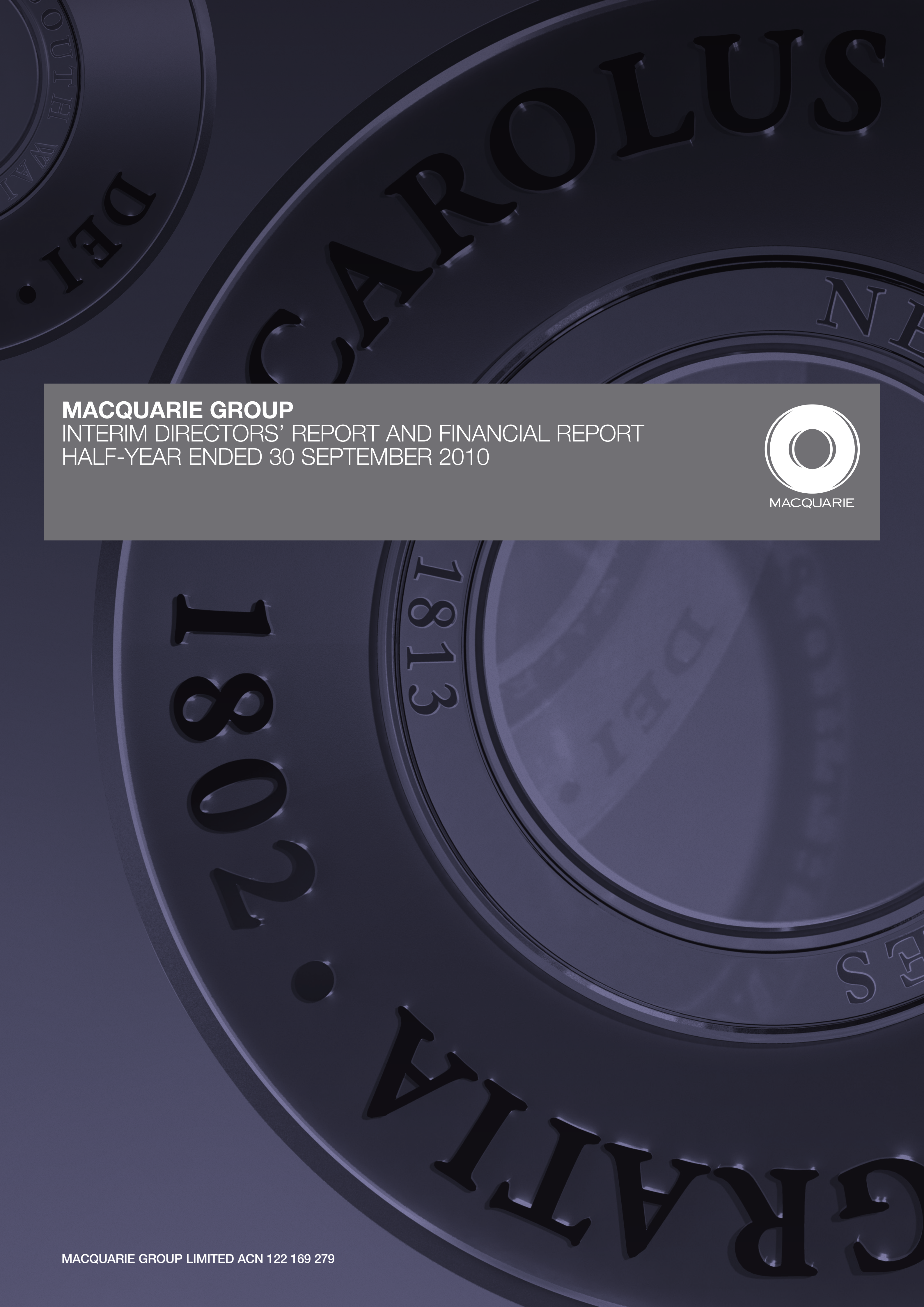

MACQUARIE GROUP
INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2010

MACQUARIE

MACQUARIE GROUP LIMITED ACN 122 169 279

Cover image: A stylised contemporary version of the Holey Dollar

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

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

This interim financial report has been prepared in accordance with Australian Accounting Standards and does not include all the notes of the type normally included in an annual financial report.

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

The Financial report was authorised for issue by the Directors on 28 October 2010.
The consolidated entity has the power to amend and reissue the Financial report.

Financial report
for the half-year ended 30 September 2010

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

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

Directors

At the date of this report, the Directors of MGL are:

Non-Executive Director

D.S. Clarke, AO, Chairman

Executive Director

N.W. Moore, Managing Director and Chief Executive Officer

Independent Directors

M.J. Hawker, AM

P.M. Kirby

C.B. Livingstone, AO

H.K. McCann, AM

J.R. Niland, AC

H.M. Nugent, AO

P.H. Warne

The Directors each held office as a Director of the Company throughout the period and until the date of this report.

Those Directors listed as Independent Directors have been independent throughout the period.

Result

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

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $403 million (half-year to 31 March 2010: $571 million; half-year to 30 September 2009: $479 million).

Review of operations

Consolidated profit after income tax attributable to ordinary equity holders of $403 million for the half-year ended 30 September 2010 decreased 16 per cent from $479 million in the prior corresponding period primarily due to increased net interest income and reduced charges for impairments and write-downs, offset by increased costs arising from headcount growth, including staff in recently acquired businesses as well as continued investment in our global platform.

The results for the half-year to 30 September 2010 continued to be affected by challenging trading and market conditions.

Net operating income of $3,661 million for the half-year ended 30 September 2010 increased 18 per cent from $3,105 million in the prior corresponding period. The main drivers of this increase were:

– a 42 per cent increase in net interest income to $605 million for the half-year ended 30 September 2010 from $425 million in the prior corresponding period, primarily due to growth in the higher yielding lending portfolio and the acquisitions of the Ford Credit and GMAC lease portfolios;

– a 6 per cent increase in fee and commission income to $1,995 million for the half-year ended 30 September 2010 from $1,882 million in the prior corresponding period, mainly driven by the acquisition of Delaware Investments in January 2010, partially offset by a reduction in mergers and acquisitions, advisory and underwriting income;

– net gains from equity accounting of investments in associates and joint ventures of $85 million for the half-year ended 30 September 2010, up from a net loss of $197 million in the prior corresponding period driven by an improvement in the underlying results of investments;

– a gain on reclassification of retained investments of $114 million which predominantly relates to the reclassification of an investment in MAp from an associate to available for sale due to loss of significant influence. On reclassification the retained stake was required to be re-measured to fair value; and

– a 2 per cent increase in other operating income to $370 million for the half-year ended 30 September 2010 from $362 million in the prior corresponding period, primarily due to an overall reduction in the level of write-downs and impairment charges (net expense of $130 million, decreased 78 per cent from a net expense of $602 million in the half-year ended 30 September 2009). The prior corresponding period also included income from listed fund initiatives that were significantly lower in the half-year ended 30 September 2010.

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

Review of operations continued

Total operating expenses of $3,165 million for the half-year ended 30 September 2010 increased 23 per cent from $2,573 million in the prior corresponding period. The increase was largely driven by:

- a 26 per cent increase in employment expenses to $1,896 million for the half-year ended 30 September 2010 from $1,509 million in the prior corresponding period, which was primarily due to a 22 per cent increase in headcount mainly from recent acquisitions and continued investment in our global platform;
- a 34 per cent increase in brokerage and commission expenses to $441 million from $329 million in the prior corresponding period primarily due to the acquisition of Delaware Investments and growth in futures execution and clearing volumes; and
- a 20 per cent increase in other operating expenses to $432 million from $359 million in the prior corresponding period primarily due to the contribution of recent acquisitions.

The compensation ratio of 47.9 per cent for the half-year ended 30 September 2010 increased from 45.2 per cent in the prior corresponding period due to increased employment expenses as described above.

Income tax expense for the half-year ended 30 September 2010 of $85 million increased significantly from $36 million in the prior corresponding period, as a result of lower levels of write-downs and impairment charges. As a result, the effective tax rate was 17 per cent, up from 7 per cent in the prior corresponding period.

Assets under management (AUM) of $317 billion at 30 September 2010 decreased 3 per cent from $326 billion at 31 March 2010. The overall net decrease in AUM was driven by the combined impact of the conversion of Cash Management Trust accounts to Cash Management Accounts and the strengthening of the Australian dollar.

Events occurring after balance sheet date

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

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2010 of $0.86 per fully paid ordinary MGL share on issue at 12 November 2010. The dividend will be unfranked.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 3.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 (as amended), amounts in the Directors' report and the half-year financial report have been rounded off to the nearest million dollars unless otherwise indicated.

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

David S. Clarke, AO

Non-Executive Director and
Chairman

Nicholas Moore

Managing Director and
Chief Executive Officer

Sydney
28 October 2010

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

PRICEWATERHOUSECOOPERS

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2010, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Group Limited and the entities it controlled during the period.

DH Armstrong
Partner

PricewaterhouseCoopers

Sydney
28 October 2010

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

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Interest and similar income		**2,637**	2,436	2,155
Interest expense and similar charges		**(2,032)**	(1,781)	(1,730)
Net interest income	2	**605**	655	425
Fee and commission income	2	**1,995**	1,839	1,882
Net trading income	2	**606**	666	633
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	**85**	(33)	(197)
Other operating income and charges	2	**370**	406	362
Net operating income		**3,661**	3,533	3,105
Employment expenses	2	**(1,896)**	(1,592)	(1,509)
Brokerage and commission expenses	2	**(441)**	(316)	(329)
Occupancy expenses	2	**(237)**	(231)	(251)
Non-salary technology expenses	2	**(159)**	(158)	(125)
Other operating expenses	2	**(432)**	(474)	(359)
Total operating expenses		**(3,165)**	(2,771)	(2,573)
Operating profit before income tax		**496**	762	532
Income tax expense	4	**(85)**	(165)	(36)
Profit after income tax		**411**	597	496
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**(2)**	(2)	(6)
Macquarie Income Securities	5	**(13)**	(11)	(10)
Other non-controlling interests		**7**	(13)	(1)
Profit attributable to non-controlling interests		**(8)**	(26)	(17)
Profit attributable to ordinary equity holders of Macquarie Group Limited		**403**	571	479
				Cents per share
Basic earnings per share	6	**119.2**	169.5	150.2
Diluted earnings per share	6	**117.1**	167.7	149.6

The above consolidated income statement should be read in conjunction with the accompanying notes.

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

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Profit after income tax for the period		**411**	597	496
Other comprehensive (expense)/income:				
Available for sale investments, net of tax	17	**108**	(52)	181
Cash flow hedges, net of tax	17	**33**	41	137
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	17	**21**	38	(2)
Exchange differences on translation of foreign operations, net of tax		**(284)**	(200)	(42)
Total other comprehensive (expense)/income for the period		**(122)**	(173)	274
Total comprehensive income for the period		**289**	424	770
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of Macquarie Group Limited		**277**	410	697
Macquarie Income Preferred Securities holders		**1**	(5)	78
Macquarie Income Securities holders		**13**	11	10
Other non-controlling interests		**(2)**	8	(15)
Total comprehensive income for the period		**289**	424	770

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 30 September 2010

	Notes	**As at 30 Sep 2010 $m**	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Assets				
Cash and balances with central banks		**9**	–	3
Due from banks		**9,757**	8,251	8,936
Cash collateral on securities borrowed and reverse repurchase agreements		**9,266**	7,149	4,493
Trading portfolio assets	7	**15,938**	12,138	14,502
Loan assets held at amortised cost	8	**45,130**	44,267	42,504
Other financial assets at fair value through profit or loss		**11,025**	9,172	5,249
Derivative financial instruments – positive values		**23,430**	21,561	21,441
Other assets		**13,862**	13,096	13,791
Investment securities available for sale	10	**18,576**	18,221	23,152
Intangible assets		**1,411**	1,456	715
Life investment contracts and other unitholder investment assets		**5,047**	4,846	5,066
Interests in associates and joint ventures accounted for using the equity method	11	**2,719**	3,927	4,931
Property, plant and equipment		**708**	605	647
Deferred income tax assets		**1,107**	1,124	1,401
Non-current assets and assets of disposal groups classified as held for sale	12	**75**	127	100
Total assets		**158,060**	145,940	146,931
Liabilities				
Due to banks		**9,981**	9,927	10,284
Cash collateral on securities lent and repurchase agreements		**6,482**	7,490	5,328
Trading portfolio liabilities	13	**5,811**	5,432	7,368
Derivative financial instruments – negative values		**24,326**	21,706	21,552
Deposits		**35,047**	22,484	20,692
Debt issued at amortised cost	14	**39,955**	42,614	44,896
Other financial liabilities at fair value through profit or loss	15	**3,710**	4,413	5,037
Other liabilities		**12,973**	12,679	12,871
Current tax liabilities		**94**	119	103
Life investment contracts and other unitholder liabilities		**5,069**	4,864	5,062
Provisions		**221**	191	184
Deferred income tax liabilities		**235**	235	210
Liabilities of disposal groups classified as held for sale	12	**–**	9	–
Total liabilities excluding loan capital		**143,904**	132,163	133,587
Loan capital				
Macquarie Convertible Preference Securities		**593**	593	591
Subordinated debt at amortised cost		**1,483**	916	1,011
Subordinated debt at fair value through profit or loss		**487**	499	522
Total loan capital		**2,563**	2,008	2,124
Total liabilities		**146,467**	134,171	135,711
Net assets		**11,593**	11,769	11,220

	Notes	**As at 30 Sep 2010 $m**	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Equity				
Contributed equity				
Ordinary share capital	16	**7,063**	6,990	6,267
Treasury shares	16	**(719)**	(443)	(2)
Exchangeable shares	16	**129**	137	159
Reserves	17	**263**	280	276
Retained earnings	17	**4,325**	4,268	3,984
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**11,061**	11,232	10,684
Non-controlling interests				
Macquarie Income Preferred Securities	17	**66**	67	74
Macquarie Income Securities	17	**391**	391	391
Other non-controlling interests	17	**75**	79	71
Total equity		**11,593**	11,769	11,220

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the half-year ended 30 September 2010

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2009		5,020	17	3,627	8,664	896	9,560
Total comprehensive income for the period		–	218	479	697	73	770
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	1,344	–	–	1,344	–	1,344
Dividends paid	5	–	–	(122)	(122)	–	(122)
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	(20)	(20)
Cancellation of Macquarie Income Preferred Securities		–	–	–	–	(396)	(396)
Distributions paid or provided		–	–	–	–	(17)	(17)
Other equity movements:							
Net movement on exchangeable shares	16	43	–	–	43	–	43
Share based payments		17	41	–	58	–	58
		1,404	41	(122)	1,323	(433)	890
Balance at 30 September 2009		6,424	276	3,984	10,684	536	11,220
Total comprehensive (expense)/income for the period		–	(161)	571	410	14	424
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	722	–	–	722	–	722
Issue of shares to Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust)	16	(438)	–	–	(438)	–	(438)
Dividends paid	5	–	–	(287)	(287)	–	(287)
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	13	13
Distributions paid or provided		–	–	–	–	(26)	(26)
Other equity movements:							
Net movement on exchangeable shares	16	(22)	–	–	(22)	–	(22)
Share based payments		1	165	–	166	–	166
Net purchase of treasury shares	16	(3)	–	–	(3)	–	(3)
		260	165	(287)	138	(13)	125
Balance at 31 March 2010		**6,684**	**280**	**4,268**	**11,232**	**537**	**11,769**
Total comprehensive (expense)/income for the period		**–**	**(126)**	**403**	**277**	**12**	**289**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	**64**	**–**	**–**	**64**	**–**	**64**
Issue of shares to MEREP Trust	16	**(19)**	**–**	**–**	**(19)**	**–**	**(19)**
Dividends paid or provided	5	**–**	**–**	**(346)**	**(346)**	**–**	**(346)**
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(9)**	**(9)**
Distributions paid or provided		**–**	**–**	**–**	**–**	**(8)**	**(8)**
Other equity movements:							
Net movement on exchangeable shares	16	**(8)**	**–**	**–**	**(8)**	**–**	**(8)**
Share based payments		**9**	**109**		**118**		**118**
Net purchase of treasury shares	16	**(257)**	**–**	**–**	**(257)**	**–**	**(257)**
		(211)	**109**	**(346)**	**(448)**	**(17)**	**(465)**
Balance at 30 September 2010		**6,473**	**263**	**4,325**	**11,061**	**532**	**11,593**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the half-year ended 30 September 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Cash flows from operating activities				
Interest received		**2,378**	2,247	2,028
Interest and other costs of finance paid		**(2,104)**	(1,830)	(1,842)
Dividends and distributions received		**153**	289	283
Fees and other non-interest income received		**2,477**	2,281	2,189
Fees and commissions paid		**(439)**	(285)	(339)
Net (payments for)/receipts from trading portfolio assets and other financial assets/liabilities		**(4,682)**	(20)	2,646
Payments to suppliers		**(1,923)**	(838)	(462)
Employment expenses paid		**(2,339)**	(1,159)	(1,703)
Income tax paid		**(72)**	(131)	(157)
Life investment contract income/(expense)		**67**	(60)	(77)
Life investment contract premiums received and other unitholder contributions		**1,283**	1,146	1,149
Life investment contract payments		**(1,151)**	(1,911)	(1,315)
Non-current assets and disposal groups classified as held for sale – net receipts from operations		**38**	–	–
Net loan assets (granted)/repaid		**(924)**	(2,689)	3,025
Recovery of loans previously written off		**6**	8	11
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**8,858**	(1,589)	(6,854)
Net cash flows from/(used in) operating activities	18	**1,626**	(4,541)	(1,418)
Cash flows from investing activities				
Net payments for financial assets available for sale and at fair value through profit or loss		**(833)**	(1,867)	(6,274)
Payments for interests in associates		**(155)**	(489)	(398)
Proceeds from the disposal of associates		**284**	503	119
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		**–**	3	9
Payments for the acquisition of subsidiaries and businesses, excluding disposal groups, net of cash acquired		**1,445**	(296)	(13)
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**17**	95	342
Payments for life investment contracts and other unitholder investment assets		**(3,714)**	(1,993)	(3,724)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**3,567**	2,872	3,978
Payments for property, plant and equipment, lease assets and intangible assets		**(1,009)**	(228)	(170)
(Payments for)/proceeds from the disposal of property, plant and equipment, leased assets and intangible assets		**–**	(1)	1
Proceeds from the disposal of management rights		**–**	428	–
Net cash flows used in investing activities		**(398)**	(973)	(6,130)

Consolidated statement of cash flows
for the half-year ended 30 September 2010 continued

	Notes	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**42**	5	1,307
Payments to non-controlling interests		**–**	(4)	(234)
Proceeds from/(repayment of) subordinated debt		**598**	46	(452)
Dividends and distributions paid		**(361)**	(205)	(123)
Financing of treasury shares		**(255)**	–	–
Net cash flows from/(used in) financing activities		**24**	(158)	498
Net increase/(decrease) in cash and cash equivalents		**1,252**	(5,672)	(7,050)
Cash and cash equivalents at the beginning of the period		**11,773**	17,445	24,495
Cash and cash equivalents at the end of the period	18	**13,025**	11,773	17,445

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

Note 1

Basis of preparation

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

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

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2010 and any public announcements made by MGL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

Accounting standards effective in the current period

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

As a result of these revised Standards:

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

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

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

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

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,637**	2,436	2,155
Interest expense and similar charges paid/payable	**(2,032)**	(1,781)	(1,730)
Net interest income	**605**	655	425
Fee and commission income			
Base fees	**496**	484	442
Performance fees	**15**	5	52
Mergers and acquisitions, advisory and underwriting fees	**402**	489	596
Brokerage and commissions	**582**	531	546
Other fee and commission income	**454**	299	233
Income from life investment contracts and other unitholder investment assets	**46**	31	13
Total fee and commission income	**1,995**	1,839	1,882
Net trading income[1]			
Equities	**178**	183	407
Commodities	**156**	312	353
Foreign exchange products	**83**	37	108
Interest rate products	**189**	134	(235)
Net trading income	**606**	666	633
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**85**	(33)	(197)

[1] Included in net trading income are fair value losses of $202 million (half-year to 31 March 2010: $354 million loss; half-year to 30 September 2009: $66 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $1 million loss (half-year to 31 March 2010: $65 million gain; half-year to 30 September 2009: $320 million loss) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met.

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

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**105**	61	35
Impairment charge on investment securities available for sale	**(3)**	(8)	(69)
Net gains on sale of associates (including associates held for sale) and joint ventures	**9**	1	49
Impairment (charge)/write-back on investments in associates (including associates held for sale) and joint ventures[1]	**(46)**	2	(359)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**33**	133	260
Gain on reclassification of retained investments[2]	**114**	–	–
Impairment (charge)/write-back on non-financial assets	**(4)**	7	(43)
Sale of management rights[3]	**–**	83	345
Gain on repurchase of subordinated debt	**–**	–	55
Net operating lease income[4]	**76**	62	76
Dividends/distributions received/receivable:			
Investment securities available for sale	**66**	1	21
Collective allowance for credit losses written back/(provided for) during the period (note 8)	**9**	(1)	3
Specific provisions:			
Loan assets provided for during the period (note 8)	**(66)**	(72)	(105)
Other receivables provided for during the period	**(3)**	(29)	(16)
Recovery of loans previously provided for (note 8)	**9**	29	8
Recovery of other receivables previously provided for	**–**	12	5
Loan losses written off	**(32)**	(32)	(37)
Recovery of loans previously written off	**6**	8	11
Other income	**97**	149	123
Total other operating income and charges	**370**	406	362
Net operating income	**3,661**	3,533	3,105

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

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

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

4 Includes rental income of $161 million (half-year to 31 March 2010: $195 million; half-year to 30 September 2009: $175 million) less depreciation of $85 million (half-year to 31 March 2010: $133 million; half-year to 30 September 2009: $99 million) in relation to operating leases where the consolidated entity is the lessor.

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

Note 2
Profit for the period continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,596)**	(1,262)	(1,333)
Share based payments	**(125)**	(166)	(58)
Provision for annual leave	**(25)**	(11)	(10)
Provision for long service leave	**(8)**	(7)	(1)
Total compensation expenses	**(1,754)**	(1,446)	(1,402)
Other employment expenses including on-costs, staff procurement and staff training	**(142)**	(146)	(107)
Total employment expenses	**(1,896)**	(1,592)	(1,509)
Brokerage and commission expenses			
Brokerage expenses	**(273)**	(220)	(281)
Other fee and commission expenses	**(168)**	(96)	(48)
Total brokerage and commission expenses	**(441)**	(316)	(329)
Occupancy expenses			
Operating lease rentals	**(150)**	(134)	(153)
Depreciation: furniture, fittings and leasehold improvements	**(59)**	(67)	(57)
Other occupancy expenses	**(28)**	(30)	(41)
Total occupancy expenses	**(237)**	(231)	(251)
Non-salary technology expenses			
Information services	**(73)**	(68)	(60)
Depreciation: computer equipment	**(27)**	(24)	(26)
Other non-salary technology expenses	**(59)**	(66)	(39)
Total non-salary technology expenses	**(159)**	(158)	(125)
Other operating expenses			
Professional fees	**(124)**	(149)	(116)
Auditor's remuneration	**(9)**	(10)	(12)
Travel and entertainment expenses	**(92)**	(92)	(68)
Advertising and promotional expenses	**(33)**	(33)	(18)
Communication expenses	**(25)**	(21)	(20)
Amortisation of intangibles	**(28)**	(23)	(9)
Depreciation: communication equipment	**(3)**	(3)	(4)
Other expenses	**(118)**	(143)	(112)
Total other operating expenses	**(432)**	(474)	(359)
Total operating expenses	**(3,165)**	(2,771)	(2,573)

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the consolidated entity is divided into six operating groups, one operating division and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2010 there have been the following restructures of operating groups and divisions:

Macquarie Infrastructure and Real Assets (MIRA) (formerly Macquarie Capital Funds) – this division of Macquarie Capital was transferred to Macquarie Funds Group.

Real Estate Structured Finance (RESF) – this division of the Real Estate Banking Division was transferred to Corporate and Asset Finance.

All restructures are effective from 1 April 2010. Segment information has been prepared in conformity with the consolidated entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie Securities Group activities include institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full-service institutional cash equities broker in the Asia Pacific region and South Africa, and offers specialised services in other regions. It also provides an equity capital markets service through a joint venture with Macquarie Capital Advisers.

Macquarie Capital comprises Macquarie Group's corporate advisory, equity underwriting and debt structuring and distribution businesses.

Macquarie Funds Group is Macquarie Group's funds management business. It is a full-service asset manager, offering a diverse range of products including securities investment management, infrastructure and real asset management and fund and equity based structured products.

Fixed Income, Currencies and Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialisation in interest rate, commodity or foreign exchange related institutional trading, marketing, lending, clearing or platform provision.

Corporate and Asset Finance is the balance sheet lending and leasing business of Macquarie Group.

Banking and Financial Services Group is the primary relationship manager for Macquarie Group's retail client base. The group brings together Macquarie's retail banking and financial services businesses providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

Real Estate Banking Division activities include real estate investment, development management and asset management.

Corporate includes Group Treasury, head office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to non-controlling interests. Corporate is not considered an operating group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

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

Note 3
Segment reporting continued

(i) **Operating segments** continued

The following is an analysis of the consolidated entity's revenue and results by reportable segment for the period:

	Macquarie Securities Group $m	Macquarie Capital $m	Macquarie Funds Group $m
Revenues from external customers	**694**	**555**	**961**
Inter-segmental (expense)/revenue[1]	**(10)**	**(129)**	**(57)**
Interest revenue	**119**	**30**	**89**
Interest expense	**(64)**	**(31)**	**(32)**
Depreciation and amortisation	**(3)**	**(32)**	**(13)**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**–**	**30**	**35**
Reportable segment profit/(loss)	**94**	**85**	**335**
Reportable segment assets	**26,433**	**3,634**	**12,678**

	Macquarie Securities Group $m	Macquarie Capital $m	Macquarie Funds Group $m
Revenues from external customers	712	651	900
Inter-segmental revenue/(expense)[1]	58	(143)	(57)
Interest revenue	113	32	81
Interest expense	(71)	(37)	(22)
Depreciation and amortisation	(9)	(41)	(17)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	1	2	(33)
Reportable segment profit/(loss)	261	67	316
Reportable segment assets	20,926	4,076	10,909

	Macquarie Securities Group $m	Macquarie Capital $m	Macquarie Funds Group $m
Revenues from external customers	803	788	1,528
Inter-segmental revenue/(expense)[1]	74	(117)	(74)
Interest revenue	122	38	86
Interest expense	(96)	(38)	(12)
Depreciation and amortisation	(7)	(32)	(6)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	1	(24)	(153)
Reportable segment profit/(loss)	319	(123)	492
Reportable segment assets	23,899	4,653	10,885

[1] Internal reporting systems do not enable the separation of inter-segmental revenues and expenses. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Fixed Income, Currencies and Commodities $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m	Real Estate Banking Division $m	Corporate $m	Total $m
					Half-year to 30 September 2010
803	**761**	**1,206**	**25**	**856**	**5,861**
(81)	**(280)**	**265**	**(21)**	**313**	**–**
297	**719**	**801**	**9**	**573**	**2,637**
(199)	**(95)**	**(734)**	**–**	**(877)**	**(2,032)**
(36)	**(48)**	**(13)**	**–**	**(57)**	**(202)**
15	**6**	**–**	**(1)**	**–**	**85**
167	**233**	**137**	**(25)**	**(623)**	**403**
43,879	**17,216**	**29,246**	**752**	**24,222**	**158,060**
					Half-year to 31 March 2010
1,040	595	1,132	30	515	5,575
(23)	(199)	104	(30)	290	–
326	616	741	8	519	2,436
(189)	(96)	(555)	(1)	(810)	(1,781)
(76)	(49)	(21)	(1)	(36)	(250)
8	(6)	2	(4)	(3)	(33)
459	126	124	(85)	(697)	571
42,388	15,539	29,843	814	21,445	145,940
					Half-year to 30 September 2009
937	505	1,101	83	408	6,153
(51)	(138)	18	(41)	329	–
325	450	753	5	376	2,155
(194)	(89)	(499)	(3)	(799)	(1,730)
(33)	(60)	(11)	(1)	(45)	(195)
3	1	–	(21)	(4)	(197)
368	129	137	(58)	(785)	479
38,741	13,433	29,571	1,310	24,439	146,931

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

Note 3
Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the consolidated entity have been divided into four areas:

Asset and Wealth Management: distribution and manufacture of funds management products;

Financial Markets: trading in fixed income, equities, currency, commodities and derivative products;

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development; and

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Half-year to 30 September 2010
Revenues from external customers	**1,156**	**1,791**	**1,217**	**1,697**	**5,861**
					Half-year to 31 March 2010
Revenues from external customers	1,283	1,682	1,312	1,298	5,575
					Half-year to 30 September 2009
Revenues from external customers	1,862	1,735	1,222	1,334	6,153

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the consolidated entity are headquartered in Australia.

	Revenues from external customers $m	Non-current assets[1] $m
		Half-year to 30 September 2010
Australia	**3,320**	**337**
Asia Pacific	**548**	**73**
Europe, Middle East and Africa	**714**	**256**
Americas	**1,279**	**1,453**
Total	**5,861**	**2,119**
		Half-year to 31 March 2010
Australia	2,937	318
Asia Pacific	667	75
Europe, Middle East and Africa	773	236
Americas	1,198	1,432
Total	5,575	2,061

Note 3

Segment reporting continued

(iii) Geographical areas continued

	Revenues from external customers $m	Non-current assets[1] $m
	Half-year to 30 September 2009	
Australia	3,501	300
Asia Pacific	769	92
Europe, Middle East and Africa	1,086	191
Americas	797	779
Total	6,153	1,362

1 Non-current assets consist of intangible assets and property, plant and equipment.

(iv) Major customers

The consolidated entity does not rely on any major customer.

Note 4

Income tax expense

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
(i) Numerical reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit[1]	**(149)**	(228)	(160)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**73**	136	121
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	1	2
Share based payments expense	**(14)**	(15)	(19)
Other items	**4**	(59)	20
Total income tax expense	**(85)**	(165)	(36)
(ii) Tax benefit/(expense) relating to items of other comprehensive income			
Available for sale investments	**(43)**	31	(34)
Cash flow hedges	**(13)**	(22)	(55)
Share of other comprehensive income of associates and joint ventures	**(9)**	(19)	4
Foreign currency translation reserve	**69**	(151)	–
Total tax benefit/(expense) relating to items of other comprehensive income	**4**	(161)	(85)

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

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 5			
Dividends and distributions paid or provided			
(i) Dividends paid or provided			
Ordinary share capital			
Interim dividend paid (half-year to 31 March 2010: $0.86 per share)[1]	**–**	287	–
2010 final dividend paid ($1.00 per share; half-year to 30 September 2009: $0.40 per share)[1]	**344**	–	122
Dividends provided[2]	**2**	–	–
Total dividends paid or provided (note 17)	**346**	287	122

[1] Dividend paid by the consolidated entity includes $1 million (half-year to 31 March 2010: $1 million; half-year to 30 September 2009: $1 million) of dividends paid to holders of the exchangeable shares as consideration for the acquisition of Orion Financial Inc. as described in note 16 – Contributed equity.

[2] Dividends provided by the consolidated entity relates to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. as described in note 16 – Contributed equity. The dividends are payable within 60 days following the second anniversary of the closing date of acquisition.

The final dividend was unfranked (half-year to 30 September 2009: 60 per cent franked at the 30 per cent corporate tax rate). The interim dividend paid during the half-year to 31 March 2010 was unfranked. The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 16 – Contributed equity.

(ii) Dividends not recognised at the end of the period

Since the end of the period the Directors have recommended the payment of an interim dividend for the half-year ended 30 September 2010 of $0.86 per fully paid ordinary MGL share on issue at 12 November 2010, unfranked. The aggregate amount of the proposed dividend expected to be paid on 15 December 2010 from retained profits at 30 September 2010, but not recognised as a liability at the end of the period, is $297 million.

	Half-year to 30 Sep 2010	Half-year to 31 Mar 2010	Half-year to 30 Sep 2009
		Dividend per ordinary share	
Cash dividend per ordinary share (distribution of current year profits)	$0.86	$1.00	$0.86

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
(iii) Distributions paid or provided			
Macquarie Income Preferred Securities			
Distributions paid (net of distributions previously provided)	**–**	–	4
Distributions provided	**2**	2	2
Total distributions paid or provided (note 17)	**2**	2	6

The Macquarie Income Preferred Securities (MIPS) represent the non-controlling interest of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIPS are recorded as movements in non-controlling interests, as disclosed in note 17 – Reserves, retained earnings and non-controlling interests. Macquarie Bank Limited (MBL), a subsidiary, can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 17 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

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

Note 5

Dividends and distributions paid or provided continued

Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	**7**	6	6
Distributions provided	**6**	5	4
Total distributions paid or provided	**13**	11	10

The Macquarie Income Securities (MIS) represent the non-controlling interest of a subsidiary. Accordingly, the distributions paid or provided in respect of the MIS are recorded as movements in non-controlling interests, as disclosed in note 17 – Reserves, retained earnings and non-controlling interests. No dividends are payable under the preference shares until MBL exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 17 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

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

Note 6

Earnings per share

			Cents per share
Basic earnings per share	**119.2**	169.5	150.2
Diluted earnings per share	**117.1**	167.7	149.6
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m	$m
Profit after income tax	**411**	597	496
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Preferred Securities	**(2)**	(2)	(6)
Macquarie Income Securities	**(13)**	(11)	(10)
Other non-controlling interests	**7**	(13)	(1)
Total earnings used in the calculation of basic earnings per share	**403**	571	479
Add back adjusted interest expense on Macquarie Convertible Preference Securities	**16**	16	16
Total earnings used in the calculation of diluted earnings per share	**419**	587	495
			Number of shares
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	**338,006,008**	336,949,981	318,880,002
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid ordinary shares	**338,006,008**	336,949,981	318,880,002
Potential ordinary shares:			
Weighted average options	**173,222**	287,623	594,180
Weighted average MEREP awards	**2,577,335**	554,861	–
Weighted average retention securities and options	**217,074**	99,132	30,942
Macquarie Convertible Preference Securities	**16,742,601**	12,237,648	11,396,270
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**357,716,240**	350,129,245	330,901,394

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

Note 6

Earnings per share continued

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 9,706 (31 March 2010: 16,427; 30 September 2009: 159,333) options that were converted, lapsed or cancelled during the period. There are a further 33,385,892 (31 March 2010: 42,886,737; 30 September 2009: 45,123,915) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the half-year ended 30 September 2010 and consequently, they are not considered to be dilutive.

MGL has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further options under the MGESOP.

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP). Awards granted under MEREP are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. Included in the balance of weighted average shares are 390,105 (31 March 2010: nil; 30 September 2009: nil) awards that were converted, lapsed or cancelled during the period. As at 30 September 2010, a further 825,500 (31 March 2010: nil; 30 September 2009: nil) MEREP awards have not been included in the balance of weighted average awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer to note 16 – Contributed equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Retention Securities and Options

Retention securities and options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The fair value of these securities and options is amortised over the vesting period.

Macquarie Convertible Preference Securities

Macquarie Convertible Preference Securities have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 7			
Trading portfolio assets			
Equities			
Listed	**7,759**	5,212	8,551
Unlisted	**1**	28	30
Commonwealth government bonds	**3,131**	2,455	2,948
Corporate bonds	**2,789**	2,699	1,565
Commodities	**1,478**	131	126
Foreign government bonds	**413**	305	209
Other government securities	**209**	1,063	943
Promissory notes	**72**	1	–
Treasury notes	**58**	73	3
Bank bills	**20**	89	50
Certificates of deposit	**8**	82	77
Total trading portfolio assets	**15,938**	12,138	14,502
Note 8			
Loan assets held at amortised cost			
Due from clearing houses	**2,162**	2,288	1,851
Due from governments[1]	**154**	336	138
Due from other entities			
Other loans and advances	**39,479**	38,482	37,591
Less specific provisions for impairment	**(377)**	(347)	(387)
	39,102	38,135	37,204
Lease receivables	**3,937**	3,742	3,539
Less specific provisions for impairment	**(3)**	(5)	(12)
Total due from other entities	**43,036**	41,872	40,731
Total loan assets before collective allowance for credit losses	**45,352**	44,496	42,720
Less collective allowance for credit losses	**(222)**	(229)	(216)
Total loan assets held at amortised cost[2]	**45,130**	44,267	42,504

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

2 Included within this balance are loans of $14,390 million (31 March 2010: $15,998 million; 30 September 2009: $18,004 million) held by consolidated SPEs, which are available as security to note holders and debt providers.

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

Note 8
Loan assets held at amortised cost continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Specific provisions for impairment			
Balance at the beginning of the period	**352**	399	431
Provided for during the period (note 2)	**66**	72	105
Loan assets written off, previously provided for	**(20)**	(80)	(63)
Recovery of loans previously provided for (note 2)	**(9)**	(29)	(8)
Attributable to foreign currency translation	**(10)**	(10)	(66)
Balance at the end of the period	**379**	352	399
Specific provisions as a percentage of total gross loan assets	**0.83%**	0.78%	0.93%
Collective allowance for credit losses			
Balance at the beginning of the period	**229**	216	225
(Written back)/provided for during the period (note 2)	**(9)**	1	(3)
Attributable to acquisitions during the period	**3**	11	–
Attributable to foreign currency translation	**(1)**	1	(6)
Balance at the end of the period	**222**	229	216

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

Note 9
Impaired financial assets

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Impaired debt investment securities available for sale before specific provisions for impairment	**109**	143	196
Less specific provisions for impairment	**(84)**	(115)	(166)
Debt investment securities available for sale after specific provisions for impairment	**25**	28	30
Impaired loan assets and other financial assets with specific provisions for impairment	**944**	1,090	1,256
Less specific provisions for impairment	**(482)**	(443)	(463)
Loan assets and other financial assets after specific provisions for impairment	**462**	647	793
Total impaired financial assets	**487**	675	823

Impaired financial assets have been reported in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and include loan assets (netted with certain derivative liabilities of $nil (31 March 2010: $nil; 30 September 2009: $31 million)).

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 10			
Investment securities available for sale			
Equity securities			
Listed	**2,417**	1,001	333
Unlisted	**320**	344	388
Debt securities[1, 2]	**15,839**	16,876	22,431
Total investment securities available for sale	**18,576**	18,221	23,152

1 Includes $3,682 million (31 March 2010: $2,382 million; 30 September 2009: $4,967 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $115 million (31 March 2010: $20 million; 30 September 2009: $129 million) of bank bills.

2 Included within this balance are debt securities of $197 million (31 March 2010: $316 million; 30 September 2009: $250 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The consolidated entity does not have legal title to these assets but has full economic exposure to them.

Note 11

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

Loans and investments without provisions for impairment	**1,768**	2,990	2,978
Loans and investments with provisions for impairment	**1,605**	1,533	3,267
Less provisions for impairment	**(654)**	(596)	(1,314)
Loans and investments at recoverable amount	**951**	937	1,953
Total interests in associates and joint ventures accounted for using the equity method	**2,719**	3,927	4,931

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by $115 million (31 March 2010: $1 million; 30 September 2009: $291 million).

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

Note 11

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

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

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2010 %**	As at 31 Mar 2010 %	As at 30 Sep 2009 %
Brisconnections Unit Trusts [1, a]	Australia	30 June	**46**	46	43
Charter Hall Retail REIT [2, 3, 4, b]	Australia	30 June	**–**	–	12
Charter Hall Office REIT [2, 3, 5, b]	Australia	30 June	**–**	–	14
Diversified CMBS Investments Inc. [6, c]	USA	31 March	**57**	57	57
European Directories SA [1, d]	Luxembourg	31 December	**14**	14	14
Macquarie AirFinance Limited [1, a]	Bermuda	31 December	**38**	38	38
Macquarie Goodman Japan Limited [b]	Singapore	31 March	**50**	50	50
Macquarie Infrastructure Group [2, 3, a]	Australia	30 June	**–**	–	15
MAp [2, 7, 8, a]	Australia	31 December	**–**	22	21
MGPA Limited [1, b]	Bermuda	30 June	**56**	56	56
Miclyn Express Offshore Limited [1, 9, e]	Bermuda	30 June	**34**	34	59
New World Gaming Partners Holdings British Columbia Limited [1, f]	Canada	31 December	**–**	31	31
Redford Australian Investment Trust [1, a]	Australia	31 December	**25**	25	29
Southern Cross Media Group [1, 10, g]	Australia	30 June	**26**	25	26

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

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

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

4 Previously known as Macquarie Countrywide Trust.

5 Previously known as Macquarie Office Trust.

6 Voting rights for this investment are not proportional to the ownership interest. The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

7 Previously known as Macquarie Airports.

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

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

10 Previously known as Macquarie Media Group.

a Infrastructure

b Property development/management entity

c Funds management and investing

d Directories business

e Metals, mining and energy

f Gaming infrastructure

g Media, television, gaming and internet investments

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 12			
Non-current assets and disposal groups classified as held for sale			
Non-current assets and assets of disposal groups classified as held for sale			
Associates	**75**	76	45
Other non-current assets	**–**	4	55
Assets of disposal groups classified as held for sale[1]	**–**	47	–
Total non-current assets and assets of disposal groups classified as held for sale	**75**	127	100
Liabilities of disposal groups classified as held for sale			
Total liabilities of disposal groups classified as held for sale[1]	**–**	9	–

1 The balance as at 31 March 2010 represents the assets and liabilities of Advanced Markets Holdings LLC.

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

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

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

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

Voting power is equivalent to ownership interest unless otherwise stated.

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

a Retirement homes

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

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

Note 13
Trading portfolio liabilities

Listed equity securities	**4,058**	3,892	6,875
Commonwealth government securities	**642**	434	305
Corporate securities	**621**	819	51
Other government securities	**490**	287	137
Total trading portfolio liabilities	**5,811**	5,432	7,368

Note 14
Debt issued at amortised cost

Debt issued at amortised cost[1]	**39,955**	42,614	44,896
Total debt issued at amortised cost	**39,955**	42,614	44,896

[1] Included within this balance are amounts payable to SPE note holders of $12,679 million (31 March 2010: $14,419 million; 30 September 2009: $17,004 million).

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

Note 15
Other financial liabilities at fair value through profit or loss

Equity linked notes	**2,461**	2,722	2,891
Debt issued at fair value	**1,249**	1,691	2,146
Total other financial liabilities at fair value through profit or loss	**3,710**	4,413	5,037

Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:

Australian dollars	**15,729**	18,428	21,154
United States dollars	**15,629**	16,847	16,978
Canadian dollars	**6,830**	5,789	4,189
Euro	**1,635**	1,654	2,640
Japanese yen	**1,442**	1,350	1,471
South African rand	**1,381**	1,565	2,007
Korean won	**348**	196	100
Hong Kong dollars	**279**	386	526
Great British pounds	**214**	547	350
Singapore dollars	**81**	177	423
Other currencies	**97**	88	95
Total by currency	**43,665**	47,027	49,933

The consolidated entity's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from one day to 30 years.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 16			
Contributed equity			
Ordinary share capital			
Opening balance of 344,244,271 (1 October 2009: 332,683,024; 1 April 2009: 283,438,000) fully paid ordinary shares	**6,990**	6,267	4,906
On-market purchase of 3,639 shares on 4 June 2009 pursuant to the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP)	**–**	–	–
Allocation of 3,639 shares pursuant to the NEDSAP	**–**	–	–
Issue of shares (31 March 2010: 1,194; 30 September 2009: 27,391) pursuant to the MGSSAP (31 March 2010: within the range of $33.49 and $47.99; 30 September 2009: within the range of $25.61 and $56.40) per share	**–**	–	1
Issue of 6,013 shares (31 March 2010: 118,127; 30 September 2009: 3,175,683) on exercise of options	**–**	5	106
Issue of 2,864 shares on exercise of MEREP awards	**–**	–	–
Issue of 31,065 shares on 28 January 2010 pursuant to the Macquarie Group Employee Share Plan (ESP) at $52.04 per share	**–**	2	–
Issue of 912,835 shares (31 March 2010: 1,987,325; 30 September 2009: 750,811) pursuant to the Macquarie Group Dividend Reinvestment Plan (DRP) at $45.55 (31 March 2010: $47.77; 30 September 2009: $33.24) per share	**42**	95	25
Issue of 20,000,000 shares on 8 May 2009 pursuant to an institutional private placement at $27.00 per share	**–**	–	533
Issue of shares (31 March 2010: 563; 30 September 2009: 25,150,773) pursuant to the Macquarie Group Share Purchase Plan (SPP) at (31 March 2010: $26.60; 30 September 2009: $26.60) per share	**–**	–	668
Issue of 40,964 shares (31 March 2010: 23,313; 30 September 2009: 138,366) on retraction of exchangeable shares at $80.30 per share	**3**	2	11
Issue of shares (31 March 2010: 4,000; 30 September 2009: 2,000) for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**–**	–	–
Issue of 394,354 (31 March 2010: 9,395,660) shares to MEREP Trust within the range of $38.42 and $50.40 (31 March 2010: $46.60) per share	**19**	438	–
Transfer from Directors' Profit Share (DPS) liability on settlement of obligation with own equity	**–**	180	–
Transfer from share based payments reserve for employee awards that have vested	**9**	–	–
Transfer from share based payments reserve for employee options that have been exercised	**–**	1	17
Closing balance of 345,601,301 (31 March 2010: 344,244,271; 30 September 2009: 332,683,024) fully paid ordinary shares	**7,063**	6,990	6,267

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Total treasury shares[1]	**(719)**	(443)	(2)

[1] During the half-year to 31 March 2010, the Company introduced the Macquarie Group Employee Retained Equity Plan (MEREP). Under MEREP the staff retained profit share will be held in the shares of the Company by MEREP Trust and presented as treasury shares.

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

Note 16
Contributed equity continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Exchangeable shares			
Opening balance of 2,935,489 (1 October 2009: 3,499,929; 1 April 2009: 1,450,584) exchangeable shares	**137**	159	116
Issue of 2,036,705 exchangeable shares at $50.80 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis[1, 2]	**–**	–	54
Issue of 152,472 exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis[1]	**5**	2	–
Retraction of 40,964 (31 March 2010: 23,313; 30 September 2009: 138,366) exchangeable shares at $80.30 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis[3]	**(3)**	(2)	(11)
Cancellation of 62,874 (31 March 2010: 140,920; 30 September 2009: 1,466) exchangeable shares at $80.30 per share	**(5)**	(11)	–
Cancellation of 270,254 (31 March 2010: 345,148) exchangeable shares at $50.80 per share	**(5)**	(11)	–
Cancellation of exchangeable shares (31 March 2010: 55,059) with retention conditions at $50.80 per share	**–**	–	–
Closing balance of 2,561,397 (31 March 2010: 2,935,489; 30 September 2009: 3,499,929) exchangeable shares	**129**	137	159

1 The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation.* They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to Macquarie Group Limited dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no Macquarie Group Limited voting rights.

2 There are also retention agreements in place with key former Tristone employees, under which new Macquarie Group Limited shares may be allocated within five years from the date of acquisition. As at 30 September 2010, the total number of retention options remaining is 87,530.

The value of the exchangeable shares at reporting date includes a fair value adjustment due to an earn out mechanism. The number of exchangeable shares exercisable by the holders will expand (to a maximum of 4 million shares) or contract, based on the performance of the acquired business against pre-determined financial performance measures until the adjustment date (a date between the second anniversary of closing and not later than 60 days after the second anniversary of closing).

3 The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to Macquarie Group Limited dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no Macquarie Group Limited voting rights.

There are also retention agreements in place with key former Orion employees, under which new Macquarie Group Limited shares may be allocated within five years from the date of acquisition. As at 30 September 2010, the total number of retention options remaining is 107,000.

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

Note 17

Reserves, retained earnings and non-controlling interests

Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(320)**	(132)	(34)
Currency translation differences arising during the period, net of hedge	**(288)**	(188)	(98)
Balance at the end of the period	**(608)**	(320)	(132)
Available for sale reserve			
Balance at the beginning of the period	**126**	178	(3)
Revaluation movement for the period, net of tax	**85**	(51)	184
Transfer to income statement for impairment	**(4)**	(1)	2
Transfer to profit on realisation	**27**	–	(5)
Balance at the end of the period	**234**	126	178
Share based payments reserve			
Balance at the beginning of the period	**544**	379	338
Option expense for the period	**21**	52	58
MEREP expense for the period	**97**	114	–
Transfer to share capital on exercise of options	**–**	(1)	(17)
Transfer to share capital on vesting of MEREP awards	**(9)**	–	–
Balance at the end of the period	**653**	544	379
Cash flow hedging reserve			
Balance at the beginning of the period	**(39)**	(80)	(217)
Revaluation movement for the period, net of tax	**33**	41	137
Balance at the end of the period	**(6)**	(39)	(80)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**(31)**	(69)	(67)
Share of reserves during the period	**21**	38	(2)
Balance at the end of the period	**(10)**	(31)	(69)
Total reserves at the end of the period	**263**	280	276
Retained earnings			
Balance at the beginning of the period	**4,268**	3,984	3,627
Profit attributable to ordinary equity holders of Macquarie Group Limited	**403**	571	479
Dividends paid on ordinary share capital (note 5)	**(346)**	(287)	(122)
Balance at the end of the period	**4,325**	4,268	3,984

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

Note 17
Reserves, retained earnings and non-controlling interests continued

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Non-controlling interests			
Macquarie Income Preferred Securities[1]			
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	107
Less issue costs	**(1)**	(1)	(1)
	106	106	106
Current period profit	**2**	2	6
Distribution provided on Macquarie Income Preferred Securities (note 5)	**(2)**	(2)	(6)
Foreign currency translation reserve	**(40)**	(39)	(32)
Total Macquarie Income Preferred Securities	**66**	67	74
Macquarie Income Securities[2]			
4,000,000 Macquarie Income Securities of $100 each	**400**	400	400
Less transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391
Other non-controlling interests			
Ordinary share capital	**44**	40	38
Preference share capital	**–**	–	5
Foreign currency translation reserve	**(8)**	(13)	(8)
Retained earnings	**39**	52	36
Total other non-controlling interests	**75**	79	71
Total non-controlling interests	**532**	537	536

1 On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, currently pay a 6.177 per cent per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. The instruments are reflected in the consolidated entity's financial statements as a non-controlling interest, with distribution entitlements being included in non-controlling interests' share of operating profit after income tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

2 The Macquarie Income Securities issued by MBL were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent per annum (31 March 2010: 1.7 per cent per annum; 30 September 2009: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

These instruments are classified as equity in accordance with AASB 132: *Financial Instruments: Presentation* and reflected in the consolidated entity's financial statements as a non-controlling interest, with distribution entitlements being included with non-controlling interests' share of profit after tax.

Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided.

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

Note 18

Notes to the consolidated statement of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the consolidated statement of cash flows is reconciled to related items in the consolidated statement of financial position as follows:

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Cash and balances with central banks	**9**	–	3
Due from other financial institutions			
Due from banks[1]	**9,484**	7,940	8,893
Trading securities[2]	**3,532**	3,833	8,549
Cash and cash equivalents at the end of the period	**13,025**	11,773	17,445

1 Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
2 Includes certificates of deposit, bank bills and other short-term debt securities.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Reconciliation of profit after income tax to net cash flows from/(used in) operating activities			
Profit after income tax	**411**	597	496
Adjustments to profit:			
Depreciation and amortisation	**202**	250	195
Dividends received/receivable from associates	**149**	159	253
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(96)**	(43)	189
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	**(33)**	(133)	(260)
Gain on repurchase of subordinated debt	**–**	–	(55)
Impairment charge on financial and non-financial assets	**136**	92	613
Interest on available for sale financial assets	**(210)**	(167)	(121)
(Gain)/loss on disposal of property, plant and equipment	**–**	(10)	10
Net gains on sale of investment securities available for sale and associates and joint ventures	**(228)**	(62)	(84)
Sale of management rights	**–**	(83)	(345)
Share based payments expense	**118**	166	58
Share of net (profits)/losses of associates and joint ventures accounted for using the equity method	**(85)**	33	197
Changes in assets and liabilities:			
Change in dividends receivable	**(62)**	129	9
Change in fees and non-interest income receivable	**271**	129	23
Change in fees and commissions payable	**2**	31	(10)
Change in tax balances	**13**	34	(121)
Change in provisions for employee entitlements	**14**	7	5
Change in loan assets granted	**(924)**	(2,689)	3,025
Change in debtors, prepayments, accrued charges and creditors	**(1,617)**	141	863
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(5,324)**	(606)	872
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**8,737**	(1,658)	(6,974)
Change in life investment contract receivables	**152**	(858)	(256)
Net cash flows from/(used in) operating activities	**1,626**	(4,541)	(1,418)

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

Note 19
Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Contingent liabilities exist in respect of:			
Guarantees	**305**	321	177
Indemnities	**3**	6	6
Letters of credit	**151**	130	95
Performance related contingents	**66**	95	144
Total contingent liabilities[1]	**525**	552	422
Commitments exist in respect of:			
Undrawn credit facilities	**5,220**	3,860	3,286
Forward asset purchase	**1,728**	1,087	1,642
Total commitments[2]	**6,948**	4,947	4,928
Total contingent liabilities and commitments	**7,473**	5,499	5,350

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

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

Note 20

Acquisitions and disposals of subsidiaries and businesses

Significant businesses acquired or consolidated due to acquisition of control:

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

Other entities acquired or consolidated due to acquisition of control during the period are as follows:

CMC Railroad Inc., Latitude FX Limited, Liberty Green Renewables Indiana LLC, Outplan Pty Ltd, Rismark Limited and Shinhan Macquarie Financial Advisory Co. Ltd.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Fair value of net assets acquired			
Cash, other financial assets and other assets	**4,778**	1,072	119
Goodwill and other intangible assets	**30**	676	62
Property, plant and equipment	**113**	16	–
Assets of disposal groups classified as held for sale	**5**	48	–
Payables, provisions, borrowings and other liabilities	**(4,834)**	(1,001)	(20)
Liabilities of disposal groups classified as held for sale	**(4)**	(43)	–
Non-controlling interests	**(4)**	–	(2)
Total fair value of net assets acquired[1]	**84**	768	159
Purchase consideration			
Cash consideration and costs directly attributable to acquisition	**26**	695	53
Deferred consideration	**–**	70	55
Extinguishment of loan asset	**–**	–	56
Total purchase consideration	**26**	765	164
Net cash flow			
Cash consideration and costs directly attributable to acquisition	**(26)**	(695)	(53)
Less cash and cash equivalents acquired	**1,471**	399	40
Net cash inflow/(outflow)	**1,445**	(296)	(13)

[1] In connection with the acquisition of Sal. Oppenheim, the business was acquired at a $59 million discount to fair value, which included amounts received to cover expenses relating to integrating the business. The actual incurred expenses have been offset against the amount received within note 2 – Profit for the period.

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

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current period has arisen due to the value of the businesses acquired over their individual asset values, the employees acquired as part of the business and synergies the consolidated entity expects to realise from the acquisitions.

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

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

Note 20

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

There were no significant disposals during the period.

Other entities and businesses disposed of or deconsolidated during the period are as follows:

Advanced Markets Holdings LLC, Everest Absolute Return II Limited, Latitude FX Limited, LexMac Energy Oil & Gas, SiCURAnt InvestCo LP SPRL and Turramurra Limited.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash, other financial assets and other assets	**4**	71	244
Goodwill and other intangible assets	**–**	18	–
Property, plant and equipment	**–**	89	–
Non-current assets and assets of disposal groups classified as held for sale	**45**	15	–
Payables, provisions, borrowings and other liabilities	**(2)**	(81)	(31)
Liabilities of disposal groups classified as held for sale	**(40)**	–	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**7**	112	213
Consideration received			
Consideration received in cash and cash equivalents	**18**	129	344
Consideration received in equity	**–**	91	–
Deferred consideration	**–**	14	–
Total consideration received	**18**	234	344
Net cash flow			
Cash received	**18**	129	344
Less:			
Investment retained	**(1)**	–	–
Cash and cash equivalents disposed of or deconsolidated	**–**	(34)	(2)
Net cash inflow	**17**	95	342

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

Note 21

Events occurring after balance sheet date

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

Macquarie Group Limited
Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 4 to 36 are in accordance with the *Corporations Act 2001*, including:

- i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

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

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

David S. Clarke, AO

Non-Executive Director and
Chairman

Nicholas Moore

Managing Director and
Chief Executive Officer

Sydney
28 October 2010

Independent auditor's review report
To the members of Macquarie Group Limited

PRICEWATERHOUSECOOPERS

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited, which comprises the statement of financial position as at 30 September 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Macquarie Group (the consolidated entity). The consolidated entity comprises both Macquarie Group Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Group Limited is not in accordance with the *Corporations Act 2001* including:

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
28 October 2010

Macquarie Group Limited
Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the Australian Accounting Standards adopted at each balance sheet date. The financial information for the full years ended 31 March 2005-2010 and half-year ended 30 September 2010 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	**First Half 2011**
Income statement ($ million)										
Total income	1,822	2,155	2,823	4,197	4,832	7,181	8,248	5,526	6,638	**3,661**
Total expenses	(1,467)	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	**(3,165)**
Operating profit before income tax	355	460	685	1,158	1,287	1,928	2,205	989	1,294	**496**
Income tax expense	(76)	(96)	(161)	(288)	(290)	(377)	(317)	(15)	(201)	**(85)**
Profit for the year	279	364	524	870	997	1,551	1,888	974	1,093	**411**
Macquarie Income Preferred Securities distributions	–	–	–	(28)	(51)	(54)	(50)	(45)	(8)	**(2)**
Macquarie Income Securities distributions	(29)	(28)	(27)	(29)	(29)	(31)	(34)	(33)	(21)	**(13)**
Other non-controlling interests	–	(3)	(3)	(1)	(1)	(3)	(1)	(25)	(14)	**7**
Profit attributable to ordinary equity holders	250	333	494	812	916	1,463	1,803	871	1,050	**403**
Statement of financial position ($ million)										
Total assets	30,234	32,462	43,771	67,980	106,211	136,389	167,250	149,144	145,940	**158,060**
Total liabilities	27,817	29,877	40,938	63,555	100,874	128,870	157,189	139,584	134,171	**146,467**
Net assets	2,417	2,585	2,833	4,425	5,337	7,519	10,061	9,560	11,769	**11,593**
Total loan assets	9,209	9,839	10,777	28,425	34,999	45,796	52,407	44,751	44,267	**45,130**
Impaired loan assets (net of provisions)	49	16	61	42	85	88	165	952	647	**462**
Share information[1]										
Cash dividends per share (cents per share)										
Interim	41	41	52	61	90	125	145	145	86	**86**
Final	52	52	70	100	125	190	200	40	100	**n/a**
Special[2]	–	50	–	40	–	–	–	–	–	**n/a**
Total	93	143	122	201	215	315	345	185	186	**n/a**
Basic earnings per share (cents per share)	132.8	164.8	233.0	369.6	400.3	591.6	670.6	309.6	320.2	**119.2**
Share price at 31 March ($)[1, 3]	33.26	24.70	35.80	48.03	64.68	82.75	52.82	27.05	47.25	**36.27**
Ordinary share capital (million shares)[4]	198.5	204.5	215.9	223.7	232.4	253.9	274.6	283.4	344.2	**345.6**
Market capitalisation at 31 March (fully paid ordinary shares) ($ million)	6,602	5,051	7,729	10,744	15,032	21,010	14,503	7,667	16,266	**12,535**
Net tangible assets per ordinary share ($)[5]	7.94	8.23	10.72	13.97	16.63	22.86	28.18	23.72	25.82	**25.21**
Ratios										
Return on average ordinary shareholders' funds	18.7%	18.0%	22.3%	29.8%	26.0%	28.1%	23.7%	9.9%	10.0%	**7.1%**
Dividend payout ratio	73.6%	87.4%[2]	53.2%	53.2%	54.4%	54.3%	52.2%	60.2%	60.4%	**73.8%**
Expense/income ratio	80.5%	78.7%	75.7%	72.4%	73.4%	73.2%	73.3%	82.1%	80.5%	**86.5%**
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.2%	0.0%	0.3%	0.2%	0.2%	0.1%	0.3%	1.9%	0.8%	**0.3%**
Assets under management ($ billion) [6]	41.3	52.3	62.6	96.7	140.3	197.2	232.0	243.1	325.7	**317.0**
Staff numbers[7]	4,726	4,839	5,716	6,556	8,183	10,023	13,107	12,716	14,657	**15,533**

1 Macquarie Bank Limited (now Macquarie Group Limited) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

2 The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of $0.50 per share, the payout ratio would have been 56.8 per cent.

3 At 30 September for the first half 2011.

4 Number of fully paid ordinary shares at 30 September, excluding exchangeable shares, options and partly paid shares.

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

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

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

Financial report
For the half-year ended 30 September 2010

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