1,982	(46)
Europe, Africa and Middle East	353	563	(37)	916	1,459	(37)
Total international income	1,091	1,256	(13)	2,347	4,293	(45)
Australia	883	1,324	(33)	2,207	3,271	(33)
Total income (excluding earnings on capital and other corporate items)	1,974	2,580	(23)	4,554	7,564	(40)
Earnings on capital and other corporate items	582	390	49	972	684	42
Total operating income (as reported)	2,556	2,970	(14)	5,526	8,248	(33)
International income/total income (excluding earnings on capital and other corporate items) (%)	55	49		52	57	

### International income by group and region

	Full year to 31 March 2009					
	Americas \$m	Asia Pacific \$m	Europe, Africa and Middle East \$m	Total International \$m	Australia \$m	Total income \$m
Macquarie Capital	(51)	171	647	767	553	1,320
Treasury and Commodities	298	74	353	725	246	971
Macquarie Securities	169	775	81	1,025	198	1,223
Banking and Financial Services	(13)	10	(193)	(196)	1,023	827
Macquarie Funds	32	28	22	82	250	332
Corporate and Asset Finance	57	37	34	128	64	192
Real Estate Banking	(133)	(23)	(28)	(184)	(121)	(305)
Corporate	—	—	—	—	(6)	(6)
Total international income	359	1,072	916	2,347	2,207	4,554

## 5.0 Supplementary information continued

### 5.5 Income tax expense

	Full year to	
	Mar 09	Mar 08
	\$m	\$m
<b>Income tax expense</b>		
Profit before income tax	989	2,205
Less: Macquarie Income Preferred Securities	(45)	(50)
Less: Macquarie Income Securities	(33)	(34)
Less: Other minority interests	(25)	(1)
Profit before income tax attributable to ordinary equity holders	886	2,120
Income tax expense	(15)	(317)
<b>Effective tax rate</b>	%	%
Australian company income tax rate	30.0	30.0
Rate differential on offshore income	(26.5)	(14.3)
Non-deductible distribution paid/provided on MIS	1.1	0.5
Non-deductible options expense	4.2	1.7
Other items	(7.1)	(2.9)
Effective tax rate	1.7	15.0

## 5.6 Statutory consolidated balance sheet

	As at			Movement	
	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m	Sep 08 %	Mar 08 %
<b>Assets</b>					
Cash and balances with central banks	141	225	7	(37)	large
Due from banks	12,271	13,441	10,110	(9)	21
Cash collateral on securities borrowed and reverse repurchase agreements	5,096	14,690	22,906	(65)	(78)
Trading portfolio assets	9,260	17,059	15,807	(46)	(41)
Loan assets held at amortised cost	44,751	51,783	52,407	(14)	(15)
Other financial assets at fair value through profit or loss	7,910	3,974	4,131	99	91
Derivative financial instruments — positive values	27,428	22,508	21,136	22	30
Other assets	10,640	11,413	10,539	(7)	1
Investment securities available for sale	18,123	18,025	16,454	1	10
Intangible assets	759	566	494	34	54
Life investment contracts and other unit holder assets	4,314	5,645	5,699	(24)	(24)
Interests in associates and joint ventures using the equity method	6,123	5,921	5,500	3	11
Property, plant and equipment	605	433	375	40	61
Deferred income tax assets	1,186	825	718	44	65
Non-current assets and assets of disposal groups classified as held for sale	537	927	967	(42)	(44)
<b>Total assets</b>	<b>149,144</b>	<b>167,435</b>	<b>167,250</b>	<b>(11)</b>	<b>(11)</b>
<b>Liabilities</b>					
Due to banks	11,858	11,349	10,041	4	18
Cash collateral on securities lent and repurchase agreements	3,953	14,664	13,781	(73)	(71)
Trading portfolio liabilities	2,161	11,079	11,825	(80)	(82)
Derivative financial instruments — negative values	27,371	24,430	21,399	12	28
Deposits	21,868	16,955	15,783	29	39
Debt issued at amortised cost	48,270	52,485	57,115	(8)	(15)
Other financial liabilities at fair value through profit or loss	6,203	6,263	6,288	(1)	(1)
Other liabilities	10,342	11,081	12,210	(7)	(15)
Current tax liabilities	187	159	193	18	(3)
Life investment contracts and other unit holder liabilities	4,312	5,634	5,689	(23)	(24)
Provisions	189	211	179	(10)	6
Deferred income tax liabilities	4	40	121	(90)	(97)
Liabilities of disposal groups classified as held for sale	328	153	215	114	53
<b>Total liabilities excluding loan capital</b>	<b>137,046</b>	<b>154,503</b>	<b>154,839</b>	<b>(11)</b>	<b>(11)</b>
<b>Loan capital</b>					
Convertible preference securities	591	591	—	—	n/a
Subordinated debt at amortised cost	1,496	1,413	1,704	6	(12)
Subordinated debt at fair value through profit or loss	451	647	646	(30)	(30)
<b>Total loan capital</b>	<b>2,538</b>	<b>2,651</b>	<b>2,350</b>	<b>(4)</b>	<b>8</b>
<b>Total liabilities</b>	<b>139,584</b>	<b>157,154</b>	<b>157,189</b>	<b>(11)</b>	<b>(11)</b>
<b>Net assets</b>	<b>9,560</b>	<b>10,281</b>	<b>10,061</b>	<b>(7)</b>	<b>(5)</b>

## 5.0 Supplementary information continued

	As at			Movement	
	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m	Sep 08 %	Mar 08 %
<b>Equity</b>					
Contributed equity:					
Ordinary share capital	4,906	4,832	4,534	2	8
Treasury shares	(2)	(2)	(12)	—	(83)
Exchangeable shares	116	122	133	(5)	(13)
Reserves	17	283	456	(94)	(96)
Retained earnings	3,627	3,770	3,718	(4)	(2)
Total capital and reserves attributable to equity holders of Macquarie Group Limited	8,664	9,005	8,829	(4)	(2)
Minority interests:					
Macquarie Income Preferred Securities	398	780	752	(49)	(47)
Macquarie Income Securities	391	391	391	—	—
Other minority interests	107	105	89	2	20
Total equity	9,560	10,281	10,061	(7)	(5)



## 5.7 Equity investments

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

- Other financial assets at fair value through profit or loss
- Investment securities available for sale (AVS)
- Investment in associates
- Assets and disposal groups held for sale (HFS).

The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short term.

Other financial assets at fair value through profit or loss include those financial assets that contain embedded derivatives which must be otherwise separated and carried at fair value if it is part of a group of financial assets managed and evaluated on a fair value basis.

AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially recognised at cost and revalued in subsequent periods to recognise

changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is sold or impaired, the cumulative unrealised gain or loss will be recognised in the income statement.

Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as HFS associates. HFS investments are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.

For the purpose of analysis, equity investments have been re-grouped into the following categories:

- Investments in Macquarie-managed funds
- Other investments not held for sale or are not investments in Macquarie-managed funds
- HFS investments.

### Equity investments reconciliation

	As at 31 March 2009
	\$m
<b>Equity investments (excluding held for sale)</b>	
<b>Statutory balance sheet</b>	
Equity investments within Other financial assets at fair value through profit or loss	2,196
Equity investments within Investment securities available for sale	814
Interests in associates and joint ventures using the equity method	6,123
<b>Total equity investments per statutory balance sheet</b>	<b>9,133</b>
<b>Adjustment for funded balance sheet</b>	
Equity hedge positions <sup>1</sup>	(1,951)
<b>Total funded equity investments</b>	<b>7,182</b>
<b>Adjustments for equity investments analysis</b>	
AVS reserves <sup>2</sup>	(105)
Associates reserves <sup>3</sup>	85
<b>Total adjusted equity investments<sup>4</sup></b>	<b>7,162</b>
<b>Held for sale investments</b>	
Net assets of disposal groups classified as held for sale	209
<b>Total equity investments including Held for sale investments</b>	<b>7,371</b>

- 1 These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity linked instruments, and have been excluded from the analysis of investment exposure.
- 2 AVS reserves that will be released to income upon realisation of the investment.
- 3 Associates reserves that will be released to income upon realisation of the investment.
- 4 The adjusted book value represents the total net exposure to Macquarie.

## 5.0 Supplementary information

### continued

#### Adjusted book value of equity investments by category

	As at 31 March 2009
	\$m
<b>Macquarie-managed funds</b>	
DUET Group	15
Macquarie Airports	1,107
Macquarie Central Office CR-REIT	30
Macquarie Communications Infrastructure Group	194
Macquarie CountryWide Trust	135
Macquarie DDR Trust	7
Macquarie Infrastructure Company	61
Macquarie Infrastructure Group	698
Macquarie International Infrastructure Fund	86
Macquarie Korea Infrastructure Fund	60
Macquarie Leisure Trust Group	18
Macquarie Media Group	114
Macquarie Office Trust	212
Total listed Macquarie-managed funds	2,737
Other Macquarie-managed funds	1,251
Total Macquarie-managed funds	3,988
<b>Other investments</b>	
Finance, investment, funds management and exchanges	937
Real estate	594
Energy and resources	533
Transport, industrial and infrastructure	490
Telecommunications, internet, media and entertainment	336
Debt investment entities	284
Total Other investments	3,174
<b>Held for sale investments</b>	
Total equity investments including Held for sale investments	7,371

## 5.8 Assets under management

	As at			Movement	
	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m	Sep 08 %	Mar 08 %
<b>Assets under management by group</b>					
Macquarie Capital	159,509	158,035	148,102	1	8
Macquarie Funds	49,656	44,752	47,254	11	5
Banking and Financial Services <sup>1</sup>	19,178	21,245	23,078	(10)	(17)
Real Estate Banking	14,761	15,198	13,579	(3)	9
Total assets under management	243,104	239,230	232,013	2	5
<b>Assets under management by region</b>					
Australia	86,032	85,096	91,833	1	(6)
Europe, Africa and Middle East	83,113	88,382	83,195	(6)	(<1)
Americas	55,453	45,554	38,647	22	43
Asia Pacific	18,506	20,198	18,338	(8)	1
Total assets under management	243,104	239,230	232,013	2	5
<b>Assets under management by industry sector</b>					
Investment funds	68,834	62,238	67,681	11	2
Energy and utilities	48,726	41,101	37,915	19	29
Roads	32,999	38,346	37,038	(14)	(11)
Communications infrastructure	21,246	19,108	18,165	11	17
Airports	20,895	20,352	20,845	3	<1
Other	14,288	18,897	15,044	(24)	(5)
Commercial real estate	11,626	12,215	12,587	(5)	(8)
Transport and related services	11,537	13,460	11,793	(14)	(2)
Retail real estate	8,349	9,182	8,318	(9)	<1
Tourism/leisure and residential real estate	4,276	3,034	1,520	41	181
Industrial real estate	328	1,297	1,107	(75)	(70)
Total assets under management	243,104	239,230	232,013	2	5

<sup>1</sup> The Macquarie CMT, included in BFS AUM above, is a BFS product that is managed by MFG. The CMT closed at \$14.7 billion at 31 March 2009 (30 September 2008: \$16.1 billion; 31 March 2008: \$17.6 billion).

## 5.0 Supplementary information continued

The table below shows a more detailed breakdown of AUM. For Macquarie Capital refer to section 5.9 for disclosure of equity under management. The earning of base fees is closely aligned with the AUM measure for funds in Real Estate Banking, Macquarie Funds and Banking and Financial Services.

	Mar 09 \$m	Sep 08 \$m	Mar 08 \$m
<b>Macquarie Funds</b>			
Fixed interest, currency and commodities	34,895	25,794	27,584
Listed equities	6,842	9,131	9,254
Structured and specialist investments	2,848	2,758	2,809
Infrastructure securities	1,990	2,842	3,231
Real estate securities	1,225	2,366	2,922
Funds of private equity funds	1,217	1,107	822
Funds of hedge funds	459	493	565
Incubation	180	248	16
Affiliates and other	—	13	51
<b>Total Macquarie Funds</b>	<b>49,656</b>	<b>44,752</b>	<b>47,254</b>
<b>Banking and Financial Services</b>			
Macquarie Cash Management Trust	14,692	16,109	17,599
Macquarie Pastoral Fund	434	216	122
Other unlisted Banking and Financial Services	4,052	4,920	5,357
<b>Total Banking and Financial Services</b>	<b>19,178</b>	<b>21,245</b>	<b>23,078</b>
<b>Real Estate Banking</b>			
Macquarie Office Trust	6,546	7,189	6,940
J-REP managed funds <sup>1</sup>	375	469	433
Macquarie Central Office Corporate Restructuring REIT	181	181	191
Macquarie Prime REIT <sup>2</sup>	—	1,010	904
Unlisted Real Estate funds	7,659	6,349	5,111
<b>Total Real Estate Banking</b>	<b>14,761</b>	<b>15,198</b>	<b>13,579</b>
<b>Total Macquarie Capital AUM (refer to EUM section)</b>	<b>159,509</b>	<b>158,035</b>	<b>148,102</b>
<b>Total assets under management</b>	<b>243,104</b>	<b>239,230</b>	<b>232,013</b>

1 J-REP Co. Limited is a listed fund manager on the Tokyo Stock Exchange. Through a joint venture with Goodman Group, Macquarie acquired an interest in J-REP in June 2007, and therefore its funds management activities.

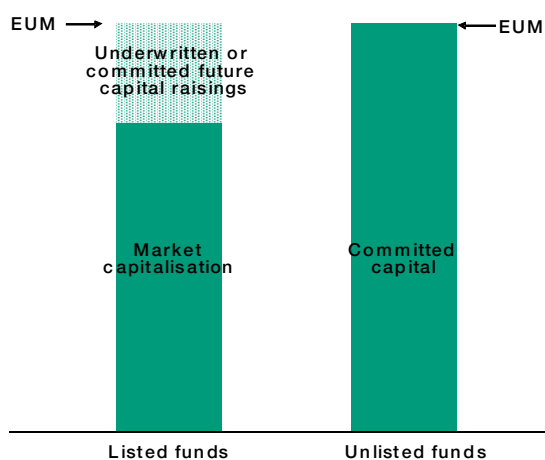
2 During the year, Macquarie sold its investment in Macquarie Prime REIT and the REIT's manager.

## 5.9 Equity under management

The Macquarie Capital Funds business tracks its funds under management using an equity under management (EUM) measure. Base management fee income is closely aligned with EUM. EUM differs from the assets under management (AUM) measure which real estate funds and other Macquarie managed funds use to determine base fee income. EUM is determined as follows:

Type of equity investment	Basis of EUM calculation
Listed funds	Market capitalisation at the measurement date plus underwritten or committed future capital raisings
Unlisted funds	Committed capital from investors at the measurement date less called capital subsequently returned to investors
Hybrid instruments <sup>1</sup>	Face value of TICKETS and of exchangeable bonds
Managed businesses <sup>2</sup>	Invested capital at measurement date

- 1 Hybrid instruments include Tradeable Interest-Bearing Convertible to Equity Trust Securities (TICKETS) issued by Macquarie Airports Reset Exchange Securities Trust and exchangeable bonds issued by Macquarie Communications Infrastructure Group.
- 2 Managed businesses includes third party equity invested in Macquarie Capital Funds managed businesses where management fees may be payable to Macquarie.



If the fund is managed through a joint venture with another party, the EUM amount is then weighted based on Macquarie's proportionate economic interest in the joint venture management entity. At 31 March 2009, this applied to Macquarie Korea Infrastructure Fund and DUET Group, which are weighted at 50% as outlined in the table overleaf, and some other funds.

Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian dollars at the exchange rate prevailing at the measurement date.

## 5.0 Supplementary information continued

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%) <sup>1</sup>	Equity under management as at		
					Mar 09 \$m	Sep 08 \$m	Mar 08 \$m
<b>Listed Macquarie Capital managed funds (excl real estate funds)</b>							
ConnectEast Group <sup>2</sup>	n/a	Nov 04	CEU	n/a	—	1,289	2,002
DUET Group	50	Aug 04	DUE	4	534	817	929
Macquarie Airports	100	Apr 02	MAP	23	3,097	4,640	5,551
Macquarie Capital Alliance Group <sup>3</sup>	n/a	Apr 05	MCQ	n/a	—	—	536
Macquarie Communications Infrastructure Group	100	Aug 02	MCG	22	1,251	1,371	2,204
			Listed on				
Macquarie Infrastructure Company	100	Dec 04	NYSE	7	89	752	1,433
Macquarie Infrastructure Group	100	Dec 96	MIG	17	3,346	5,492	6,683
			Listed on				
Macquarie International Infrastructure Fund	100	May 05	SGX	11	356	508	815
			Listed on				
Macquarie Korea Infrastructure Fund	50	Mar 06	LSE	4	772	950	1,201
Macquarie Media Group	100	Nov 05	MMG	24	207	570	791
			Listed on				
Macquarie Power & Infrastructure Income Fund <sup>4</sup>	100	Apr 04	TSE	1	271	350	425
Listed Macquarie Capital managed funds (excl real estate funds)					9,923	16,739	22,570
<b>Unlisted Macquarie Capital managed funds (excl real estate funds)</b>							
Macquarie European Infrastructure Fund I and II					11,726	10,931	10,557
Macquarie Infrastructure Partners					5,753	5,063	4,380
Macquarie Korea Opportunities Fund					1,271	1,274	1,348
Other unlisted funds					13,227	11,060	7,672
Unlisted Macquarie Capital managed funds (excl real estate funds)					31,977	28,328	23,957
Less Macquarie Capital managed funds' investments in other Macquarie Capital managed funds					(390)	(354)	(446)
<b>Total Macquarie Capital managed funds EUM (excl real estate funds)</b>					41,510	44,713	46,081
Hybrid instruments					1,303	1,318	1,848
Managed businesses <sup>5</sup>					8,567	6,485	6,391
<b>Total Macquarie Capital Funds EUM (excl Real Estate Funds)</b>					51,380	52,516	54,320
Real Estate Funds EUM					1,883	3,268	3,708
<b>Total Macquarie Capital Funds EUM</b>					53,263	55,784	58,028

- 1 Holding at 31 March 2009 represents Macquarie's participating interest in the fund, excluding amounts held through True Index funds and their controlled entities.
- 2 On 31 March 2009, ConnectEast Group internalised its responsible entity, acquiring all shares in ConnectEast Management Limited from Macquarie Group.
- 3 In August 2008, Macquarie Capital Alliance Group (MCAG) security holders approved Macquarie Advanced Investment Group's proposal to take private MCAG. Following the completion of this transaction MCAG delisted.
- 4 Excludes Class B exchangeable units.
- 5 Excludes equity invested by Macquarie Group in businesses managed by Macquarie Capital Funds.

## 5.10 Headcount

Headcount includes both permanent staff (full time, part time and fixed term hires) and contractors (including consultants and secondees). It excludes temporary staff, staff on leave without pay and staff on parental leave. Headcount figures include employees of Macquarie Group subsidiaries, except where the entity is acquired with the intention of disposal (i.e. businesses held for sale).

	As at			Movement	
	Mar 09	Sep 08	Mar 08	Sep 08 %	Mar 08 %
<b>Headcount by group</b>					
Macquarie Capital	2,617	3,049	2,786	(14)	(6)
Banking and Financial Services	2,598	2,779	3,058	(7)	(15)
Macquarie Securities	1,540	1,777	1,596	(13)	(4)
Treasury and Commodities	680	677	611	<1	11
Macquarie Funds	583	572	496	2	18
Corporate and Asset Finance	539	546	545	(1)	(1)
Real Estate Banking	136	214	213	(36)	(36)
Total headcount — operating groups	8,693	9,614	9,305	(10)	(7)
Total headcount — service areas	4,023	4,284	3,802	(6)	6
Total headcount	12,716	13,898	13,107	(9)	(3)
<b>Headcount by region</b>					
Australia	7,243	7,898	7,822	(8)	(7)
International:					
Americas	1,931	1,991	1,778	(3)	9
Asia Pacific	2,207	2,496	2,158	(12)	2
Europe, Africa and Middle East	1,335	1,513	1,349	(12)	(1)
Total headcount — International	5,473	6,000	5,285	(9)	4
Total headcount	12,716	13,898	13,107	(9)	(3)
International headcount ratio (%)	43	43	40		

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## 6.0 Glossary

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ADI	Authorised Deposit-taking Institution
AGAAP	Australian Generally Accepted Accounting Principles
APRA	Australian Prudential Regulation Authority
Assets under management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager
ASX	Australian Securities Exchange (formerly Australian Stock Exchange)
Assets under management by region	AUM by region is defined by the location of the assets, as opposed to the domicile of the fund or fund manager
AVS	Available for sale
BFS	Banking and Financial Services
CMT	Cash Management Trust
CDO	Collateralised debt obligation
CLO	Collateralised loan obligation
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not been specifically identified
CPS	Convertible Preference Securities
Dilutive option	An option which has an exercise price that is less than the average share price for the period. Only dilutive options have an impact on the calculation of diluted earnings per share
Dividend reinvestment plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in Macquarie, with no transaction costs

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Earnings on capital and certain corporate income items	Total operating income includes the income generated by Macquarie's operating groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's operating groups. Earnings on capital and certain corporate income items is total operating income less the operating income generated by Macquarie's operating groups
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 'Earnings Per Share'
ECAM	Economic Capital Adequacy Model
Effective tax rate	The income tax expense as a percentage of the profit before income tax adjusted for MIS and MIPS distributions paid or provided
ELE	Extended Licensed Entity as defined by APRA
Equity under management (EUM)	Refer definition in section 5.9
Expense/Income ratio	Total operating expenses expressed as a percentage of total operating income
FIRB	Foundation Internal Ratings Based
Fee and commission income	Fee and commission revenue less fee and commission expenses
Impaired assets	An asset for which the ultimate collectibility of principal and interest is compromised
Interest income	Interest revenue less interest expense
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia. Operating income is classified as 'international' with reference to the geographic location from which the operating income is generated. This may not be the same geographic location where the operating income is recognised. For example, operating income generated by work performed for clients based overseas but recognised in Australia for statutory reporting purposes would be classified as 'international' income. Income from funds management activities is allocated by reference to the location of the fund's assets

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## 6.0 Glossary

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IPO	Initial public offering
Macquarie Income Preferred Securities (MIPS)	On 22 September 2004, Macquarie Capital Funding L.P., a Macquarie Group entity established to facilitate capital raising, issued £350 million of Tier 1 Capital-Eligible Securities (Macquarie Income Preferred Securities). The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at Macquarie’s discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five-year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter at Macquarie’s discretion. The first coupon was paid on 15 April 2005. The issue is reflected in Macquarie’s financial statements as an outside equity interest of the economic entity, with distributions being recorded to the outside equity interest
Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital. They are treated as equity in the balance sheet. There are four million \$100 face value MIS on issue
Managed assets	Managed assets include third party equity invested in assets managed by Macquarie Capital Funds where management fees may be payable to Macquarie; and assets held directly by Macquarie acquired with a view that they may be sold into new or existing funds managed by Macquarie Capital Funds. This measure excludes assets of Macquarie-managed funds
MBL	Macquarie Bank Limited
MacCap	Macquarie Capital
MFG	Macquarie Funds Group
MGL	Macquarie Group Limited
MSG	Macquarie Securities Group

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Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for out of the income statement
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less Minority Interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards
OEI	Outside equity interests
Operating income	Operating income includes net interest income (interest revenue less interest expense), net trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, other sundry income items, and is net of impairment charges. Operating income is reported in Macquarie's statutory income statement
Operating expenses	Operating expenses includes employments expenses (including staff profit sharing expense), brokerage and commission expenses, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expenses, and other sundry expenses. Operating expenses are reported in Macquarie's statutory income statement

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## 6.0 Glossary

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Other income	Other revenue less other expenses. This captures income that does not fit into one of the other statutory categories, i.e. interest income, fee and commission income or trading income
REB	Real Estate Banking
REIT	Real Estate Investment Trust
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS and cash flow hedging reserves
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy, as outlined in AGN 110.4 (referred to in this Guidance Note as risk-weighted exposures)
Segregated futures funds	Futures trading by clients is conducted through Macquarie as an authorised futures exchange participant. In order to undertake trading on the futures exchange, participants are required to deposit an amount of cash with the exchange. Those clients conducting trading through Macquarie deposit cash with Macquarie (segregated futures funds) which are subsequently placed on deposit with the futures exchange to enable trading activity. As Macquarie offsets all positions in its name with the futures exchange, at various times the amount of segregated futures funds may be in excess of the exchange's requirements
SPV	Special purpose vehicles or securitisation vehicles
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. They are classified as liabilities in the balance sheet and may be included in Tier 2 Capital

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T&C	Treasury and Commodities Group
Tier 1 Capital	A capital measure defined by APRA in paragraphs 4 and 5 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.1, net of any applicable Tier 1 Capital Deductions
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Tier 1 Capital ratio	Tier 1 Capital expressed as a percentage of risk-weighted assets
Tier 2 Capital	A capital measure defined by APRA in paragraphs 6 (Upper Tier 2) and 7 (Lower Tier 2) of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.2
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions
Total Capital Deductions	An amount deducted in determining Total Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Total Capital ratio	Total Capital expressed as a percentage of risk-weighted assets
Trading income	Income that represents realised or unrealised gains and losses that relate to financial markets products. This income does not necessarily relate to 'trading' in such products and may arise through the manufacturing of new financial products by bringing together existing financial instruments
Upper Tier 2 Capital	Refer Tier 2 Capital
UK	United Kingdom
US	United States of America

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## 7.0 Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the accounting standards adopted at each reporting date. The financial information for the periods ended 31 March 2005 and later are based on results reported under International Financial Reporting Standards and their related pronouncements.

	Year ended 31 March				
	2000	2001	2002	2003	2004
<b>Financial performance (\$ million)</b>					
Total income from ordinary activities	1,337	1,649	1,822	2,155	2,823
Total expenses from ordinary activities	(1,036)	(1,324)	(1,467)	(1,695)	(2,138)
Profit from ordinary activities before income tax	301	325	355	460	685
Income tax expense	(79)	(53)	(76)	(96)	(161)
Profit from ordinary activities after income tax	222	272	279	364	524
Macquarie Income Preferred Securities distributions	—	—	—	—	—
Macquarie Income Securities distributions	(12)	(31)	(29)	(28)	(27)
Other minority interests	—	1	—	(3)	(3)
Profit from ordinary activities after income tax attributable to ordinary equity holders	210	242	250	333	494
<b>Financial position (\$ million)</b>					
Total assets	23,389	27,848	30,234	32,462	43,771
Total liabilities	(22,154)	(26,510)	(27,817)	(29,877)	(40,938)
Net assets	1,235	1,338	2,417	2,585	2,833
Total loan assets	6,518	7,785	9,209	9,839	10,777
Impaired loan assets (net of provisions)	23	31	49	16	61
<b>Share information<sup>(a)</sup></b>					
Cash dividends per share (cents per share)					
Interim	34	41	41	41	52
Final	52	52	52	52	70
Special	—	—	—	50	—
Total	86	93	93	143	122
Basic earnings per share (cents per share)	124.3	138.9	132.8	164.8	233.0
Share price at end of period (\$)	26.40	27.63	33.26	24.70	35.80
Ordinary share capital (million shares) <sup>(b)</sup>	171.2	175.9	198.5	204.5	215.9
Market capitalisation at end of period (fully paid ordinary shares) (\$ million)	4,520	4,860	6,602	5,051	7,729
Net tangible assets per ordinary share (\$) <sup>(c)</sup>	5.80	5.15	7.94	8.23	10.72
<b>Ratios</b>					
Return on average ordinary shareholders' funds (%)	28.1	27.1	18.7	18.0	22.3
Dividend payout ratio (%)	70.0	67.5	73.6	87.4 <sup>(d)</sup>	53.2
Expense/income ratio (%)	77.5	80.3	80.5	78.7	75.7
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.1	0.1	0.2	0.0	0.3
<b>Assets under management (\$ billion)<sup>(e)</sup></b>	26.3	30.9	41.3	52.3	62.6
<b>Staff numbers<sup>(f)</sup></b>	4,070	4,467	4,726	4,839	5,716

a) Macquarie's ordinary shares were listed on the Australian Stock Exchange on 29 July 1996.

b) Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.

c) Net tangible assets includes intangibles (net of associated deferred tax assets and deferred liabilities) within assets and disposal groups held for sale.

d) The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the Dividend payout ratio would have been 56.8%.

	Year ended 31 March				
	2005	2006	2007	2008	2009
<b>Financial performance (\$ million)</b>					
Total income from ordinary activities	4,197	4,832	7,181	8,248	<b>5,526</b>
Total expenses from ordinary activities	(3,039)	(3,545)	(5,253)	(6,043)	<b>(4,537)</b>
Profit from ordinary activities before income tax	1,158	1,287	1,928	2,205	<b>989</b>
Income tax expense	(288)	(290)	(377)	(317)	<b>(15)</b>
Profit from ordinary activities after income tax	870	997	1,551	1,888	<b>974</b>
Macquarie Income Preferred Securities distributions	(28)	(51)	(54)	(50)	<b>(45)</b>
Macquarie Income Securities distributions	(29)	(29)	(31)	(34)	<b>(33)</b>
Other minority interests	(1)	(1)	(3)	(1)	<b>(25)</b>
Profit from ordinary activities after income tax attributable to ordinary equity holders	812	916	1,463	1,803	<b>871</b>
<b>Financial position (\$ million)</b>					
Total assets	67,980	106,211	136,389	167,250	<b>149,144</b>
Total liabilities	(63,555)	(100,874)	(128,870)	(157,189)	<b>(139,584)</b>
Net assets	4,425	5,337	7,519	10,061	<b>9,560</b>
Total loan assets	28,425	34,999	45,796	52,407	<b>44,751</b>
Impaired loan assets (net of provisions)	42	85	88	165	<b>952</b>
<b>Share information<sup>(a)</sup></b>					
Cash dividends per share (cents per share)					
Interim	61	90	125	145	<b>145</b>
Final	100	125	190	200	<b>40</b>
Special	40	—	—	—	<b>—</b>
Total	201	215	315	345	<b>185</b>
Basic earnings per share (cents per share)	369.6	400.3	591.6	670.6	<b>309.6</b>
Share price at end of period (\$ million)	48.03	64.68	82.75	52.82	<b>27.05</b>
Ordinary share capital (million shares) <sup>(b)</sup>	223.7	232.4	253.9	274.6	<b>283.4</b>
Market capitalisation at end of period (fully paid ordinary shares) (\$ million)	10,744	15,032	21,010	14,504	<b>7,666</b>
Net tangible assets per ordinary share (\$) <sup>(c)</sup>	13.97	16.63	22.86	28.18	<b>23.72</b>
<b>Ratios</b>					
Return on average ordinary shareholders' funds (%)	29.8	26.0	28.1	23.7	<b>9.9</b>
Dividend payout ratio (%)	53.2	54.4	54.3	52.2	<b>60.2</b>
Expense/income ratio (%)	72.4	73.4	73.2	73.3	<b>82.1</b>
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.2	0.2	0.1	0.3	<b>1.9</b>
<b>Assets under management (\$ billion)<sup>(e)</sup></b>	96.7	140.3	197.2	232.0	<b>243.1</b>
<b>Staff numbers<sup>(f)</sup></b>	6,556	8,183	10,023	13,107	<b>12,716</b>

e) The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.

f) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

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