Contents

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the half-year ended 30 September 2012 to provide further detail in relation to key elements of Macquarie Group Limited's (the Group) financial performance and financial position. It also provides an analysis of the funding profile of the Group. Maintaining the structural integrity of the Group's balance sheet requires active management of both asset and liability portfolios. Active management of the funded balance sheet enables the Group to strengthen its liquidity and funding position.

Certain financial information in this report is prepared on a different basis to that contained in the Macquarie Group Limited Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, a reconciliation to the statutory information is provided.

Date of this report

This report has been prepared for the half-year ended 30 September 2012 and is current as at 26 October 2012.

Comparative information and conventions

Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group restructures.

References to the prior corresponding period are to the six months ended 30 September 2011.

References to the prior period are to the six months ended 31 March 2012.

In the financial tables throughout this document "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Independent auditor's review report

This document should be read in conjunction with the Macquarie Group Limited 2013 Interim Director's Report and Financial Report for the half-year ended 30 September 2012, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' Independent auditor's review report to the members of Macquarie Group Limited dated 26 October 2012 was unqualified.

Any additional financial information in this document which is not included in the Macquarie Group Limited Financial Report was not subject to independent audit or review by PricewaterhouseCoopers.

Disclaimer

The material in this document has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is a description of Macquarie's activities current as at the date of this document. This information is given in summary form and does not purport to be complete. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Macquarie's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, specific provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements.

Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive

Contents

or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside Macquarie's control. Past performance is not a reliable indication of future performance.

1.0 Result overview
continued

1.1 Executive summary

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Financial performance summary					
Net interest income	644	635	698	*1*	*(8)*
Fee and commission income	1,667	1,598	1,766	*4*	*(6)*
Net trading income	551	661	374	*(17)*	*47*
Share of net profits of associates and joint ventures accounted for using the equity method	75	59	49	*27*	*53*
Other operating income and charges	144	767	356	*(81)*	*(60)*
Net operating income	3,081	3,720	3,243	*(17)*	*(5)*
Employment expenses	(1,538)	(1,908)	(1,652)	*(19)*	*(7)*
Brokerage, commission and trading-related expenses	(347)	(338)	(386)	*3*	*(10)*
Occupancy expenses	(188)	(243)	(213)	*(23)*	*(12)*
Non-salary technology expenses	(130)	(141)	(149)	*(8)*	*(13)*
Other operating expenses	(361)	(456)	(428)	*(21)*	*(16)*
Total operating expenses	(2,564)	(3,086)	(2,828)	*(17)*	*(9)*
Operating profit before income tax	517	634	415	*(18)*	*25*
Income tax expense	(156)	(180)	(107)	*(13)*	*46*
Profit after income tax	361	454	308	*(20)*	*17*
Profit attributable to non-controlling interests	—	(29)	(3)	*(100)*	*(100)*
Profit attributable to ordinary equity holders of Macquarie Group Limited	361	425	305	*(15)*	*18*
Key metrics					
Expense to income ratio (%)	83.2	83.0	87.2		
Compensation ratio (%)	46.8	48.5	47.2		
Effective tax rate (%)	30.2	29.8	26.0		
Basic earnings per share (cents per share)	105.5	123.6	86.6		
Diluted earnings per share (cents per share)	99.7	119.1	85.3		
Dividends per share (cents per share)	75.0	75.0	65.0		
Dividend payout ratio (%)	69.8	61.2	73.8		
Annualised return on equity (%)	6.6	7.8	5.7		

Profit attributable to ordinary equity holders of $A361 million for the half-year ended 30 September 2012 increased 18% from $A305 million in the prior corresponding period and decreased 15% from $A425 million in the prior period.

Macquarie's annuity style businesses, Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services continue to perform well with the combined results for the half-year ended 30 September 2012 broadly in line with a strong prior corresponding period and up on the prior period.

Macquarie's capital markets facing businesses, Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities, although continuing to face subdued market conditions, delivered a combined result that was up on the prior corresponding period due to improved conditions for Fixed Income, Currencies and Commodities. Macquarie Securities and Macquarie Capital continued to be impacted by low activity levels across Equity Capital Markets and Mergers & Acquisitions. Macquarie Securities was impacted by low levels of client activity combined with run-off costs in its legacy businesses, partially offset by ongoing cost efficiencies.

Net operating income of $A3,081 million for the half-year ended 30 September 2012 decreased 5% from $A3,243 million in the prior corresponding period.

1.0 Result overview

Operating expenses were down 9 per cent from $A2,828 million in the prior corresponding period to $A2,564 million for the half-year ended 30 September 2012, as a result of continued operating efficiencies.

Key movements from the prior corresponding period were:

– a 47% increase in net trading income to $A551 million for the half-year ended 30 September 2012 from $A374 million in the prior corresponding period primarily in Fixed Income, Currencies and Commodities. In comparison, the prior corresponding period was adversely impacted by extreme volatility and uncertainty, particularly in fixed income markets;
– a 6% decrease in fee and commission income to $A1,667 million for the half-year ended 30 September 2012 from $A1,766 million in the prior corresponding period. The institutional and retail equities businesses were particularly impacted by lower volumes across equity markets;
– a 60% decrease in other operating income and charges to $A144 million for the half-year ended 30 September 2012 from $A356 million in the prior corresponding period partly due to increased levels of impairment charges on equity investments in the Fixed Income, Currencies and Commodities business, reflecting weaker sentiment in resource equity investments, and legacy assets; and
– a 9% reduction in total operating expenses achieved through ongoing cost management initiatives including the centralisation of support functions to generate scale benefits through improved operational efficiencies. The impact of these initiatives and business rationalisation activities were primarily responsible for an 11% reduction in headcount from 15,088 at 30 September 2011 to 13,463 at 30 September 2012. The compensation ratio of 46.8% for the half-year ended 30 September 2012 decreased from 47.2% in the prior corresponding period.

Net operating income decreased 17% from $A3,720 million for the half-year ended 31 March 2012, which included a special distribution from Sydney Airport of $A295 million.

The effective tax rate for the half-year ended 30 September 2012 was 30.2%, up from 26.0% in the prior corresponding period, largely due to changes in the mix and location of income.

2.0 Financial performance analysis
continued

2.1 Net interest and trading income

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest income	644	635	698	*1*	*(8)*
Net trading income	551	661	374	*(17)*	*47*
Net interest and trading income	1,195	1,296	1,072	*(8)*	*11*

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards with net interest income brought to account using the effective interest method and net trading income predominantly comprising gains and losses relating to trading assets and liabilities, realised and unrealised fair value changes and foreign exchange movements.

For businesses that predominantly earn income from trading activities (Macquarie Securities; Fixed Income, Currencies and Commodities), the relative contribution of net interest income and trading income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

For businesses that predominantly earn income from lending activities (Corporate and Asset Finance; Banking and Financial Services), derivatives that economically hedge interest rate risk are required to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at a total Group level, however for segment reporting derivatives are accrual accounted in the Operating Segments and changes in fair value are recognised on consolidation.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, in Corporate and Asset Finance, interest rate swaps are entered into to hedge the interest rate risk associated with finance leases. The finance lease interest income and associated funding costs are recognised in net interest income but the related swap is recognised in trading. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Segment which presents a more consistent overview of business performance and drivers.

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Macquarie Funds	7	18	92	*(61)*	*(92)*
Corporate and Asset Finance	251	293	293	*(14)*	*(14)*
Banking and Financial Services	372	346	357	*8*	*4*
Macquarie Securities	63	57	170	*11*	*(63)*
Macquarie Capital	(30)	(50)	(71)	*(40)*	*(58)*
Fixed Income, Currencies and Commodities					
Commodities[1]	338	297	279	*14*	*21*
Credit, interest rates and foreign exchange	179	283	27	*(37)*	*
Fair value adjustments relating to leasing contracts[1]	9	16	(19)	*(44)*	*
Corporate	6	36	(56)	*(83)*	*
Net interest and trading income	1,195	1,296	1,072	*(8)*	*11*

1 Macquarie enters into various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes. This creates a measurement mismatch with related trading positions that are used to hedge the risk reported at fair value for statutory purposes. For the purposes of enabling comparison with prior periods, Commodities trading income is presented on a basis consistent with management reporting, and the reversal of the fair value adjustments relating to leasing contracts are presented separately to reconcile the result to the statutory presentation.

Net interest and trading income of $A1,195 million increased 11% from $A1,072 million in the prior corresponding period. Increases from improved trading conditions in Fixed Income, Currencies and Commodities were partially offset by lower early loan repayments in Corporate and Asset Finance, reduced income from the provision of financing facilities to external funds and their investors, and lower trading income in Macquarie Securities due to subdued market conditions.

Macquarie Funds

Net interest and trading income in Macquarie Funds includes income on specialised retail products, interest income from the provision of financing facilities to external funds and their investors and the funding cost of principal investments.

Net interest and trading income of $A7 million for the half-year ended 30 September 2012 decreased 92% from $A92 million in the prior corresponding period. The reduction in net interest and trading income was mainly due to lower demand for financing facilities from external funds and their investors. The decline also reflected higher funding costs and further maturities in the retail loan book.

Corporate and Asset Finance

Net interest and trading income in Corporate and Asset Finance predominantly relates to income from the corporate lending and asset financing portfolios in addition to the funding costs associated with assets subject to operating leases.

Net interest and trading income of $A251 million for the half-year ended 30 September 2012 decreased 14% from $A293 million in the prior corresponding period. The decrease was mainly due to lower early loan repayments received in the period in addition to the funding costs associated with the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets. The decrease was partially offset by growth in the asset finance portfolio.

Banking and Financial Services

Net interest and trading income in Banking and Financial Services relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, Canada and the United States; as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards. Banking and Financial Services also generates income from deposits by way of a deposit premium paid to Banking and Financial Services by Group Treasury who use the deposits as a source of funding for the Group.

Net interest and trading income of $A372 million for the half-year ended 30 September 2012 increased 4% from $A357 million in the prior corresponding period. Increased net interest income from a larger retail deposits base has been partially offset by a lower loan portfolio.

Retail deposits increased 8% to $A30.8 billion at 30 September 2012 from $A28.6 billion at 30 September 2011.

The total loan portfolio of $A23.2 billion at 30 September 2012 decreased 3% from $A23.9 billion at 30 September 2011, primarily due to a reduction in the Canadian loan portfolio. The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at $A7.9 billion at 30 September 2012, down 10% from $A8.8 billion at 30 September 2011. This was mainly due to a decrease in mortgage volumes and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

The Australian mortgage portfolio increased 1% to $A11.1 billion[1] at 30 September 2012 from $A11.0 billion at 30 September 2011. The Australian mortgage portfolio experienced a small decrease in net interest margins mainly due to increased funding costs.

[1] At 30 September 2012, $A5.9 billion (31 March 2012: $A7.0 billion; 30 September 2011: $A8.1 billion) of the Australian mortgage portfolio was funded by third parties through external securitisations.

2.0 Financial performance analysis
continued

Macquarie Securities

Net interest and trading income in Macquarie Securities relates to trading income from institutional and retail equity derivative products and stock borrow and lending activities.

Net interest and trading income of $A63 million for the half-year ended 30 September 2012 decreased 63% from $A170 million in the prior corresponding period.

Derivatives revenues were adversely impacted by changes in the regulatory environment, continued weak product demand for products globally as most markets remained subdued and run off costs from legacy businesses.

Macquarie Capital

Net interest and trading expense in Macquarie Capital relates to the funding costs associated with debt and equity investment portfolios and the fair value movements of any derivative products typically held as part of debt or equity transactions in which Macquarie Capital is involved.

Net interest and trading expense of $A30 million for the half-year ended 30 September 2012 decreased 58% from a $A71 million expense in the prior corresponding period. The decrease is due to:

– increased interest income from an expanded Principal debt investment portfolio;
– lower net trading expense of $A4 million in the current period that reflects Macquarie Capital's share of fair value movements on swap transactions which are shared with Fixed Income, Currencies and Commodities. This compares to a trading expense of $A27 million in the prior corresponding period that included fair value movements in relation to listed and unlisted equity investments, interest rate swaps and warrants, and options;
– partially offset by a higher interest expense primarily as a result of increased funding costs associated with both the Principal debt and equity investment portfolios.

Fixed Income, Currencies and Commodities

Net interest and trading income in Fixed Income, Currencies and Commodities is earned from a broad range of financial markets activities including trading, financing and the provision of risk management solutions to clients.

Commodities trading income

Commodities trading income of $A338 million for the half-year ended 30 September 2012 increased 21% from $A279 million in the prior corresponding period.

Energy markets experienced solid revenues across its global platform due to strong customer flow and improved trading opportunities, particularly in the US power and oil businesses.

Agricultural markets experienced increased client activity in grains mainly due to increased volatility over the period.

In metals markets, subdued client activity due to low volatility in base metals was partially offset by continued growth in physical base metals. Sustained higher precious metals prices dampened client appetite for hedging during the period.

Credit, interest rates and foreign exchange trading income

Trading income from credit, interest rates and foreign exchange products of $A179 million for the half-year ended 30 September 2012 increased significantly from $A27 million in the prior corresponding period, but decreased 37% from $A283 million in the prior period.

The result represents a significant improvement on the prior corresponding period which was adversely impacted by extreme volatility and concerns over global growth, however is down compared to a strong prior period.
The prior period's strong result was largely due to significantly improved market conditions compared to the prior corresponding period, particularly in fixed income markets.

Corporate

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with legacy investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share (DPS) plan. Net interest and trading income of $A6 million for the half-year ended 30 September 2012 compared with a net interest and trading expense of $A56 million in the prior corresponding period. This was primarily due to the prior corresponding period including the impact of changes in the fair value of assets held for liquidity purposes due to changes in credit spreads.

2.0 Financial performance analysis
continued

2.2 Fee and commission income

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Base fees	500	475	463	*5*	*8*
Performance fees	76	41	89	*85*	*(15)*
Mergers and acquisitions, advisory and underwriting fees	327	343	339	*(5)*	*(4)*
Brokerage and commissions	393	422	488	*(7)*	*(19)*
Other fee and commission income	331	279	354	*19*	*(6)*
Income from life investment contracts and other unit holder investment assets	40	38	33	*5*	*21*
Total fee and commission income	1,667	1,598	1,766	*4*	*(6)*

Total fee and commission income of $A1,667 million for the half-year ended 30 September 2012 decreased 6% from $A1,766 million in the prior corresponding period largely due to the impact of low levels of equity market activity, with both the institutional and retail equities businesses experiencing reduced brokerage and commissions income. This was partially offset by higher base fees primarily driven by an increase in average Assets under Management (AUM) in the half-year ended 30 September 2012.

Base and performance fees

Base fees of $A500 million for the half-year ended 30 September 2012 increased 8% from $A463 million in the prior corresponding period.

In Macquarie Funds, base fees increased from $A446 million to $A480 million due to an increase in AUM as a result of market and valuation changes and fees earned from Macquarie Korean Infrastructure Fund (MKIF) reflecting Macquarie's increased level of ownership from 50% to 100% of MKIF's management company, Macquarie Korean Asset Management Co. Ltd (MKAM) since February 2012. For further details of Assets under Management refer to Section 7.1.

Performance fees of $A76 million for the half-year ended 30 September 2012 decreased 15% from $A89 million in the prior corresponding period. Performance fees from Macquarie Funds' Infrastructure and Real Assets (MIRA) business are broadly in line with the prior corresponding period, whilst Macquarie Funds' Investment Management business generated lower performance fees mainly due to a change in the timing of some fee calculations.

The table below provides more detail on base and performance fees.

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Base fees					
Macquarie Funds					
Macquarie Investment Management	283	267	262	*6*	*8*
Macquarie Infrastructure and Real Assets	190	178	175	*7*	*9*
Macquarie Specialist Investment Solutions	7	14	9	*(50)*	*(22)*
Total Macquarie Funds	480	459	446	*5*	*8*
Other Operating Groups	20	16	17	*25*	*18*
Total base fee income	500	475	463	*5*	*8*
Performance fees					
Macquarie Funds					
Macquarie Investment Management	2	15	10	*(87)*	*(80)*
Macquarie Infrastructure and Real Assets	74	21	79	*252*	*(6)*
Total Macquarie Funds	76	36	89	*111*	*(15)*
Other Operating Groups	—	5	—	*(100)*	*—*
Total performance fee income	76	41	89	*85*	*(15)*

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A327 million for the half-year ended 30 September 2012 decreased 4% from $A339 million in the prior corresponding period. Conditions in equity capital markets remained subdued. Refer to Section 3.6 Macquarie Capital for further information and details of significant transactions for the half-year ended 30 September 2012.

Brokerage and commission

Brokerage and commission income of $A393 million for the half-year ended 30 September 2012 decreased 19% from $A488 million in the prior corresponding period mainly driven by lower market volumes and weaker levels of client activity in cash equities across all regions. Brokerage and commissions income was also impacted by the deterioration in retail equity market volumes compared to the prior corresponding period.

Other fee and commission income

Other fee and commission income of $A331 million for the half-year ended 30 September 2012 decreased 6% from $A354 million in the prior corresponding period. Other fee and commission income includes fees earned on Funds under Administration on the Australian Wrap platform, fees on the Professional Series, distribution service fees, structuring fees and income from Infrastructure Bonds.

There was no individually significant driver of the decrease from the prior corresponding period. Funds under Administration on the Australian Wrap platform closed at $A22.6 billion on 30 September 2012, an increase of 10% from $A20.6 billion at 30 September 2011. Income from the sales of Infrastructure Bonds decreased as a result of scheduled bond maturities.

2.0 Financial performance analysis
continued

2.3 Share of net profits of associates and joint ventures

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Share of net profits of associates and joint ventures accounted for using the equity method	75	59	49	*27*	*53*

Share of net equity accounted profits of associates and joint ventures increased 53% to $A75 million for the half-year ended 30 September 2012 from $A49 million in the prior corresponding period predominantly due to equity accounted gains arising from the sale of assets by a number of unlisted infrastructure funds in Macquarie Funds during the half-year ended 30 September 2012.

2.4 Other operating income and charges

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net gains on sale of investment securities available for sale	15	53	78	*(72)*	*(81)*
Impairment charge on investment securities available for sale	(123)	(26)	(56)	*	*120*
Net gains on sale of associates and joint ventures	109	95	13	*15*	*
Impairment (charge)/reversal on interests in associates and joint ventures	(97)	(152)	24	*(36)*	*
(Loss)/gain on change of ownership interest	(42)	66	—	*	*
Impairment charge on non-financial assets	(3)	(49)	(7)	*(94)*	*(57)*
Gains on sale of non-financial assets	—	104	—	*(100)*	-
Net operating lease income	201	202	188	*(<1)*	*7*
Dividends/distributions received/receivable	69	362	81	*(81)*	*(15)*
Collective allowance for credit losses written back/(provided for)	1	3	(16)	*(67)*	*
Specific provisions	(89)	(116)	(50)	*(23)*	*78*
Other income	103	225	101	*(54)*	*2*
Total other operating income and charges	144	767	356	*(81)*	*(60)*

Total other operating income and charges of $A144 million for the half-year ended 30 September 2012 decreased 60% from $A356 million in the prior corresponding period mainly due to increased impairment charges.

Net gains on sale of equity investments (including available for sale, associates and joint venture investments) totalled $A124 million for the half-year ended 30 September 2012, an increase of 36% from $A91 million in the prior corresponding period. The current period's result was driven by gains on the sale of equity investments within Macquarie Capital and realisations of resources sector equity investments by Fixed Income, Currencies and Commodities.

Impairment charges on investment securities available for sale, associates and non-financial assets totalled $A223 million for the half-year ended 30 September 2012, up significantly from $A39 million in the prior corresponding period. Weak investor sentiment and confidence in resource equity markets resulted in lower security prices and consequently the impairment of a number of available for sale equity positions held by Fixed Income, Currencies and Commodities. Additionally there were impairments recognised on legacy investments, which are held within the Corporate segment as they are no longer aligned with the operations of the Operating Groups.

Loss on change of ownership interest for the half-year ended 30 September 2012 of $A42 million predominantly related to an equity accounted investment in Macquarie Capital where Macquarie lost significant influence on the IPO of the investment and was required to revalue its retained investment to fair value.

Net operating lease income of $A201 million increased 7% from $A188 million in the prior corresponding period largely due to the acquisition of the OnStream UK meters business in October 2011 and the Rail portfolio acquired in November 2011, partially offset by lower lease income from the aircraft leasing portfolio following the sale of aircraft.

Dividends/distributions received/receivable on investment securities available for sale of $A69 million for the half-year ended 30 September 2012 decreased from $A81 million in the prior corresponding period. Both the current and prior corresponding period included distributions received from Macquarie's investment in Sydney Airport. The prior period included a special distribution of $A295 million received from Sydney Airport.

Net charges for specific and collective provisions of $A88 million for the year ended 30 September 2012 increased 33% from $A66 million in the prior corresponding period, primarily due to an increase in impairment charges on loan assets in the resources sector in Fixed Income, Currencies and Commodities. The net collective allowance for credit allowances written back of $A1 million arose due to the release of collective allowance relating to items that were specifically provided for during the period, offset by changes in loan portfolios.

2.0 Financial performance analysis
continued

2.5 Operating expenses

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Employment expenses					
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,306)	(1,637)	(1,398)	*(20)*	*(7)*
Share based payments	(134)	(161)	(113)	*(17)*	*19*
Provision for annual leave	(3)	(7)	(16)	*(57)*	*(81)*
Provision for long service leave	1	1	(4)	—	*
Total compensation expenses	(1,442)	(1,804)	(1,531)	*(20)*	*(6)*
Other employment expenses including on-costs, staff procurement and staff training	(96)	(104)	(121)	*(8)*	*(21)*
Total employment expenses	(1,538)	(1,908)	(1,652)	*(19)*	*(7)*
Brokerage, commission and trading-related expenses	(347)	(338)	(386)	*3*	*(10)*
Occupancy expenses	(188)	(243)	(213)	*(23)*	*(12)*
Non-salary technology expenses	(130)	(141)	(149)	*(8)*	*(13)*
Professional fees	(124)	(158)	(116)	*(22)*	*7*
Travel and entertainment expenses	(63)	(76)	(81)	*(17)*	*(22)*
Advertising and communication expenses	(47)	(55)	(57)	*(15)*	*(18)*
Other expenses	(127)	(167)	(174)	*(24)*	*(27)*
Total operating expenses	(2,564)	(3,086)	(2,828)	*(17)*	*(9)*

Total operating expenses of $A2,564 million for the half-year ended 30 September 2012 decreased 9% from $A2,828 million in the prior corresponding period. Cost management initiatives including selective business rationalisation and the centralisation of support functions to generate scale efficiencies were a key driver of the overall reduction in operating expenses. These cost reductions were partially offset by targeted growth in certain businesses, including Corporate and Asset Finance with the acquisition of the OnStream UK meters business in October 2011, and costs associated with scaling back or exiting certain businesses.

Employment expenses of $A1,538 million for the half-year ended 30 September 2012 decreased 7% from $A1,652 million in the prior corresponding period mainly due to reduced headcount as a result of selective business rationalisation activities and reduced recruitment activity. Headcount decreased 11% from 15,088 at 30 September 2011 to 13,463 at 30 September 2012.

Brokerage, commission and trading-related expenses of $A347 million for the half-year ended 30 September 2012 decreased 10% from $A386 million in the prior corresponding period reflecting the impact of recent trading conditions especially in Macquarie Securities, which saw a decline in brokerage and commission expenses as a result of weaker demand for retail products and reduced stock borrow and lending activity.

Occupancy expenses of $A188 million for the half-year ended 30 September 2012 decreased 12% from $A213 million in the prior corresponding period, mainly due the consolidation of leased office space.

Other operating expenses including non-salary technology expenses, travel and entertainment, and advertising and communication expenses decreased compared to the prior corresponding period, mainly due to cost management initiatives, partially offset by increased costs associated with targeted growth and the cost of investing in compliance related activities in response to global regulatory change.

2.6 Headcount

	As at			Movement	
	Sep 12	Mar 12	Sep 11	*Mar 12 %*	*Sep 11 %*
Headcount by group					
Macquarie Funds	1,425	1,418	1,420	*<1*	*<1*
Corporate and Asset Finance	928	953	948	*(3)*	*(2)*
Banking and Financial Services	2,922	3,113	3,037	*(6)*	*(4)*
Macquarie Securities	1,037	1,187	1,322	*(13)*	*(22)*
Macquarie Capital	1,114	1,215	1,341	*(8)*	*(17)*
Fixed Income, Currencies and Commodities	949	949	939	—	*1*
Total headcount — Operating Groups	8,375	8,835	9,007	*(5)*	*(7)*
Total headcount — Corporate	5,088	5,367	6,081	*(5)*	*(16)*
Total headcount	13,463	14,202	15,088	*(5)*	*(11)*
Headcount by region					
Australia	6,145	6,618	7,060	*(7)*	*(13)*
International:					
Americas	3,276	3,419	3,577	*(4)*	*(8)*
Asia	2,813	2,795	2,954	*1*	*(5)*
Europe, Middle East and Africa	1,229	1,370	1,497	*(10)*	*(18)*
Total headcount — International	7,318	7,584	8,028	*(4)*	*(9)*
Total headcount	13,463	14,202	15,088	*(5)*	*(11)*
International headcount ratio (%)	54	53	53		

Total headcount of 13,463 at 30 September 2012 decreased 11% from 15,088 at 30 September 2011. Most Operating Groups and service areas reported a reduction in headcount in all regions resulting from continued focus on cost management initiatives and selective business rationalisation.

2.0 Financial performance analysis
continued

2.7 Income tax expense

	Half-year to		
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am
Operating profit before income tax	517	634	415
Prima facie tax @ 30%	155	190	125
Income tax permanent differences	1	(10)	(18)
Income tax expense	156	180	107
Effective tax rate[1]	30.2%	29.8%	26.0%

1 The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduce net profit before tax by $Anil for the half-year ended 30 September 2012 (half-year to 31 March 2012: $A29 million; half-year to 30 September 2011: $A3 million). The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.

The effective tax rate for the half-year ended 30 September 2012 was 30.2%, up from 26.0% in the prior corresponding period largely due to changes in the mix and location of income.

3.0 Segment analysis

3.1 Basis of preparation

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

For internal reporting and risk management purposes, Macquarie is divided into six Operating Groups (generally referred to as “the groups”).

Operating Groups:

- Macquarie Funds
- Corporate and Asset Finance
- Banking and Financial Services
- Macquarie Securities
- Macquarie Capital
- Fixed Income, Currencies and Commodities.

In addition, there is a Corporate segment which includes Group Treasury, head office and central support functions. The Corporate segment also holds certain legacy assets and businesses in which Macquarie no longer operates for strategic reasons, or investments that are no longer core. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and distributions to holders of CPS, MIS, MIPS and PMI.

Business and asset transfers

Since 31 March 2012 there have been a number of business and asset transfers between Operating Segments. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. As part of this realignment, the Real Estate Banking Division is now reported as part of the Corporate segment. Comparative information presented in this document has been restated to reflect the current operating structure.

Internal transactions

All transactions and transfers 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. Over the page is a selection of the key policies.

3.0 Segment analysis

Internal funding arrangements

Group Treasury has the responsibility for maintaining the funding for the Group, and Operating Groups obtain funding from Group Treasury. The interest rates charged by Group Treasury are determined by the term of the funding and are fully costed.

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

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

Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions.

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

Costs recovery of central support functions

Central support functions recover their costs to Operating Groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Financial Management, Market Operations and Technology, Corporate Services, Risk Management, Group Legal and Central Executive.

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense 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 internal management revenue/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 in 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.

	Macquarie Funds $Am	Corporate and Asset Finance $Am	Banking and Financial Services $Am
Half-year ended 30 September 2012			
Net interest and trading income/(expense)	7	251	372
Fee and commission income/(expense)	664	16	336
Share of net profits of associates and joint ventures accounted for using the equity method	48	1	2
Other operating income and charges	(3)	235	5
Internal management revenue/(charge)	9	4	1
Net operating income	725	507	716
Total operating expenses	(370)	(172)	(531)
Profit/(loss) before tax	355	335	185
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	1	—	—
Net profit/(loss) contribution	356	335	185
Half-year ended 31 March 2012			
Net interest and trading income/(expense)	18	293	346
Fee and commission income	605	18	333
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(28)	3	—
Other operating income and charges	27	214	(12)
Internal management revenue/(charge)	4	21	—
Net operating income	626	549	667
Total operating expenses	(383)	(209)	(537)
Profit/(loss) before tax	243	340	130
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	1	—	—
Net profit/(loss) contribution	244	340	130
Half-year ended 30 September 2011			
Net interest and trading income/(expense)	92	293	357
Fee and commission income	648	15	356
Share of net profits of associates and joint ventures accounted for using the equity method	15	2	—
Other operating income and charges	11	213	(10)
Internal management revenue/(charge)	17	5	1
Net operating income	783	528	704
Total operating expenses	(384)	(167)	(559)
Profit/(loss) before tax	399	361	145
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	2	(3)	—
Net profit/(loss) contribution	401	358	145

3.0 Segment analysis
continued

Macquarie Securities $Am	Macquarie Capital $Am	Fixed Income, Currencies and Commodities $Am	Corporate $Am	Total $Am
63	(30)	526	6	1,195
280	272	101	(2)	1,667
—	6	15	3	75
—	(26)	(57)	(10)	144
4	7	5	(30)	—
347	229	590	(33)	3,081
(411)	(237)	(371)	(472)	(2,564)
(64)	(8)	219	(505)	517
—	—	—	(156)	(156)
—	18	—	(19)	—
(64)	10	219	(680)	361
57	(50)	596	36	1,296
293	281	68	—	1,598
—	62	10	12	59
—	89	266	183	767
2	8	9	(44)	—
352	390	949	187	3,720
(527)	(295)	(416)	(719)	(3,086)
(175)	95	533	(532)	634
—	—	—	(180)	(180)
—	(18)	—	(12)	(29)
(175)	77	533	(724)	425
170	(71)	287	(56)	1,072
372	292	80	3	1,766
—	18	9	5	49
(1)	20	32	91	356
—	9	7	(39)	—
541	268	415	4	3,243
(560)	(278)	(409)	(471)	(2,828)
(19)	(10)	6	(467)	415
—	—	—	(107)	(107)
—	18	—	(20)	(3)
(19)	8	6	(594)	305

3.2 Macquarie Funds

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income	7	18	92	*(61)*	*(92)*
Fee and commission income					
Base fees	480	459	446	*5*	*8*
Performance fees	76	36	89	*111*	*(15)*
Mergers and acquisitions, advisory and underwriting fees	—	5	2	*(100)*	*(100)*
Brokerage and commissions	15	12	14	*25*	*7*
Other fee and commission income	93	93	97	—	*(4)*
Total fee and commission income	664	605	648	*10*	*2*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	48	(28)	15	*	*220*
Other operating income and charges					
Net gains/(losses) on sale of equity investments	10	9	(2)	*11*	*
Impairment (charge)/reversal on equity investments and non-financial assets	(22)	(35)	7	*(37)*	*
(Loss)/gain on change of ownership interest	(2)	29	—	*	*
Specific provisions and collective allowance for credit losses	(3)	(13)	(7)	*(77)*	*(57)*
Other income	14	37	13	*(62)*	*8*
Total other operating income and charges	(3)	27	11	*	*
Internal management revenue	9	4	17	*125*	*(47)*
Net operating income	725	626	783	*16*	*(7)*
Operating expenses					
Employment expenses	(130)	(135)	(130)	*(4)*	—
Brokerage and commission expenses	(77)	(69)	(74)	*12*	*4*
Other operating expenses	(163)	(179)	(180)	*(9)*	*(9)*
Total operating expenses	(370)	(383)	(384)	*(3)*	*(4)*
Non-controlling interests[1]	1	1	2	—	*(50)*
Net profit contribution	356	244	401	*46*	*(11)*
Non-GAAP metrics					
MFG (including MIRA) assets under management ($A billion)	336.8	324.8	325.0	*4*	*4*
MIRA equity under management ($A billion)	39.5	37.9	37.9	*4*	*4*
Headcount	1,425	1,418	1,420	*<1*	*<1*

[1] "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Macquarie Funds' net profit contribution of $A356 million for the half-year ended 30 September 2012 decreased 11% from $A401 million in the prior corresponding period. The current period result was underpinned by strong annuity style base fee income, performance fee income predominantly earned from a number of infrastructure funds outperforming their respective benchmarks, as well as lower operating expenses. The decrease from the prior corresponding period was mainly due to lower demand for financing facilities from external funds and their investors reflected in net interest and trading income in the table above.

3.0 Segment analysis
continued

Net interest and trading income

Net interest and trading income of $A7 million for the half-year ended 30 September 2012 decreased 92% from $A92 million in the prior corresponding period. The decrease in net interest and trading income was predominantly due to lower demand for financing facilities from external funds and their investors. The decline also reflected higher funding costs and further maturities in the retail loan book.

Base fees

Base fee income of $A480 million for the half-year ended 30 September 2012 increased 8% from $A446 million in the prior corresponding period. This was primarily driven by an increase in AUM as a result of market and valuation movements and higher fees earned from MKIF reflecting Macquarie’s increased ownership from 50% to 100% of MKIF’s management company, MKAM since February 2012.

Refer to Section 7 for a breakdown of Macquarie Funds’ Assets under Management and Equity under Management.

Performance fees

Performance fee income of $A76 million for the half-year ended 30 September 2012 decreased 15% from $A89 million in the prior corresponding period mainly due to a change in the timing of some fee calculations within Macquarie Funds’ Investment Management business.

The prior corresponding period included performance fees earned as a result of Macquarie Essential Assets Partnership, Macquarie Atlas Roads (MQA), Thames Water and Quant Hedge Funds outperforming their respective benchmarks. The current period included performance fees earned as a result of Macquarie Infrastructure Company LLC, MQA and DUET Group outperforming their respective benchmarks and performance fees earned upon the sale of investments in Wales & West Utilities by external co-investors.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and income from True Index products. Distribution service fees are offset with associated expenses that, for accounting purposes, are recognised in brokerage and commissions expense. Other fee and commission income of $A93 million for the half-year ended 30 September 2012 decreased 4% from $A97 million in the prior corresponding period primarily due to a reduction in income from the sale of Infrastructure Bonds as a result of scheduled bond maturities.

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

Net equity accounted profits of $A48 million for the half-year ended 30 September 2012 increased 220% from $A15 million in the prior corresponding period. The increase was driven primarily by equity accounted gains arising from the sale of assets by a number of unlisted infrastructure funds in which Macquarie has investments.

Net gains/(losses) on sale of equity investments

Income of $A10 million for the half-year ended 30 September 2012 primarily related to the gain on sale of a single co-investment.

Impairment (charge)/reversal on equity investments and non-financial assets

Impairment charges on equity investments and non-financial assets of $A22 million for the half-year ended 30 September 2012 and $A35 million for the prior period primarily related to impairments of unlisted investments.

Operating expenses

Total operating expenses of $A370 million for the half-year ended 30 September 2012 decreased 4% from $A384 million in the prior corresponding period. The decline was driven primarily by lower technology and occupancy costs particularly due to the completion of IT projects and the realisation of operational efficiencies and the impact of cost management initiatives.

3.3 Corporate and Asset Finance

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income	251	293	293	*(14)*	*(14)*
Fee and commission income	16	18	15	*(11)*	*7*
Share of net profits of associates and joint ventures accounted for using the equity method	1	3	2	*(67)*	*(50)*
Other operating income and charges					
Impairment charge on equity investments and non-financial assets	(1)	(12)	(1)	*(92)*	—
Net operating lease income	203	198	183	*3*	*11*
Specific provisions and collective allowance for credit losses	(18)	(32)	(18)	*(44)*	—
Other income	51	60	49	*(15)*	*4*
Total other operating income and charges	235	214	213	*10*	*10*
Internal management revenue	4	21	5	*(81)*	*(20)*
Net operating income	507	549	528	*(8)*	*(4)*
Operating expenses					
Employment expenses	(77)	(95)	(70)	*(19)*	*10*
Brokerage and commission expenses	(4)	(5)	(11)	*(20)*	*(64)*
Other operating expenses	(91)	(109)	(86)	*(17)*	*6*
Total operating expenses	(172)	(209)	(167)	*(18)*	*3*
Non-controlling interests[1]	—	—	(3)	—	*(100)*
Net profit contribution	335	340	358	*(1)*	*(6)*
Non-GAAP metrics					
Loan and finance lease portfolio ($A billion)	16.9	15.9	16.1	*6*	*5*
Operating lease portfolio ($A billion)	4.5	4.7	4.4	*(4)*	*2*
Headcount	928	953	948	*(3)*	*(2)*

1 "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Corporate and Asset Finance's net profit contribution of $A335 million for the half-year ended 30 September 2012 decreased by 6% from $A358 million in the prior corresponding period. The decrease is predominantly due to lower early loan repayments in the Lending business compared to the prior corresponding period, offset by the contribution from the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets.

Net interest and trading income

Net interest and trading income of $A251 million for the half-year ended 30 September 2012 decreased 14% from $A293 million in the prior corresponding period. The decrease is mainly due to lower early loan repayments received in the period in addition to the funding costs associated with the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets. The decrease was partially offset by growth in the asset finance portfolio.

3.0 Segment analysis
continued

Net operating lease income

Net operating lease income of $A203 million for the half-year ended 30 September 2012 increased 11% from $A183 million in the prior corresponding period. This was largely driven by the acquisition of the OnStream UK meters business in October 2011, the rail portfolio acquired in November 2011 and growth in the Mining business, partially offset by lower lease income from the aircraft leasing portfolio following the sale of aircraft.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses totalled $A18 million for the half-year ended 30 September 2012, in line with the prior corresponding period. The charge in the current period includes additional provisions made on the remaining real estate portfolio and provisions on the motor vehicle leasing portfolio in line with an increase in the lease book.

Other income

Other income of $A51 million for the half-year ended 30 September 2012 increased 4% from $A49 million in the prior corresponding period. Both the current and prior corresponding periods included the sale of aircraft, as well as income from the sale of off-lease manufacturing equipment.

Operating expenses

Total operating expenses of $A172 million for the half-year ended 30 September 2012 increased 3% from $A167 million in the prior corresponding period, reflecting higher operating expenses primarily as a result of the OnStream UK meters business acquisition in October 2011 and the growth in the Mining business, partially offset by cost savings resulting from exiting the aircraft engine leasing business.

3.4 Banking and Financial Services

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income	372	346	357	*8*	*4*
Fee and commission income					
Base fees	19	17	16	*12*	*19*
Brokerage and commissions	103	99	118	*4*	*(13)*
Other fee and commission income	184	190	191	*(3)*	*(4)*
Income from life insurance business and other unit holder businesses	30	27	31	*11*	*(3)*
Total fee and commission income	336	333	356	*1*	*(6)*
Share of net profits of associates and joint ventures accounted for using the equity method	2	—	—	*	*
Other operating income and charges					
Net gains on sale of equity investments	4	—	1	*	*300*
Impairment charge on equity investments	(4)	(4)	(1)	—	*300*
Specific provisions and collective allowance for credit losses	(22)	(14)	(19)	*57*	*16*
Other income	27	6	9	*	*200*
Total other operating income and charges	5	(12)	(10)	*	*
Internal management revenue	1	—	1	*	—
Net operating income	716	667	704	*7*	*2*
Operating expenses					
Employment expenses	(221)	(216)	(238)	*2*	*(7)*
Brokerage and commission expenses	(90)	(85)	(79)	*6*	*14*
Other operating expenses	(220)	(236)	(242)	*(7)*	*(9)*
Total operating expenses	(531)	(537)	(559)	*(1)*	*(5)*
Non-controlling interests[1]	—	—	—	—	—
Net profit contribution	185	130	145	*42*	*28*
Non-GAAP metrics					
Funds under management/advice/administration[2] ($A billion)	116.7	116.9	112.7	*(<1)*	*4*
Loan portfolio[3] ($A billion)	23.2	23.5	23.9	*(1)*	*(3)*
Retail deposits ($A billion)	30.8	29.0	28.6	*6*	*8*
Headcount	2,922	3,113	3,037	*(6)*	*(4)*

1 "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

2 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 The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards.

3.0 Segment analysis
continued

Banking and Financial Services' net profit contribution of $A185 million for the half-year ended 30 September 2012 increased 28% from $A145 million in the prior corresponding period.

Net interest and trading income

Net interest and trading income of $A372 million for the half-year ended 30 September 2012 increased 4% from $A357 million in the prior corresponding period. Increased net interest income from a larger retail deposits base has been partially offset by a lower loan portfolio.

Retail deposits increased 8% to $A30.8 billion at 30 September 2012 from $A28.6 billion at 30 September 2011.

The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products and credit cards. The total loan portfolio of $A23.2 billion at 30 September 2012 decreased 3% from $A23.9 billion at 30 September 2011, primarily due to a reduction in the Canadian loan portfolio. The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at $A7.9 billion at 30 September 2012, down 10% from $A8.8 billion at 30 September 2011. This was mainly due to a decrease in Canadian mortgages and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

The Australian mortgage portfolio increased 1% to $A11.1 billion[1] at 30 September 2012 from $A11.0 billion at 30 September 2011. The Australian mortgage portfolio experienced a small decrease in net interest margins mainly due to increased funding costs.

Base fees

Base fee income of $A19 million for the half-year ended 30 September 2012 increased 19% from $A16 million in the prior corresponding period largely due to asset growth in Macquarie Private Wealth Canada managed accounts.

Brokerage and commissions

Brokerage and commission income of $A103 million for the half-year ended 30 September 2012 decreased 13% from $A118 million in the prior corresponding period due to deterioration in equities market conditions globally resulting in lower traded volumes.

Other fee and commission income

Other fee and commission income of $A184 million for the half-year ended 30 September 2012 decreased 4% from $A191 million in the prior corresponding period. Other fee and commission income relates to fees earned on a range of Banking and Financial Services' products including but not limited to the Australian Wrap Platform, the Macquarie Professional Series and financial planning software. The decrease from the prior corresponding period was impacted by the sale of the COIN institutional business in August 2012.

Funds under Administration on the Australian Wrap platform closed at $A22.6 billion on 30 September 2012, an increase of 10% from $A20.6 billion at 30 September 2011.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder businesses of $A30 million for the half-year ended 30 September 2012 decreased 3% from $A31 million in the prior corresponding period, primarily due to a decrease in retail superannuation funds under management.

Partially offsetting this was an increase in income from the insurance inforce book, which grew to $A140 million at 30 September 2012 from $A108 million at 30 September 2011. The inforce book is the aggregate annualised life insurance premium payable for policies issued by the life company at the balance date.

[1] At 30 September 2012, $A5.9 billion (31 March 2012: $A7.0 billion; 30 September 2011: $A8.1 billion) of the Australian mortgage portfolio was funded by third parties through external securitisations.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A22 million for the half-year ended 30 September 2012 increased 16% from $A19 million the prior corresponding period. The increase was mostly due to movements in Macquarie Relationship Banking.

Other income

Other income of $A27 million for the half-year ended 30 September 2012 increased 200% from $A9 million in the prior corresponding period. Income recognised in the current period was mostly due to the sale of the Canadian Macquarie Premium Funding business in May 2012 and the COIN institutional business in August 2012.

Operating expenses

Total operating expenses of $A531 million for the half-year ended 30 September 2012 decreased 5% from $A559 million in the prior corresponding period.

Employment expenses of $A221 million for the half-year ended 30 September 2012 were down 7% from $A238 million in the prior corresponding period. This was largely due to reduced headcount resulting from business divestments and internal restructures, as well as lower sales commissions paid to Macquarie Private Wealth's advisers resulting from subdued equity market conditions.

Brokerage and commission expenses, which are largely paid to external advisers for product distribution, of $A90 million for the half-year ended 30 September 2012 increased 14% from $A79 million in the prior corresponding period due to continued growth across a range of products including the Professional Series and Cash products.

Other operating expenses of $A220 million for the half-year ended 30 September 2012 decreased 9% from $A242 million in the prior corresponding period due to cost management initiatives and business divestments, including the Canadian Macquarie Premium Funding business and the COIN institutional business.

3.0 Segment analysis
continued

3.5 Macquarie Securities

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income	63	57	170	*11*	*(63)*
Fee and commission income					
Brokerage and commissions	216	242	283	*(11)*	*(24)*
Other fee and commission income	64	51	89	*25*	*(28)*
Total fee and commission income	280	293	372	*(4)*	*(25)*
Share of net profits of associates and joint ventures accounted for using the equity method	—	—	—	—	—
Other operating charges	—	—	(1)	—	*(100)*
Internal management revenue	4	2	—	*100*	*
Net operating income	347	352	541	*(1)*	*(36)*
Operating expenses					
Employment expenses	(117)	(159)	(149)	*(26)*	*(21)*
Brokerage and commission expenses	(87)	(91)	(145)	*(4)*	*(40)*
Other operating expenses	(207)	(277)	(266)	*(25)*	*(22)*
Total operating expenses	(411)	(527)	(560)	*(22)*	*(27)*
Net loss contribution	(64)	(175)	(19)	*(63)*	*237*
Non-GAAP metrics					
Headcount	1,037	1,187	1,322	*(13)*	*(22)*

Macquarie Securities' net loss of $A64 million for the half-year ended 30 September 2012 increased from a loss of $A19 million in the prior corresponding period.

Operating income of $A347 million for the half-year ended 30 September 2012 decreased 36% from $A541 million in the prior corresponding period as global equity market conditions were adversely impacted by weak investor confidence resulting from an uncertain economic outlook, sovereign debt levels in Europe and concerns of a slowdown in China.

Compared to the prior period, operating income remained relatively stable whilst operating expenses decreased significantly, leading to a reduced net loss compared to the prior period. The result for the current period included run off costs from legacy businesses. The institutional cash equities business was breakeven for the half-year ended 30 September 2012.

Net interest and trading income

Net interest and trading income of $A63 million for the half-year ended 30 September 2012 decreased 63% from $A170 million in the prior corresponding period.

Derivatives revenues were adversely impacted by changes in the regulatory environment, continued weak product demand for products globally as most markets remained subdued and run off costs from legacy businesses.

Brokerage and commissions

Brokerage and commissions income of $A216 million for the half-year ended 30 September 2012 decreased 24% from $A283 million in the prior corresponding period, reflecting lower market volumes and weaker levels of client activity in cash equities across all regions, especially Asia.

Other fee and commission income

Other fee and commission income mainly consists of equity capital markets fees, fees charged to Macquarie Capital for equities research and fees earned on stock borrow and lending transactions.

Other fee and commission income of $A64 million for the half-year ended 30 September 2012 decreased 28% from $A89 million in the prior corresponding period driven by reduced stock borrow and lending and equity capital markets activity.

Operating expenses

Total operating expenses of $A411 million for the half-year ended 30 September 2012 decreased 27% from $A560 million in the prior corresponding period. A key driver has been a number of cost reduction initiatives undertaken by Macquarie Securities over the past 18 months combined with the selective rationalisation of businesses.

Employment expenses of $A117 million for the half-year ended 30 September 2012 decreased 21% from $A149 million in the prior corresponding period largely driven by a 22% reduction in headcount.

Brokerage and commission expenses of $A87 million for the half-year ended 30 September 2012 decreased from $A145 million in the prior corresponding period reflecting the reduction in trading activity as a result of changes in the regulatory environment, weaker demand for retail products and reduced stock borrow and lending activity.

Other operating expenses of $A207 million for the half-year ended 30 September 2012 have decreased 22% from $A266 million in the prior corresponding period. The decrease is driven by lower headcount and cost savings arising from significant cost reduction initiatives across all businesses including the closure of various businesses.

3.0 Segment analysis
continued

3.6 Macquarie Capital

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest expense	(26)	(33)	(44)	*(21)*	*(41)*
Fee and commission income					
Mergers and acquisitions, advisory and underwriting fees	305	322	313	*(5)*	*(3)*
Brokerage and commissions	16	18	21	*(11)*	*(24)*
Other fee and commission expense	(49)	(59)	(42)	*(17)*	*17*
Total fee and commission income	272	281	292	*(3)*	*(7)*
Net trading expense	(4)	(17)	(27)	*(76)*	*(85)*
Share of net profits of associates and joint ventures accounted for using the equity method	6	62	18	*(90)*	*(67)*
Other operating income and charges					
Net gains on sale of debt and equity investments	56	66	35	*(15)*	*60*
Impairment charge on equity investments	(34)	(8)	—	*	*
Loss on change of ownership interest	(40)	—	—	*	*
Impairment charge on non-financial assets	(2)	(16)	—	*(88)*	*
Specific provisions and collective allowance for credit losses	(8)	(25)	(5)	*(68)*	*60*
Other income	2	72	(10)	*(97)*	*
Total other operating income and charges	(26)	89	20	*	*
Internal management revenue	7	8	9	*(13)*	*(22)*
Net operating income	229	390	268	*(41)*	*(15)*
Operating expenses					
Employment expenses	(125)	(155)	(152)	*(19)*	*(18)*
Brokerage and commission expenses	(3)	(2)	(2)	*50*	*50*
Other operating expenses	(109)	(138)	(124)	*(21)*	*(12)*
Total operating expenses	(237)	(295)	(278)	*(20)*	*(15)*
Non-controlling interests[1]	18	(18)	18	*	—
Net profit contribution	10	77	8	*(87)*	*25*
Non-GAAP metrics					
Headcount	1,114	1,215	1,341	*(8)*	*(17)*

[1] "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Macquarie Capital's net profit contribution of $A10 million for the half-year ended 30 September 2012 increased 25% from $A8 million in the prior corresponding period.

Net interest expense

Net interest expense of $A26 million for the half-year ended 30 September 2012 decreased 41% from $A44 million in the prior corresponding period. Compared to the prior corresponding period, interest income increased 168% to $A51 million from $A19 million as a result of an expanded Principal debt investment portfolio, and interest expense increased 22% to $A77 million from $A63 million primarily as a result of increased funding costs associated with both the Principal debt and equity investment portfolios.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A305 million for the half-year ended 30 September 2012 decreased 3% from $A313 million in the prior corresponding period. The number and value of transactions in which Macquarie participated for the half-year ended 30 September 2012 (205 transactions valued at approximately $A36 billion) was lower compared to the prior corresponding period (214 transactions valued at approximately $A41 billion) reflecting subdued equity and capital markets conditions.

Significant advisory transactions completed for the half-year ended 30 September 2012 included:

- Equity and debt arranger and sole adviser to a consortium on the $A1.9 billion privatisation of the Charter Hall Office REIT
- Adviser to Ironbridge Capital on the merger, partial sale and financing of its portfolio assets Super A-Mart and Barbeques Galore
- Adviser to the SecureFuture consortium who has reached financial close to design, build, finance, operate and maintain a new prison at Wiri, South Auckland – the first significant PPP in NZ (net present cost of contract is approx $NZ840 million)
- Sole adviser to Greentown China Holdings Ltd in The Wharf Holdings Ltd's strategic investment of up to $HK5.1 billion (~$US657 million) into Greentown - the largest M&A transaction in the PRC property space and largest equity/equity-linked capital raising by a PRC developer since 2011
- Adviser to Daewoo International Corp on the sale of its 24 per cent stake in Kyobo Life Insurance to a consortium of private equity funds for KRW1.2t (~$US1.1 billion), one of the largest FIG M&A transactions in Korea this year
- Lead adviser to a consortium on the acquisition of Open Grid Europe, the largest gas network operator in Germany, from E.ON AG for approx €3.2 billion
- Adviser to a consortium led by Infracapital and Morgan Stanley Infrastructure Partners on the acquisition of a 90 per cent interest in Veolia's UK regulated business
- Adviser & co-sponsor on the $US2.1 billion Downtown Tunnel/Midtown Tunnel MLK Extension Project
- Lead financial adviser to M*Modal on its $US1.1 billion sale to One Equity Partners
- Adviser to Tokio Marine, headquartered in Japan and one of the largest diversified global insurance companies, on its acquisition of North American based Delphi Financial Group for a total purchase price of $US2.7 billion.

Other fee and commission expense

Other fee and commission expense predominantly relates to transactions with other Operating Groups, including fee sharing arrangements with Macquarie Securities and Banking and Financial Services on equity underwriting transactions and with Fixed Income, Currencies and Commodities on debt underwriting transactions. Other fee and commission expense also includes fees paid to Macquarie Securities for equities research.

Other fee and commission expense of $A49 million for the half-year ended 30 September 2012 increased 17% from $A42 million in the prior corresponding period. The increase was primarily a result of lower revenue received from other Operating Groups.

Net trading expense

Net trading expense of $A4 million for the half-year ended 30 September 2012 decreased 85% from $A27 million in the prior corresponding period. The net trading expense in the current period reflected Macquarie Capital's share of fair value movements on swap transactions which were shared with Fixed Income, Currencies and Commodities. The trading expense in the prior corresponding period included Macquarie Capital's share of fair value movements on swap transactions which were shared with Fixed Income, Currencies and Commodities, as well as fair value movements in relation to listed and unlisted equity investments, interest rate swaps and warrants, and options.

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

Net equity accounted profits of $A6 million for the half-year ended 30 September 2012 decreased 67% from $A18 million in the prior corresponding period. Net equity accounted profits for the half-year ended 30 September 2012 were in respect of unlisted associates.

Net gains on sale of debt and equity investments

Net gains on the sale of debt and equity investments of $A56 million for the half-year ended 30 September 2012 increased 60% from $A35 million in the prior corresponding period. The net gains for the half-year ended 30 September 2012 were in respect of the sale of both listed and unlisted investments.

3.0 Segment analysis
continued

Impairment charge on equity investments

Impairment charge on equity investments relates to underperforming Principal assets.

Loss on change of ownership interest

Loss on change of ownership interest of $A40 million for the half-year ended 30 September 2012 related to an equity accounted investment where Macquarie lost significant influence on the IPO of the investment and was required to revalue its retained investment to fair value.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A8 million in the half-year ended 30 September 2012 increased 60% from $A5 million in the prior corresponding period, reflecting some isolated specific credit events.

Other income

Other income of $A2 million for the half-year ended 30 September 2012 increased from a loss of $A10 million in the prior corresponding period. Other income predominantly includes dividend income from investments and operating profit and loss from consolidated Principal investments.

Operating expenses

Total operating expenses of $A237 million for the half-year ended 30 September 2012 decreased 15% from $A278 million in the prior corresponding period mainly due to an 18% decrease in employment expenses to $A125 million for the half-year ended 30 September 2012 from $A152 million in the prior corresponding period. The decrease in employment expenses was mainly due to a reduction in headcount.

3.7 Fixed Income, Currencies and Commodities

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income					
Commodities[1]	338	297	279	*14*	*21*
Credit, interest rates and foreign exchange	179	283	27	*(37)*	*
Fair value adjustments relating to leasing contracts[1]	9	16	(19)	*(44)*	*
Net interest and trading income	526	596	287	*(12)*	*83*
Fee and commission income					
Brokerage and commissions	44	49	51	*(10)*	*(14)*
Other fee and commission income	57	19	29	*200*	*97*
Total fee and commission income	101	68	80	*49*	*26*
Share of net profits of associates and joint ventures accounted for using the equity method	15	10	9	*50*	*67*
Other operating income and charges					
Net gains on sale of equity investments	50	113	32	*(56)*	*56*
Impairment charge on equity investments	(90)	(29)	(23)	*210*	*291*
Gain on change of ownership interest	—	36	—	*(100)*	—
(Loss)/gain on sale of non-financial assets	(1)	104	—	*	*
Specific provisions and collective allowance for credit losses	(32)	(14)	(15)	*129*	*113*
Other income	16	56	38	*(71)*	*(58)*
Total other operating income and charges	(57)	266	32	*	*
Internal management revenue	5	9	7	*(44)*	*(29)*
Net operating income	590	949	415	*(38)*	*42*
Operating expenses					
Employment expenses	(115)	(135)	(122)	*(15)*	*(6)*
Brokerage and commission expenses	(86)	(82)	(74)	*5*	*16*
Amortisation of intangibles	(4)	(19)	(15)	*(79)*	*(73)*
Other operating expenses	(166)	(180)	(198)	*(8)*	*(16)*
Total operating expenses	(371)	(416)	(409)	*(11)*	*(9)*
Net profit contribution	219	533	6	*(59)*	*
Non-GAAP metrics					
Headcount	949	949	939	—	*1*

[1] Macquarie enters into various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes. This creates a measurement mismatch with related trading positions that are used to hedge the risk reported at fair value for statutory purposes. For the purposes of enabling comparison with prior periods, Commodities trading income is presented on a basis consistent with management reporting, and the reversal of the fair value adjustments relating to leasing contracts are presented separately to reconcile the result to the statutory presentation.

3.0 Segment analysis
continued

Fixed Income, Currencies and Commodities' net profit contribution for the half-year ended 30 September 2012 was $A219 million, a significant increase from $A6 million in the prior corresponding period but a 59% decrease on the prior period. Net operating income of $A590 million increased 42% from $A415 million in the prior corresponding period, but decreased 38% from $A949 million in the prior period, which included significant income from asset sales.

The result for Fixed Income, Currencies and Commodities reflects a general improvement in market conditions across most of its businesses compared to the prior corresponding period, however market conditions continued to be uncertain, particularly in Europe. In resource equity markets, weak investor sentiment and confidence impacted the timing of asset realisations and resulted in impairments on some listed equity holdings for the half-year to 30 September 2012.

Commodities trading income

Commodities trading income of $A338 million for the half-year ended 30 September 2012 increased 21% from $A279 million in the prior corresponding period.

Energy markets experienced solid revenues across its global platform due to strong customer flow and improved trading opportunities, particularly in the US power and oil businesses.

Agricultural markets experienced increased client activity in grains mainly due to increased volatility over the period.

In metals markets, subdued client activity due to low volatility in base metals was partially offset by continued growth in physical base metals. Sustained higher precious metals prices dampened client appetite for hedging during the period.

Credit, interest rates and foreign exchange trading income

Trading income from credit, interest rates and foreign exchange products of $A179 million for the half-year ended 30 September 2012 increased significantly from $A27 million in the prior corresponding period, but decreased 37% from $A283 million in the prior period.

The result represents a significant improvement on the prior corresponding period which was adversely impacted by extreme volatility and concerns over global growth, however is down compared to a strong prior period.

The prior period's strong result was largely due to significantly improved market conditions compared to the prior corresponding period, particularly in fixed income markets.

Fair value adjustments relating to leasing contracts

The fair value adjustments relate to various capacity contracts, including gas transportation, and tolling agreements which are managed on an economic value basis but accounted for on an accrual basis in accordance with IFRS.

Total fee and commission income

Total fee and commission income of $A101 million for the half-year ended 30 September 2012 increased 26% from $A80 million in the prior corresponding period due to increased deal flows across global markets for the securitisation and origination parts of the business.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A50 million for the half-year to 30 September 2012 increased 56% from $A32 million in the prior corresponding period but decreased 56% from $A113 million in the prior period. Depressed resource equity markets impacted the timing of asset realisations.

Impairment charge on equity investments

Impairment charges on equity investments of $A90 million for the half-year ended 30 September 2012 increased significantly from $A23 million in the prior corresponding period. Weak investor sentiment and confidence in resource equity markets resulted in lower security prices, consequently a large number of equity holdings were required to be impaired.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of $A32 million for the half-year ended 30 September 2012 increased from $A15 million in the prior corresponding period. The charges in the current period predominantly related to loan assets in the resources sector and are isolated credit events.

Other income

Other income of $A16 million for the half-year ended 30 September 2012 decreased 58% from $A38 million in the prior corresponding period, driven largely by reduced income from Net Profit Interests and investments in commercial subsidiaries.

Operating expenses

Total operating expenses of $A371 million for the half-year ended 30 September 2012 decreased 9% from $A409 million in the prior corresponding period, and decreased 11% from $A416 million in the prior period.

Employment expenses of $A115 million for the half-year ended 30 September 2012 decreased 6% from $A122 million in the prior corresponding period, and decreased 15% from $A135 million in the prior period, largely due to non-recurring costs relating to the build out of the global platform in previous periods.

Brokerage and commission expenses of $A86 million for the half-year ended 30 September 2012 increased 16% from $A74 million in the prior corresponding period largely due to growth in physical trading activities.

Other operating expenses decreased 16% from $A198 million in the prior corresponding period to $A166 million for the half-year ended 30 September 2012 mainly due to the impact of lower cost recoveries from central support functions.

3.0 Segment analysis
continued

3.8 Corporate

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Net interest and trading income/(expense)	6	36	(56)	*(83)*	*
Fee and commission (expense)/income	(2)	—	3	*	*
Share of net profits of associates and joint ventures accounted for using the equity method	3	12	5	*(75)*	*(40)*
Other operating income and charges					
Net gains/(losses) on sale of debt and equity securities	5	(24)	25	*	*(80)*
Impairment charge on debt and equity securities	(70)	(120)	(13)	*(42)*	*
Dividends and distributions received	42	337	65	*(88)*	*(35)*
Specific provisions and collective allowance for credit losses	(5)	(14)	(1)	*(64)*	*
Other income	18	4	15	*	*20*
Total other operating income and charges	(10)	183	91	*	*
Internal management charge	(30)	(44)	(39)	*(32)*	*(23)*
Net operating income	(33)	187	4	*	*
Operating expenses					
Employment expenses	(753)	(1,012)	(793)	*(26)*	*(5)*
Brokerage and commission expenses	—	(3)	(1)	*(100)*	*(100)*
Other operating expenses	281	296	323	*(5)*	*(13)*
Total operating expenses	(472)	(719)	(471)	*(34)*	*<1*
Tax expense	(156)	(180)	(107)	*(13)*	*46*
Macquarie Income Preferred Securities	(2)	(2)	(2)	—	—
Macquarie Income Securities	(11)	(13)	(13)	*(15)*	*(15)*
Non-controlling interests[1]	(6)	3	(5)	*	*20*
Net loss contribution	(680)	(724)	(594)	*(6)*	*14*
Non-GAAP metrics					
Headcount	5,088	5,367	6,081	*(5)*	*(16)*

[1] "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

The Corporate segment includes Group Treasury, head office and central support functions. The Corporate segment also holds certain legacy investments and businesses not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated costs of central support functions, performance related profit share and share based payments expense, income tax expense and distributions to holders of CPS, MIS, MIPS and PMI.

The Corporate segment's net loss for the half-year ended 30 September 2012 of $A680 million increased 14% from $A594 million in the prior corresponding period.

Net interest and trading income/(expense)

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with legacy investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share (DPS) plan. Net interest and trading income of $A6 million for the half-year ended 30 September 2012 compared with a net interest and trading expense of $A56 million in the prior corresponding period. This was primarily due to the prior corresponding period including the impact of changes in the fair value of assets held for liquidity purposes due to changes in credit spreads.

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

There was no significant equity accounted income in the half-year ended 30 September 2012. The income in the prior period primarily related to investments in the real estate sector which have been transferred to the Corporate segment.

Net gains/(losses) on sale of debt and equity securities

Net gains on sale of debt and equity securities of $A5 million for the half-year ended 30 September 2012 decreased 80% from $A25 million in the prior corresponding period. Gains in the prior corresponding period related to gains from the sale of debt securities by Group Treasury. Losses in the prior period related to the sale of a legacy portfolio of mortgage-backed securities.

Impairment charge on debt and equity securities

Impairment charge on debt and equity securities of $A70 million for the half-year ended 30 September 2012 increased significantly from $A13 million in the prior corresponding period. The impairment charges related to a number of legacy investments that are no longer aligned with the operations of any of the Operating Groups and have been transferred to the Corporate segment.

3.0 Segment analysis
continued

Dividends and distributions received

Dividends and distributions received of $A42 million in the half-year ended 30 September 2012 decreased 35% from $A65 million in the prior corresponding period. Dividends are primarily received on investments held to hedge DPS liabilities and on the investment in Sydney Airport. The decrease from the prior period is largely due to a special distribution of $A295 million received from Sydney Airport in December 2011.

Other income

Other income of $A18 million for the half-year ended 30 September 2012 increased 20% from $A15 million in the prior corresponding period. Other income in the Corporate segment predominantly related to rental income on subleased office space across Macquarie's premises.

Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Group's central support functions; including Financial Management, Corporate Services, Market Operations and Technology, Risk Management, Group Legal and Central Executive; staff profit share, share based payments expense and the impact of fair value adjustments of DPS liabilities.

For the half-year ended 30 September 2012, employment expenses were $A753 million, down 5% from $A793 million in the prior corresponding period. This decrease is mainly attributable to a decrease in headcount across support functions due to cost management initiatives, but also included the impact of the realignment of support roles that were previously embedded in Operating Groups to drive scale efficiencies. These efficiencies are being achieved as evidenced by a net 16% reduction in central support function headcount from 6,081 at 30 September 2011 to 5,088 at 30 September 2012.

Other operating expenses

The other operating expenses category in the Corporate segment includes non-employment related operating costs of central support functions, offset by the recovery of central support function costs from the Operating Groups. The 13% decrease in the net recoveries from the Operating Groups from $A323 million in the prior corresponding period to $A281 million for the half-year ended 30 September 2012 reflected the reduced cost bases of central support functions as a result of cost management initiatives.

3.9 International income

International income by region

	Half-year to			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Americas	1,000	1,121	919	*(11)*	*9*
Asia	353	339	401	*4*	*(12)*
Europe, Middle East and Africa	624	608	621	*3*	*<1*
Total international income	1,977	2,068	1,941	*(4)*	*2*
Australia	1,107	1,421	1,259	*(22)*	*(12)*
Total income (excluding earnings on capital and other corporate items)	3,084	3,489	3,200	*(12)*	*(4)*
Earnings on capital and other corporate items	(3)	231	43	*	*
Net operating income (as reported)	3,081	3,720	3,243	*(17)*	*(5)*
International income (excluding earnings on capital and other corporate items) ratio (%)	64	59	61		

International income by group and region

	Half-year to Sep 12						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	Total International $Am	Australia $Am	Total Income $Am	Total International %
Macquarie Funds	352	50	161	563	153	716	79
Corporate and Asset Finance	137	10	223	370	133	503	74
Banking and Financial Services	107	—	4	111	604	715	16
Macquarie Securities	49	183	37	269	74	343	78
Macquarie Capital	33	41	68	142	80	222	64
Fixed Income, Currencies and Commodities	322	69	131	522	63	585	89
Total	1,000	353	624	1,977	1,107	3,084	64

Total international income of $A2.0 billion for the half-year ended 30 September 2012 increased slightly from $A1.9 billion in the prior corresponding period.

An increase in income derived from the Americas during the half-year ended 30 September 2012 compared to the prior corresponding period was primarily due to the strong performance by Fixed Income, Currencies and Commodities, in particular the Credit Trading business. The decrease of 11% from the prior period primarily relates to income earned from the sale of a net profit interest in a North American oil asset in the prior period.

In Asia, income from Macquarie Securities was adversely impacted by challenging market conditions during the half-year ended 30 September 2012. This was partly offset by improvements in Fixed Income, Currencies and Commodities in the region compared to the prior corresponding period.

Income derived from Europe, Middle East and Africa remained broadly in line with the prior corresponding period. However, a reduction in income from the region in Macquarie Securities resulting from challenging market conditions and costs associated with exiting non-core businesses, was largely offset by growth in the Corporate and Asset Finance business due to the acquisition of the OnStream UK meters business in October 2011.

The reduction in income derived from Australia during the half-year ended 30 September 2012 compared to the prior corresponding period was predominantly due to increased impairment charges in the current period.

4.0 Balance sheet
continued

4.1 Statutory consolidated balance sheet

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Assets					
Receivables from financial institutions	10,493	10,912	11,525	*(4)*	*(9)*
Cash collateral on securities borrowed and reverse repurchase agreements	7,733	7,598	6,696	*2*	*15*
Trading portfolio assets	15,546	12,689	14,616	*23*	*6*
Derivative assets	21,691	22,078	34,201	*(2)*	*(37)*
Investment securities available for sale	20,506	18,266	21,334	*12*	*(4)*
Other assets	12,123	13,717	15,049	*(12)*	*(19)*
Loan assets held at amortised cost	47,559	45,218	45,843	*5*	*4*
Other financial assets at fair value through profit or loss	5,327	6,715	9,998	*(21)*	*(47)*
Life investment contracts and other unitholder investment assets	6,059	5,904	4,758	*3*	*27*
Property, plant and equipment	5,134	5,235	5,133	*(2)*	*<1*
Interests in associates and joint ventures accounted for using the equity method	2,285	2,664	2,891	*(14)*	*(21)*
Intangible assets	1,304	1,351	1,393	*(3)*	*(6)*
Deferred tax assets	1,248	1,279	1,251	*(2)*	*(<1)*
Total assets	157,008	153,626	174,688	*2*	*(10)*
Liabilities					
Cash collateral on securities lent and repurchase agreements	8,761	4,826	8,844	*82*	*(1)*
Trading portfolio liabilities	3,641	3,615	4,425	*1*	*(18)*
Derivative liabilities	21,047	21,022	32,240	*<1*	*(35)*
Deposits	39,959	37,169	38,050	*8*	*5*
Current tax liabilities	68	105	72	*(35)*	*(6)*
Other liabilities	12,002	14,991	15,180	*(20)*	*(21)*
Payables to financial institutions	7,942	7,803	9,557	*2*	*(17)*
Other financial liabilities at fair value through profit or loss	1,593	2,733	3,334	*(42)*	*(52)*
Life investment contracts and other unitholder liabilities	6,047	5,897	4,759	*3*	*27*
Debt issued at amortised cost	40,714	39,713	42,258	*3*	*(4)*
Provisions	228	241	232	*(5)*	*(2)*
Deferred tax liabilities	514	436	351	*18*	*46*
Total liabilities excluding loan capital	142,516	138,551	159,302	*3*	*(11)*
Loan capital					
Macquarie Convertible Preference Securities	615	614	596	*<1*	*3*
Subordinated debt at amortised cost	2,378	2,579	2,877	*(8)*	*(17)*
Subordinated debt at fair value through profit or loss	-	150	149	*(100)*	*(100)*
Total loan capital	2,993	3,343	3,622	*(10)*	*(17)*
Total liabilities	145,509	141,894	162,924	*3*	*(11)*
Net assets	11,499	11,732	11,764	*(2)*	*(2)*

Equity

4.0 Balance sheet

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12* *%*	*Sep 11* *%*
Contributed equity	5,882	6,235	6,208	*(6)*	*(5)*
Reserves	(50)	44	504	*	*
Retained earnings	5,155	4,924	4,539	*5*	*14*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	10,987	11,203	11,251	*(2)*	*(2)*
Non-controlling interests					
Macquarie Income Securities	391	391	391	—	—
Macquarie Income Preferred Securities	64	63	66	*2*	*(3)*
Other non-controlling interests	57	75	56	*(24)*	*2*
Total equity	11,499	11,732	11,764	*(2)*	*(2)*

Total assets of $A157.0 billion at 30 September 2012 increased 2% from $A153.6 billion at 31 March 2012.

Trading portfolio assets increased 23% from $A12.7 billion at 31 March 2012 to $A15.5 billion at 30 September 2012 primarily as a result of increased trading activities in Fixed Income, Currencies and Commodities.

Investment securities available for sale increased 12% from $A18.3 billion at 31 March 2012 to $A20.5 billion at 30 September 2012 and Other financial assets at fair value through profit or loss decreased 21% from $A6.7 billion at 31 March 2012 to $A5.3 billion at 30 September 2012 mainly due to liquidity management activities within Group Treasury.

Other assets decreased 12% from $A13.7 billion at 31 March 2012 to $A12.1 billion at 30 September 2012 and Other liabilities decreased 20% due to lower unsettled trade receivables and payables at the end of the period within Macquarie Securities.

Loan assets increased 5% from $A45.2 billion at 31 March 2012 to $A47.6 billion at 30 September 2012 due primarily to organic growth in the leasing books in Corporate and Asset Finance.

Total liabilities (excluding loan capital) increased 3% from $A138.6 billion at 31 March 2012 to $A142.5 billion at 30 September 2012.

Cash collateral on securities lent and repurchase agreements increased 82% from $A4.8 billion at 31 March 2012 to $A8.8 billion at 30 September 2012 due to liquidity management activities within Group Treasury.

Deposits increased 8% from $A37.2 billion at 31 March 2012 to $A40.0 billion at 30 September 2012 primarily due to continuing growth in CMA account balances and corporate banking deposits.

Total equity decreased $A233 million from $A11.7 billion at 31 March 2012 to $A11.5 billion at 30 September 2012. The decrease since 31 March 2012 is predominantly due to the $A251 million buyback of shares during the period.

4.0 Balance sheet
continued

4.2 Loan assets

Reconciliation between loan assets per statutory and funded balance sheets

	As at			Movement	
	Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab	*Mar 12 %*	*Sep 11 %*
Loan assets at amortised cost per statutory balance sheet	47.6	45.2	45.8	*5*	*4*
Other loans held at fair value[1]	1.6	2.0	2.0	*(20)*	*(20)*
Operating lease assets	4.6	4.8	4.5	*(4)*	*2*
Other reclassifications[2]	0.2	0.1	(0.2)	*100*	*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers	(12.2)	(12.9)	(12.9)	*(5)*	*(5)*
Less: segregated funds[3]	(0.8)	(0.6)	(1.2)	*33*	*(33)*
Less: margin balances (reclassed to trading)[4]	(1.2)	(1.6)	(1.4)	*(25)*	*(14)*
Total per funded balance sheet	39.8	37.0	36.6	*8*	*9*

1 Excludes other loans held at fair value that are self-funded.
2 Reclassification between loan assets and other funded balance sheet categories.
3 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 For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.

Loan assets per the funded balance sheet are shown below in further detail

		As at			Movement	
	Notes	Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab	*Mar 12 %*	*Sep 11 %*
Mortgages:	1					
Australia		4.2	2.6	2.3	*62*	*83*
United States		0.7	0.7	0.8	*—*	*(13)*
Canada		7.8	8.2	8.5	*(5)*	*(8)*
Structured investments	2	3.4	2.9	3.0	*17*	*13*
Banking	3	3.8	4.0	3.9	*(5)*	*(3)*
Real estate	4	0.3	0.4	0.4	*(25)*	*(25)*
Resources and commodities	5	2.4	1.7	1.9	*41*	*26*
Leasing (finance and operating)	6	8.1	7.8	7.7	*4*	*5*
Corporate and Asset Finance lending	7	7.3	7.0	7.0	*4*	*4*
Other lending	8	1.8	1.7	1.1	*6*	*64*
Total		39.8	37.0	36.6	*8*	*9*

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential mortgages and supported by mortgage insurance:

– Australia: most loans are fully mortgage insured

– United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured

– Canada: most loans are fully insured with underlying government support.

2. Structured investments

Retail loans to invest in various investment funds. Secured by investments with value protected by capital guarantees at maturity. Underlying assets primarily include direct and indirect equities and cash.

3. Banking

Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other consumer lending including credit cards.

4. Real estate

Loans secured against real estate assets, generally subject to regular independent valuations.

5. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets. Secured by gold, base metals and oil resources and supported by price hedging.

6. Leasing (finance and operating)

Secured by underlying leased assets (aircraft, motor vehicles and specialised equipment), diversified portfolio by geography and security asset class.

7. Corporate and Asset Finance lending

Diversified secured corporate lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.

8. Other lending

Deposits with financial institutions held as collateral for trading positions.

4.0 Balance sheet
continued

4.3 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
– Interests in associates and joint ventures.

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 which are not investments in Macquarie-managed funds.

Equity investments reconciliation

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Equity investments					
Statutory balance sheet					
Equity investments within other financial assets at fair value through profit or loss	2,415	2,255	2,904	*7*	*(17)*
Equity investments within investment securities available for sale	2,642	2,456	2,612	*8*	*1*
Interests in associates and joint ventures accounted for using the equity method	2,285	2,664	2,891	*(14)*	*(21)*
Other assets	77	134	89	*(43)*	*(13)*
Total equity investments per statutory balance sheet	7,419	7,509	8,496	*(1)*	*(13)*
Adjustment for funded balance sheet					
Equity hedge positions[1]	(2,193)	(2,071)	(2,621)	*6*	*(16)*
Total funded equity investments	5,226	5,438	5,875	*(4)*	*(11)*
Adjustments for equity investments analysis					
Available for sale reserves[2]	(244)	(144)	(234)	*69*	*4*
Associates reserves[3]	3	25	8	*(88)*	*(63)*
Total adjusted equity investments[4]	4,985	5,319	5,649	*(6)*	*(12)*

[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. Consequently, these have been excluded from the analysis of equity investment exposures.

[2] Available for sale reserves on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie has no economic exposure.

[3] Associates reserves (gross of tax) that will be released to income upon realisation of the investment.

[4] The adjusted book value represents the total net exposure to Macquarie.

Equity investments by category

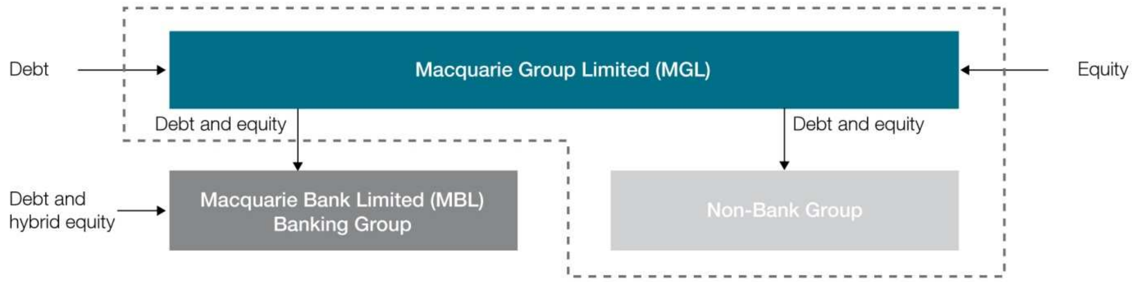
	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Macquarie-managed funds					
Macquarie Atlas Roads Group	123	102	101	*21*	*22*
Macquarie Infrastructure Company	87	79	78	*10*	*12*
Macquarie Korea Infrastructure Fund	58	57	50	*2*	*16*
Macquarie International Infrastructure Fund	52	52	55	*—*	*(5)*
DUET Group	18	17	17	*6*	*6*
Total listed MIRA managed funds	338	307	301	*10*	*12*
Unlisted MIRA managed funds	604	562	634	*7*	*(5)*
Other Macquarie-managed funds	256	222	337	*15*	*(24)*
Total Macquarie-managed funds	1,198	1,091	1,272	*10*	*(6)*
Other investments					
Transport, industrial and infrastructure	1,540	1,730	1,920	*(11)*	*(20)*
Telecommunications, internet, media and entertainment	624	702	642	*(11)*	*(3)*
Finance, investment, funds management and exchanges	669	650	677	*3*	*(1)*
Energy and resources	551	619	575	*(11)*	*(4)*
Real estate	403	505	522	*(20)*	*(23)*
Debt investment entities	—	22	41	*(100)*	*(100)*
Total other investments	3,787	4,228	4,377	*(10)*	*(13)*
Total equity investments	4,985	5,319	5,649	*(6)*	*(12)*

5.0 Funding and liquidity
continued

5.1 Overview

The two primary external funding vehicles for the Group are MGL and MBL. MGL provides funding principally to the Non-Bank Group and limited funding to some MBL Group subsidiaries. MBL provides funding to the Bank Group.

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



Liquidity management

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

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 and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group 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-Bank Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Bank Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Bank Group. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses. 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 strategy is prepared annually and the funding position is monitored throughout the year
- Internal pricing incorporates liquidity costs, benefits and risks to align risk-taking activities with liquidity risk exposures
- Diversity and stability of funding sources is a key priority and strong relationships are maintained.

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 scenarios separately consider the requirements of the Bank Group, Non-Bank Group and the consolidated Group. They are run over a number of timeframes and a range of conservative assumptions are used regarding 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 complies with minimum regulatory 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 eligible for repurchase with a central bank. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 30 September 2012, 98% 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 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.

MGL Group had $A22.6 billion cash and liquid assets as at 30 September 2012 (31 March 2012: $A23.2 billion), of which $A20.8 billion was held by the MBL Group (31 March 2012: $A20.9 billion).

5.0 Funding and liquidity
continued

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Macquarie Group and 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.

Macquarie is a global financial institution, with bank branches, operating subsidiaries and regulated banking subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have a local contingency plan specific to that region. Where that is the case, the liquidity contingency plan contains a supplement providing the necessary region-specific information required for those branches or subsidiaries.

Funding transfer pricing

An internal funding transfer pricing framework is in place which aims to align businesses with the overall funding strategy of the Group. Under this framework 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[1] at 30 September 2012 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
Moody's Investors Service	P-2	A3	Stable	P-1	A2	Stable
Standard and Poor's	A-2	BBB	Stable	A-1	A	Stable
Fitch Ratings	F-2	A-	Stable	F-1	A	Stable

[1] A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

Regulatory developments

In November 2011, APRA released its draft liquidity standard (APS 210) and discussion paper detailing the local implementation of the Basel III liquidity framework. APRA's proposals incorporate the two quantitative metrics put forward by the Basel Committee: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio

The LCR requires liquid assets to be held to cover cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 days. The ratio is subject to an observation period prior to being introduced as a minimum requirement by APRA in 2015.

Macquarie expects that it will meet the overall requirements of the LCR. However, the APRA standards have not yet been finalised and may be subject to change over the observation period.

Net Stable Funding Ratio

The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. As with the LCR, the NSFR is subject to an observation period prior to being introduced as a minimum requirement by APRA in 2018.

Macquarie has minimal reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, Macquarie's internal liquidity policy requires that term assets are funded with term liabilities. Macquarie expects that it will meet the overall requirements of the NSFR. However, the APRA standards have not yet been finalised and may be subject to change over the consultation period.

Macquarie continues to monitor developing liquidity regulations.

5.0 Funding and liquidity
continued

5.2 Funded balance sheet

The Group's statutory balance sheet is prepared based on Australian Accounting Standards and 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 2012. This is later split between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MGL and MBL.

		As at		
	Notes	Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab
Total assets per MGL statutory balance sheet		157.0	153.6	174.7
Accounting deductions:				
Self funded trading assets	1	(13.9)	(10.0)	(15.0)
Derivative revaluation accounting gross-ups	2	(20.4)	(20.5)	(32.0)
Life investment contracts and other segregated assets	3	(9.8)	(9.0)	(7.8)
Broker settlement balances	4	(7.4)	(9.2)	(8.8)
Short-term working capital assets	5	(5.1)	(5.7)	(6.5)
Non-recourse funded assets:				
Securitised assets and non-recourse warehouses	6	(12.0)	(13.0)	(13.0)
Net funded assets		88.4	86.2	91.6

Explanatory notes concerning 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 that Macquarie conducts with its clients and counterparties. They typically represent both sides of a transaction. The entries offset each other as both the asset and liability positions are recorded separately. Where these entries are matched, they do not require funding.

2. Derivative revaluation accounting gross-ups

Macquarie's derivative activities are mostly client driven with client positions hedged by offsetting 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.

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.

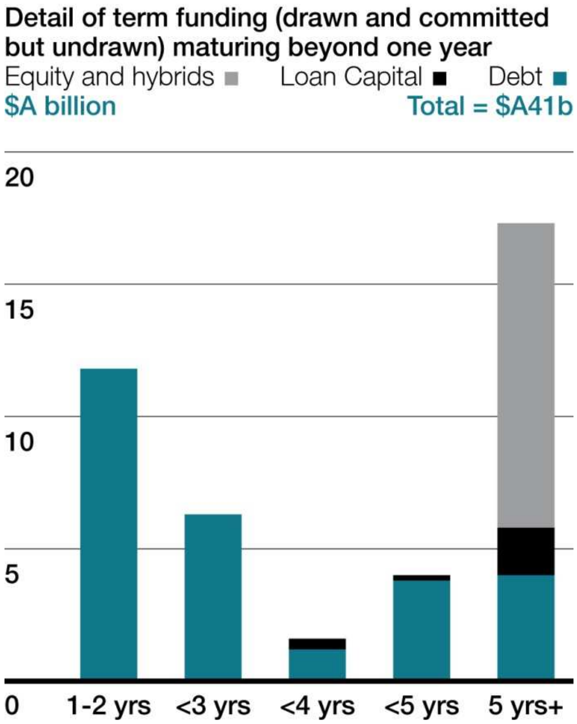
5.3 Funding profile for consolidated MGL Group

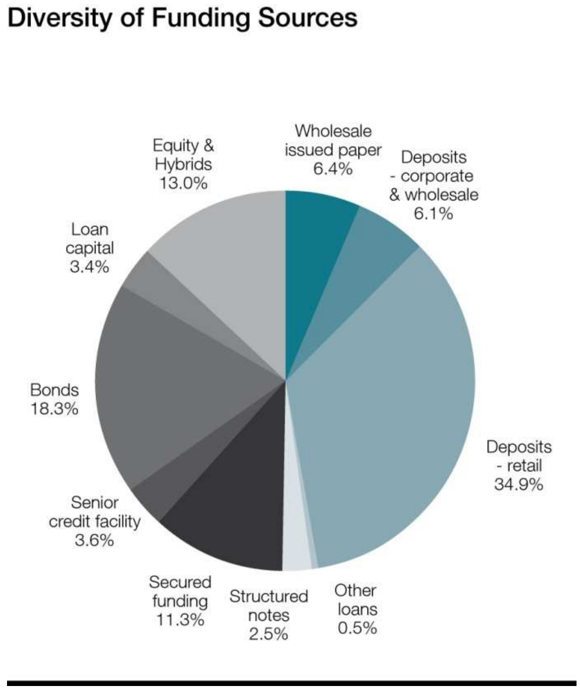
Funded balance sheet

	Notes	As at Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		1.3	1.7	1.5
Commercial paper		4.4	4.6	4.2
Net trade creditors	2	—	0.2	—
Structured notes	3	2.2	2.3	2.7
Secured funding	4	10.0	10.9	11.5
Bonds	5	16.2	14.0	16.9
Other loans	6	0.4	0.4	0.6
Senior credit facility	7	3.2	3.2	4.3
Deposits:	8			
Retail deposits		30.8	29.0	28.6
Corporate and wholesale deposits		5.4	4.9	5.9
Loan capital	9	3.0	3.3	3.6
Equity and hybrids	10	11.5	11.7	11.8
Total		88.4	86.2	91.6
Funded assets				
Cash and liquid assets	11	22.6	23.2	28.0
Net trading assets	12	16.1	15.9	14.5
Loan assets less than one year	13	9.2	7.7	8.5
Loan assets greater than one year	13	30.6	29.3	28.1
Debt investment securities	14	2.4	2.9	3.6
Co-investment in Macquarie-managed funds and other equity investments	15	5.1	5.4	5.9
Property, plant and equipment and intangibles		1.9	1.8	2.0
Net trade debtors	16	0.5	—	1.0
Total		88.4	86.2	91.6

See Section 5.6 for notes 1-16.

5.0 Funding and liquidity
continued





	As at Sep 12					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.4	0.4	—	0.2	0.5	1.5
Secured funding	2.7	3.2	1.1	—	0.3	7.3
Bonds	8.5	1.2	0.1	2.5	3.0	15.3
Other loans	—	0.1	—	—	0.1	0.2
Senior credit facility	—	1.3	—	1.1	—	2.4
Total debt	11.6	6.2	1.2	3.8	3.9	26.7
Loan capital	—	—	0.4	0.2	1.8	2.4
Equity and hybrids	—	—	—	—	11.5	11.5
Total funding sources drawn	11.6	6.2	1.6	4.0	17.2	40.6
Undrawn	0.2	0.1	—	—	0.1	0.4
Total funding sources drawn and undrawn	11.8	6.3	1.6	4.0	17.3	41.0

Macquarie has a stable funding base, with minimal reliance on short-term wholesale funding markets. At 30 September 2012, MGL Group's term assets were covered by term funding maturing beyond one year (including undrawn facilities), stable deposits and equity.

Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short-term funding) decreased from 3.8 years at 31 March 2012 to 3.6 years at 30 September 2012.

As at 30 September 2012, deposits represented $A36.2 billion, or 41% of MGL Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A5.7 billion, or 6% of total funding, and other debt funding maturing within 12 months represented $A5.9 billion, or 7% of total funding.

Term funding initiatives

Macquarie has a liability driven balance sheet approach where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2012, MGL and MBL have continued to raise term wholesale funding.

Details of term funding raised since 31 March 2012[1]:

			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Securitised assets	–	Term secured finance	1.9	—	1.9
Issued paper	–	Senior	3.7	0.3	4.0
Total			5.6	0.3	5.9

Macquarie has continued to diversify its funding base and develop new markets including issuances in Switzerland, South Africa, Korea and Taiwan.

Since 31 March 2012, MGL Group raised $A5.9 billion of term funding, including $A4.0 billion of term wholesale funding and $A1.9 billion of term secured finance. Wholesale term issuance of $A4.0 billion includes $A2.1 billion in private placements and structured notes, $A1.4 billion in USD senior unsecured debt issuance, $A0.4 billion senior unsecured issuance in the Swiss market and $A0.1 billion senior unsecured issuance in the South African market. Securitisation term issuance of $A1.9 billion was predominantly SMART auto & equipment ABS which comprised $A1.4 billion. The balance of securitisation issuance was $A0.3 billion of PUMA RMBS and $A0.2 billion securitisation of MEF US equipment leases.

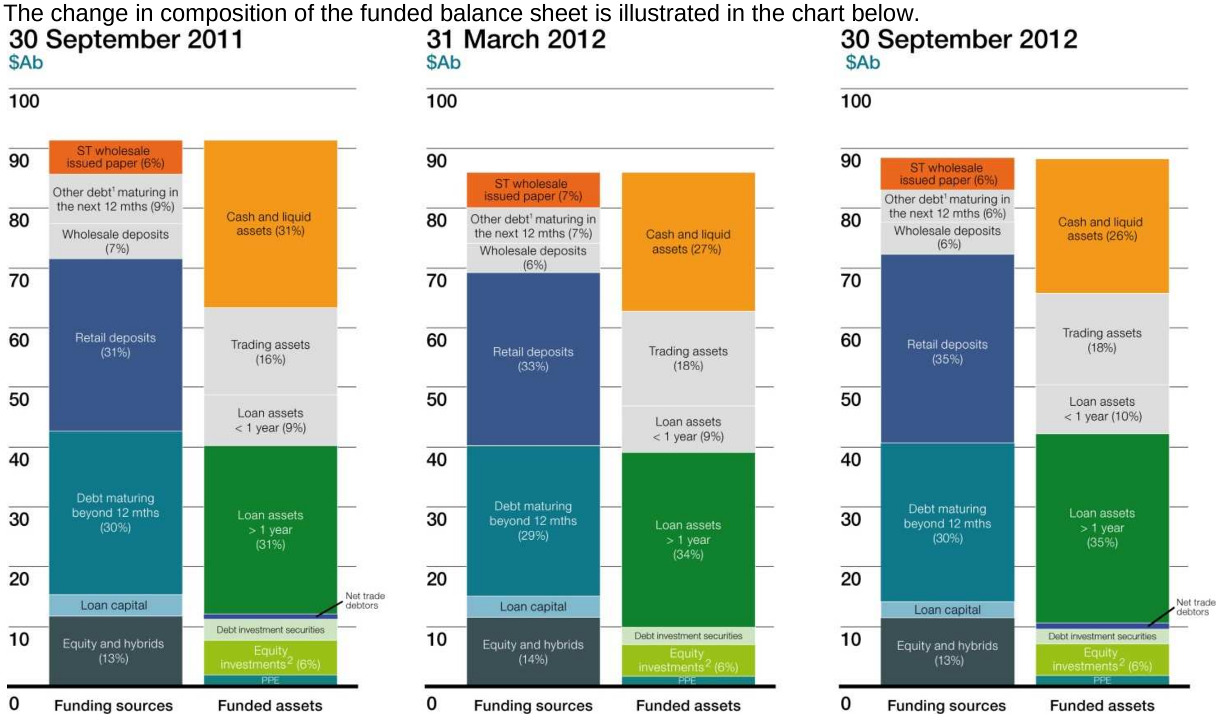
On 29 October 2012, MBL established a syndicated loan facility with 17 Taiwanese banks providing commitments totaling US$250 million for a tenor of 3 years. As at the date of this report the facility is undrawn. Details of the syndicated loan facility are not included in the table set out above.

On 1 November 2012, MBL launched and priced a dual tranche 6 year and 10 year Swiss Franc senior unsecured bond transaction totaling CHF 575 million, consisting of CHF 350 million Fixed Rate Bonds due November 2018 and CHF 225 million Fixed Rate Bonds due November 2022. These debt offerings are expected to settle on or about 29 November 2012.

[1] Includes $A1.0 billion term securitisation completed in October 2012.

5.0 Funding and liquidity
continued

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.

5.4 Funding profile for Bank Group

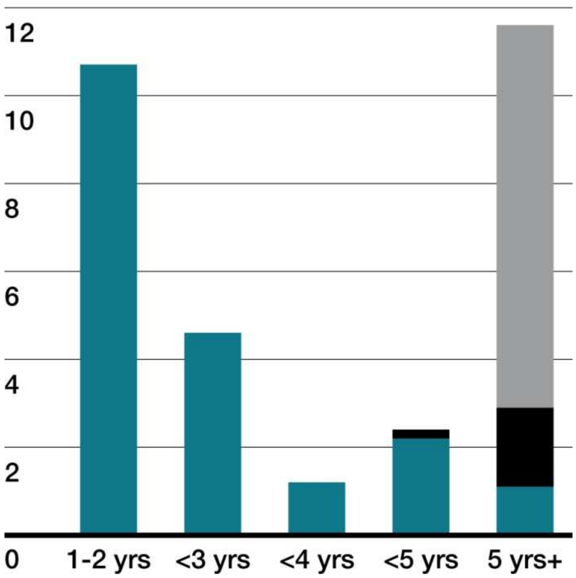
Funded balance sheet

	Notes	As at Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab
Funding sources				
Wholesale issued paper:	1			
Negotiable certificates of deposits		1.3	1.7	1.5
Commercial paper		4.4	4.6	4.2
Net trade creditors	2	0.4	0.7	—
Structured notes	3	1.4	1.7	2.1
Secured funding	4	9.9	10.7	11.3
Bonds	5	11.8	9.5	12.2
Other loans	6	0.2	0.1	0.5
Deposits:	8			
Retail deposits		30.8	29.0	28.6
Corporate and wholesale deposits		5.4	4.9	5.9
Loan capital	9	2.0	2.3	2.6
Equity and hybrids	10	8.7	9.2	9.4
Total		76.3	74.4	78.3
Funded assets				
Cash and liquid assets	11	20.8	20.9	25.8
Net trading assets	12	15.0	14.5	13.3
Loan assets less than one year	13	8.9	7.3	8.1
Loan assets greater than one year	13	29.6	28.4	27.6
Debt investment securities	14	2.2	2.7	3.5
Non-Bank Group deposit with MBL		(2.5)	(1.7)	(3.4)
Co-investment in Macquarie-managed funds and other equity investments	15	1.2	1.4	1.7
Property, plant and equipment and intangibles		1.1	0.9	1.1
Net trade debtors	16	—	—	0.6
Total		76.3	74.4	78.3

See Section 5.6 for notes 1-16.

5.0 Funding and liquidity
continued

Detail of term funding (drawn and committed but undrawn) maturing beyond one year
Equity and hybrids ■ Loan Capital ■ Debt ■
$A billion Total = $A30.5b



	As at Sep 12					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.3	0.3	—	0.2	0.3	1.1
Secured funding	2.7	3.1	1.1	—	0.3	7.2
Bonds	7.5	1.1	0.1	2.0	0.4	11.1
Total debt	10.5	4.5	1.2	2.2	1.0	19.4
Loan capital	—	—	—	0.2	1.8	2.0
Equity and hybrids	—	—	—	—	8.7	8.7
Total funding sources drawn	10.5	4.5	1.2	2.4	11.5	30.1
Undrawn	0.2	0.1	—	—	0.1	0.4
Total funding sources drawn and undrawn	10.7	4.6	1.2	2.4	11.6	30.5

The Bank 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 3.1 years.

As at 30 September 2012, deposits represented $A36.2 billion, or 47% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A5.7 billion, or 7% of total funding, and other debt funding maturing within 12 months represented $A4.0 billion, or 5% of total funding.

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

- $US25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities 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 $US9.5 billion debt securities outstanding at 30 September 2012
- $US10 billion Commercial Paper Program under which $US1.4 billion of debt securities were outstanding at 30 September 2012
- $US20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 30 September 2012 issuance amounted to $US7.4 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. At 30 September 2012, MBL Group had $A1.3 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 2012, MBL Group had internally securitised $A4.6 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

5.0 Funding and liquidity
continued

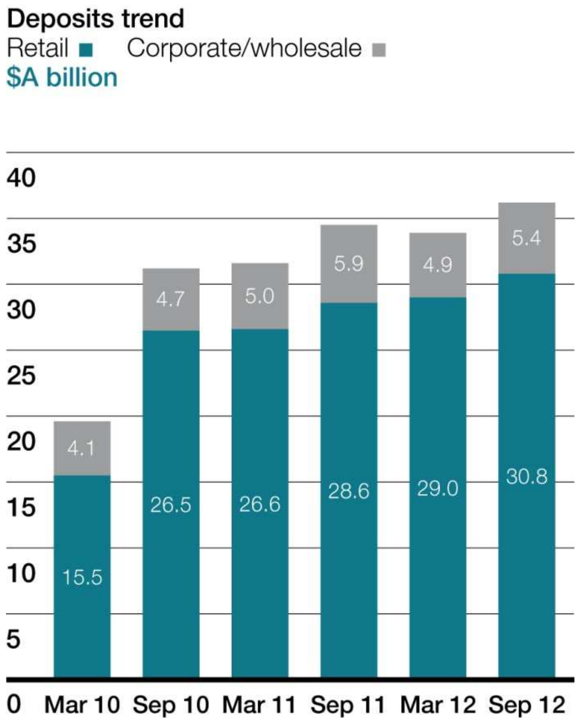
Deposit strategy

MBL continues to pursue a deposit strategy that is consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy is focused on growing the retail deposit base which represents a stable and reliable source of funding and reduces Macquarie's reliance on wholesale funding markets.

In particular, Macquarie has focused on the quality and composition of the retail deposit base, targeting transactional and relationship based deposits such as the Cash Management Account (CMA).

The majority of Macquarie's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at $A250,000, which was reduced from $A1 million in February 2012.

The chart below illustrates the strong retail deposit growth since 31 March 2010.



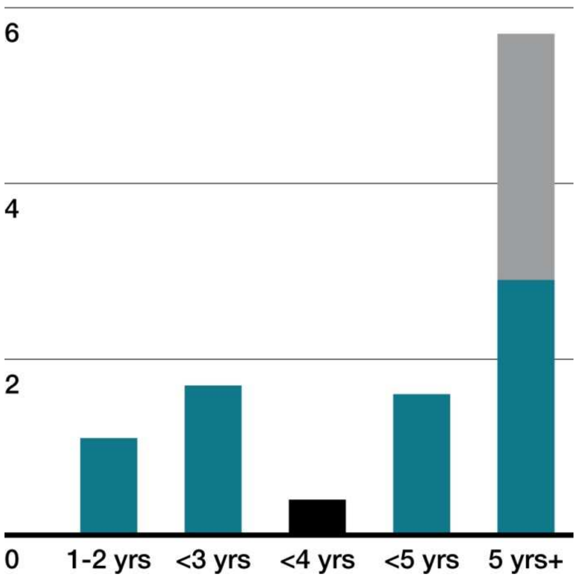
5.5 Funding profile for Non-Bank Group

Funded balance sheet

	Notes	As at Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab
Funding sources				
Structured notes	3	0.8	0.6	0.6
Secured funding	4	0.1	0.2	0.2
Bonds	5	4.4	4.5	4.7
Other loans	6	0.2	0.3	0.1
Senior credit facility	7	3.2	3.2	4.3
Loan capital	9	1.0	1.0	1.0
Equity	10	2.8	2.5	2.4
Total		12.5	12.3	13.3
Funded assets				
Cash and liquid assets	11	1.8	2.3	2.2
Non-Bank Group deposit with MBL		2.5	1.7	3.4
Net trading assets	12	1.1	1.4	1.2
Loan assets less than one year	13	0.3	0.4	0.4
Loan assets greater than one year	13	1.0	0.9	0.5
Debt investment securities	14	0.2	0.2	0.1
Co-investment in Macquarie-managed funds and other equity investments	15	3.9	4.0	4.2
Property, plant and equipment and intangibles		0.8	0.9	0.9
Net trade debtors	16	0.9	0.5	0.4
Total		12.5	12.3	13.3

See Section 5.6 for notes 3-16.

5.0 Funding and liquidity
continued



	As at Sep 12					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.1	0.1	—	—	0.2	0.4
Secured Funding	—	0.1	—	—	—	0.1
Bonds	1.0	0.1	—	0.5	2.6	4.2
Other loans	—	0.1	—	—	0.1	0.2
Senior credit facility	—	1.3	—	1.1	—	2.4
Total debt	1.1	1.7	—	1.6	2.9	7.3
Loan capital	—	—	0.4	—	—	0.4
Equity	—	—	—	—	2.8	2.8
Total funding sources drawn	1.1	1.7	0.4	1.6	5.7	10.5
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	1.1	1.7	0.4	1.6	5.7	10.5

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 4.8 years.

The key tools used for debt funding of MGL, which primarily funds the activities of the Non-Bank Group, include:

- Senior Credit Facility, which was $A3.2 billion drawn and $A0.3 billion undrawn at 30 September 2012
- $US10 billion Rule 144A/Regulation S Medium Term Note Program. $US3.8 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at 30 September 2012
- $US10 billion multi-instrument Regulation S Debt Instrument Program, under which securities that may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, Transferable Deposits, and MGL Wholesale Notes. The Debt Instrument Program had $US0.7 billion debt securities outstanding at 30 September 2012.

5.6 Explanatory notes concerning funding sources and funded assets

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
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 loans
Unsecured loans provided by financial institutions and other counterparties.

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, CPS, PMI and ECS.

10. Equity and hybrids
Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIPS and MIS.

11. Cash and liquid assets
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. See section 4.2 for further information.

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

15. Co-investment in Macquarie-managed funds and other equity investments
These equity securities include co-investments in Macquarie managed funds.

16. 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.

6.0 Capital

6.1 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-Bank Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Adequacy Model (ECAM) and APRA's capital standards for ADIs.

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

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

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments currently include the Convertible Preference Securities (CPS), Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Preferred Membership Interests (PMI) and Exchangeable Capital Securities (ECS).

Given the introduction of Basel III on 1 January 2013, Macquarie's internal capital management is now aligned with Basel III. Accordingly, the capital disclosures in this section include Basel III and APRA Basel II figures. For Basel III, both Harmonised Basel III[1] and APRA Basel III[2] capital disclosures are provided. The former is relevant for comparisons with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's expected regulatory requirements under Basel III from 1 January 2013.

Prior to 1 January 2013, Macquarie continues to be supervised on a Basel II[3] basis by APRA. The Basel III disclosures provided in this section are not required for regulatory compliance by APRA but are provided for information purposes only and are not subject to audit.

Pillar 3

The APRA Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy.

These disclosures are prepared on an APRA Basel II basis, and are required to be published by MBL within 40 business days of the reporting date and are available on Macquarie's website.

[1] Harmonised Basel III relates to the Basel III rules defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS). The Harmonised Basel III estimates disclosed are based on the BIS rules except that Basel III central counterparty (CCP) capital changes are not included in the estimates.

[2] APRA Basel III relates to the Prudential Standards released by APRA in September 2012 relating to implementing Basel III capital reforms in Australia and draft Prudential Standards released by APRA in August 2012 relating to Counterparty Credit Risk and Other measures that will become effective 1 January 2013. The APRA Basel III estimates disclosed are derived from these Prudential Standards except that Basel III central counterparty (CCP) capital changes are not included in the estimates.

[3] Basel II includes the enhancements to the Basel II framework relating to Stressed VaR and the treatment of securitisation exposures (commonly referred to as Basel 2.5) that became effective 1 January 2012 for APRA supervised ADIs.

6.0 Capital

Macquarie Group Basel III regulatory capital surplus calculation

	As at Sep 12		As at Mar 12		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Macquarie Group eligible capital:						
Bank Gross Tier 1 capital	9,010	9,010	9,545	9,545	*(6)*	*(6)*
Non-Bank eligible capital	3,594	3,594	3,304	3,304	*9*	*9*
Eligible capital	12,604	12,604	12,849	12,849	*(2)*	*(2)*
Macquarie Group capital requirement:						
Bank Group						
Risk-Weighted Assets	60,621	56,010	61,542	56,099	*(1)*	*(<1)*
Capital required to cover Risk-Weighted Assets (RWA) at 7%[1]	4,243	3,921	4,308	3,927	*(2)*	*(<1)*
Tier 1 deductions[2]	1,163	2,794	1,338	3,164	*(13)*	*(12)*
Total Bank Group capital requirement	5,406	6,715	5,646	7,091	*(4)*	*(5)*
Total Non-Bank Group capital requirement[3]	2,909	2,909	2,774	2,774	*5*	*5*
Total capital requirement	8,315	9,624	8,420	9,865	*(1)*	*(2)*
Macquarie Group regulatory capital surplus (at 7%[1] Bank Group RWAs)	4,289	2,980	4,429	2,984	*(3)*	*(<1)*
Additional capital requirement required to maintain 8.5%[4] Tier 1 ratio in Bank	910	840	923	841	*(1)*	*(<1)*
Macquarie Group regulatory capital surplus (at 8.5%[4] Bank Group RWAs)	3,379	2,140	3,506	2,143	*(4)*	*(<1)*

1 Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.

2 In calculating the Bank Group's contribution to MGL's capital requirement, Tier 1 deductions arising from transactions with the Non-Bank are eliminated (30 September 2012: $A60 million; 31 March 2012: $A60 million).

3 Includes expected addition of a Credit Valuation Adjustment (CVA) capital requirement into the ECAM from late 2012.

4 Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is not required by APRA until 2016.

6.0 Capital
continued

6.2 Bank Group capital

Macquarie Bank Group is accredited by APRA 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 and the internal model approach for interest rate risk in the banking book (IRRBB).

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.

Common Equity Tier 1 capital

The Macquarie Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital consists of MIS, MIPS and ECS. MBL periodically pays dividends to MGL, and is recapitalised by MGL as required to support projected business growth.

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) in 1999. 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. APRA has indicated that MIS are likely to be eligible for transitional arrangements under its Basel III rules.

MIPS were issued when the London branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% per annum until April 2020. As at 30 September 2012, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie. MIPS are eligible for transitional arrangements under Basel III.

ECS were issued by MBL acting through its London branch (Issuer) in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer. APRA has confirmed that, at a minimum, ECS will be eligible for transitional arrangements from 1 January 2013 under the new Basel III standards. On the information available as at 30 September 2012, MBL expects that ECS will be fully included as Additional Tier 1 capital under the new Basel III standards.

Bank Group Basel III Tier 1 Capital

	As at Sep 12		As at Mar 12		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Common equity Tier 1 capital						
Paid-up ordinary share capital	7,690	7,690	7,685	7,685	*<1*	*<1*
Reserves	(566)	(566)	(580)	(580)	*(2)*	*(2)*
Retained earnings	1,239	1,239	1,793	1,793	*(31)*	*(31)*
Gross common equity capital Tier 1 capital	8,363	8,363	8,898	8,898	*(6)*	*(6)*
Deductions from common equity Tier 1 capital:						
Goodwill	133	133	138	138	*(4)*	*(4)*
Deferred tax assets	131	122	95	104	*38*	*17*
Changes in the ADI's own creditworthiness on banking book liabilities	32	32	38	38	*(16)*	*(16)*
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	563	563	608	608	*(7)*	*(7)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	—	81	—	124	—	*(35)*
Shortfall in provisions for credit losses	202	202	230	230	*(12)*	*(12)*
Equity investments and non-consolidated subsidiaries	—	1,518	—	1,641	—	*(7)*
Other common equity Tier 1 capital deductions	162	203	278	330	*(42)*	*(38)*
Deductions from common equity Tier 1 capital	1,223	2,854	1,387	3,213	*(12)*	*(11)*
Net common equity Tier 1 capital	7,140	5,509	7,511	5,685	*(5)*	*(3)*
Additional Tier 1						
Additional Tier 1 capital	647	647	647	647	—	—
Gross additional Tier 1 capital	647	647	647	647	—	—
Deduction from additional Tier 1 capital						
Holdings of Additional Tier 1 capital instruments in financial institutions	—	—	11	11	*(100)*	*(100)*
Net additional Tier 1 capital	647	647	636	636	*2*	*2*
Net Tier 1 capital	7,787	6,156	8,147	6,321	*(4)*	*(3)*

6.0 Capital
continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Sep 12		As at Mar 12		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Credit risk RWA						
Subject to IRB approach:						
Corporate	16,455	16,455	16,142	16,142	*2*	*2*
SME Corporate[1]	1,384	1,384	—	—	*	*
Sovereign	987	987	900	900	*10*	*10*
Bank	2,134	2,134	2,365	2,259	*(10)*	*(6)*
Residential mortgage	1,578	2,048	1,063	1,534	*48*	*34*
Other retail	3,759	3,759	2,745	2,745	*37*	*37*
Total RWA subject to IRB approach	26,297	26,767	23,215	23,580	*13*	*14*
Specialised lending exposures subject to slotting criteria	4,584	4,584	4,507	4,507	*2*	*2*
Subject to Standardised approach:						
Corporate	661	661	2,158	2,158	*(69)*	*(69)*
Sovereign	—	—	—	—	—	—
Bank	—	—	—	—	—	—
Residential mortgage	631	631	526	526	*20*	*20*
Other retail	1,297	1,297	1,818	1,818	*(29)*	*(29)*
Total RWA subject to Standardised approach	2,589	2,589	4,502	4,502	*(42)*	*(42)*
Credit risk RWA for Securitisation exposures	555	555	517	517	*7*	*7*
RWA for other assets	5,225	5,106	5,962	5,838	*(12)*	*(13)*
Total credit risk RWA	39,250	39,601	38,703	38,944	*1*	*2*
Equity risk exposures RWA	4,990	—	5,682	—	*(12)*	—
Other items subject to RWA under Basel III	4,084	4,084	4,787	4,763	*(15)*	*(14)*
Market risk RWA	4,280	4,280	4,666	4,666	*(8)*	*(8)*
Operational risk RWA	6,439	6,439	6,312	6,312	*2*	*2*
Interest rate risk in banking book RWA	—	—	—	—	—	—
Scaling factor (6%) applied to IRB exposures	1,578	1,606	1,392	1,414	*13*	*14*
Total Bank Group RWA	60,621	56,010	61,542	56,099	*(1)*	*(<1)*
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	11.8	9.8	12.2	10.1		
Macquarie Bank Group Tier 1 capital ratio (%)	12.8	11.0	13.2	11.3		

1 Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

6.3 Non-Bank Group capital

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

Risk[1]	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of some parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2] Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 79% of face value; average 53%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

1 The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the 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.

2 Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions where the ADI does not own more than 10% of the issued common share capital of the entity.

6.0 Capital
continued

6.4 Basel II

The capital information in this section is on an APRA Basel II basis, which is the prevailing APRA prudential regulatory framework until 31 December 2012.

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Macquarie Group eligible capital:					
Bank Gross Tier 1 capital	8,722	9,061	9,221	*(4)*	*(5)*
Non-Bank eligible capital	3,650	3,495	3,145	*4*	*16*
Eligible capital	12,372	12,556	12,366	*(1)*	*<1*
Macquarie Group capital requirement:					
Bank Group					
Risk-Weighted Assets	52,304	51,871	57,601	*1*	*(9)*
Capital required to cover Risk-Weighted Assets[1]	3,661	3,631	4,032	*1*	*(9)*
Tier 1 deductions[2]	1,699	1,828	2,194	*(7)*	*(23)*
Total Bank Group capital requirement	5,360	5,459	6,226	*(2)*	*(14)*
Total Non-Bank Group capital requirement	2,906	2,764	2,608	*5*	*11*
Total capital requirement	8,266	8,223	8,834	*1*	*(6)*
Macquarie Group regulatory capital surplus	4,106	4,333	3,532	*(5)*	*16*

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

2 In calculating the Bank Group's contribution to MGL's capital requirement, Tier 1 deductions arising from transactions with the Non-Bank are eliminated (30 September 2012: $A60 million; 31 March 2012: $A60 million; 30 September 2011: $A60 million).

Bank Group Basel II capital base

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Tier 1 capital					
Paid-up ordinary share capital	7,690	7,685	7,689	*<1*	*<1*
Reserves	(592)	(654)	(185)	*(9)*	*220*
Retained earnings	932	1,338	1,260	*(30)*	*(26)*
Innovative Tier 1 capital	692	692	457	*-*	*51*
Gross Tier 1 capital	8,722	9,061	9,221	*(4)*	*(5)*
Deductions from Tier 1 capital:					
Goodwill	133	138	143	*(4)*	*(7)*
Deferred tax assets	122	104	123	*17*	*(1)*
Changes in the ADI's own creditworthiness on banking book liabilities	32	38	82	*(16)*	*(61)*
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	563	608	631	*(7)*	*(11)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	81	85	97	*(5)*	*(16)*
Other Tier 1 capital deductions	237	256	279	*(7)*	*(15)*
Deductions from Tier 1 capital only	1,168	1,229	1,355	*(5)*	*(14)*
50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	244	283	295	*(14)*	*(17)*
Non-consolidated subsidiaries (50%)	223	214	217	*4*	*3*
All other deductions relating to securitisation (50%)	28	31	260	*(10)*	*(89)*
Shortfall in provisions for credit losses (50%)	68	86	58	*(21)*	*17*
Other 50/50 deductions from Tier 1 capital (50%)	28	45	69	*(38)*	*(59)*
Total 50/50 deductions from Tier 1 capital	591	659	899	*(10)*	*(34)*
Total Tier 1 capital deductions	1,759	1,888	2,254	*(7)*	*(22)*
Net Tier 1 capital	6,963	7,173	6,967	*(3)*	*(<1)*
Tier 2 capital					
Upper Tier 2 capital:					
Other Upper Tier 2 capital instruments	62	77	136	*(19)*	*(54)*
Lower Tier 2 capital:					
Term subordinated debt	1,700	2,030	2,557	*(16)*	*(34)*
Gross Tier 2 capital	1,762	2,107	2,693	*(16)*	*(35)*
Deductions from Tier 2 capital:					
50/50 deductions from Tier 2 capital	591	659	899	*(10)*	*(34)*
Total Tier 2 capital deductions	591	659	899	*(10)*	*(34)*
Net Tier 2 capital	1,171	1,448	1,794	*(19)*	*(35)*
Total capital base	8,134	8,621	8,761	*(6)*	*(7)*

6.0 Capital
continued

Bank Group Basel II Risk-Weighted Assets (RWA)

	As at			Movement	
	Sep 12 $Am	Mar 12 $Am	Sep 11 $Am	*Mar 12 %*	*Sep 11 %*
Credit risk – RWA					
Subject to FIRB approach:					
Corporate	15,769	15,423	20,229	*2*	*(22)*
SME Corporate[1]	1,384	—	—	*	*
Sovereign	769	722	899	*7*	*(14)*
Bank	1,580	1,747	3,279	*(10)*	*(52)*
Residential mortgage	2,047	1,534	1,539	*33*	*33*
Other retail	3,759	2,745	2,340	*37*	*61*
Total RWA subject to IRB approach	25,308	22,171	28,286	*14*	*(11)*
Specialised lending exposures subject to slotting criteria[2]	4,584	4,507	3,713	*2*	*23*
Subject to Standardised approach:					
Corporate	661	2,158	2,998	*(69)*	*(78)*
Sovereign	—	—	—	—	—
Bank	—	—	—	—	—
Residential mortgage	631	526	608	*20*	*4*
Other retail	1,297	1,818	2,065	*(29)*	*(37)*
Total RWA subject to Standardised approach	2,589	4,502	5,671	*(42)*	*(54)*
Credit risk RWA for Securitisation exposures	555	517	1,228	*7*	*(55)*
RWA for other assets	5,106	5,838	4,477	*(13)*	*14*
Total credit risk RWA	38,142	37,535	43,375	*2*	*(12)*
Equity risk exposures RWA	1,924	2,028	2,173	*(5)*	*(11)*
Market risk RWA	4,280	4,666	3,889	*(8)*	*10*
Operational risk RWA	6,439	6,312	6,467	*2*	*(<1)*
Interest rate risk in banking book RWA	—	—	—	*	*
APRA scaling factor (6%) applied to IRB exposures	1,519	1,330	1,697	*14*	*(10)*
Total Bank Group RWA	52,304	51,871	57,601	*1*	*(9)*
Capital ratios					
Macquarie Bank Group Tier 1 capital ratio (%)	13.3	13.8	12.1		
Macquarie Bank Group Total capital ratio (%)	15.6	16.6	15.2		

1 Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

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

Non-Bank Group capital requirement

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

	As at Sep 12		
	Asset $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	17	12%
Loan assets[1]	1.3	120	113%
Debt investment securities	0.2	4	32%
Co-investments in Macquarie-managed funds and equity investments	3.8	1,894	618%
Co-investments in Macquarie-managed funds and equity investments (relating to investments that hedge DPS plan liabilities)	0.1		
Property, plant and equipment and intangibles[2]	0.8	286	441%
Non-Bank Group deposit with MBL	2.5		
Net trading assets	1.1		
Net trade debtors	0.9		
Total funded assets	12.5	2,321	
Self-funded and non-recourse assets			
Self funded trading assets	0.4		
Broker settlement balances	4.4		
Derivative revaluation accounting gross-ups	0.2		
Non recourse funding	0.2		
Working capital assets	2.2		
Total self-funded and non-recourse assets	7.4		
Total Non-Bank Group assets	19.9		
Off balance sheets exposures, operational, market and other risk and diversification offset[3]		585	
Non-Bank Group capital requirement		2,906	

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 Capital associated with net trading assets (eg. market risk capital) and net trade debtors has been included here.

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab	*Mar 12 %*	*Sep 11 %*
Assets under Management					
Macquarie Investment Management	229.1	222.2	220.4	*3*	*4*
Macquarie Infrastructure and Real Assets	105.7	100.2	102.3	*5*	*3*
Macquarie Specialised Investment Solutions	2.0	2.4	2.3	*(17)*	*(13)*
Total Macquarie Funds	336.8	324.8	325.0	*4*	*4*
Other Operating Groups	3.7	2.1	2.3	*76*	*61*
Total Assets under Management	340.5	326.9	327.3	*4*	*4*
Assets under Management by region					
Americas	202.0	193.4	192.6	*4*	*5*
Europe, Middle East and Africa	67.4	63.7	65.3	*6*	*3*
Australia	55.0	54.4	53.6	*1*	*3*
Asia	16.1	15.4	15.8	*5*	*2*
Total Assets under Management	340.5	326.9	327.3	*4*	*4*
Assets under Management by type					
Fixed income	138.6	132.8	140.3	*4*	*(1)*
Direct infrastructure	96.5	90.8	91.9	*6*	*5*
Equities	64.4	64.3	54.7	*<1*	*18*
Cash	17.6	16.9	16.7	*4*	*5*
Direct real estate	7.2	7.2	7.6	*-*	*(5)*
Currency	4.5	4.4	4.6	*2*	*(2)*
Alternatives	3.9	4.0	4.5	*(3)*	*(13)*
Specialist investments	3.6	2.4	2.3	*50*	*57*
Multi-asset allocation solutions	4.2	4.1	4.7	*2*	*(11)*
Total Assets under Management	340.5	326.9	327.3	*4*	*4*

AUM of $A340.5 billion at 30 September 2012 increased 4% from $A326.9 billion at 31 March 2012. The increase in AUM was mainly due to positive market and valuation movements, investments in the infrastructure and real assets business, with broadly flat net flows in securities investment management. These growth factors were partially offset by asset disposals in the infrastructure and real assets business.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Asset's AUM of $A105.7 billion at 30 September 2012 increased 5% from $A100.2 billion at 31 March 2012. This was largely due to positive valuation movements and investments in the infrastructure and real assets business, partially offset by asset disposals.

Macquarie Investment Management

Macquarie Investment Management's AUM of $A229.1 billion at 30 September 2012 increased 3% from $A222.2 billion at 31 March 2012. This was largely due to positive market and valuation movements, while net flows were broadly flat.

7.2 Equity under Management

The Macquarie Infrastructure and Real Assets division of Macquarie Funds tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

Type of equity investment	Basis of EUM calculation
Listed equity	– Market capitalisation at the measurement date plus underwritten or committed future capital raisings for listed funds
Unlisted equity	– Committed capital from investors at the measurement date less called capital subsequently returned to investors for unlisted funds – Invested capital at measurement date for managed businesses[1]

1 Managed businesses includes third party equity invested in MIRA managed businesses where management fees may be payable to Macquarie.

If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	As at[1,2]			Movement	
	Sep 12 $Ab	Mar 12 $Ab	Sep 11 $Ab	*Mar 12 %*	*Sep 11 %*
Equity under Management by type					
Listed equity	6.1	5.4	3.8	*13*	*61*
Unlisted equity	33.4	32.5	34.1	*3*	*(2)*
Total EUM	39.5	37.9	37.9	*4*	*4*
Equity under Management by region[3]					
Australia	4.8	5.2	5.5	*(8)*	*(13)*
Europe, Middle East and Africa	16.5	15.7	15.9	*5*	*4*
Americas	11.4	11.0	11.2	*4*	*2*
Asia	6.8	6.0	5.3	*13*	*28*
Total EUM	39.5	37.9	37.9	*4*	*4*

1 Excludes equity invested by Macquarie Group in businesses managed by MIRA.
2 Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.
3 By location of fund management team.

EUM of $A39.5 billion at 30 September 2012 increased 4% from $A37.9 billion at 31 March 2012. The increase was primarily driven by equity raisings and increases in listed equity prices.

8.0 Glossary
continued

AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Asset 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 underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
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.
BBSW	Bank Bill Swap Rate.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not yet 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	In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie Convertible Preference Securities (CPS) at face value of $A100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. In the event that the CPS do not convert and are not redeemed or resold, they will continue until such time as the conditions are met and securities mandatorily convert.

CEA	Credit Equivalent Amount. 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.
Directors' Profit Share (DPS)	The pre-2009 remuneration agreement in which 20 per cent of each Executive Director's annual gross profit share allocation is withheld and is subject to restrictions through the DPS Plan. The DPS Plan is a tool in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements. The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after ten years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or at the end of a ten year period.
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	Net 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.
ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
Effective tax rate	The income tax expense as a percentage of the profit before income tax adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
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.

8.0 Glossary
continued

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.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
FX	Foreign exchange.
Gross credit risk exposure	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), casual staff and contractors (including consultants and secondees). It excludes staff on leave without pay and staff on parental leave.
ICAAP	Internal Capital Adequacy Assessment Process.
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia and New Zealand. 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 reporting purposes would be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.
Level 2 MBL Regulatory Group	MBL, its parent Macquarie B.H. 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)	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. As at 30 September 2010, 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 $A100 face value MIS on issue.
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 Profit Interests	A share of production or proceeds from production derived from rights to various commodity assets (without the obligation to pay any of the costs of explorations and development).
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling 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.
PCE	Potential Credit Exposure. Potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
PMI	Preferred Membership Interests. On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400 million of US Dollar denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The PMI bears fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.
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.
SPEs	Special purpose entities.
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, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: - provide a permanent and unrestricted commitment of funds; - are freely available to absorb losses; - do not impose any unavoidable servicing charge against earnings; and - rank behind the claims of depositors and other creditors in the event of winding up.
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. Tier 1 deductions are divided into deductions from Tier 1 capital only (paragraph 44) and other 50/50 deductions from Tier 1 capital (paragraph 46).

8.0 Glossary
continued

Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in determining Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital, Tier 2 deductions are divided into deductions from Tier 2 capital only (paragraph 45) and other 50/50 deductions from Tier 2 capital (paragraph 46).
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
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.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
Upper Tier 2 Capital	Refer Tier 2 Capital.

This page has been intentionally left blank.