MACQUARIE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
HALF-YEAR ENDED 30 SEPTEMBER 2009

MACQUARIE

MACQUARIE GROUP LIMITED ACN 122 169 279

Cover image: A stylised contemporary version of 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.

Macquarie Group Limited
Management Discussion and Analysis
September 2009

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

References to the 30 September 2009 half are to the six months ended 30 September 2009.

References to the prior corresponding period are to the six months ended 30 September 2008.

References to the prior period are to the six months ended 31 March 2009.

All amounts in this report are in Australian dollars, unless otherwise stated.

Extracts from the Financial Report

The financial information presented in the income statement in Section 1.0 and the balance sheet in Section 6.0 have been extracted from the Macquarie Group Limited Financial Report for the half year ended 30 September 2009, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' Independent Auditor's Review report to the members of Macquarie Group Limited was unqualified.

1.0 Result Overview

1.1 Income statement analysis

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Income statement					
Net interest income	**425**	418	520	*2*	*(18)*
Fee and commission income	**1,882**	1,890	2,155	*(<1)*	*(13)*
Net trading income	**633**	435	722	*46*	*(12)*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**(197)**	(44)	118	*n/m*	*n/m*
Other operating income and charges	**362**	(143)	(545)	*n/m*	*n/m*
Net operating income	**3,105**	2,556	2,970	*21*	*5*
Employment expenses	**(1,509)**	(1,094)	(1,265)	*38*	*19*
Brokerage and commission expenses	**(329)**	(374)	(311)	*(12)*	*6*
Occupancy expenses	**(251)**	(241)	(152)	*4*	*65*
Non-salary technology expenses	**(125)**	(152)	(111)	*(18)*	*13*
Other operating expenses	**(359)**	(433)	(404)	*(17)*	*(11)*
Total operating expenses	**(2,573)**	(2,294)	(2,243)	*12*	*15*
Operating profit before income tax	**532**	262	727	*103*	*(27)*
Income tax (expense)/benefit	**(36)**	64	(79)	*n/m*	*(54)*
Profit from ordinary activities after income tax	**496**	326	648	*52*	*(23)*
Profit attributable to minority interests	**(17)**	(59)	(44)	*(71)*	*(61)*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**479**	267	604	*79*	*(21)*
Key metrics					
Expense to income ratio (%)	**82.9**	89.7	75.5		
Compensation ratio (%)	**45.2**	41.4	40.1		
Basic earnings per share (cents per share)	**150.2**	94.1	216.6		
Diluted earnings per share (cents per share)	**149.6**	94.1	215.2		
Dividends per share (cents per share)	**86.0**	40.0	145.0		
Dividend payout ratio (%)	**60.0**	42.7	67.4		
Annualised return on equity (%)	**9.6**	6.0	13.9		

1 “n/m” indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Consolidated net profit after income tax attributable to ordinary equity holders for the half year ended 30 September 2009 was A$479 million, a 21% decrease from A$604 million in the prior corresponding period and a 79% increase from A$267 million in the prior period. The half year ended 30 September 2009 included significant write-downs, impairment charges, and net equity accounted losses (A$758 million), negative fair value adjustment on fixed rate issued debt (A$252 million), gains from liability management (Macquarie Income Preferred Securities, A$127 million and subordinated debt, A$55 million) and gains from listed fund initiatives totalling A$414 million (Macquarie Communications Infrastructure Group, Macquarie Leisure Trust and Macquarie Airports).

The result contributed to earnings per share declining from A$2.17 per share in the prior corresponding period to A$1.50 for the half year ended 30 September 2009. The interim dividend declared is A$0.86 per share, unfranked, and resulted in a dividend payout ratio of 60%.

1.0 Result Overview
continued

In May 2009 Macquarie undertook a A$540 million capital raising via an institutional private placement, and in June 2009 completed a A$669 million share purchase plan. As a result of these capital initiatives and the decrease in profit attributable to ordinary equity holders, return on equity for the half year ended 30 September 2009 was 9.6%, down from 13.9% for the prior corresponding period.

Total operating income for the half year ended 30 September 2009 was A$3,105 million, a 5% increase on the prior corresponding period's operating income of A$2,970 million. The main drivers of this change were increased operating income from Fixed Income, Currencies and Commodities and the cash equities business in Macquarie Securities, combined with an overall reduction in the level of write-downs, impairment charges and net equity accounted losses.

Total operating expenses for the half year ended 30 September 2009 were A$2,573 million, an increase of 15% from A$2,243 million in the prior corresponding period largely driven by a 19% increase in employment costs, which also resulted in an increase to the compensation ratio from 40.1% in the prior corresponding period to 45.2% for the six months to 30 September 2009. The effective tax rate for the half year ended 30 September 2009 was 7.0%, up from 1.7% for the year ended 31 March 2009.

2.0 Income statement analysis

2.1 Net interest income

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Interest revenue	**2,155**	2,826	3,594	*(24)*	*(40)*
Interest expense	**(1,730)**	(2,408)	(3,074)	*(28)*	*(44)*
Net interest income (as reported)	**425**	418	520	*2*	*(18)*
Adjustment for accounting for swaps[2]	**(45)**	(68)	59	*(34)*	*n/m*
Net interest income (adjusted)	**380**	350	579	*9*	*(34)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 Australian Accounting Standards require derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. This distorts 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 above.

Net interest income was A$380 million for the six months to 30 September 2009, down 34% from A$579 million in the prior corresponding period after adjusting for amounts relating to the accounting for swaps that are classified as trading income for statutory purposes. The main driver of the decrease was a decrease in earnings on capital due to lower interest rates, lower average loan volumes and the cost of excess liquidity. This was partially offset by higher net margins.

2.0 Income statement analysis (continued)

Analysis of net interest margins

	Half year to Sep 09			Half year to Mar 09			Half year to Sep 08		
	Interest A$m	**Average volume A$m**	**Average Spread %**	Interest A$m	Average volume A$m	Average Spread %	Interest A$m	Average volume A$m	Average Spread %
Mortgages	**100**	**23,110**	**0.87%**	98	25,561	0.77%	79	28,918	0.55%
Other lending areas	**321**	**21,762**	**2.95%**	320	22,176	2.89%	301	27,577	2.18%
Total net interest margin from interest bearing assets	**421**	**44,872**	**1.88%**	418	47,737	1.75%	380	56,495	1.35%
Other net interest income/(expense)	**(41)**			(68)			199		
Total net interest income	**380**			350			579		

Mortgages

Net interest income from mortgage assets of A$100 million was up 27% from A$79 million in the prior corresponding period as average margins increased from 55 basis points in the prior corresponding period to 87 basis points in the six months to 30 September 2009. The Canadian mortgages business continues to participate in the Canadian Mortgage Bond programme and has benefitted from improved margins over the prior corresponding period. Average mortgages volumes have decreased 20% from A$28.9 billion at 30 September 2008 to A$23.1 billion at 30 September 2009 due to the continuing run-off of the Australian residential mortgage portfolio. The Australian mortgage book has decreased 25% since 30 September 2008 from A$21.2 billion to A$15.9 billion at 30 September 2009.

Other lending areas

Net interest income from other lending areas has increased 7% from A$301 million in the prior corresponding period to A$321 million in the six months to 30 September 2009. Average margins increased from 218 basis points in the prior corresponding period to 295 basis points in the six months to 30 September 2009, in part due to a change in the product mix including an increase in higher yielding loans within Corporate and Asset Finance. Overall, average volumes have decreased 21% from A$27.6 billion at 30 September 2008 to A$21.8 billion at 30 September 2009 due to the sale of the majority of the margin lending business in January 2009 combined with a decrease in real estate loans and structured finance loans since 30 September 2008.

Other net interest income/(expense)

Other net interest income/(expense) includes earnings on capital offset by costs associated with excess liquidity and the funding cost of non-interest bearing assets. The decrease of A$240 million in other net interest income/(expense) from A$199 million income in the prior corresponding period to an expense of A$41 million for the six months to 30 September 2009 was mainly due to decreased earnings on capital resulting from lower interest rates combined with the cost of holding excess liquidity, which carries a negative spread. The negative spread was a result of the rate at which debt was issued being higher than yields generated by the cash and liquid securities in which the funds are invested. The higher cost of funding includes the cost of the Government guarantee on certain issued debt and deposits.

2.2 Fee and commission income

	Half year to			Movement	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Base fees	**442**	467	454	*(5)*	*(3)*
Performance fees	**52**	15	219	*247*	*(76)*
Mergers and acquisitions, advisory and underwriting fees	**596**	615	614	*(3)*	*(3)*
Brokerage and commissions	**546**	444	593	*23*	*(8)*
Other fee and commission income	**233**	311	258	*(25)*	*(10)*
Income from life investment contracts and other unit holder investment assets	**13**	38	17	*(66)*	*(24)*
Total fee and commission income	**1,882**	1,890	2,155	*(<1)*	*(13)*

Total fee and commission income of A$1,882 million for the half year ended 30 September 2009 declined 13% from A$2,155 million in the prior corresponding period largely due to a combined 27% decrease in base and performance fees.

Base and performance fees

Base fees of A$442 million for the half year ended 30 September 2009 decreased 3% from A$454 million in the prior corresponding period, which was slightly lower than the decrease in Assets under Management, one of the main drivers of base fees. Assets under Management decreased 10% over the prior corresponding period to A$216.3 billion at 30 September 2009. The fall in base fees was largely in Macquarie Capital listed funds due to reductions in market capitalisations, and in Banking and Financial Services due to a reduction in Assets under Management in the Cash Management Trust. For further details of Assets under Management refer to Section 7.1.

Performance fees of A$52 million for the half year ended 30 September 2009 decreased 76% from A$219 million in the prior corresponding period as market conditions continued to drive significant falls in the prices of listed securities, making out-performance of the relevant benchmarks harder to achieve. The 30 September 2009 half included performance fees from the sale of the Kukdong building by Macquarie Central Office CR-REIT while the prior corresponding period included a significant performance fee on the termination of the Advisory Agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited).

A split of base and performance fees received from listed and unlisted funds is provided in the table below.

	Half year to			Movement	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Base fees					
Macquarie Capital					
Listed funds	**51**	50	90	*2*	*(43)*
Unlisted funds	**184**	206	160	*(11)*	*15*
Managed assets	**8**	12	6	*(33)*	*33*
Total Macquarie Capital	**243**	268	256	*(9)*	*(5)*
Real Estate Banking					
Listed funds	**25**	13	10	*92*	*150*
Unlisted funds	**–**	1	1	*(100)*	*(100)*
Managed assets	**–**	–	1	*–*	*(100)*
Total Real Estate Banking	**25**	14	12	*79*	*108*
Macquarie Funds	**72**	76	66	*(5)*	*9*
Banking and Financial Services	**102**	109	120	*(6)*	*(15)*
Total base fee income	**442**	467	454	*(5)*	*(3)*

2.0 Income statement analysis (continued)

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Performance fees					
Macquarie Capital					
Listed funds	**–**	2	27	*(100)*	*(100)*
Unlisted funds	**7**	6	126	*17*	*(94)*
Managed assets	**5**	–	57	*n/m*	*(91)*
Total Macquarie Capital	**12**	8	210	*50*	*(94)*
Real Estate Banking					
Listed funds	**34**	–	–	*n/m*	*n/m*
Unlisted funds	**–**	–	1	*–*	*(100)*
Managed assets	**1**	1	–	*–*	*n/m*
Total Real Estate Banking	**35**	1	1	*n/m*	*n/m*
Macquarie Funds	**5**	6	8	*(17)*	*(38)*
Total performance fee income	**52**	15	219	*247*	*(76)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A$596 million decreased 3% from A$614 million in the prior corresponding period. The volume of deals in which Macquarie Capital participated was slightly up on the prior corresponding period. Significant fees were received in relation to the Victorian Desalination Project and Rio Tinto's renounceable rights issue.

Brokerage and commission

Brokerage and commission income of A$546 million decreased 8% from A$593 million in the prior corresponding period largely as a result of lower fees from institutional broking services as market turnover was down 16% in Australia and down 4% in Asia (excluding Japan) over the six months to 30 September 2009, compared to the prior corresponding period. In addition, retail broking fees in Macquarie Private Wealth were also lower as the business experienced a 12% decline in overall volumes, broadly in line with the decline in Australian market turnover.

Other fee and commission income

Other fee and commission income of A$233 million for the half year ended 30 September 2009 decreased 10% from A$258 million in the prior corresponding period. The decrease was largely due to lower platform fees resulting from lower average Wrap Funds under Administration, which was impacted by negative equity market movements during the six months to 30 September 2009 compared to the prior corresponding period. The Australian Wrap platform closed at A$21.6 billion at 30 September 2009, down from A$21.0 billion at 30 September 2008. Cross-border leasing fees that were earned in the prior corresponding period were not repeated in the 30 September 2009 half.

Income from life investment contracts and other unit holder investment assets

Income from life investment contracts and other unit holder investment assets includes income from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds Group. Income from this category was A$13 million for the half year ended 30 September 2009, compared to A$17 million in the prior corresponding period, which was a 24% decrease predominately due to a decline in funds managed resulting from reduced equity values.

2.3 Trading income

The composition of trading income set out below excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. To obtain a complete view of the performance of Macquarie's trading activities, refer Sections 3.2 Macquarie Securities and 3.5 Fixed Income, Currencies and Commodities.

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Equities	**407**	(219)	363	*n/m*	*12*
Commodities	**353**	405	178	*(13)*	*98*
Foreign exchange products	**108**	(2)	134	*n/m*	*(19)*
Interest rate products	**(190)**	319	(12)	*n/m*	*n/m*
Net trading income (adjusted)	**678**	503	663	*35*	*2*
Adjustment for swaps[2]	**(45)**	(68)	59	*(34)*	*n/m*
Net trading income (as reported)	**633**	435	722	*46*	*(12)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 Australian Accounting Standards require derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. This distorts 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 interest rate products above.

Total adjusted trading income in the half year ended 30 September 2009 of A$678 million increased 2% from A$663 million in the prior corresponding period. The main driver of this increase was strong growth in commodities trading income, offset by fair value adjustment on fixed rate issued debt of A$252 million in the 30 September 2009 half.

Equities

Trading income from equity products in the half year ended 30 September 2009 was A$407 million, an increase of 12% from A$363 million in the prior corresponding period. Arbitrage trading activities continued to contribute strongly to trading profits as a result of favourable spreads on exchange traded instruments, particularly in the Taiwanese, Indian and Korean markets. However, derivatives revenues, notably in Asian and European equity markets, were down on the prior corresponding period reflecting lower volumes in higher margin retail structured products. Also, the prior corresponding period included mark-to-market losses on BrisConnections.

The half year to 31 March 2009 was a difficult period for equity markets, and the equities trading result also included a number of mark-to-market losses on equity investments carried at fair value through profit or loss, including losses on BrisConnections.

2.0 Income statement analysis (continued)

Commodities

Commodity products income in the half year ended 30 September 2009 was A$353 million, a 98% increase from A$178 million in the prior corresponding period. The increase in commodities trading income (including metals, energy and agricultural products) was driven by improved market conditions and the acquisition of Constellation Energy in March 2009.

An increase in trading income in the Energy Markets division was driven by increased volumes in the United States gas business resulting from the acquisition of Constellation Energy. Market volatility in general was low, liquidity mixed, prices for oil higher while gas and power prices were lower. Trading income from the Agricultural Commodities business for the half year ended 30 September 2009 was up on the prior corresponding period primarily as a result of higher volatility in soft commodity markets, a return of confidence in agricultural markets and freight markets improving from extreme lows. The Metals and Energy Capital division was a strong contributor with metals prices recovering from recent declines, particularly gold.

Foreign exchange products

Trading income on foreign exchange products was A$108 million in the half year ended 30 September 2009, down 19% from A$134 million in the prior corresponding period. Both volatility and volumes were down on the prior corresponding period largely due to a fall in foreign exchange market volumes globally as a result of a reduction in global risk capital, lower commodity prices and subdued trade numbers.

Interest rate products

Trading income from interest rate products was a net loss of A$190 million in the half year ended 30 September 2009 down from a loss of A$12 million in the prior corresponding period. The half year ended 30 September 2009 included a net A$252 million loss relating to the fair value adjustment on fixed rate issued debt (A$320 million due to reduced credit spreads offset by a A$68 million gain due to an increased discount rate). In the prior corresponding period a net A$20 million gain was recognised, with a net A$159 million gain in the prior period.

Excluding the fair value adjustment on fixed rate issued debt, income from interest rate products was A$62 million, up from a loss of A$32 million in the prior corresponding period. The Credit Trading division (established in June 2008) and the Emerging Markets division made substantial contributions during the 30 September 2009 half. Significant improvement in the Australian credit market and spreads across all markets translated to a substantial increase in income for the Debt Markets division.

2.4 Share of net profits/(losses) of associates and joint ventures

	Half year to			Movement[1]	
	Sep 09	Mar 09	Sep 08	*Mar 09*	*Sep 08*
	A$m	A$m	A$m	*%*	*%*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**(197)**	(44)	118	*n/m*	*n/m*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Share of net equity accounted losses of associates and joint ventures was A$197 million for the half year ended 30 September 2009, compared to a net profit of A$118 million in the prior corresponding period. Equity accounted losses relating to investments where Macquarie is both the fund manager and has an equity investment in the fund were the main contributor. The main change from the prior corresponding period was the impact of the global financial crisis on the underlying results of the investments.

The 30 September 2009 half comprised equity accounted gains of A$117 million offset by equity accounted losses of A$314 million (of which A$62 million related to the equity accounting impact of fees to terminate management arrangements. Refer Sections 2.5 and 3.3 for further detail).

2.0 Income statement analysis (continued)

2.5 Other operating income and charges

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net gains on sale of investment securities available for sale	**35**	18	125	*94*	*(72)*
Net gains on sale of associates (including associates held for sale) and joint ventures	**49**	18	63	*172*	*(22)*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**260**	263	60	*(1)*	*n/m*
Impairment charge on investment securities available for sale	**(69)**	(168)	(138)	*(59)*	*(50)*
Impairment charge on investments in associates (including associates held for sale) and joint ventures	**(359)**	(168)	(546)	*114*	*(34)*
Impairment charge on disposal groups held for sale	**—**	5	(197)	*(100)*	*(100)*
Impairment charge on non-financial assets	**(43)**	(75)	—	*(43)*	*n/m*
Sale of management rights	**345**	—	—	*n/m*	*n/m*
Gain on repurchase of subordinated debt	**55**	—	—	*n/m*	*n/m*
Net operating lease income	**76**	109	74	*(30)*	*3*
Net income from disposal groups held for sale	**—**	71	20	*(100)*	*(100)*
Dividends/distributions received/receivable from investment securities available for sale	**21**	12	37	*75*	*(43)*
Collective allowance for credit losses during the period	**3**	(95)	5	*n/m*	*(40)*
Specific provisions	**(134)**	(245)	(166)	*(45)*	*(19)*
Other income	**123**	112	118	*10*	*4*
Total other operating income and charges	**362**	(143)	(545)	*n/m*	*n/m*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Total other operating income and charges was a gain of A$362 million for the half year ended 30 September 2009, compared to a loss of A$545 million in the prior corresponding period largely due to lower impairment charges and the fee to terminate management arrangements in relation to Macquarie Airports, offset to some extent by lower net gains on sale of investment securities available for sale. Refer to Section 2.6 for further detail on impairment charges, including specific loan provisions and collective allowance for credit losses.

Net gains on sale of equity investments (including available for sale, associates and joint venture investments) totalled A$84 million, down 55% from A$188 million in the prior corresponding period. Gains recognised in the 30 September 2009 half were predominately from Moto Hospitality and Puget Energy. The prior corresponding period included gains from the sale of Macquarie Capital's residual holding in Dyno Nobel and Boart Longyear.

The gain on deconsolidation of controlled entities for the half year ended 30 September 2009 of A$260 million increased significantly from A$60 million in the prior corresponding period largely due to financing of the acquisition of £157.5 million of Macquarie Income Preferred Securities in June 2009, which contributed A$127 million during the period, and the sale of Macquarie Communications Infrastructure Management Limited.

The sale of management rights income of A$345 million related to Macquarie Airports.

During the half year ended 30 September 2009 a gain of A$55 million was made in relation to the buy back of issued subordinated debt in April 2009.

Operating lease income of A$76 million for the half year ended 30 September 2009 increased 3% from A$74 million in the prior corresponding period.

Dividends and distributions received of A$21 million for the half year ended 30 September 2009 decreased 43% from A$37 million in the prior corresponding period as a number of companies reduced dividends to preserve capital during the global financial crisis.

2.6 Impairment charges, net equity accounted gains/losses and provisions

Reconciliation to the statutory income statement

The table below shows the various income statement categories in which impairment charges, net equity accounted gains/losses and provisions were recognised for the half year ended 30 September 2009. Total impairment charges were down on both the prior period and prior corresponding period as the six months to 30 September 2009 showed signs of improved markets.

	Half year to Sep 09 A$m
Impairment charge on investment securities available for sale	(69)
Impairment charge on investments in associates (including associates held for sale) and joint ventures	(359)
Impairment charge on non-financial assets	(43)
Collective allowance for credit losses during the period	3
Specific provisions	(134)
Share of net gains/losses of associates and joint ventures accounted for using the equity method (excluding Macquarie Airports)[1]	(135)
Net trading losses[2]	(21)
Total impairment charges and provisions	(758)

1 The amount shown above excludes equity accounted losses relating to Macquarie Airports. Refer Sections 2.4 and 3.3 for further detail.

2 Selected items included are carried in the trading portfolio at fair value. Realised 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.

2.0 Income statement analysis (continued)

Details of impairment charges and provisions

	Half year to Sep 09		
	Macquarie Securities A$m	Macquarie Capital A$m	Macquarie Funds A$m
Impairments and equity accounted gains/losses of funds management assets and other co-investments			
Listed Macquarie-managed funds	–	(26)	–
Real estate equity investments	–		–
US portfolios of asset backed securities held as available for sale	–	(62)	–
Resources equity investments	–	–	–
Other equity co-investments[1]	1	(432)	1
Total	1	(520)	1
Loan impairment provisions			
Real estate loans	–	–	–
Resources loans	–	–	–
Corporate and Assets Finance leasing and lending	–	–	–
Banking and Financial Services business banking	–	–	–
Other loans	–	(9)	(2)
Total	–	(9)	(2)
Impairments recognised on trading asset positions			
CLO/CDO exposures held in trading portfolio	–	–	–
Total impairment charges and provisions	1	(529)	(1)

1 Includes impairment charges of A$348 million and equity accounted losses of A$175 million, and is offset with equity accounted gains of A$118 million.

		Half year to Sep 09			
Fixed Income Currencies & Commodities A$m	Corporate & Asset Finance A$m	Real Estate Banking A$m	Banking & Financial Services A$m	Corporate A$m	Total A$m
—	—	(16)	—	(3)	(45)
—	—	(90)	—	(2)	(92)
—	—	—	—	—	(62)
(2)	—	—	—	—	(2)
3	1	23	(3)	1	(405)
1	1	(83)	(3)	(4)	(606)
—	—	(13)	—	—	(13)
(50)	—	—	—	—	(50)
—	(28)	—	—	—	(28)
—	—	—	(14)	—	(14)
—	—	—	(15)	—	(26)
(50)	(28)	(13)	(29)	—	(131)
(21)	—	—	—	—	(21)
(70)	(27)	(96)	(32)	(4)	(758)

2.0 Income statement analysis (continued)

2.7 Operating expenses

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Employment expenses:					
Compensation expenses:					
Salary, commissions, superannuation and performance-related profit share	**(1,333)**	(999)	(1,099)	*33*	*21*
Share based payments	**(58)**	(64)	(64)	*(9)*	*(9)*
Provision for annual leave	**(10)**	1	(20)	*n/m*	*(50)*
Provision for long service leave	**(1)**	5	(7)	*n/m*	*(86)*
Total compensation expenses	**(1,402)**	(1,057)	(1,190)	*33*	*18*
Other employment expenses including on-costs, staff procurement and staff training	**(107)**	(37)	(75)	*189*	*43*
Total employment expenses	**(1,509)**	(1,094)	(1,265)	*38*	*19*
Brokerage and commission expenses	**(329)**	(374)	(311)	*(12)*	*6*
Occupancy expenses	**(251)**	(241)	(152)	*4*	*65*
Non-salary technology expenses	**(125)**	(152)	(111)	*(18)*	*13*
Professional fees	**(128)**	(191)	(134)	*(33)*	*(4)*
Travel and entertainment	**(68)**	(102)	(102)	*(33)*	*(33)*
Advertising and communication	**(42)**	(45)	(47)	*(7)*	*(11)*
Other expenses	**(121)**	(95)	(121)	*27*	*—*
Total operating expenses	**(2,573)**	(2,294)	(2,243)	*12*	*15*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Operating expenses of A$2,573 million for the six months to 30 September 2009 increased 15% from A$2,243 million in the prior corresponding period, primarily due to increased employments expenses.

Employment expenses increased 19% from A$1,265 million in the prior corresponding period to A$1,509 million for the half year ended 30 September 2009. The main driver was increased profit share expense, with the overall compensation ratio increasing from 40.1% in the prior corresponding period to 45.2% for the half year ended 30 September 2009.

The 6% increase in brokerage and commission expense from A$311 million to A$329 million was primarily due to increased volumes of client trading as global market conditions improved.

Occupancy costs of A$251 million for the half year ended 30 September 2009 increased 65% from A$152 in the prior corresponding period, mainly due to the occupation of new offices in Sydney, Hong Kong and London. Additionally, expense has been recognised for the cost of future surplus leased space in accordance with Accounting standards.

Non-salary technology expenses were up 13% on prior corresponding period to A$125 million for the half year ended 30 September 2009 due to increased spend on new and upgraded systems.

Reductions in professional fees of 4% to A$128 million and travel and entertainment down 33% to A$68 million were due to reduced investment banking activity and a focus on cost rationalisation during the 30 September 2009 half.

Other expenses of A$121 million for the half year ended 30 September 2009 were in line with the prior corresponding period.

2.8 Headcount

	As at			Movement	
	Sep 09	Mar 09	Sep 08	*Mar 09 %*	*Sep 08 %*
Headcount by group					
Macquarie Securities	**1,512**	1,540	1,777	*(2)*	*(15)*
Macquarie Capital	**2,403**	2,617	3,049	*(8)*	*(21)*
Macquarie Funds	**561**	583	572	*(4)*	*(2)*
Fixed Income, Currencies and Commodities	**796**	680	677	*17*	*18*
Corporate and Asset Finance	**574**	539	546	*6*	*5*
Real Estate Banking	**118**	136	214	*(13)*	*(45)*
Banking and Financial Services	**2,628**	2,598	2,779	*1*	*(5)*
Total headcount — operating groups	**8,592**	8,693	9,614	*(1)*	*(11)*
Total headcount — corporate	**4,166**	4,023	4,284	*4*	*(3)*
Total headcount	**12,758**	12,716	13,898	*<1*	*(8)*
Headcount by region					
Australia	**7,026**	7,243	7,898	*(3)*	*(11)*
International:					
Americas	**2,197**	1,931	1,991	*14*	*10*
Asia Pacific	**2,183**	2,207	2,496	*(1)*	*(13)*
Europe, Africa and Middle East	**1,352**	1,335	1,513	*1*	*(11)*
Total headcount — International	**5,732**	5,473	6,000	*5*	*(4)*
Total headcount	**12,758**	12,716	13,898	*<1*	*(8)*
International headcount ratio (%)	**45**	43	43	*5*	*5*

Total headcount at 30 September 2009 of 12,758 decreased 8% from 13,898 million at 30 September 2008 largely due to a reduction in headcount by some groups in response to the global financial crisis. This was partially offset by the integration of Tristone Capital Global Inc. and Constellation Energy, which together added over 200 staff predominantly in the Americas.

2.0 Income statement analysis (continued)

2.9 Income tax expense

	Half year to		
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m
Net profit before tax	**532**	262	727
Add back: write-downs and impairment charges	**758**	1,032	1,012
Net profit before impairments and tax	**1,290**	1,294	1,739
Prima facie tax @ 30%	**387**	388	522
Income tax permanent differences	**(124)**	(143)	(139)
Income tax expense (before effect of impairments)	**263**	245	383
Implied effective tax rate (%)[1]	**21%**	20%	23%
Prima facie tax of write-downs and impairment charges @ 30%	**(227)**	(309)	(304)
Income tax expense/(benefit)	**36**	(64)	79
Actual effective tax rate (%)[1]	**7%**	(32%)	12%

1 The effective tax rate is calculated on net profit before tax and after minority interests. Minority interests reduce net profit before tax by A$17 million, A$59 million and A$44 million in the six months ended 30 September 2009, 31 March 2009 and 30 September 2008, respectively.

The effective tax rate for the half year ended 30 September 2009 was 7.0%, down from 11.6% in the prior corresponding period and up from 1.7% for the year to 31 March 2009. Income tax expense declined A$43 million compared to the prior corresponding period.

The decrease was largely due to a 27% reduction in net profit before income tax, from A$727 million in the prior corresponding period, to A$532 million in the half year ended 30 September 2009. This had the effect of reducing prima facie income tax expense by A$59 million compared to the prior corresponding period.

Permanent differences on operating income before write-downs, impairment charges, net equity accounted gains/losses and other significant items have been relatively stable.

3.0 Segment analysis

3.1 Basis of preparation

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 statutory 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 Securities
— Macquarie Capital
— Macquarie Funds
— Fixed Income, Currencies and Commodities (formerly Treasury and Commodities)
— Corporate and Asset Finance
— Real Estate Banking
— Banking and Financial Services.

Additionally, a Corporate segment includes Group Treasury, head office and central support functions.

Operating group restructures

Since 31 March 2009 there have been no restructures of operating groups.

Internal transactions

Any transfers or transactions between segments are determined on an arm's length basis and are included within the relevant categories of income. These transactions eliminate on aggregation/consolidation. Below is a selection of the key policies.

Internal funding arrangements

Group Treasury has the responsibility for maintaining the funding for the Group, and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the types of assets being funded and the term of the funding, and are fully costed.

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

Transactions between operating groups

Operating groups that enter into arrangements with other operating groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions, i.e. a profit in one operating group must be offset with an equal and opposite loss in the other operating group.

Services and recoveries

Service areas recover their costs to operating groups on either a time and effort allocation basis or a fee for service basis.

Internal management revenue/(charges)

Internal management revenue/charges are primarily used to recognise an operating group's contribution to income tax expenses and benefits. Non-assessable income generated by an operating group results in a benefit added to that group's operating result. Conversely a non-deductible expense results in a charge to the operating result. These management charges are offset by an equal and opposite amount recognised in the Corporate segment such that on aggregation the total nets to nil.

Presentation of segment income statements

The income statements on the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with the most relevant information.

3.0 Segment analysis
(continued)

	Macquarie Securities A$m	Macquarie Capital A$m	Macquarie Funds A$m
Half year ended 30 September 2009			
Net interest income/(expense)	**(25)**	**(125)**	**27**
Fee and commission income	**502**	**777**	**109**
Trading income	**291**	**57**	**16**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**1**	**(184)**	**7**
Other operating income and charges	**2**	**210**	**3**
Internal revenue	**11**	**64**	**2**
Total operating income	**782**	**799**	**164**
Total operating expenses	**(463)**	**(470)**	**(127)**
Profit before tax	**319**	**329**	**37**
Tax expense	**—**	**—**	**—**
Profit attributable to minority interests	**—**	**2**	**1**
Net profit/(loss) contribution	**319**	**331**	**38**
Half year ended 31 March 2009			
Net interest income/(expense)	(39)	(212)	33
Fee and commission income	372	995	140
Trading income	(52)	(173)	(6)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	—	(46)	(17)
Other operating income and charges	(2)	56	3
Internal revenue	112	91	3
Total operating income	391	711	156
Total operating expenses	(559)	(728)	(146)
Profit before tax	(168)	(17)	10
Tax expense	—	—	—
Profit attributable to minority interests	—	(31)	—
Net profit/(loss) contribution	(168)	(48)	10
Half year ended 30 September 2008			
Net interest income/(expense)	52	(169)	32
Fee and commission income	472	1,083	145
Trading income	414	(66)	(4)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	3	56	5
Other operating income and charges	3	(252)	2
Internal revenue	9	165	1
Total operating income	953	817	181
Total operating expenses	(510)	(512)	(146)
Profit before tax	443	305	35
Tax expense	—	—	—
Profit attributable to minority interests	—	—	—
Net profit/(loss) contribution	443	305	35

Fixed Income, Currencies & Commodities A$m	Corporate & Asset Finance A$m	Real Estate Banking A$m	Banking & Financial Services A$m	Corporate A$m	Total A$m
46	**143**	**(8)**	**254**	**113**	**425**
68	**6**	**63**	**360**	**(3)**	**1,882**
514	**32**	**(1)**	**(1)**	**(275)**	**633**
3	**1**	**(21)**	**—**	**(4)**	**(197)**
(14)	**26**	**(52)**	**(29)**	**216**	**362**
28	**14**	**(9)**	**4**	**(114)**	**—**
645	**222**	**(28)**	**588**	**(67)**	**3,105**
(277)	**(94)**	**(28)**	**(448)**	**(666)**	**(2,573)**
368	**128**	**(56)**	**140**	**(733)**	**532**
—	**—**	**—**	**—**	**(36)**	**(36)**
—	**(1)**	**—**	**(3)**	**(16)**	**(17)**
368	**127**	**(56)**	**137**	**(785)**	**479**
60	81	28	223	244	418
99	6	26	312	(60)	1,890
520	(9)	(5)	(28)	188	435
61	(1)	(40)	(4)	3	(44)
(239)	7	(178)	5	205	(143)
29	8	(1)	6	(248)	—
530	92	(170)	514	332	2,556
(306)	(79)	(51)	(435)	10	(2,294)
224	13	(221)	79	342	262
—	—	—	—	64	64
—	(1)	—	(4)	(23)	(59)
224	12	(221)	75	383	267
(26)	48	(32)	202	413	520
67	8	23	385	(28)	2,155
373	—	(1)	(10)	16	722
8	—	45	(3)	4	118
48	54	(122)	(255)	(23)	(545)
37	9	(11)	(28)	(182)	—
507	119	(98)	291	200	2,970
(223)	(64)	(43)	(463)	(282)	(2,243)
284	55	(141)	(172)	(82)	727
—	—	—	—	(79)	(79)
1	(1)	—	(2)	(42)	(44)
285	54	(141)	(174)	(203)	604

3.0 Segment analysis (continued)

3.2 Macquarie Securities

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net trading income (including net interest income)[2,3]	**266**	(91)	466	*n/m*	*(43)*
Fee and commission income					
Brokerage and commissions	**374**	281	407	*33*	*(8)*
Other fee and commission income	**128**	91	65	*41*	*97*
Total fee and commission income	**502**	372	472	*35*	*6*
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	—	3	*n/m*	*(67)*
Other operating income and charges	**2**	(2)	3	*n/m*	*(33)*
Internal revenue	**11**	112	9	*(90)*	*22*
Total operating income	**782**	391	953	*100*	*(18)*
Operating expenses					
Employment expenses	**(128)**	(197)	(142)	*(35)*	*(10)*
Brokerage and commission expenses	**(140)**	(110)	(146)	*27*	*(4)*
Other operating expenses	**(195)**	(252)	(222)	*(23)*	*(12)*
Total operating expenses	**(463)**	(559)	(510)	*(17)*	*(9)*
Net profit/(loss) contribution	**319**	(168)	443	*n/m*	*(28)*
Non-GAAP metrics					
Headcount	**1,512**	1,540	1,777	*(2)*	*(15)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 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 Macquarie Securities Group's trading activities, net interest income has been combined with trading income above.

3 In addition to the equity impairments and credit losses shown above, impairments taken through trading income totalled nil for the half year ended 30 September 2009 (half year ended 31 March 2009: A$35 million; half year ended 30 September 2008: nil).

Macquarie Securities' net profit contribution of A$319 million for the half year ended 30 September 2009 decreased 28% from A$443 million in the prior corresponding period primarily due to lower trading income, partially offset by higher fee and commission income.

Net trading income (including net interest income)

Net trading income from equity products (including net interest income) of A$266 million for the half year ended 30 September 2009 decreased 43% from A$466 million in the prior corresponding period. Derivatives revenues, although improved over the period, were down on the prior corresponding period reflecting weaker volumes in retail structured products. Structured Equity Finance revenues were significantly down on the prior corresponding period as a result of lower volumes. Arbitrage Trading activities have continued to contribute strongly to trading profits as a result of favourable spreads in exchange traded instruments, particularly in Taiwanese, Indian and Korean markets. The lower net trading result for the six months to 31 March 2009 was due to substantially lower demand for listed/structured products and unprecedented volatility during the six months to 31 March 2009. The prior period also included losses on BrisConnections and the impact of some Group funding transactions that were offset with internal management revenue.

Brokerage and commissions

Brokerage and commission income of A$374 million for the half year ended 30 September 2009 decreased 8% from A$407 million in the prior corresponding period. Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional clients. In Australia, ASX market turnover decreased 16% from the prior corresponding period, and across Asia markets (excluding Japan) total turnover decreased 4% from the prior corresponding period, with market share across Australia and Asia relatively flat on prior corresponding period. Average commissions achieved were reduced due to increasing proportion of lower margin electronic trading. The decrease in income was slightly offset by the continued growth in secondary market brokerage from the United States and European greenfield businesses.

Brokerage and commission income was up 33% on the prior period, which was significantly impacted by subdued equity market conditions globally.

Other fee and commission income

Other fee and commission income of A$128 million for the half year ended 30 September 2009 increased 97% from A$65 million in the prior corresponding period. Other fee and commission income consists primarily of equity capital markets fees. Capital raising activity was strong during the six months to September 2009 with notable transactions for the period including Rio Tinto's US$15.2 billion renounceable rights issue featuring Macquarie Securities as joint global co-ordinator, underwriter and bookrunner.

Operating expenses

Employment expenses of A$128 million for the half year ended 30 September 2009 decreased 10% from A$142 million in the prior corresponding period. The decrease was mainly driven by a 15% reduction in headcount from 1,777 at 30 September 2008 to 1,512 at 30 September 2009. The reduction in headcount was in direct response to deteriorating market conditions experienced during the six months to 31 March 2009.

Brokerage and commission expenses of A$140 million for the half year ended 30 September 2009 decreased 4% from A$146 million in the prior corresponding period. The decrease in brokerage and commission expenses was driven by lower trading volumes during the six months to 30 September 2009 and was in line with the decrease in brokerage and commission income.

Other operating expenses of A$195 million for the half year ended 30 September 2009 decreased 12% from A$222 million in the prior corresponding period. The decrease was predominantly driven by a reduction in headcount and a focus on expense rationalisation.

3.0 Segment analysis (continued)

3.3 Macquarie Capital

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net interest income/(expense)	**(125)**	(212)	(169)	*(41)*	*(26)*
Fee and commission income					
Base fees	**243**	268	256	*(9)*	*(5)*
Performance fees	**12**	8	210	*50*	*(94)*
Mergers and acquisitions, advisory and underwriting	**566**	590	566	*(4)*	—
Brokerage and commissions	**30**	34	27	*(12)*	*11*
Other fee and commission income/(expenses)	**(74)**	95	24	*n/m*	*n/m*
Total fee and commission income	**777**	995	1,083	*(22)*	*(28)*
Net trading income[2]	**57**	(173)	(66)	*n/m*	*n/m*
Share of net profits of associates and joint ventures accounted for using the equity method	**(184)**	(46)	56	*300*	*n/m*
Other operating income and charges					
Net gains on sale of equity investments	**57**	30	181	*90*	*(69)*
Impairment charge on equity investments	**(369)**	(148)	(548)	*149*	*(33)*
Impairment charge on non-financial assets	**(29)**	—	—	*n/m*	*n/m*
Net operating income from disposal groups held for sale	**—**	73	21	*(100)*	*(100)*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**131**	9	61	*n/m*	*115*
Sale of management rights	**345**	—	—	*n/m*	*n/m*
Net operating lease income	**38**	40	30	*(5)*	*26*
Specific provisions and collective allowance for credit losses	**(9)**	(16)	(17)	*(44)*	*(47)*
Other income	**46**	68	20	*(32)*	*130*
Total other operating income and charges	**210**	56	(252)	*275*	*n/m*
Internal revenue	**64**	91	165	*(30)*	*(61)*
Total operating income	**799**	711	817	*12*	*(2)*
Operating expenses					
Employment expenses	**(235)**	(354)	(264)	*(34)*	*(11)*
Brokerage and commission expenses	**(20)**	(89)	(8)	*(78)*	*150*
Other operating expenses	**(215)**	(285)	(240)	*(25)*	*(10)*
Total operating expenses	**(470)**	(728)	(512)	*(35)*	*(8)*
Minority interests[3]	**2**	(31)	—	*n/m*	*n/m*
Net profit/(loss) contribution	**331**	(48)	305	*n/m*	*9*
Non-GAAP metrics					
Equity under management (A$ billion)	**50.0**	53.3	55.8	*(6)*	*(10)*
Assets under management (A$ billion)	**130.7**	159.5	158.0	*(18)*	*(17)*
Headcount	**2,403**	2,617	3,049	*(8)*	*(21)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 In addition to the equity impairments and credit losses shown above, impairments taken through trading income totalled nil for the half year ended 30 September 2009 (half year ended 31 March 2009: A$129 million; half year ended 30 September 2008: A$47 million).

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

Macquarie Capital's net profit contribution of A$331 million for the half year ended 30 September 2009, increased 9% from A$305 million in the prior corresponding period due to a number of factors discussed in detail below.

Net interest income

Net interest expense of A$125 million for the half year ended 30 September 2009 was down 26% from A$169 million in the prior corresponding period. This reduction mainly reflects interest expense on borrowings for principal investments which decreased in line with lower interest rates during the half year ended 30 September 2009 compared to the prior corresponding period.

Base fee income

Base fee income of A$243 million for the half year ended 30 September 2009 decreased 5% from A$256 million in the prior corresponding period. Significant base fees from listed funds recognised during the half year ended 30 September 2009 included Macquarie Airports (A$18 million) and Macquarie Infrastructure Group (A$16 million).

This decrease in base fees was a result of lower Equity under Management primarily due to the disposal of the Macquarie Communications Infrastructure Group manager and lower listed security prices, partially offset by movements in foreign exchange rates.

Performance fee income

Performance fees of A$12 million for the half year ended 30 September 2009 decreased 94% from A$210 million in the prior corresponding period. Minimal performance fees were generated for the half year ended 30 September 2009. A significant contributor to the prior corresponding period was the performance fee on the termination of the Advisory Agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited).

Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income for the half year ended 30 September 2009 was A$566 million, in line with the prior corresponding period. The volume of deals in which Macquarie participated for the half year ended 30 September 2009 (182 deals valued at approximately A$57 billion) was lower in value compared to the prior corresponding period (164 deals valued at approximately A$83 billion[1]).

Significant advisory deals completed for the half year ended 30 September 2009 included:

— Sponsor, adviser and debt and equity underwriter for the A$4.9 billion Victorian Desalination Project;
— Joint global co-ordinator and joint underwriter for Rio Tinto's global US$15.2 billion renounceable rights issue;
— Adviser to Macquarie Communications Infrastructure Group on the CPPIB take-over;
— Adviser to Goodman Group on its recapitalisation including A$4.1 billion debt restructuring, A$1.3 billion equity raising, A$500 million hybrid securities issue to China Investment Corporation and A$300 million China real estate joint venture; and
— Adviser to PaperLinX on the sale of its A$760 million paper business to Nippon Paper Industries.

1 The September 2008 comparative includes a large one-off deal of A$34 billion.

3.0 Segment analysis (continued)

Net trading income

The net trading income of A$57 million for the half year ended 30 September 2009 increased from a loss of A$66 million in the prior corresponding period. The half year ended 30 September 2009 included a realised profit in relation to a United States listed investment while the prior corresponding period included a mark-to-market write-down in relation to the holding in BrisConnections and other listed investments carried at fair value through profit or loss. The loss for the half year ended 31 March 2009 of A$173 million included mark-to market losses of A$129 million (including trading losses of A$101 million in relation to a United States listed investment).

Share of net profits of associates and joint ventures accounted for using the equity method

Net equity accounted losses of A$184 million for the half year ended 30 September 2009 decreased from the A$56 million net profit in the prior corresponding period driven by a deterioration of the results of investments due to the global financial crisis. Net equity accounted losses of A$8 million were booked for the half year ended 30 September 2009 for listed associates, including Macquarie Infrastructure Group. Equity accounting losses recognised in relation to unlisted associates of A$179 million reflected the impairment of some investments held by unlisted associates during the six months to 30 September 2009. This was offset by equity accounted profits in relation to unlisted associates of A$65 million. In addition, Macquarie Capital recognised an equity accounted loss of A$62 million from its investment in Macquarie Airports arising from the A$345 million fee paid to Macquarie to terminate management arrangements.

Net gains on sale of equity investments

Net gains on sale of equity investments of A$57 million for the half year ended 30 September 2009 decreased 69% from A$181 million in the prior corresponding period. The net gain for the half year ended 30 September 2009 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 the sale of Moto Hospitality and Puget Energy. The prior corresponding period included income from the sale of the residual holdings in Boart Longyear Limited and Dyno Nobel.

Impairment charge on equity investments

Impairment charges on equity investments of A$369 million for the half year ended 30 September 2009 decreased 33% from A$548 million in the prior corresponding period. These charges related to the write-down of equity investments of A$307 million and the write-down of a United States portfolio of asset-backed securities held as available for sale of A$62 million.

Total impairment charges for the year to 31 March 2009 were A$696 million (A$548 million for the half year ended 30 September 2008 and A$148 million for the half year ended 31 March 2009). These charges related to the write-down of holdings in listed securities of A$355 million (including Macquarie Infrastructure Group, Macquarie Infrastructure Company, Macquarie Media Group, DUET and BrisConnections), certain unlisted equity accounted investments (A$286 million), and the write-down of a United States portfolio of asset-backed securities held as available for sale (A$55 million).

Impairment charge on non-financial assets

The impairment charge on non-financial assets of A$29 million for the half year ended 30 September 2009 related to the impairment of intangibles relating to a consolidated investment. There were no impairment charges on non-financial assets in the prior corresponding period.

Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale of A$131 million for the half year ended 30 September 2009, increased 115% from A$61 million in the prior corresponding period. The gain in the six months to 30 September 2009 related to income from the sale of Macquarie Communications Infrastructure Management Limited and income in relation to the internalisation of management of Macquarie Leisure Trust Group. The prior corresponding period included the sale of the Longview Oil and Gas assets and Red Bee Media.

Sale of management rights

The fee to terminate management arrangements in relation to Macquarie Airports recognised in the half year to 30 September 2009 was A$345 million.

Operating expenses

Total operating expenses for the half year ended 30 September 2009 were A$470 million decreased 8% from A$512 million in the prior corresponding period.

Employment expenses for the half year ended 30 September 2009 were A$235 million, a decrease of 11% from A$264 million in the prior corresponding period, primarily reflecting a lower average headcount for the half year ended 30 September 2009 compared to the prior corresponding period.

Brokerage and commission expenses of A$20 million for the half year ended 30 September 2009 increased 150% from A$8 million in the prior corresponding period due to increased activity within the Reinsurance business compared with the prior corresponding period.

Other operating expense of A$215 million for the half year ended 30 September 2009 decreased 10% from A$240 million in the prior corresponding period due to a decrease in occupancy costs, other direct costs and recoveries driven by the lower average headcount.

3.0 Segment analysis (continued)

3.4 Macquarie Funds

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net interest income/(expense)	**27**	33	32	*(18)*	*(16)*
Fee and commission income					
Base fees	**72**	76	66	*(5)*	*9*
Performance fees	**5**	6	8	*(17)*	*(38)*
Other fee and commission income	**32**	58	71	*(45)*	*(55)*
Total fee and commission income	**109**	140	145	*(22)*	*(25)*
Net trading income	**16**	(6)	(4)	*n/m*	*n/m*
Share of net profits of associates and joint ventures accounted for using the equity method	**7**	(17)	5	*n/m*	*40*
Other operating income and charges					
Impairment charge on equity investments	**(6)**	(5)	—	*20*	*n/m*
Specific provisions and collective allowance for credit losses	**(2)**	(9)	—	*(78)*	*n/m*
Other income	**11**	17	2	*(35)*	*n/m*
Total other operating income and charges	**3**	3	2	*—*	*50*
Internal revenue	**2**	3	1	*(33)*	*100*
Total operating income	**164**	156	181	*5*	*(9)*
Operating expenses					
Employment expenses	**(47)**	(61)	(44)	*(23)*	*7*
Brokerage and commission expenses	**(27)**	(27)	(45)	*—*	*(40)*
Other operating expenses	**(53)**	(58)	(57)	*(9)*	*(7)*
Total operating expenses	**(127)**	(146)	(146)	*(13)*	*(13)*
Minority interests[2]	**1**	—	—	*n/m*	*n/m*
Net profit/(loss) contribution	**38**	10	35	*280*	*9*
Non-GAAP metrics					
Assets under management[3] (A$ billion)	**58.0**	49.7	44.8	*17*	*29*
Headcount[4]	**561**	583	572	*(4)*	*(2)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

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

3 Macquarie Cash Management Trust, excluded from Assets under Management reported above, is a Banking and Financial Services product that is managed by Macquarie Funds Group. The Cash Management Trust closed at A$12.6 billion at 30 September 2009 (31 March 2009: A$14.7 billion; 30 September 2008: A$16.1 billion).

4 The acquisition and consolidation of fund managers in the United States during 2009, as well as the internal transfer of a European distribution business from Macquarie Securities Group, contributed 66 staff members to the headcount increase in the prior period.

Macquarie Funds Group's net profit contribution of A$38 million for the half year ended 30 September 2009 increased 9% from A$35 million in the prior corresponding period primarily due to increased base fees and lower brokerage and commission expenses.

Net interest income/(expense)

Net interest income of A$27 million for the half year ended 30 September 2009 decreased 16% from A$32 million in the prior corresponding period. The decrease was largely driven by lower interest revenue as a result of redemptions from retail loans issued to investors as part of Macquarie Funds Group's structured investment offerings, including the reFleXion and Gateway products.

Base fees

Base fee income of A$72 million for the half year ended 30 September 2009 increased 9% from A$66 million in the prior corresponding period. Base fee income was higher due to the acquisition of two fixed interest funds management businesses in the United States and strong inflows for the Fixed Interest, Currency and Commodities asset class over the past 12 months. This was partially offset by the impact of a decrease in Assets under Management across most other asset classes. Total Assets under Management of A$58.0 billion at 30 September 2009, including A$5.1 billion from the acquisition of the remaining shares in Allegiance Investment Management in January 2009, increased 29% from A$44.8 billion at 30 September 2008. Refer to Section 7.1 for a breakdown of Macquarie Funds Group's Assets under Management by asset class.

On 19 August 2009, Macquarie Funds Group announced it had entered into an agreement to acquire Delaware Investments from Lincoln Financial Group for US$428 million. Delaware Investments is a leading United States diversified asset management firm with over US$125 billion (A$142 billion[1]) in Assets under Management at 30 June 2009. The transaction is expected to close in January 2010 and is subject to regulatory approvals.

Performance fees

Performance fee income of A$5 million for the half year ended 30 September 2009 decreased 38% from A$8 million in the prior corresponding period largely due to lower performance fees from Listed Equities.

Other fee and commission income

Other fee and commission income includes structuring fees, capital protection fees, wholesale threshold management fees, fees from True Index products and internal fees received for managing and administering investment products on behalf of Banking and Financial Services.

Other fee and commission income of A$32 million for the half year ended 30 September 2009 decreased 55% from A$71 million in the prior corresponding period. Structuring fees were significantly down on the prior corresponding period 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. True Index fees also decreased compared to the strong result in the prior corresponding period. These decreases were partially offset by the receipt of non-recurring service fees.

1 Converted at 30 September 2009 exchange rate.

3.0 Segment analysis (continued)

Net trading income

Net trading income of A$16 million for the half year ended 30 September 2009 increased from a loss of A$4 million in the prior corresponding period. The result was driven by performance of seed capital positions as well as increased income from some derivative products offered by the Investment Solutions and Sales division.

Other income

Other income of A$11 million for the half year ended 30 September 2009 increased significantly from A$2 million in the prior corresponding period. The 30 September 2009 half predominantly included distributions from Macquarie Funds Group's seed investments, which were minimal in the prior corresponding period.

Operating expenses

Total operating expenses of A$127 million for the half year ended 30 September 2009 decreased 13% from A$146 million in the prior corresponding period. The decrease was primarily driven by lower brokerage and commission expenses of A$27 million, down 40% from A$45 million in the prior corresponding period predominantly due to lower structured product raisings in the 30 September 2009 half.

3.5 Fixed Income, Currencies and Commodities

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net trading income (including net interest income)[2]					
Commodities	**379**	425	225	*(11)*	*68*
Foreign exchange products	**58**	74	90	*(22)*	*(36)*
Interest rate products	**123**	81	32	*52*	*284*
Total net trading income (including net interest income)[3]	**560**	580	347	*(3)*	*61*
Fee and commission income					
Brokerage and commissions	**35**	49	37	*(29)*	*(5)*
Other fee and commission income	**33**	50	30	*(34)*	*10*
Total fee and commission income	**68**	99	67	*(31)*	*1*
Share of net profits of associates and joint ventures accounted for using the equity method	**3**	61	8	*(95)*	*(63)*
Other operating income and charges					
Net gains/(losses) on sale of equity investments	**26**	(6)	16	*n/m*	*63*
Impairment charge on equity investments	**(2)**	(88)	(32)	*(98)*	*(94)*
Specific provisions and collective allowance for credit losses	**(50)**	(148)	(12)	*(66)*	*n/m*
Other income	**12**	3	76	*n/m*	*(84)*
Total other operating income and charges	**(14)**	(239)	48	*(94)*	*n/m*
Internal revenue	**28**	29	37	*(3)*	*(24)*
Total operating income	**645**	530	507	*22*	*27*
Operating expenses					
Employment expenses	**(96)**	(103)	(72)	*(7)*	*33*
Brokerage and commission expenses	**(55)**	(50)	(41)	*10*	*34*
Other operating expenses	**(126)**	(153)	(110)	*(18)*	*15*
Total operating expenses	**(277)**	(306)	(223)	*(9)*	*24*
Minority interests[4]	**—**	—	1	*—*	*(100)*
Net profit/(loss) contribution	**368**	224	285	*64*	*29*
Non-GAAP metrics					
Headcount	**796**	680	677	*17*	*18*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 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 Fixed Income, Currencies and Commodities' trading activities, net interest income has been combined with trading income above.

3 In addition to the equity impairments and credit losses shown above, impairments taken through trading income totalled A$21 million for the half year ended 30 September 2009 (half year ended 31 March 2009: A$29 million; half year ended 30 September 2008: A$21 million).

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

3.0 Segment analysis (continued)

Fixed Income, Currencies and Commodities' net profit contribution of A$368 million for the half year ended 30 September 2009 increased 29% from A$285 million in the prior corresponding period primarily due to increased trading income, particularly commodities and interest rate products trading.

Commodities trading income

Commodities trading income of A$379 million for the half year ended 30 September 2009 increased 68% from A$225 million in the prior corresponding period.

Trading income in the Energy Markets division was broadly in line with the prior corresponding period with the exception of increased volumes in the United States gas business resulting from the acquisition of Constellation Energy in March 2009. Market volatility in general was low, liquidity mixed and prices for oil higher while gas and power prices were lower. Trading income from the Agricultural Commodities business was up on the prior corresponding period as a result of higher volatility in soft commodity markets, a return of confidence in agricultural markets and freight markets improving from extreme lows. The Metals and Energy Capital division was a strong contributor with all metals prices recovering, particularly gold.

Foreign exchange products trading income

Trading income on foreign exchange products of A$58 million for the half year ended 30 September 2009 decreased 36% from A$90 million in the prior corresponding period. Volatility and volumes were down significantly on the prior corresponding period driven largely by a fall in foreign exchange market volumes globally as a result of a reduction in global risk capital, lower commodity prices and subdued trade numbers.

Interest rate products trading income

Trading income on interest rate products of A$123 million for the half year ended 30 September 2009 increased significantly from A$32 million in the prior corresponding period. The Credit Trading division (established in June 2008) and the Emerging Markets division made substantial contributions during the 30 September 2009 half. Significant improvement in the Australian credit market and spreads across all markets translated to a substantial increase in income for the Debt Markets division. The 30 September 2009 half included mark-to-market write-downs of A$21 million on CLO/CDO investments. Mark-to-market write-downs on CLO/CDO investments of A$21 million were also recognised in the prior corresponding period.

Fee and commission income

Fee and commission income of A$68 million for the half year ended 30 September 2009 was broadly in line with income of A$67 million in the prior corresponding period. The Futures division, which remains the key contributor to this income category, experienced similar levels of activity as the prior corresponding period.

Impairment charge on equity investments

Minimal impairment charges on equity investments of A$2 million were recognised for the half year ended 30 September 2009. The A$32 million impairment charge in the prior corresponding period related to equity investments largely in the resources sector.

Specific provisions and collective allowance for credit losses

Net loan provisions of A$50 million for the half year ended 30 September 2009, increased significantly from A$12 million in the prior corresponding period. There were A$48 million in specific provisions raised in relation to loans in the energy capital and agricultural commodities sectors, combined with an increase in the collective allowance for credit losses of A$2 million.

Other income

Other income of A$12 million for the half year ended 30 September 2009, decreased 84% from A$76 million in the prior corresponding period, which primarily reflected the gain on sale of a number of resources-related net profit interests in the Metals and Energy Capital division that were not repeated in the half year ended 30 September 2009.

Operating expenses

Total operating expenses of A$277 million for the half year ended 30 September 2009 increased 24% from A$223 million in the prior corresponding period. Employment expenses were up 33% from A$72 million in the prior corresponding period to A$96 million for the half year ended 30 September 2009 mainly driven by an 18% increase in headcount due to the acquisition of Constellation Energy. Other operating expenses of A$126 million for the half year ended 30 September 2009 were up 15% from A$110 million in the prior corresponding period largely due to investment in the Credit Trading business and integration expenses associated with the acquisition of Constellation Energy.

3.0 Segment analysis
(continued)

3.6 Corporate and Asset Finance

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net interest income/(expense)	**143**	81	48	*77*	*198*
Fee and commission income/(expenses)	**6**	6	8	*—*	*(25)*
Net trading income	**32**	(9)	—	*n/m*	*n/m*
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	(1)	—	*n/m*	*n/m*
Other operating income and charges					
Impairment charge on non-financial assets	**—**	(33)	—	*(100)*	*—*
Net operating lease income	**33**	70	44	*(53)*	*(25)*
Specific provisions and collective allowance for credit losses	**(28)**	(33)	(11)	*(15)*	*155*
Other income	**21**	3	21	*n/m*	*—*
Total other operating income and charges	**26**	7	54	*n/m*	*(52)*
Internal revenue	**14**	8	9	*75*	*56*
Total operating income	**222**	92	119	*141*	*87*
Operating expenses					
Employment expenses	**(40)**	(42)	(33)	*(5)*	*21*
Other operating expenses	**(54)**	(37)	(31)	*46*	*74*
Total operating expenses	**(94)**	(79)	(64)	*19*	*47*
Minority interests[2]	**(1)**	(1)	(1)	*—*	*—*
Net profit/(loss) contribution	**127**	12	54	*n/m*	*135*
Non-GAAP metrics					
Headcount	**574**	539	546	*6*	*5*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

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

Corporate and Asset Finance's net profit contribution of A$127 million for the half year ended 30 September 2009 increased 135% from A$54 million in the prior corresponding period predominately due to increased net interest income and net trading income.

Net interest income

Net interest income of A$143 million for the half year ended 30 September 2009 increased 198% from A$48 million in the prior corresponding period. The increase was predominately a result of higher margins and volumes in the loan and finance lease portfolios. Average spread on these portfolios was assisted by a greater mix of higher margin products and increased approximately 1.5% during the six months to 30 September 2009 compared to the prior corresponding period. The loan portfolio increased substantially to A$5.2 billion at 30 September 2009 from A$0.8 billion at 30 September 2008 largely due to increased corporate lending.

On 1 October 2009, Corporate and Asset Finance announced it had completed the acquisition of a portfolio of auto leases and loans from Ford Credit Australia. The value of the portfolio is approximately A$1.0 billion and is comprised of loans and leases for approximately 60,000 cars. Management of the portfolio will be transitioned to the operations of the Macquarie Leasing business by January 2010.

Net trading income

Net trading income of A$32 million for the half year ended 30 September 2009 was primarily due to mark-to-market gains on options and equity securities.

Impairment charge on non-financial assets

There were no impairment charges on non-financial assets during the half year ended 30 September 2009. The impairment charge of A$33 million recognised in the prior period related to inventories of off-lease assets.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$28 million increased 155% from A$11 million in the prior corresponding period primarily as a result of the substantial growth in the total portfolio, which increased 49% to A$11.3 billion at 30 September 2009, from A$7.6 billion at 30 September 2008.

Net operating lease income

Net operating lease income of A$33 million (net of depreciation) for the half year ended 30 September 2009, was down 25% from A$44 million in the prior corresponding period largely due to a decrease in the operating lease portfolio since 30 September 2008.

Operating expenses

Total operating expenses of A$94 million for the half year ended 30 September 2009 have increased 47% from A$64 million in the prior corresponding period. The increase was predominantly in other expenses, which included higher transaction costs associated with an increased number of transactions as the total portfolio increased during the 12 months to 30 September 2009. Senior hires during the period impacted employment expenses, which increased 21% to A$40 million in the half year ended 30 September 2009 from A$33 million in the prior corresponding period.

3.0 Segment analysis (continued)

3.7 Real Estate Banking

	Half year to Sep 09 A$m	Half year to Mar 09 A$m	Half year to Sep 08 A$m	Movement[1] Mar 09 %	Movement[1] Sep 08 %
Net interest income/(expense)	**(8)**	28	(32)	*n/m*	*(75)*
Fee and commission income					
Base fees	**25**	14	12	*79*	*108*
Performance fees	**35**	1	1	*n/m*	*n/m*
Mergers and acquisitions, advisory and underwriting	**—**	10	1	*(100)*	*(100)*
Other fee and commission income	**3**	1	9	*200*	*(67)*
Total fee and commission income	**63**	26	23	*142*	*174*
Net trading income/(expense)	**(1)**	(5)	(1)	*(80)*	*—*
Share of net profits of associates and joint ventures accounted for using the equity method	**(21)**	(40)	45	*(48)*	*n/m*
Other operating income and charges					
Net gains/(losses) on sale of equity investments	**(8)**	20	(7)	*n/m*	*14*
Impairment charge on equity investments	**(50)**	(77)	(69)	*(35)*	*(28)*
Impairment charge on non-financial assets	**(12)**	(40)	—	*(70)*	*n/m*
Specific provisions and collective allowance for credit losses	**(13)**	(101)	(69)	*(87)*	*(81)*
Other income	**31**	20	23	*55*	*35*
Total other operating income and charges	**(52)**	(178)	(122)	*(71)*	*(57)*
Internal revenue	**(9)**	(1)	(11)	*n/m*	*(18)*
Total operating income	**(28)**	(170)	(98)	*(84)*	*(71)*
Operating expenses					
Employment expenses	**(10)**	(16)	(16)	*(38)*	*(38)*
Other operating expenses	**(18)**	(35)	(27)	*(49)*	*(33)*
Total operating expenses	**(28)**	(51)	(43)	*(45)*	*(35)*
Net profit/(loss) contribution	**(56)**	(221)	(141)	*(75)*	*(60)*
Non-GAAP metrics					
Assets under management (A$ billion)	**10.7**	14.8	15.2	*(28)*	*(30)*
Headcount	**118**	136	214	*(13)*	*(45)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Real Estate Banking's net loss contribution of A$56 million for the half year ended 30 September 2009, compared to a net loss contribution of A$141 million in the prior corresponding period. The half year remained challenging for Real Estate Banking with the global financial crisis continuing to depress real estate markets worldwide, however an asset disposal by Macquarie Central Office CR-REIT resulted in significant base and performance fees for Real Estate Banking during the 30 September 2009 half.

Net interest income/(expense)

Net interest expense of A$8 million for the half year ended 30 September 2009 decreased 75% from A$32 million in the prior corresponding period. Impairments across the loan book and investment portfolio as well as a number of disposals, including Macquarie Goodman Asia and Macquarie Prime REIT in the prior period, have reduced the overall funding requirement and consequently, interest expense. The loan book in Real Estate Structured Finance has reduced by 27% to A$935 million at 30 September 2009, from A$1,287 million at 30 September 2008 as the book is being run off.

Base fees

Base fee income of A$25 million for the half year ended 30 September 2009 increased 108% from A$12 million in the prior corresponding period primarily due to A$16 million received from Macquarie Central Office CR-REIT on the sale of the Kukdong building as base fees are calculated on income of the REIT. This was partially offset by a decrease in Assets under Management. Assets under Management of A$10.7 billion at 30 September 2009 decreased 30% from A$15.2 billion at 30 September 2008 due to the strengthening Australian dollar, resulting in lower offshore asset values as well as write-downs and disposals by some funds.

Performance fees

Performance fee income of A$35 million for the half year ended 30 September 2009 increased significantly from A$1 million in the prior corresponding period primarily due to the disposal of Macquarie Central Office CR-REIT's Kukdong building in Korea.

Mergers and acquisitions, advisory and underwriting

There were no mergers and acquisitions, advisory and underwriting fees earned during the half year ended 30 September 2009. Fees of A$10 million in the prior period mainly related to advisory fees earned from the sale of an investment in Macquarie Prime REIT and its manager.

Share of net profits of associates and joint ventures accounted for using the equity method

Equity accounted losses of A$21 million were recognised for the half year ended 30 September 2009 compared to an equity accounted gain of A$45 million in the prior corresponding period. The result in the 30 September 2009 half was driven by losses in Real Estate Banking's associates, including investments in Medallist, Australian listed REIT holdings and J-REP. The gain in the prior corresponding period was driven by higher equity accounted profits in MGPA.

Net gains/(losses) on sales of equity investments

The net loss on sale of equity investments of A$8 million for the half year ended 30 September 2009 increased 14% from a A$7 million loss in the prior corresponding period. The losses in the 30 September 2009 half reflect the sale of an investment in MW Cell Manager LLC in the United States.

Impairment charge on equity investments

The impairment charge on equity investments of A$50 million for the half year ended 30 September 2009 decreased 28% from A$69 million in the prior corresponding period. The prior corresponding period included write-downs on Macquarie CountryWide Trust and Macquarie Office Trust that were not repeated in the 30 September 2009 half. Write-downs for the half year ended 30 September 2009 included:

- A$16 million on a storage asset investment in the United Kingdom;
- A$10 million on two joint venture developments in Queensland; and
- A$6 million on joint ventures in the Real Estate Structured Finance business.

3.0 Segment analysis (continued)

Impairment charge on non-financial assets

The impairment charge on non-financial assets of A$12 million for the half year ended 30 September 2009 was recognised on consolidation of a joint venture in Queensland that Real Estate Banking took control of during the 30 September 2009 half. An impairment charge of A$40 million was recognised in the prior period that related to REIT investments, direct property and inventory. No similar impairments were recognised in the prior corresponding period.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$13 million for the half year ended 30 September 2009 decreased 81% from A$69 million in the prior corresponding period. Provisions during the 30 September 2009 half were primarily attributable to loans made to developers with United States residential market exposure.

Other income

Other income of A$31 million for the half year ended 30 September 2009 increased 35% from A$23 million in the prior corresponding period. The 30 September 2009 half included higher property development income from Urban Pacific Limited of A$13 million and A$10 million from a legal settlement with a property developer in Australia.

Operating expenses

Total operating expenses of A$28 million for the half year ended 30 September 2009 decreased 35% from A$43 million in the prior corresponding period. The decrease was in line with the 45% reduction in headcount as the business focused on extracting value from its current investments.

3.8 Banking and Financial Services

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net interest income/(expense)	**254**	223	202	*14*	*26*
Fee and commission income					
Base fees	**102**	109	120	*(6)*	*(15)*
Brokerage and commissions	**105**	80	118	*31*	*(11)*
Other fee and commission income	**135**	107	133	*26*	*2*
Income from life insurance business and other unit holder businesses	**18**	16	14	*13*	*29*
Total fee and commission income	**360**	312	385	*15*	*(6)*
Net trading income[2]	**(1)**	(28)	(10)	*(96)*	*(90)*
Share of net profits of associates and joint ventures accounted for using the equity method	**–**	(4)	(3)	*(100)*	*(100)*
Other operating income and charges					
Net gains on sale of equity investments	**–**	(2)	–	*(100)*	–
Impairment charge on equity investments and disposal groups held for sale	**(1)**	(6)	(208)	*(83)*	*(100)*
Impairment charge on non-financial assets	**(2)**	(2)	–	–	*n/m*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**–**	56	1	*(100)*	*(100)*
Specific provisions and collective allowance for credit losses	**(29)**	(45)	(51)	*(36)*	*(43)*
Other income	**3**	4	3	*(25)*	–
Total other operating income and charges	**(29)**	5	(255)	*n/m*	*(89)*
Internal revenue	**4**	6	(28)	*(33)*	*n/m*
Total operating income	**588**	514	291	*14*	*102*
Operating expenses					
Employment expenses	**(182)**	(180)	(214)	*1*	*(15)*
Brokerage and commission expenses	**(65)**	(73)	(67)	*(11)*	*(3)*
Other operating expenses	**(201)**	(182)	(182)	*10*	*10*
Total operating expenses	**(448)**	(435)	(463)	*3*	*(3)*
Minority interests[3]	**(3)**	(4)	(2)	*(25)*	*50*
Net profit/(loss) contribution	**137**	75	(174)	*83*	*n/m*
Non-GAAP metrics					
Assets under management[4] (A$ billion)	**17.0**	19.2	21.2	*(11)*	*(20)*
Funds under management/advice/administration[5] (A$ billion)	**115.3**	104.0	116.1	*11*	*(1)*
Headcount	**2,628**	2,598	2,779	*1*	*(5)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 In addition to the equity impairments and credit losses shown above, impairments taken through trading income totalled nil for the half year ended 30 September 2009 (half year ended 31 March 2009: A$24 million; half year ended 30 September 2008: nil).

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

4 The Macquarie Cash Management Trust, included in Assets under Management above, is a Banking and Financial Services product that is managed by Macquarie Funds Group. The Cash Management Trust closed at A$12.6 billion at 30 September 2009 (31 March 2009: A$14.7 billion; 30 September 2008: A$16.1 billion).

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

3.0 Segment analysis (continued)

Banking and Financial Services' net profit contribution of A$137 million for the half year ended 30 September 2009 increased from a net loss contribution of A$174 million in the prior corresponding period, which included a loss of A$272 million on Mortgages Italy. Excluding the impact of the Mortgages Italy loss, the result for the 30 September 2009 half increased 40% on the prior corresponding period.

Net interest income/(expense)

Net interest income of A$254 million for the half year ended 30 September 2009, increased 26% from A$202 million in the prior corresponding period principally due to the growth in retail deposits. Banking and Financial Services receives a premium for providing internal funding to Macquarie Group Treasury from these deposits. Retail deposits increased 48% from A$9.4 billion at 30 September 2008 to A$13.9 billion at 30 September 2009, mainly as a result of the issuance of new cash product offerings such as the Cash Management Account and growth in Cash XL and Term Deposits.

The loan book at 30 September 2009 was A$26.3 billion and largely comprises residential mortgages in Australia and North America, loans to Australian businesses and loans on capital protected products.

Since March 2008, the Australian residential mortgage origination services for both retail and wholesale clients have been wound back due to the significant increase in funding costs and adverse conditions in the global mortgage securitisation market. The ongoing Australian business has been profitable as the portfolio runs off. The Australian mortgage book has reduced by 25% to A$15.9 billion at 30 September 2009 from A$21.2 billion at 30 September 2008.

The Canadian mortgages business continues to participate in the Canadian Mortgage Bond programme. Origination volumes and margins on the Canadian loan portfolio have improved over the prior corresponding period. The United States mortgages business has been closed and the book is being run down.

The sale of the Italian Mortgages portfolio (completed in October 2008) and part of the Margin Lending business (completed in January 2009) also resulted in lower net interest income. Due to challenging conditions in both the equity and credit markets, the retained portfolio of capital protected products, which comprises Fusion, Geared Equities Investment and 100% Investment loans, has fallen from A$2.2 billion at 30 September 2008 to A$1.5 billion at 30 September 2009.

Base fees

Base fee income of A$102 million for the half year to 30 September 2009 decreased 15% from A$120 million in the prior corresponding period as a result of the decrease in Assets under Management in the Cash Management Trust. The Cash Management Trust closed at A$12.6 billion at 30 September 2009, down 22% from A$16.1 billion at 30 September 2008.

The Macquarie Pastoral Fund had A$521 million in Assets under Management at 30 September 2009, up 141% from A$216 million at 30 September 2008.

Brokerage and commissions

Brokerage and commission income of A$105 million for the half year ended 30 September 2009 decreased 11% from A$118 million in the prior corresponding period as a result of a 12% decrease in Macquarie Private Wealth's volumes due to more challenging equity market conditions during the half year ended 30 September 2009 compared with the prior corresponding period. Despite the lower volumes, the business maintained its position as the number one full-service retail stockbroker in Australia in terms of volume and market share.

Other fee and commission income

Other fee and commission income of A$135 million for the half year ended 30 September 2009 increased 2% from A$133 million in the prior corresponding period.

The main contributor was platform and other administration fee income, which declined 14% on the prior corresponding period due to overall lower average Wrap Funds under Administration during the half. Funds under Administration on the Australian Wrap platform closed at A$21.6 billion at 30 September 2009, which was up 3% on 30 September 2008, and up 23% on 31 March 2009 due to improved inflows and market movements. Net inflows were A$1.7 billion and market movements were A$2.4 billion positive for the half year ended 30 September 2009, compared to net inflows of A$0.8 billion and negative market movements of A$4.3 billion for the half year ended 31 March 2009.

The other contributors to this income category were loan termination fees, which increased as the Australian mortgages and capital protected loan portfolios decreased, as well as fees earned from six property acquisitions by the Macquarie Pastoral Fund.

Net trading income

Net trading income was a loss of A$1 million for the half year ended 30 September 2009, compared to a loss of A$10 million in the prior corresponding period. The prior corresponding period included losses on listed equity investments held by Macquarie Private Wealth.

Impairment charge on equity investments and disposal groups held for sale

Impairment charges on equity investments and disposal groups held for sale during the half year ended 30 September 2009 were A$1 million. An impairment charge of A$208 million in the prior corresponding period mainly related to the loss on sale of Mortgages Italy.

Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale

There were no acquisitions, disposals or changes in ownership interest of subsidiaries and businesses held for sale during the half year ended 30 September 2009. The gain of A$56 million recognised in the prior period related to the sale of the margin lending portfolio.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$29 million for the half year ended 30 September 2009 decreased 43% from A$51 million in the prior corresponding period, which included significant provisioning on the Mortgages Italy and Investment Lending portfolios. Default rates on the United States Mortgage portfolio are well below industry averages. Specific provisions and allowance for credit losses on the United States mortgage portfolio decreased 33% in the half year ended 30 September 2009 compared to the half year ended 30 September 2008.

Operating expenses

Total operating expenses of A$448 million for the half year ended 30 September 2009 decreased 3% from A$463 million in the prior corresponding period. The decrease was mainly in employment expenses, which were down 15% on the prior corresponding period to A$182 million as a result of a 5% reduction in headcount and lower commissions paid to some staff (predominately financial planners and advisers) due to decreased brokerage and commission income.

The increase in other operating expenses of 10% to A$201 million for the half year ended 30 September 2009 was largely due to expenses associated with deposit generating activities.

3.0 Segment analysis
(continued)

3.9 Corporate

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Net interest income/(expense)	**113**	244	413	*(54)*	*(73)*
Fee and commission income/(expense)	**(3)**	(60)	(28)	*(95)*	*(89)*
Net trading income/(expense)	**(275)**	188	16	*n/m*	*n/m*
Share of net profits of associates and joint ventures accounted for using the equity method	**(4)**	3	4	*n/m*	*n/m*
Other operating income and charges					
Net gains on sale of equity investments	**10**	(6)	(1)	*n/m*	*n/m*
Impairment charge on equity investments	**–**	(9)	(23)	*(100)*	*(100)*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**127**	197	6	*(36)*	*n/m*
Gain on repurchase of debt	**55**	–	–	*n/m*	*n/m*
Specific provisions and collective allowance for credit losses	**–**	12	–	*(100)*	*n/m*
Other income/(expense)	**24**	11	(5)	*118*	*n/m*
Total other operating income and charges	**216**	205	(23)	*5*	*n/m*
Internal revenue	**(114)**	(248)	(182)	*(54)*	*(37)*
Total operating income	**(67)**	332	200	*n/m*	*n/m*
Operating expenses					
Employment expenses	**(771)**	(143)	(480)	*n/m*	*61*
Brokerage and commission expenses	**(14)**	(26)	(7)	*(46)*	*100*
Other operating expenses	**119**	179	205	*(34)*	*(42)*
Total operating expenses	**(666)**	10	(282)	*n/m*	*136*
Tax expense	**(36)**	64	(79)	*n/m*	*(54)*
Macquarie Income Preferred Securities	**(6)**	(22)	(23)	*(73)*	*(74)*
Macquarie Income Securities	**(10)**	(14)	(19)	*(29)*	*(47)*
Other minority interests	**–**	13	–	*(100)*	*n/m*
Net profit/(loss) contribution	**(785)**	383	(203)	*n/m*	*287*
Non-GAAP metrics					
Headcount	**4,166**	4,023	4,284	*4*	*(3)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

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 that are classified as fair value through the profit or loss statement. Significant items are discussed below.

Net interest income

Interest income was mainly generated through the investment of MGL's capital, offset by funding costs not passed on to businesses through Group Treasury.

Net interest income for the six months to 30 September 2009 was A$113 million, a decrease of 73% from the prior corresponding period. Increased costs associated with excess liquidity has been the main drivers of the change.

Fee and commissions income

Fee and commissions income and expenses primarily relate to internal transactions with operating groups that net to nil on aggregation across the Group. External fee and commissions income were negligible.

Net trading income

The primary drivers of net trading income in the Corporate segment are derivative volatility and the impact of changes in fair value of fixed rate issued debt. During the 30 September 2009 half, negative fair value adjustments on fixed rate issued debt amounted to A$252 million. This compares to positive fair value adjustments in both the prior corresponding period and prior period of A$20 million and A$159 million respectively.

Share of net profits of associates and joint ventures accounted for using the equity method

The Corporate segment holds investments in Macquarie-managed funds to hedge exposures to liabilities under the Directors' profit share (DPS) plan. These investments are accounted for using the equity method whereas the related DPS liabilities are accounted for on a fair value (mark-to-market) basis. The investment holdings were not significant and therefore the profit or loss from equity accounting of those investments were not material. The change from the prior corresponding period reflects the impact of the global financial crisis on the results of the underlying investments. There were no single investment that was the main contributor to the change.

Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale

Further acquisitions of Macquarie Income Preferred Securities (MIPS) were financed during the six months to 30 September 2009 resulting in a gain of A$127 million. The amount in the six months to 31 March 2009 related to gains from financing the acquisition of MIPS. No such transactions were undertaken in the prior corresponding period.

Gain on repurchase of debt

In the six months to 30 September 2009 Macquarie undertook a buy-back of a portion of the Group's outstanding subordinated debt carried at amortised cost at a discount to face value that realised a profit of A$55 million.

Employment expenses

Employment expenses in the Corporate segment is largely driven by the headcount of service areas, staff profit share and the impact of mark-to-market adjustments of DPS liabilities.

For the half year ended 30 September 2009, employment expenses were A$771 million, up 61% on the prior corresponding period. The majority of the increase was due to an increase in the staff profit share expense combined with a charge for the net mark-to-market increase in DPS liabilities resulting from share price appreciation of many Macquarie-managed listed funds during the half year ended 30 September 2009.

3.0 Segment analysis
(continued)

Brokerage and commission expenses

Brokerage and commission expenses in the Corporate segment generally relates to fees and commissions paid on the issuance of debt instruments by Group Treasury. The increase from the prior corresponding period from A$7 million to A$14 million was due to an increase in the amount of issuances, especially since the introduction of the Australian Government guarantee of issued debt in October 2008.

Other operating expenses

Other operating expenses were a net income item in the Corporate segment due to recoveries of service area costs out to operating groups. The net reduction in this category from income of A$205 million in the prior corresponding period to net income of A$119 million in the half year ended 30 September 2009 was largely due to an increase in net unrecovered rent expenses that has arisen from new premises, including the Shelley Street, Sydney office, and an increase in surplus leased space.

Macquarie Income Preferred Securities (MIPS)

The reduction in the net distributions under the MIPS from A$23 million in the prior corresponding period to A$6 million in the half year ended 30 September 2009 was due to the acquisitions of the MIPS financed in February and June 2009.

3.10 International income

International income by region

	Half year to			Movement	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Americas	**354**	149	210	*138*	*69*
Asia Pacific	**627**	589	483	*6*	*30*
Europe, Africa and Middle East	**505**	353	563	*43*	*(10)*
Total international income	**1,486**	1,091	1,256	*36*	*18*
Australia	**1,612**	883	1,324	*83*	*22*
Total income (excluding earnings on capital and other corporate items)	**3,098**	1,974	2,580	*57*	*20*
Earnings on capital and other corporate items	**7**	582	390	*(99)*	*(98)*
Total operating income (as reported)	**3,105**	2,556	2,970	*21*	*5*
International income/total income (excluding earnings on capital and other corporate items) (%)	**48**	55	49		

International income by group and region

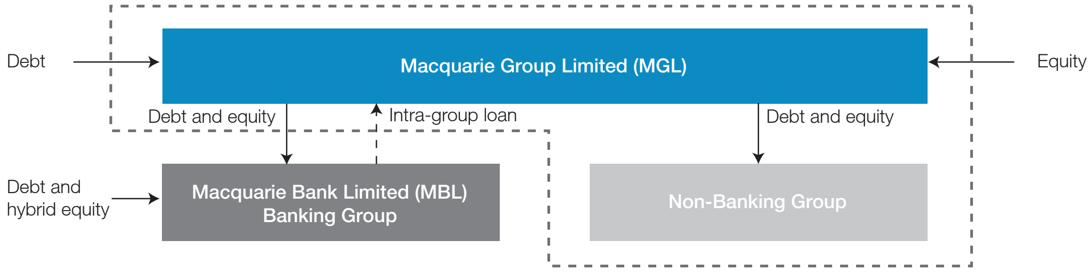
	Half year to 30 September 2009					
	Americas A$m	**Asia Pacific A$m**	**Europe, Africa and Middle East A$m**	**Total international A$m**	**Australia A$m**	**Total income A$m**
Macquarie Securities	**80**	**415**	**110**	**605**	**166**	**771**
Macquarie Capital	**(82)**	**105**	**165**	**188**	**559**	**747**
Macquarie Funds	**28**	**20**	**15**	**63**	**99**	**162**
Fixed Income, Currencies and Commodities	**261**	**15**	**213**	**489**	**128**	**617**
Corporate and Asset Finance	**50**	**14**	**26**	**90**	**118**	**208**
Real Estate Banking	**(4)**	**50**	**(23)**	**23**	**(56)**	**(33)**
Banking and Financial Services	**21**	**8**	**(1)**	**28**	**556**	**584**
Corporate	**—**	**—**	**—**	**—**	**42**	**42**
Total	354	627	505	1,486	1,612	3,098

4.0 Funding and liquidity

4.1 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 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 includes 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.

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 month stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash
- Short term assets exceed short term wholesale liabilities.

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 month 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 asset portfolio held to meet the minimum liquid asset requirement 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 30 September 2009, 99% 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.

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.

4.0 Funding and liquidity
(continued)

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 30 September 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

4.2 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 30 September 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.

		As at	
	Notes	**Sep 09 A$b**	Mar 09 A$b
Total assets per MGL statutory balance sheet		**146.9**	149.1
Accounting deductions:			
Self funded trading assets	1	**(16.0)**	(10.5)
Derivative revaluation accounting gross-ups	2	**(20.6)**	(26.1)
Life investment contracts and segregated assets	3	**(8.0)**	(6.9)
Broker settlement balances	4	**(7.5)**	(5.5)
Short term working capital assets	5	**(5.8)**	(5.1)
Non-recourse funded assets:			
Securitised assets and non-recourse warehouses	6	**(17.4)**	(20.4)
Net funded assets		**71.6**	74.6

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.

4.0 Funding and liquidity
(continued)

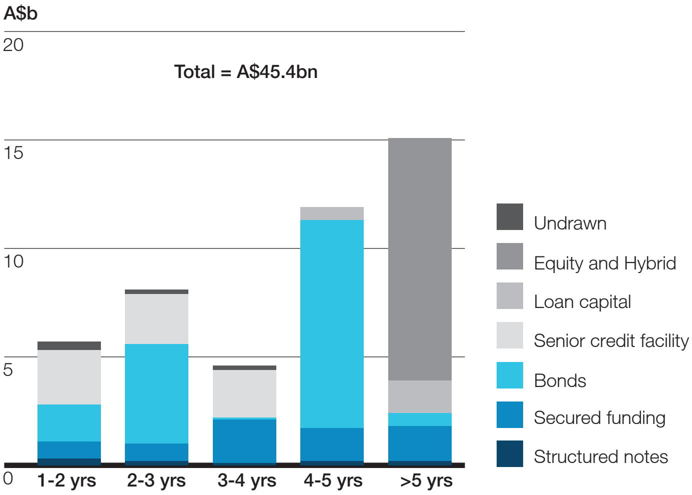
4.3 Funding profile for consolidated MGL Group

Funded balance sheet of the consolidated MGL Group

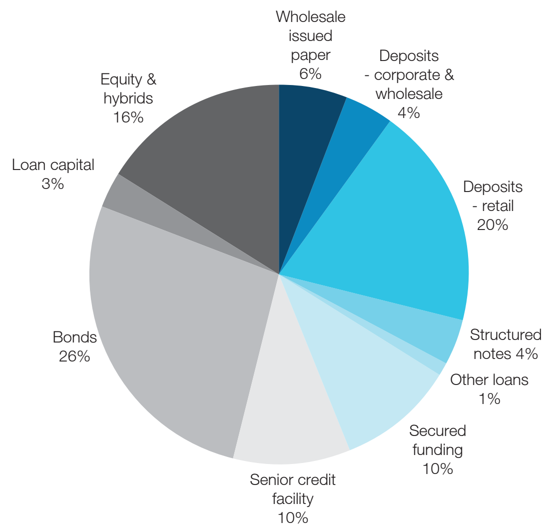
	Notes	As at Sep 09 A$b	As at Mar 09 A$b
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		**2.7**	4.7
Commercial paper		**1.8**	3.0
Net trade creditors	2	**—**	0.4
Structured notes	3	**3.0**	4.0
Secured funding	4	**7.2**	6.6
Bonds	5	**19.2**	16.9
Other loans	6	**0.4**	0.7
Senior credit facility	7	**7.0**	7.4
Deposits:	8		
Retail deposits		**13.9**	13.4
Corporate and wholesale deposits		**3.1**	5.4
Loan Capital	9	**2.1**	2.5
Equity and hybrids	10	**11.2**	9.6
Total		**71.6**	74.6
Funded assets			
Cash and liquid assets	11	**26.7**	30.3
Net trading assets	12	**9.3**	9.1
Loan assets less than one year	13	**5.9**	5.8
Loan assets greater than one year	13	**19.4**	19.5
Assets held for sale	14	**0.1**	0.2
Debt investment securities	15	**2.6**	1.2
Co-investment in Macquarie-managed funds and equity investments	16	**5.8**	7.2
Property, plant and equipment and intangibles		**1.4**	1.3
Net trade debtors	17	**0.4**	—
Total		**71.6**	74.6

See section 4.6 for notes 1—17.

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



Diversity of funding sources



	As at 30 September 2009				
	1—2yrs A$b	2—3yrs A$b	3—4yrs A$b	4—5yrs A$b	5yrs+ A$b
Structured notes	0.3	0.2	0.1	0.2	0.2
Secured funding	0.8	0.8	2.0	1.5	1.6
Bonds	1.7	4.6	0.1	9.6	0.6
Other bank loans	—	—	—	—	—
Senior credit facility	2.5	2.3	2.2	—	—
Total debt	5.3	7.9	4.4	11.3	2.4
Loan capital	—	—	—	0.6	1.5
Equity and Hybrid	—	—	—	—	11.2
Total funding sources drawn	5.3	7.9	4.4	11.9	15.1
Undrawn	0.4	0.2	0.2	—	—
Total funding sources drawn and undrawn	5.7	8.1	4.6	11.9	15.1

At 30 September 2009 MGL Group's term funding (including undrawn facilities) maturing beyond one year exceeded term assets. In addition, 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 3.7 years at 31 March 2009 to 3.8 years at 30 September 2009.

4.0 Funding and liquidity
(continued)

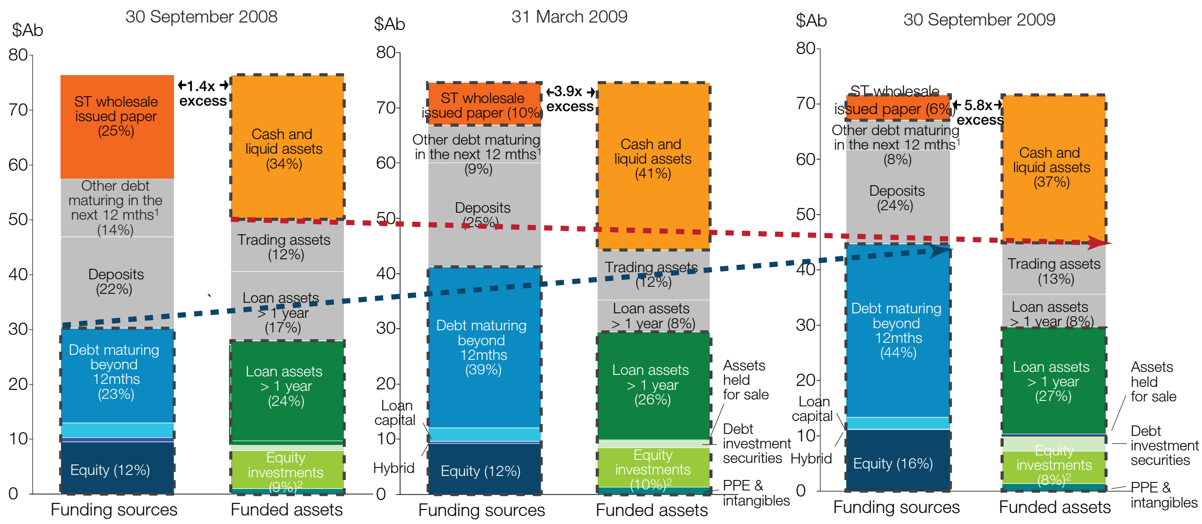
Term funding initiatives

Since March 2009, MBL and MGL have continued to raise term wholesale funding, both guaranteed and unguaranteed.

Detail of term funding raised in the half year to 30 September 2009.

		Half year to 30 September 2009		
		Banking Group A$b	Non-Banking Group A$b	Total A$b
Securitised assets	Term secured finance	0.9	–	0.9
Issued paper	Term issued paper/capital markets private placement			
	— Government guaranteed	3.9	–	3.9
	— Unguaranteed	–	2.0	2.0
Capital	Institutional placement and retail share purchase plan	–	1.2	1.2
Total		4.8	3.2	8.0

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.

4.4 Funding profile for Banking Group

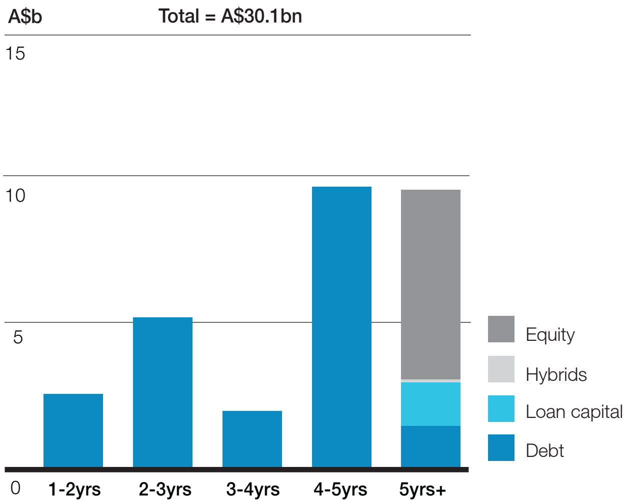
Funded balance sheet of the Banking Group

	Notes	As at Sep 09 A$b	As at Mar 09 A$b
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		**2.7**	4.7
Commercial paper		**1.8**	3.0
Net trade creditors	2	**—**	0.2
Structured notes	3	**2.8**	3.7
Secured funding	4	**6.6**	5.8
Bonds	5	**17.1**	16.9
Other loans	6	**—**	0.4
Deposits:	8		
Retail deposits		**13.9**	13.4
Corporate and wholesale deposits		**3.1**	5.2
Loan Capital	9	**1.5**	1.9
Equity and hybrids	10	**6.8**	6.4
Total		**56.3**	61.6
Funded assets			
Cash and liquid assets	11	**23.7**	25.5
Net trading assets	12	**7.7**	8.1
Loan assets less than one year	13	**5.7**	5.6
Loan assets greater than one year	13	**18.5**	17.9
Assets held for sale	14	**0.1**	0.1
Debt investment securities	15	**2.3**	0.6
MBL intra-group loan to MGL		**1.4**	3.8
Non-Banking Group deposit with MBL		**(5.5)**	(2.5)
Co-investment in Macquarie-managed funds and equity investments	16	**1.8**	2.1
Property, plant and equipment and intangibles		**0.4**	0.4
Net trade debtors	17	**0.2**	—
Total		**56.3**	61.6

See section 4.6 for notes 1—17.

4.0 Funding and liquidity (continued)

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



	As at 30 September 2009				
	1—2yrs A$b	2—3yrs A$b	3—4yrs A$b	4—5yrs A$b	5yrs+ A$b
Structured notes	0.3	0.2	0.1	0.1	0.2
Secured funding	0.7	0.7	1.9	1.5	1.4
Bonds	1.6	4.5	0.1	8.4	—
Total debt	2.6	5.4	2.1	10.0	1.6
Loan capital	—	—	—	—	1.5
Equity and Hybrid	—	—	—	—	6.8
Total funding sources drawn	2.6	5.4	2.1	10.0	9.9
Undrawn	0.1	—	—	—	—
Total funding sources drawn and undrawn	2.7	5.4	2.1	10.0	9.9

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

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

— US$25 billion 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 US$7.7 billion debt securities outstanding at 30 September 2009

— US$10 billion Commercial Paper Program incorporating Government Guaranteed and unguaranteed securities under which US$1.0 billion of debt securities were outstanding at 30 September 2009

— US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 30 September 2009 Government Guaranteed issuance amounted to US$9.3 billion under the Rule 144A/Regulation S Medium Term Note Program.

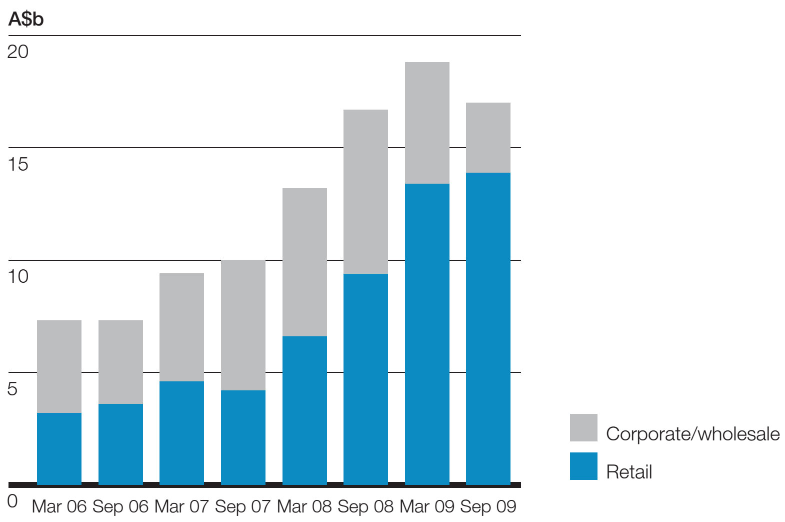
MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits and Transferable Negotiable Certificates of Deposits. At 30 September 2009, MBL Group had $2.7 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations. At 30 September 2009 MBL Group had internally securitised $1.0 billion 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 in the half-year to 30 September 2009 under the government guarantee scheme.

Deposit strategy

MBL continues to pursue a deposit strategy that is consistent with the core liquidity management principal of achieving diversity and stability of funding sources. The strategy is focussed on growing the retail deposit base which represents a more stable and reliable source of funding than corporate and wholesale deposits. This has resulted in a continued reduction in corporate/wholesale deposits whilst retail deposits have continued to grow. The chart below illustrates the strong retail deposit growth since March 2006.



4.0 Funding and liquidity (continued)

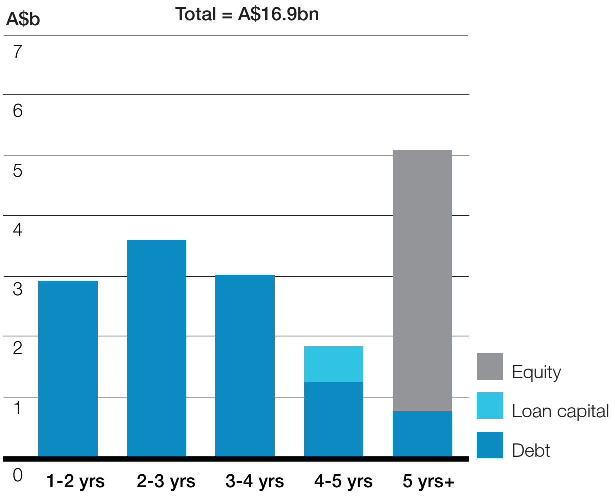
4.5 Funding profile for Non-Banking Group

Funded balance sheet of the Non-Banking Group

	Notes	As at Sep 09 A$b	As at Mar 09 A$b
Funding sources			
MBL intra-group loan to MGL		**1.4**	3.8
Net trade creditors	2	**—**	0.2
Structured notes	3	**0.2**	0.3
Secured funding	4	**0.6**	0.8
Bonds	5	**2.1**	—
Other loans	6	**0.4**	0.3
Senior credit facility	7	**7.0**	7.4
Deposits	8	**—**	0.2
Loan Capital	9	**0.6**	0.6
Equity	10	**4.4**	3.2
Total		**16.7**	16.8
Funded assets			
Cash and liquid assets	11	**3.0**	4.8
Non-Banking Group deposit with MBL		**5.5**	2.5
Net trading assets	12	**1.6**	1.0
Loan assets less than one year	13	**0.2**	0.2
Loan assets greater than one year	13	**0.9**	1.6
Assets held for sale	14	**—**	0.1
Debt investment securities	15	**0.3**	0.6
Co-investment in Macquarie-managed funds and equity investments	16	**4.0**	5.1
Property, plant and equipment and intangibles		**1.0**	0.9
Net trade debtors	17	**0.2**	—
Total		**16.7**	16.8

See section 4.6 for notes 1—17.

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



	As at 30 September 2009				
	1—2yrs A$b	2—3yrs A$b	3—4yrs A$b	4—5yrs A$b	5yrs+ A$b
Structured notes	—	—	—	0.1	—
Secured funding	0.1	0.1	0.1	—	0.2
Bonds	0.1	0.2	0.1	1.2	0.6
Other bank loans	—	—	—	—	—
Senior credit facility	2.5	2.3	2.2	—	—
Intra-group loan	—	0.9	0.5	—	—
Total debt	2.7	3.5	2.9	1.3	0.8
Loan capital	—	—	—	0.6	—
Equity	—	—	—	—	4.4
Total funding sources drawn	2.7	3.5	2.9	1.9	5.2
Undrawn	0.3	0.2	0.2	—	—
Total funding sources drawn and undrawn	3.0	3.7	3.1	1.9	5.2

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.1 years.

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

— Senior Credit Facility, which was $7.0 billion drawn and $0.7 billion undrawn at 30 September 2009. 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

— An intra-group loan from MBL. At 31 March 2009 the balance outstanding was $3.8 billion. Since March $2.1 billion has been repaid and the outstanding balance redenominated to US dollars. At 30 September 2009, the balance outstanding was US$1.3 billion. This facility is an unsecured term loan to be repaid by December 2012.

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

— US$10 billion Rule 144A/Regulation S Medium Term Note Program. US$1.5 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at 30 September 2009

— US$10 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. The Debt Instrument Program had A$343 million debt securities outstanding at 30 September 2009.

4.0 Funding and liquidity
(continued)

4.6 Explanatory notes concerning 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 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 include the MIPS security issues .

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.

17. Net trade debtors

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

5.0 Capital

5.1 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.

Macquarie Group regulatory capital surplus calculation

	As at		
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m
Macquarie Group eligible capital			
Bank Gross Tier 1 capital	**6,971**	6,547	5,908
Non-Bank eligible capital	**4,512**	3,827	4,415
Elimination of intra-group holdings of capital[1]	**—**	(127)	—
Eligible capital	**11,483**	10,247	10,323
Macquarie Group capital requirement			
Banking Group			
Risk-Weighted Assets (excluding intra-group exposures)[2]	**42,560**	36,765	37,874
Capital required to cover Risk-Weighted Assets[3]	**2,979**	2,574	2,651
Tier 1 deductions (excluding intra-group exposures)[4]	**1,925**	2,136	1,612
Banking Group contribution	**4,904**	4,710	4,263
Non-Banking Group	**2,086**	2,401	2,801
Total capital requirement	**6,990**	7,111	7,064
Macquarie Group regulatory capital surplus	**4,493**	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 (A$500 million at 30 September 2009, A$710 million at 31 March 2009 and A$1,293 million at 30 September 2008).

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 (30 September 2009: nil; 31 March 2009: A$127 million; 30 September 2008: nil).

5.2 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[1] 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 September 2009, £307.5 million of MIPS owned by entities associated with Macquarie were redeemed and on 29 September 2009, £307.5 million of reset convertible debentures issued by Macquarie Bank's London Branch were subsequently redeemed. As at 30 September 2009, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie.

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.

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.

1 Standard approach applied for specific risk on debt securities.

5.0 Capital
(continued)

Banking Group total capital base

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Tier 1 capital					
Paid-up ordinary share capital	**5,250**	4,560	3,927	*15*	*34*
Reserves	**186**	190	180	*(2)*	*3*
Retained earnings	**1,070**	882	884	*21*	*21*
Innovative Tier 1 capital	**465**	915	917	*(49)*	*(49)*
Gross Tier 1 capital	**6,971**	6,547	5,908	*6*	*18*
Deductions from Tier 1 capital:					
Goodwill	**135**	162	121	*(17)*	*12*
Deferred tax assets	**426**	53	269	*n/m*	*58*
Changes in the ADI's own creditworthiness on banking book liabilities	**21**	340	71	*(94)*	*(70)*
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	**139**	128	55	*9*	*153*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**142**	170	215	*(16)*	*(34)*
Holding of own Tier 1 capital instruments agreed with APRA	**–**	127	–	*(100)*	*–*
Other Tier 1 capital deductions	**197**	357	163	*(45)*	*21*
Deductions from Tier 1 capital only	**1,060**	1,337	894	*(21)*	*19*
Other 50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	**119**	112	70	*6*	*70*
Non-consolidated subsidiaries (50%)	**283**	274	268	*3*	*6*
All other deductions relating to securitisation (50%)	**70**	74	39	*(5)*	*79*
Shortfall in provisions for credit losses (50%)	**256**	294	147	*(13)*	*74*
Other 50/50 deductions from Tier 1 capital (50%)	**137**	172	194	*(20)*	*(29)*
Total 50/50 deductions from Tier 1 capital	**865**	926	718	*(7)*	*20*
Total Tier 1 capital deductions	**1,925**	2,263	1,612	*(15)*	*19*
Net Tier 1 capital	**5,046**	4,284	4,296	*18*	*17*
Tier 2 capital					
Upper Tier 2 capital:					
Excess Tier 1 capital instruments	**–**	204	254	*(100)*	*(100)*
Other Upper Tier 2 capital	**126**	86	89	*47*	*42*
Lower Tier 2 capital:					
Term subordinated debt	**1,527**	1,941	2,047	*(21)*	*(25)*
Gross Tier 2 capital	**1,653**	2,231	2,390	*(26)*	*(31)*
Deductions from Tier 2 capital:					
Holding of own Tier 2 capital instruments agreed with APRA	**–**	204	–	*(100)*	*–*
50/50 deductions from Tier 2 capital	**865**	926	718	*(7)*	*20*
Total Tier 2 capital deductions	**865**	1,130	718	*(23)*	*20*
Net Tier 2 capital	**788**	1,101	1,672	*(28)*	*(53)*
Total capital base	**5,834**	5,385	5,968	*8*	*(2)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Risk-weighted assets

	Half year to			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Credit risk – Risk-Weighted Assets (RWA)					
Subject to FIRB approach:					
Corporate[2]	**12,919**	9,901	7,960	*30*	*62*
Sovereign	**598**	36	54	*n/m*	*n/m*
Bank	**2,860**	1,134	958	*152*	*199*
Residential mortgage	**1,927**	1,952	1,275	*(1)*	*51*
Other retail	**869**	680	540	*28*	*61*
Total RWA subject to FIRB approach	**19,173**	13,703	10,787	*40*	*78*
Specialised lending exposures subject to slotting criteria[3]	**2,019**	3,101	4,163	*(35)*	*(52)*
Subject to Standardised approach:					
Corporate	**4,163**	3,504	4,518	*19*	*(8)*
Residential mortgage	**198**	197	1,483	*1*	*(87)*
Other retail	**2,640**	2,496	2,039	*6*	*29*
Other	**2,654**	3,540	3,608	*(25)*	*(26)*
Total RWA subject to Standardised approach	**9,655**	9,737	11,648	*(1)*	*(17)*
Credit risk RWA for Securitisation exposures	**1,199**	1,074	1,357	*12*	*(12)*
Total credit risk RWA	**32,046**	27,615	27,955	*16*	*15*
Equity risk exposures RWA	**1,323**	1,189	1,456	*11*	*(9)*
Market risk RWA	**1,976**	2,082	2,291	*(5)*	*(14)*
Operational risk RWA	**6,565**	5,761	6,720	*14*	*(2)*
Interest rate risk in banking book RWA	**–**	6	98	*(100)*	*(100)*
APRA scaling factor (6%) applied to IRB exposures	**1,150**	822	647	*40*	*78*
Total RWA	**43,060**	37,475	39,167	*15*	*10*
Capital ratios					
Macquarie Bank Group Tier 1 capital ratio (%)	**11.7**	11.4	11.0	*3*	*6*
Macquarie Bank Group Total capital ratio (%)	**13.6**	14.4	15.2	*(6)*	*(11)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

2 Includes A$500 million for exposures to the Non-Banking Group (31 March 2009: A$710 million; 30 September 2008: A$1,293 million).

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

5.0 Capital
(continued)

5.3 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[1]	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[2]	Extension of Basel II credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 51%
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 30 September 2009		
	Asset A$b	Capital requirement A$m	Equivalent risk weight
Funded assets			
Cash and liquid assets	3.0	27	11%
Loan assets[1]	1.1	80	90%
Assets held for sale	0.0	13	582%
Debt investment securities	0.3	21	78%
Co-investments in Macquarie-managed funds and equity investments	3.8	1,788	583%
Co-investments in Macquarie-managed funds and equity investments (relating to Director's profit share)	0.2		
Property, plant and equipment and intangibles[2]	1.0	198	254%
Non Banking Group deposits with MBL	5.5		
Net trading assets	1.6		
Net trade debtors	0.2		
Total funded assets	16.7	2,127	
Self-funded and non-recourse assets			
Self funded trading assets	2.6		
Broker settlement balances	5.4		
Derivative revaluation accounting gross-ups	0.1		
Working capital assets	3.5		
Total self-funded and non-recourse assets	11.6		
Total Non-Banking Group assets	28.3		
Off balance sheet exposures, operational, market and other risk and diversification offset[3]		(41)	
Non-Banking Group capital requirement		2,086	

1 Includes leases.

2 A component of the intangibles relating to the acquisitions of Orion Financial Inc. and Tristone Capital Global Inc. are supported 100% by exchangeable shares. These exchangeable shares have not been included in eligible regulatory capital.

3 Includes capital associated with net trading assets (e.g. market risk capital) and net trade debtors.

6.0 Balance sheet

6.1 Statutory consolidated balance sheet

	As at			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	Mar 09 %	Sep 08 %
Assets					
Cash and balances with central banks	**3**	141	225	*(98)*	*(99)*
Due from banks	**8,936**	12,271	13,441	*(27)*	*(34)*
Cash collateral on securities borrowed and reverse repurchase agreements	**4,493**	5,096	14,690	*(12)*	*(69)*
Trading portfolio assets	**14,502**	9,260	17,059	*57*	*(15)*
Loan assets held at amortised cost	**42,504**	44,751	51,783	*(5)*	*(18)*
Other financial assets at fair value through profit or loss	**5,249**	7,910	3,974	*(34)*	*32*
Derivative financial instruments — positive values	**21,441**	27,428	22,508	*(22)*	*(5)*
Other assets	**13,791**	10,640	11,413	*30*	*21*
Investment securities available for sale	**23,152**	18,123	18,025	*28*	*28*
Intangible assets	**715**	759	566	*(6)*	*26*
Life investment contracts and other unit holder assets	**5,066**	4,314	5,645	*17*	*(10)*
Interests in associates and joint ventures accounted for using the equity method	**4,931**	6,123	5,921	*(19)*	*(17)*
Property, plant and equipment	**647**	605	433	*7*	*49*
Deferred income tax assets	**1,401**	1,186	825	*18*	*70*
Non-current assets and assets of disposal groups classified as held for sale	**100**	537	927	*(81)*	*(89)*
Total assets	**146,931**	149,144	167,435	*(1)*	*(12)*
Liabilities					
Due to banks	**10,284**	11,858	11,349	*(13)*	*(9)*
Cash collateral on securities lent and repurchase agreements	**5,328**	3,953	14,664	*35*	*(64)*
Trading portfolio liabilities	**7,368**	2,161	11,079	*241*	*(33)*
Derivative financial instruments — negative values	**21,552**	27,371	24,430	*(21)*	*(12)*
Deposits	**20,692**	21,868	16,955	*(5)*	*22*
Debt issued at amortised cost	**44,896**	48,270	52,485	*(7)*	*(14)*
Other financial liabilities at fair value through profit or loss	**5,037**	6,203	6,263	*(19)*	*(20)*
Other liabilities	**12,871**	10,342	11,081	*24*	*16*
Current tax liabilities	**103**	187	159	*(45)*	*(35)*
Life investment contracts and other unit holder liabilities	**5,062**	4,312	5,634	*17*	*(10)*
Provisions	**184**	189	211	*(3)*	*(13)*
Deferred income tax liabilities	**210**	4	40	*n/m*	*n/m*
Liabilities of disposal groups classified as held for sale	**—**	328	153	*(100)*	*(100)*
Total liabilities excluding loan capital	**133,587**	137,046	154,503	*(3)*	*(14)*
Loan capital					
Macquarie Convertible Preference Securities	**591**	591	591	—	—
Subordinated debt at amortised cost	**1,011**	1,496	1,413	*(32)*	*(28)*
Subordinated debt at fair value through profit or loss	**522**	451	647	*16*	*(19)*
Total loan capital	**2,124**	2,538	2,651	*(16)*	*(20)*
Total liabilities	**135,711**	139,584	157,154	*(3)*	*(14)*
Net assets	**11,220**	9,560	10,281	*17*	*9*

	As at			Movement[1]	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Equity					
Contributed equity:					
Ordinary share capital	**6,267**	4,906	4,832	*28*	*30*
Treasury shares	**(2)**	(2)	(2)	*—*	*—*
Exchangeable shares	**159**	116	122	*37*	*30*
Reserves	**276**	17	283	*n/m*	*(2)*
Retained earnings	**3,984**	3,627	3,770	*10*	*6*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**10,684**	8,664	9,005	*23*	*19*
Minority interests					
Macquarie Income Preferred Securities	**74**	398	780	*(81)*	*(91)*
Macquarie Income Securities	**391**	391	391	*—*	*—*
Other minority interests	**71**	107	105	*(34)*	*(32)*
Total equity	**11,220**	9,560	10,281	*17*	*9*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

Total assets of A$146.9 billion at 30 September 2009 were down 12% from A$167.4 billion at 30 September 2008, a decrease of A$20.5 billion.

Reduced activity in global markets over the 12 months to 30 September 2009 has resulted in a fall in trading related balances, including Cash collateral on securities borrowed & reverse repurchase agreements (down A$10.2 billion) and Trading portfolio assets (down A$2.6 billion).

Loan assets were down 18% from A$51.8 billion at 30 September 2008 to A$42.5 billion at 30 September 2009 primarily due to a reduction in the mortgage portfolios as the businesses continue to wind down. This decline has been partially offset by an increase in loan volumes in the Corporate and Asset Finance division largely due to corporate debts acquired since March 2009.

The A$4.5 billion reduction in Due from banks since 30 September 2008 has been offset by A$5.1 billion increase in Investment securities available for sale as Group Treasury have experienced increased opportunities to acquire these securities that generate higher yields than overnight cash rates.

Total liabilities (excluding loan capital) were down 14% from A$154.5 billion at 30 September 2008 to A$133.6 billion at 30 September 2009. As with assets, the main decreases have been in trading related balances, with Cash collateral on securities lent and repurchase agreements down A$9.3 billion and Trading portfolio liabilities down A$3.7 billion as a result of more subdued market conditions compared to the prior corresponding period.

The reduction in Loan assets was also the key driver of the reduction in Debt issued at amortised cost, which decreased A$7.6 billion from the prior corresponding period to A$44.9 billion at 30 September 2009.

The other notable change in the composition of liabilities has been the growth in Deposits from A$17.0 billion at 30 September 2008 to A$20.7 billion at 30 September 2009.

Total equity has increased A$939 million since the prior corresponding period to A$11.2 billion at 30 September 2009. The main drivers of this change have been the share placement and share purchase plan in May 2009 and June 2009 respectively that raised a total of A$1.2 billion of new capital, combined with profit for the period to 30 September 2009 of A$479 million. These were partially offset by the reduction in Macquarie Income Preferred Securities of A$706 million and the final 2009 dividend paid of A$122 million.

6.0 Balance sheet
(continued)

6.2 Loan assets

	As at			Movement	
	Sep 09 A$b	Mar 09 A$b	Sep 08 A$b	*Mar 09 %*	*Sep 08 %*
Loan assets at amortised cost per statutory balance sheet	**42.5**	44.8	51.8	*(5)*	*(18)*
Other loans held at fair value	**1.8**	2.5	2.9	*(28)*	*(38)*
Operating lease assets	**1.2**	2.0	2.0	*(40)*	*(40)*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers	**(17.0)**	(19.3)	(22.0)	*(12)*	*(23)*
Less: segregated funds	**(1.3)**	(2.4)	(1.9)	*(46)*	*(32)*
Less: margin balances (reclassed to trading)	**(1.9)**	(2.1)	(1.9)	*(10)*	—
Less: other reclassification	**—**	(0.2)	—	*(100)*	—
Total per funded balance sheet	**25.3**	25.3	30.9	—	*(18)*

	As at			Movement[1]	
	Sep 09 A$b	Mar 09 A$b	Sep 08 A$b	*Mar 09 %*	*Sep 08 %*
Mortgages:					
Australia	**1.8**	1.9	1.8	*(5)*	—
United States	**1.0**	1.3	1.2	*(23)*	*(17)*
Canada	**5.0**	4.0	3.7	*25*	*35*
Italy	**—**	—	1.9	—	*(100)*
Margin lending	**—**	0.3	2.9	*(100)*	*(100)*
Structured investments	**4.0**	5.2	6.0	*(23)*	*(33)*
Banking	**3.3**	3.3	3.4	—	*(3)*
Real estate	**0.9**	1.4	1.5	*(36)*	*(40)*
Debt markets warehouses	**0.2**	0.4	1.2	*(50)*	*(83)*
Resources and commodities	**1.3**	1.5	1.7	*(13)*	*(24)*
Corporate and Asset Finance leasing	**2.8**	3.7	3.6	*(24)*	*(22)*
Corporate and Asset Finance lending	**3.8**	1.4	0.7	*171*	*n/m*
Other lending	**1.2**	0.9	1.3	*33*	*(8)*
Total	**25.3**	25.3	30.9	—	*(18)*

1 "n/m" indicates that the percentage change in the balance was not meaningful, including instances where the percentage increase was greater than 300% and the result was a gain in one period but a loss in another, or vice versa.

6.3 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
- Investment in associates
- Assets and disposal groups held for sale.

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. 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
- Held for sale investments.

Equity investments reconciliation

	As at		
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m
Equity investments (excluding held for sale)			
Statutory balance sheet			
Equity investments within other financial assets at fair value through profit or loss	**1,183**	2,196	255
Equity investments within investment securities available for sale	**721**	814	800
Interests in associates and joint ventures accounted for using the equity method	**4,931**	6,123	5,921
Total equity investments per statutory balance sheet	**6,835**	9,133	6,976
Adjustment for funded balance sheet			
Equity hedge positions[1]	**(1,000)**	(1,951)	(127)
Total funded equity investments	**5,835**	7,182	6,849
Adjustments for equity investments analysis			
Available for sale reserves[2]	**(172)**	(105)	(117)
Associates reserves[3]	**93**	85	6
Total adjusted equity investments[4]	**5,756**	7,162	6,738
Held for sale investments			
Net assets of disposal groups classified as held for sale	**100**	209	774
Total equity investments including held for sale investments	**5,856**	7,371	7,512

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 Available for sale 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.

6.0 Balance sheet
(continued)

Adjusted book value of equity investments by category

	As at		
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m
Macquarie-managed funds			
DUET Group	**15**	15	27
Macquarie Airports	**1,018**	1,107	893
Macquarie Communications Infrastructure Group	**–**	194	242
Macquarie CountryWide Trust	**120**	135	138
Macquarie DDR Trust	**2**	7	7
Macquarie Infrastructure Company	**38**	61	53
Macquarie Infrastructure Group	**649**	698	854
Macquarie International Infrastructure Fund	**71**	86	42
Macquarie Korea Infrastructure Fund	**55**	60	59
Macquarie Media Group	**125**	114	126
Macquarie Office Trust	**220**	212	108
Total listed Macquarie-managed funds	**2,313**	2,689	2,549
Other Macquarie-managed funds	**1,073**	1,281	1,150
Total Macquarie-managed funds	**3,386**	3,970	3,699
Other investments			
Finance, investment, funds management and exchanges	**702**	937	776
Transport, industrial and infrastructure	**635**	490	261
Real estate	**457**	612	856
Debt investment entities	**253**	284	306
Energy and resources	**230**	533	576
Telecommunications, internet, media and entertainment	**93**	336	264
Total Other investments	**2,370**	3,192	3,039
Held for sale investments	**100**	209	774
Total equity investments including held for sale investments	**5,856**	7,371	7,512

6.4 Maturity analysis of monetary assets and liabilities

The table below details the maturity distribution of selected monetary assets and liabilities. Maturities represent the remaining contractual maturity as at 30 September 2009 to the repayment date.

	As at 30 September 2009						
	At call A$m	3 months or less A$m	3 months to 12 months A$m	1 year to 5 years A$m	Over 5 years A$m	No maturity specified A$m	Total A$m
Assets							
Cash and balances with central banks	3	—	—	—	—	—	3
Due from banks	5,592	2,836	20	401	87	—	8,936
Cash collateral on securities borrowed and reverse repurchase agreements	393	4,061	37	2	—	—	4,493
Trading portfolio assets	—	14,502	—	—	—	—	14,502
Loan assets held at amortised cost	1,800	1,682	2,077	12,937	6,004	—	24,500
Other financial assets at fair value through profit or loss	9	1,301	1,818	1,903	218	—	5,249
Debt investment securities available for sale	—	9,147	1,630	9,565	2,089	—	22,431
Life investment contracts and other unit holder investment assets[1]	73	567	146	28	—	4,252	5,066
Sub-total monetary assets	7,870	34,096	5,728	24,836	8,398	4,252	85,180
Loan assets held at amortised cost by SPEs[2]	—	1,355	3,597	9,656	3,396	—	18,004
Total monetary assets	7,870	35,451	9,325	34,492	11,794	4,252	103,184
Liabilities							
Due to banks	74	117	377	8,336	1,380	—	10,284
Cash collateral on securities lent and repurchase agreements	314	4,814	200	—	—	—	5,328
Trading portfolio liabilities	—	7,368	—	—	—	—	7,368
Deposits	11,993	5,002	1,660	1,296	741	—	20,692
Debt issued at amortised cost	—	2,732	4,321	20,218	621	—	27,892
Other financial liabilities at fair value through profit or loss	43	1,648	2,144	991	211	—	5,037
Life investment contracts and other unit holder liabilities	—	—	—	—	—	5,062	5,062
Macquarie convertible preference securities[3]	—	—	—	591	—	—	591
Subordinated debt at amortised cost[4]	—	—	—	—	1,011	—	1,011
Subordinated debt at fair value through profit or loss[4]	—	—	—	—	522	—	522
Sub-total monetary liabilities	12,424	21,681	8,702	31,432	4,486	5,062	83,787
Debt issued at amortised cost by SPEs[2]	—	3,524	3,300	8,987	1,193	—	17,004
Total monetary liabilities	12,424	25,205	12,002	40,419	5,679	5,062	100,791

1 The life business offers an investment linked product. Policy holders are primarily exposed to the liquidity risk on life investment contract assets. Macquarie is subject to the liquidity risk on the surplus in the life investment contract statutory funds.

2 Loan assets held at amortised cost by SPEs are shown at expected repayment maturities and debt issued at amortised cost by SPEs, which includes non-recourse warehouses, are shown at expected extinguishment maturities.

3 Macquarie convertible preference securities are mandatorily converted into Macquarie ordinary shares, subject to certain conditions being satisfied, or redeemed, subject to certain approvals, on 30 June 2013.

4 Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the consolidated entity and subject to APRA approval.

7.0 Funds management

7.1 Assets under management

	As at			Movement	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Assets under management by group					
Macquarie Capital	**130,677**	159,509	158,035	*(18)*	*(17)*
Macquarie Funds	**57,956**	49,656	44,752	*17*	*30*
Banking and Financial Services[1]	**16,992**	19,178	21,245	*(11)*	*(20)*
Real Estate Banking	**10,663**	14,761	15,198	*(28)*	*(30)*
Total assets under management	**216,288**	243,104	239,230	*(11)*	*(10)*
Assets under management by region					
Australia	**85,719**	86,032	85,096	*(<1)*	*1*
Europe, Africa and Middle East	**70,772**	83,113	88,382	*(15)*	*(20)*
Americas	**45,791**	55,453	45,554	*(17)*	*1*
Asia Pacific	**14,006**	18,506	20,198	*(24)*	*(31)*
Total assets under management	**216,288**	243,104	239,230	*(11)*	*(10)*
Assets under management by industry sector					
Investment funds	**74,948**	68,834	62,238	*9*	*20*
Energy and utilities	**41,119**	48,726	41,101	*(16)*	*<1*
Roads	**26,492**	32,999	38,346	*(20)*	*(31)*
Airports	**18,535**	20,895	20,352	*(11)*	*(9)*
Communications infrastructure	**16,684**	21,246	19,108	*(21)*	*(13)*
Other	**12,375**	14,288	18,897	*(13)*	*(35)*
Transport and related services	**9,303**	11,537	13,460	*(19)*	*(31)*
Commercial real estate	**8,888**	11,626	12,215	*(24)*	*(27)*
Retail real estate	**6,056**	8,349	9,182	*(27)*	*(34)*
Tourism/leisure and residential real estate	**1,251**	4,276	3,034	*(71)*	*(59)*
Industrial real estate	**637**	328	1,297	*94*	*(51)*
Total assets under management	**216,288**	243,104	239,230	*(11)*	*(10)*

1. The Macquarie Cash Management Trust, included in Banking and Financial Services' Assets under Management above, is a Banking and Financial Services product that is managed by Macquarie Funds Group. The Cash Management Trust closed at A$12.6 billion at 30 September 2009 (31 March 2009: A$14.7 billion; 30 September 2008: A$16.1 billion).

The table below shows a more detailed breakdown of Assets under Management. For Macquarie Capital refer to section 7.2 for disclosure of Equity under Management. The earning of base fees is closely aligned with the Assets under Management measure for funds in Real Estate Banking, Macquarie Funds and Banking and Financial Services.

	As at			Movement	
	Sep 09 A$m	Mar 09 A$m	Sep 08 A$m	*Mar 09 %*	*Sep 08 %*
Macquarie Funds					
Fixed interest, currency and commodities	**43,287**	34,895	25,794	*24*	*68*
Listed equities	**7,372**	6,842	9,131	*8*	*(19)*
Infrastructure securities	**2,233**	1,990	2,842	*12*	*(21)*
Investment Solutions and Sales	**2,041**	2,848	2,758	*(28)*	*(26)*
Real estate securities	**1,419**	1,225	2,366	*16*	*(40)*
Funds of private equity funds	**1,168**	1,217	1,107	*(4)*	*6*
Funds of hedge funds	**436**	459	493	*(5)*	*(12)*
Other Macquarie funds	**–**	180	261	*(100)*	*(100)*
Total Macquarie Funds	**57,956**	49,656	44,752	*17*	*30*
Banking and Financial Services					
Macquarie Cash Management Trust	**12,589**	14,692	16,109	*(14)*	*(22)*
Macquarie Pastoral Fund	**521**	434	216	*20*	*141*
Other unlisted Banking and Financial Services	**3,882**	4,052	4,920	*(4)*	*(21)*
Total Banking and Financial Services	**16,992**	19,178	21,245	*(11)*	*(20)*
Real Estate Banking					
Macquarie Office Trust	**5,155**	6,546	7,189	*(21)*	*(28)*
J-REP managed funds[1]	**245**	375	469	*(35)*	*(48)*
Macquarie Central Office Corporate Restructuring REIT	**211**	181	181	*17*	*17*
Macquarie Prime REIT[2]	**–**	–	1,010	*–*	*(100)*
Unlisted Real Estate funds	**5,052**	7,659	6,349	*(34)*	*(20)*
Total Real Estate Banking	**10,663**	14,761	15,198	*(28)*	*(30)*
Macquarie Capital (refer EUM Section 7.2)	**130,677**	159,509	158,035	*(18)*	*(17)*
Total assets under management	**216,288**	243,104	239,230	*(11)*	*(10)*

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 In December 2008 Macquarie sold its investment in Macquarie Prime REIT and the REIT's manager.

7.0 Funds management
(continued)

Assets under Management of A$216.3 billion at 30 September 2009, decreased 11% from A$243.1 billion at 31 March 2009. The overall net decrease in Assets under Management was due to the combined impact of decreased asset valuations, asset disposals by some funds and the strengthening of the Australian dollar against major global currencies, which in turn resulted in lower asset values for offshore assets. The key movements in Assets under Management during the six months to 30 September 2009 are summarised below.

Macquarie Capital

Macquarie Capital's Assets under Management were A$130.7 billion at 30 September 2009, down 18% from A$159.5 billion at 31 March 2009. The decrease was driven by the strengthening Australian dollar compared to the prior period, sale of assets, listed fund initiatives and reduced asset valuations. With approximately 85% of Assets under Management in countries outside Australia, the significant appreciation of the Australian dollar (in particular against the Euro, Pound Sterling and the US Dollar) has decreased Macquarie Capital's Assets under Management. Asset sales, including disposals by Macquarie CountryWide Trust in the United States and listed fund initiatives, including the internalisation of management of Macquarie Leisure Trust Group and the take private of the Macquarie Communications Infrastructure Group, also decreased Assets under Management.

Macquarie Funds

Macquarie Funds' Assets under Management were A$58.0 billion at 30 September 2009, up 17% from A$49.7 billion at 31 March 2009. The increase in Assets under Management was primarily due to the strong inflows for the Fixed Interest, Currency and Commodities asset class, which also benefitted from the acquisition of two fixed interest funds management businesses in the United States.

Banking and Financial Services

Banking and Financial Services' Assets under Management decreased 11% to A$17.0 billion at 30 September 2009 from A$19.2 billion at 31 March 2009. The decrease was largely in the Cash Management Trust, from A$14.7 billion at 31 March 2009 to A$12.6 billion at 30 September 2009 as a result of clients moving to higher yielding investments and other market offerings within Banking and Financial Services including Cash XL, which are not included in Assets under Management. The closure of Macquarie Fusion Funds 4, 5, and 6 in June 2009 decreased Assets under Management by A$0.6 billion.

Real Estate Banking

Real Estate Banking's Assets under Management decreased by 28% to A$10.7 billion at 30 September 2009 from A$14.8 billion at 31 March 2009. This was largely due to the strengthening Australian dollar resulting in lower offshore asset values as well as write-downs and disposals by some funds.

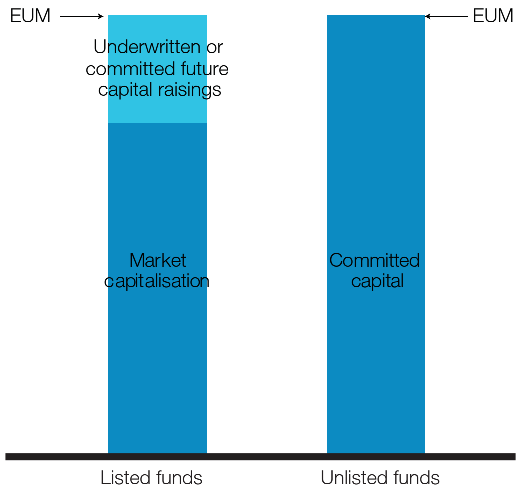
7.2 Equity under management

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

Type of equity investment	Basis of Equity under Management 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[1]	Face value of TICkETS and of exchangeable bonds
Managed businesses[2]	Invested capital at measurement date

1 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 Equity under Management amount is then weighted based on Macquarie's proportionate economic interest in the joint venture management entity. At 30 September 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 Equity under Management is denominated in a foreign currency, amounts are translated to Australian dollars at the exchange rate prevailing at the measurement date.

7.0 Funds Management
(continued)

	Ownership of management company (%)	Listing date	Stock Exchange/ ASX Code	Holding (%)[1]	Equity under management as at Sep 09 A$m	Mar 09 A$m	Sep 08 A$m
Listed Macquarie Capital managed funds (excluding real estate funds)							
ConnectEast Group[2]	n/a	Nov 04	CEU	n/a	**–**	–	1,289
DUET Group	50	Aug 04	DUE	1	**728**	534	817
Macquarie Airports[3]	100	Apr 02	MAP	21	**4,845**	3,097	4,640
Macquarie Communications Infrastructure Group[4]	100	Aug 02	MCG	n/a	**–**	1,251	1,371
Macquarie Infrastructure Company	100	Dec 04	Listed on NYSE	7	**461**	89	752
Macquarie Infrastructure Group	100	Dec 96	MIG	14	**3,336**	3,346	5,492
Macquarie International Infrastructure Fund	100	May 05	Listed on SGX	8	**350**	356	508
Macquarie Korea Infrastructure Fund	50	Mar 06	Listed on KRX and LSE	4	**817**	772	950
Macquarie Media Group	100	Nov 05	MMG	25	**362**	207	570
Macquarie Power & Infrastructure Income Fund[5]	100	Apr 04	Listed on TSE	–	**287**	271	350
Listed Macquarie Capital managed funds (excluding real estate funds)					**11,186**	9,923	16,739
Unlisted Macquarie Capital managed funds (excluding real estate funds)							
Macquarie European Infrastructure Fund I and II					**10,177**	11,726	10,931
Macquarie Infrastructure Partners					**4,532**	5,753	5,063
Macquarie Korea Opportunities Fund					**999**	1,271	1,274
Other unlisted funds					**11,636**	13,227	11,060
Unlisted Macquarie Capital managed funds (excluding real estate funds)					**27,344**	31,977	28,328
Less Macquarie Capital managed funds' investments in other Macquarie Capital managed funds					**(335)**	(390)	(354)
Hybrid instruments					**760**	1,303	1,318
Managed businesses[6]					**8,886**	8,567	6,485
Real estate funds EUM					**2,184**	1,883	3,268
Total Macquarie Capital Funds EUM					**50,025**	53,263	55,784

1 Holding at 30 September 2009 represents Macquarie Capital's participating interest in the fund.

2 On 31 March 2009, ConnectEast Group internalised its responsible entity, acquiring all shares in ConnectEast Management Limited from Macquarie Group.

3 On 30 September 2009, MAp security holders voted to internalise management. Internalisation became effective from 15 October 2009.

4 In June 2009, Macquarie Communications Infrastructure Group (MCG) security holders approved Canada Pension Plan Investment Board's proposal to take private MCG. Following the completion of this transaction MCG delisted.

5 Excludes Class B exchangeable units.

6 Excludes equity invested by Macquarie Group in businesses managed by Macquarie Capital Funds.

8.0 Glossary

ADI	Authorised Deposit-taking Institution
AGAAP	Australian Generally Accepted Accounting Principles
AMA	Advanced Measurement Approach for determining operational risk
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
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
Associates	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
ASX	Australian Securities Exchange (formerly Australian Stock Exchange)
AVS	Available for sale 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
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
Contingent liabilities	Defined in AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
CPS	Convertible Preference Securities
Credit Equivalent Amount (CEA)	The on balance sheet equivalent value of an off balance sheet transaction
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV) that are not consolidated for the APRA regulatory reporting group

8.0 Glossary
(continued)

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
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor
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'
ECAI	External Credit Assessment Institution
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
EL	Expected Loss, which is a function of PD and LGD
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI (Level 1) for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards
Equity under management (EUM)	Refer definition in Section 7.2
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed
Expense/Income ratio	Total operating expenses expressed as a percentage of total operating income
Fair value through profit or loss	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.
Fee and commission income	Fee and commission revenue less fee and commission expenses
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA
Gross credit risk exposures	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation
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)
ICAAP	Internal Capital Adequacy Assessment Process

Impaired assets	An asset for which the ultimate collectability 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
IPO	Initial public offering
Level 2 MBL Regulatory Group	MBL, its parent Macquarie BH Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes
Level 3 Regulatory Group	MGL and its subsidiaries
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor
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 On 11 September 2009, £307.5 million of MIPS owned by entities associated with Macquarie were redeemed and on 29 September 2009, £307.5 million of reset convertible debentures issued by Macquarie Bank's London branch were subsequently redeemed. As at 30 September 2009, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie
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 A$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

8.0 Glossary
(continued)

MBI	Macquarie Bank International Limited
MBL	Macquarie Bank Limited
MGL	Macquarie Group Limited
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
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
Other operating income and charges	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
Probability of Default (PD)	Likelihood of default by an obligor on its financial obligations
Potential Credit Exposure (PCE)	Potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA
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
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. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
Tier 1 Capital	A capital measure defined by APRA in 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 Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Tier 1 Capital ratio	Tier 1 Capital expressed as a percentage of RWA

Tier 2 Capital	A capital measure defined by APRA in 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 Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Total Capital ratio	Total Capital expressed as a percentage of RWA
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

9.0 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	
	2001	2002
Financial performance ($ million)		
Total income from ordinary activities	1,649	1,822
Total expenses from ordinary activities	(1,324)	(1,467)
Profit from ordinary activities before income tax	325	355
Income tax expense	(53)	(76)
Profit from ordinary activities after income tax	272	279
Profit attributable to minority interests	(30)	(29)
Profit from ordinary activities after income tax attributable to ordinary equity holders	242	250
Financial position ($ million)		
Total assets	27,848	30,234
Total liabilities	(26,510)	(27,817)
Net assets	1,338	2,417
Total loan assets	7,785	9,209
Impaired loan assets (net of provisions)	31	49
Share information[(a)]		
Cash dividends per share (cents per share)		
Interim	41	41
Final	52	52
Special	—	—
Total	93	93
Basic earnings per share (cents per share)	138.9	132.8
Share price at end of period ($)	27.63	33.26
Ordinary share capital (million shares)[(b)]	175.9	198.5
Market capitalisation at end of period (fully paid ordinary shares) ($ million)	4,860	6,602
Net tangible assets per ordinary share ($)[(c)]	5.15	7.94
Ratios		
Return on average ordinary shareholders' funds (%)	27.1	18.7
Dividend payout ratio (%)	67.5	73.6
Expense/income ratio (%)	80.3	80.5
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.1	0.2
Assets under management ($ billion)[(e)]	30.9	41.3
Staff numbers[(f)]	4,467	4,726

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				Half year ended 30 Sep
2003	2004	2005	2006	2007	2008	2009	**2009**
2,155	2,823	4,197	4,832	7,181	8,248	5,526	**3,105**
(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	**(2,573)**
460	685	1,158	1,287	1,928	2,205	989	**532**
(96)	(161)	(288)	(290)	(377)	(317)	(15)	**(36)**
364	524	870	997	1,551	1,888	974	**496**
(31)	(30)	(58)	(81)	(88)	(85)	(103)	**(17)**
333	494	812	916	1,463	1,803	871	**479**
32,462	43,771	67,980	106,211	136,389	167,250	149,144	**146,931**
(29,877)	(40,938)	(63,555)	(100,874)	(128,870)	(157,189)	(139,584)	**(135,711)**
2,585	2,833	4,425	5,337	7,519	10,061	9,560	**11,220**
9,839	10,777	28,425	34,999	45,796	52,407	44,751	**42,504**
16	61	42	85	88	165	952	**793**
41	52	61	90	125	145	145	**86**
52	70	100	125	190	200	40	**n/a**
50	—	40	—	—	—	—	**n/a**
143	122	201	215	315	345	185	**86**
164.8	233.0	369.6	400.3	591.6	670.6	309.6	**150.2**
24.70	35.80	48.03	64.68	82.75	52.82	27.05	**58.79**
204.5	215.9	223.7	232.4	253.9	274.6	283.4	**332.7**
5,051	7,729	10,744	15,032	21,010	14,504	7,666	**19,558**
8.23	10.72	13.97	16.63	22.86	28.18	23.72	**26.11**
18.0	22.3	29.8	26.0	28.1	23.7	9.9	**9.6**[g]
87.4[d]	53.2	53.2	54.4	54.3	52.2	60.2	**60.0**
78.7	75.7	72.4	73.4	73.2	73.3	82.1	**82.9**
0.0	0.3	0.2	0.2	0.1	0.3	1.9	**0.6**
52.3	62.6	96.7	140.3	197.2	232.0	243.1	**216.3**
4,839	5,716	6,556	8,183	10,023	13,107	12,716	**12,758**

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).

g) Annualised.

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