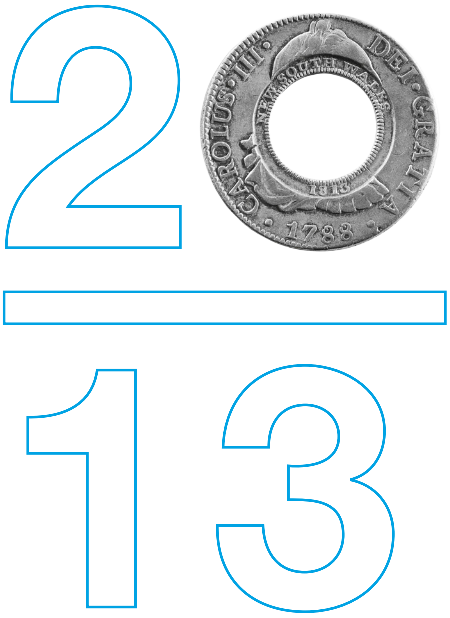
Interim Directors' Report and Financial Report

Macquarie Group
Half year ended 30 September 2013



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 year celebrates the bicentenary of the Holey Dollar.

MACQUARIE GROUP 2013 INTERIM DIRECTORS’ REPORT AND FINANCIAL REPORT

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.

The material in this report has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is current at the date of this report. It is general background information about Macquarie’s activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Financial Report
for the half-year ended 30 September 2013
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The Financial report was authorised for issue by the Directors on 01 November 2013.
The Consolidated Entity has the power to amend and reissue the Financial report.

Financial Report
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Directors' Report
for the half-year ended 30 September 2013

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, the Company), the Directors submit herewith the financial statements of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial period ended on that date and report as follows:

Directors

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

Independent Directors

H.K. McCann AM, Chairman
G.R. Banks AO[1]
M.J. Coleman
P.A. Cross[2]
D.J. Grady AM
M.J. Hawker AM
P.M. Kirby
J.R. Niland AC
H.M. Nugent AO
P.H. Warne

Executive Director

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

Other than Mr. Banks and Ms. Cross, the Voting Directors listed above each held office as a Director of Macquarie throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Ms C.B. Livingstone retired as a Director on 25 July 2013.

Result

The financial report for the half-year ended 30 September 2013 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth).*

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $A501 million (half-year to 31 March 2013: $A490 million; half-year to 30 September 2012: $A361 million).

[redacted]

(1) Mr. Banks joined the Board on 1 August 2013.
(2) Ms. Cross joined the Board on 7 August 2013.
(3) Prior corresponding period refers to the six months to 30 September 2012.
(4) Prior period refers to the six months to 31 March 2013.

[redacted]

Events after the reporting period

Following a Board decision effective on 1 November 2013, shareholders will vote on a proposal to distribute approximately 340 million Sydney Airport (SYD) stapled securities (SYD Securities) (Distribution) to Macquarie ordinary shareholders and consolidate Macquarie ordinary shares (Consolidation).

If the Distribution is approved, eligible Macquarie ordinary shareholders will receive one SYD Security for each Macquarie ordinary share held. At 30 September 2013, these SYD Securities were recognised in the Statement of Financial Position within Investment securities available for sale at a carrying amount of $A1,336 million. As described in note 19, the fair value is determined by reference to SYD's quoted market price. Upon distribution, the investment in these SYD Securities will be reduced along with a corresponding reduction in equity, and the cumulative amount carried in the Available for sale reserve in equity will be recycled to profit. At 30 September 2013, the cumulative amount carried in the Available for sale reserve related to the 340 million SYD Securities is $A207 million, net of tax. The closing price of SYD Securities on the trading day prior to distribution will be used for recording the Distribution and will affect the amount recognised in profit.

If the Consolidation is approved there will be a conversion of one Macquarie ordinary share into 0.9438 Macquarie ordinary shares.

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2013 of $A1.00 per fully paid ordinary MGL share on issue at 15 November 2013. The dividend will be 40 per cent franked and paid on 12 December 2013.

(1) Macquarie Group Regulatory Capital surplus under APRA Basel III (at 7% Bank Group risk-weighted assets (RWAs)). 7% is the internal minimum Tier 1 ratio of the Bank Group.

Directors' Report
for the half-year ended 30 September 2013 continued

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001 (Cth),* 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.

H Kevin McCann AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
1 November 2013

Auditor's independence declaration
for the half-year ended 30 September 2013

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2013, 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 (Cth)* 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
1 November 2013

Liability is limited by a scheme approved under Professional Standards Legislation.

Consolidated income statement
for the half-year ended 30 September 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Interest and similar income		**2,244**	2,329	2,320
Interest expense and similar charges		**(1,384)**	(1,606)	(1,676)
Net interest income	2	**860**	723	644
Fee and commission income	2	**1,838**	1,743	1,636
Net trading income	2	**591**	679	555
Share of net profits of associates and joint ventures accounted for using the equity method	2	**70**	17	75
Other operating income and charges	2	**320**	441	144
Net operating income		**3,679**	3,603	3,054
Employment expenses	2	**(1,730)**	(1,735)	(1,538)
Brokerage, commission and trading-related expenses	2	**(379)**	(284)	(320)
Occupancy expenses	2	**(195)**	(202)	(188)
Non-salary technology expenses	2	**(133)**	(128)	(132)
Other operating expenses	2	**(432)**	(366)	(359)
Total operating expenses		**(2,869)**	(2,715)	(2,537)
Operating profit before income tax		**810**	888	517
Income tax expense	4	**(307)**	(377)	(156)
Profit after income tax		**503**	511	361
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Securities	5	**(9)**	(10)	(11)
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Other non-controlling interests		**9**	(9)	13
Profit attributable to non-controlling interests		**(2)**	(21)	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**501**	490	361
				Cents per share
Basic earnings per share	6	**149.7**	146.1	105.5
Diluted earnings per share	6	**144.6**	142.1	99.7

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 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Profit after income tax for the period		**503**	511	361
Other comprehensive income/(expense)[1]:				
Available for sale investments, net of tax	16	**207**	114	79
Cash flow hedges, net of tax	16	**5**	12	(14)
Share of other comprehensive income of associates and joint ventures, net of tax	16	**11**	2	16
Exchange differences on translation of foreign operations, net of hedge and tax		**599**	(94)	(28)
Total other comprehensive income for the period		**822**	34	53
Total comprehensive income for the period		**1,325**	545	414
Total comprehensive income/(expense) for the period is attributable to:				
Ordinary equity holders of Macquarie Group Limited		**1,297**	527	415
Macquarie Income Securities holders		**9**	10	11
Macquarie Income Preferred Securities holders		**13**	(2)	3
Other non-controlling interests		**6**	10	(15)
Total comprehensive income for the period		**1,325**	545	414

(1) All items of other comprehensive income/(expense) may be reclassified subsequently to profit or loss.

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 2013

	Notes	**As at 30 Sep 2013 $m**	As at 31 Mar 2013[1] $m	As at 30 Sep 2012[1] $m
Assets				
Receivables from financial institutions		**20,001**	16,516	18,226
Trading portfolio assets	7	**22,489**	19,776	15,546
Derivative assets		**14,647**	14,704	21,691
Investment securities available for sale	8	**16,578**	17,057	20,506
Other assets		**12,335**	12,397	13,354
Loan assets held at amortised cost	9	**54,476**	49,083	47,559
Other financial assets at fair value through profit or loss		**3,116**	5,033	5,327
Property, plant and equipment		**6,175**	5,643	5,134
Interests in associates and joint ventures accounted for using the equity method	11	**2,497**	2,048	2,285
Intangible assets		**1,276**	1,221	1,304
Deferred tax assets		**1,010**	1,270	1,248
Total assets		**154,600**	144,748	152,180
Liabilities				
Trading portfolio liabilities	12	**3,485**	1,497	3,641
Derivative liabilities		**14,149**	14,853	21,047
Deposits		**42,694**	41,103	39,959
Other liabilities		**12,638**	13,572	13,284
Payables to financial institutions		**19,625**	18,075	16,703
Other financial liabilities at fair value through profit or loss	13	**1,205**	1,704	1,593
Debt issued at amortised cost	14	**43,755**	38,014	40,714
Provisions		**225**	213	228
Deferred tax liabilities		**667**	542	514
Total liabilities excluding loan capital		**138,443**	129,573	137,683
Loan capital				
Macquarie Convertible Preference Securities		**–**	616	615
Subordinated debt at amortised cost		**3,438**	2,604	2,378
Total loan capital		**3,438**	3,220	2,993
Total liabilities		**141,881**	132,793	140,676
Net assets		**12,719**	11,955	11,504
Equity				
Contributed equity	15	**5,893**	5,907	5,887
Reserves	16	**726**	57	(50)
Retained earnings	16	**5,610**	5,439	5,155
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**12,229**	11,403	10,992
Non-controlling interests	16	**490**	552	512
Total equity		**12,719**	11,955	11,504

[1] Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(iii).

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 2013

	Notes	Contributed equity[1] $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2012		6,241	44	4,924	11,209	529	11,738
Profit after income tax		–	–	361	361	–	361
Other comprehensive income/(expense), net of tax		–	54	–	54	(1)	53
Total comprehensive income/(expense) for the period		–	54	361	415	(1)	414
Transactions with equity holders in their capacity as equity holders:							
Purchase of shares by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust)	15	(242)	–	–	(242)	–	(242)
Dividends and distributions paid or provided for	5	–	–	(257)	(257)	–	(257)
Buyback and cancellation of ordinary shares	15	(250)	–	–	(250)	–	(250)
Purchase of shares held for cancellation		(1)	–	–	(1)	–	(1)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(16)	(16)
Other equity movements:							
Net movement on exchangeable shares	15	(3)	–	–	(3)	–	(3)
Share-based payments		142	(21)	–	121	–	121
Transfer from share-based payments reserve to retained earnings	16	–	(127)	127	–	–	–
		(354)	(148)	(130)	(632)	(16)	(648)
Balance at 30 September 2012		5,887	(50)	5,155	10,992	512	11,504
Profit after income tax		–	–	490	490	21	511
Other comprehensive income/(expense), net of tax		–	37	–	37	(3)	34
Total comprehensive income for the period		–	37	490	527	18	545
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	15	3	–	–	3	–	3
Dividends and distributions paid or provided for	5	–	–	(252)	(252)	–	(252)
Buyback and cancellation of ordinary shares	15	(1)	–	–	(1)	–	(1)
Release of shares earlier held for cancellation		1	–	–	1	–	1
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	43	43
Distributions paid or provided for		–	–	–	–	(21)	(21)
Other equity movements:							
Net movement on exchangeable shares	15	(1)	–	–	(1)	–	(1)
Share-based payments		18	116	–	134	–	134
Transfer from share-based payments reserve to retained earnings	16	–	(46)	46	–	–	–
		20	70	(206)	(116)	22	(94)
Balance at 31 March 2013		5,907	57	5,439	11,403	552	11,955

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(iii).

Consolidated statement of changes in equity
for the half-year ended 30 September 2013
continued

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2013		5,907	57	5,439	11,403	552	11,955
Profit after income tax		–	–	501	501	2	503
Other comprehensive income, net of tax		–	796	–	796	26	822
Total comprehensive income for the period		–	796	501	1,297	28	1,325
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	15	11	–	–	11	–	11
Purchase of shares by MEREP Trust	15	(216)	–	–	(216)	–	(216)
Dividends and distributions paid or provided for	5	–	–	(419)	(419)	–	(419)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(88)	(88)
Distributions paid or provided for		–	–	–	–	(2)	(2)
Change in non-controlling ownership interest		–	–	(5)	(5)	–	(5)
Other equity movements:							
Share-based payments		191	(33)	–	158	–	158
Transfer from share-based payments reserve to retained earnings	16	–	(94)	94	–	–	–
		(14)	(127)	(330)	(471)	(90)	(561)
Balance at 30 September 2013		5,893	726	5,610	12,229	490	12,719

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 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013[1] $m	Half-year to 30 Sep 2012[1] $m
Cash flows from/(used in) operating activities				
Interest received		**2,116**	2,240	2,263
Interest and other costs of finance paid		**(1,419)**	(1,579)	(1,695)
Dividends and distributions received		**156**	116	132
Fees and other non-interest income received		**2,295**	2,150	2,099
Fees and commissions paid		**(381)**	(311)	(458)
Net (payments)/proceeds from trading portfolio assets and other financial assets/liabilities		**(1,705)**	(54)	911
Payments to suppliers		**(424)**	(657)	(406)
Employment expenses paid		**(1,903)**	(1,115)	(1,919)
Income tax paid		**(185)**	(738)	(105)
Life investment contract premiums received and other unitholder contributions		**131**	137	185
Life investment contract payments and other unitholder maturities		**(182)**	(651)	(217)
Net loan assets granted		**(5,592)**	(1,386)	(2,670)
Recovery of loans previously written off		**7**	7	8
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**7,446**	(1,748)	3,798
Net cash flows from/(used in) operating activities	17	**360**	(3,589)	1,926
Cash flows from/(used in) investing activities				
Net proceeds/(payments) for investment securities available for sale		**889**	2,463	(1,303)
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**323**	369	676
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(369)**	(1,091)	(133)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**544**	760	1,051
Payments for life investment contracts and other unitholder investment assets		**(490)**	(210)	(991)
Proceeds from the disposal of property, plant and equipment, lease assets and intangible assets		**14**	4	169
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		**(239)**	(257)	(296)
Net cash flows from/(used in) investing activities		**672**	2,038	(827)

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(iii).

Consolidated statement of cash flows
for the half-year ended 30 September 2013
continued

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013[1] $m	Half-year to 30 Sep 2012[1] $m
Cash flows used in financing activities				
Proceeds from the issue of ordinary shares		**11**	3	–
Proceeds from/(payments to) non-controlling interests		**103**	37	(5)
Proceeds from issue of subordinated debt		**359**	1	–
Repayment of convertible preference shares subordinated debt		**(359)**	–	(300)
Dividends and distributions paid		**(431)**	(264)	(276)
Payments for buyback and cancellation of ordinary shares		**–**	–	(251)
Payments for acquisition of treasury shares		**(216)**	–	(242)
Net cash flows used in financing activities		**(533)**	(223)	(1,074)
Net increase/(decrease) in cash and cash equivalents		**499**	(1,774)	25
Cash and cash equivalents at the beginning of the period		**13,079**	14,853	14,828
Cash and cash equivalents at the end of the period	17	**13,578**	13,079	14,853

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(iii).

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

Note 1

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2013 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth).* Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

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 2013 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 (Cth).*

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 2013 other than where disclosed. Certain comparatives have been restated for consistency in presentation at 30 September 2013.

(ii) Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2013.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

(iii) Amendments to Accounting Standards that are effective in the current period

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current period:

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 127 Separate Financial Statements (Dec 2012), AASB 128 Investments in Associates and Joint Ventures (Dec 2012) and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.

AASB 10 was applied by the Consolidated Entity from 1 April 2013. AASB 10 replaces the previous guidance on control and retains the core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity. Whereas the control definition in the previous guidance focussed on 'risks and rewards', AASB 10 focuses on the combination of power, exposure to variable returns and ability to use the power to affect the returns. The Consolidated Entity's accounting policy for Principles of consolidation in accordance with AASB 10 is provided in note 1(iv).

Application of AASB 10 has resulted in the deconsolidation of certain entities that were previously consolidated due to exposure to a majority of risks and rewards; however the Consolidated Entity either does not have power over the relevant activities, or is not exposed to significant variable returns of the entity, or both. This includes entities where client monies are invested and the investors absorb substantially all the variable returns of the entity (leaving the Consolidated Entity with insignificant returns). Further, for such entities the Consolidated Entity acts as an agent for the investors as a result of their substantive right to remove the Consolidated Entity from its role as manager. For other entities, the Consolidated Entity has a majority of the risk of loss through its derivatives, however does not have significant variable returns since those derivatives create exposure that is passed through the entity and absorbed by investors.

The transitional provisions permit prior period comparatives to not be restated where the accounting outcome under the previous guidance is the same as that under AASB 10 as at the date of initial application, 1 April 2013. For all other situations, comparatives are restated retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if AASB 10 had always been applied.

Initial application has resulted in a decrease in Life investment contracts and other unitholder investment assets (included in Other assets as at 30 September 2013) and Total assets, with a corresponding decrease in Life investment contracts and other unitholder liabilities (included in Other liabilities as at 30 September 2013) and Total liabilities. The amount of the adjustment to each of these financial statement line items is $6,037 million as at 31 March 2013 and $4,833 million as at 30 September 2012. Further, Contributed equity and Other assets are increased by $7 million as at 31 March 2013 and $5 million as at 30 September 2012 due to reclassification of treasury shares. Initial application has not affected basic and diluted earnings per share in these periods.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 1

(iii) Amendments to Accounting Standards that are effective in the current period continued

The amount of the adjustment for each line item affected in the Consolidated statement of cash flows is as follows:

Consolidated statement of cash flows (extract)

	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
	Amount of adjustment	
Cash flows from operating activities:		
Life investment contract premiums received and other unitholder contributions	(2,070)	(995)
Life investment contract payments	944	906
Net cash flows used in operating activities	(1,126)	(89)
Cash flows from investing activities:		
Payments for life investment contracts and other unitholder investment assets	(2,239)	(1,731)
Proceeds from the disposal of life investment contracts and other unitholder investment assets	3,365	1,820
Net cash flows from investing activities	1,126	89

Initial application of AASB 11, AASB 127 (Dec 2012) and AASB 128 (Dec 2012) has not resulted in any material impact in the current or prior periods presented.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. Whilst AASB 12 will not affect any of the amounts recognised in the financial statements, it will require additional disclosures of interests in these entities in the financial report for the year ending 31 March 2014. AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 13 Fair Value Measurement

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures, and is effective for annual reporting periods beginning on or after 1 January 2013. In accordance with the transitional provisions, AASB 13 has been applied prospectively from 1 April 2013. The application of AASB 13 in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional fair value disclosures as provided in note 19.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

AASB 2012-2 became effective in the current period and requires additional disclosures of enforceable master netting arrangements and their effect, even if assets and liabilities are not offset on the statement of financial position. AASB 2012-2 has not affected any of the amounts recognised in the financial statements, however will increase disclosures of certain netting arrangements in the financial report for the year ending 31 March 2014. AASB 2012-2 is applied retrospectively.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

AASB 2011-9 requires items included in other comprehensive income (OCI) in the Statement of comprehensive income (including prior period comparatives) to be grouped according to whether they may be reclassified subsequently to profit or loss. For the half year ended 30 September 2013, all items have been presented as "Items that may be reclassified subsequently to profit or loss".

(iv) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Company has the power to direct the relevant activities of the entity, exposure to significant variable returns and the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

Structured entities (SEs) are those entities where voting rights do not have a significant effect on its returns, such as where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities. When assessing whether the Consolidated Entity controls (and therefore consolidates) an SE, judgement is required about whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

(iv) Principles of consolidation continued

The Consolidated Entity has power over, and is exposed to significant variable returns through the residual risk associated with its Mortgage SEs and other SEs. The Consolidated Entity is further able to use its power to affect its variable returns in the SEs. The underlying assets, liabilities, revenues and expenses of the SEs are reported in the consolidated statement of financial position and consolidated income statement.

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where

the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment in accordance with AASB 127 *Separate Financial Statements.*

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale.The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	Notes	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 2
Profit for the period

Net interest income				
Interest and similar income received/receivable		**2,244**	2,329	2,320
Interest expense and similar charges paid/payable		**(1,384)**	(1,606)	(1,676)
Net interest income		**860**	723	644
Fee and commission income				
Base fees		**628**	519	500
Performance fees		**76**	88	76
Mergers and acquisitions, advisory and underwriting fees		**357**	332	327
Brokerage and commissions		**469**	418	393
Other fee and commission income		**308**	386	340
Total fee and commission income		**1,838**	1,743	1,636
Net trading income(1)				
Equities		**202**	98	83
Commodities		**380**	372	327
Credit, interest rates and foreign exchange products		**9**	209	145
Net trading income		**591**	679	555
Share of net profits of associates and joint ventures accounted for using the equity method		**70**	17	75

(1) Included in net trading income are fair value gains of $199 million (half-year to 31 March 2013: fair value loss of $30 million; half-year to 30 September 2012: fair value gain of $266 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally 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.

Note 2

Profit for the period continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Other operating income and charges			
Net gains on sale of investment securities available for sale	**75**	99	15
Impairment charge on investment securities available for sale	**(70)**	(109)	(123)
Net gains on sale of associates and joint ventures	**36**	99	109
Impairment charge on interests in associates and joint ventures[(1)]	**(12)**	(59)	(97)
Gain/(loss) on change of ownership interest[(2)]	**–**	163	(42)
Impairment charge on non-financial assets	**(24)**	(40)	(3)
Net operating lease income[(3)]	**258**	216	201
Dividends/distributions received/receivable:			
Investment securities available for sale	**104**	73	69
Collective allowance for credit losses (provided for)/written back during the period (note 9)	**(21)**	(4)	1
Individually assessed provisions:			
Loan assets provided for during the period (note 9)	**(46)**	(39)	(65)
Other receivables provided for during the period	**(13)**	(9)	(4)
Recovery of loans previously provided for (note 9)	**6**	1	11
Recovery of other receivables previously provided for	**5**	–	–
Loan losses written off	**(33)**	(57)	(39)
Recovery of loans previously written off	**7**	7	8
Other income	**48**	100	103
Total other operating income and charges	**320**	441	144
Net operating income	**3,679**	3,603	3,054

(1) Includes impairment reversal of $3 million (half-year to 31 March 2013: impairment reversals of $46 million; half-year to 30 September 2012: $nil).

(2) Includes gain/(loss) on re-measurement of retained ownership interest to fair value on the loss of control of investments in subsidiaries and the loss of significant influence of investments in associates.

(3) Includes rental income of $449 million (half-year to 31 March 2013: $378 million; half-year to 30 September 2012: $346 million) less depreciation of $191million (half-year to 31 March 2013: $162 million; half-year to 30 September 2012: $145 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 2013
continued

	Notes	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 2
Profit for the period continued

	Notes	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share		**(1,464)**	(1,500)	(1,306)
Share-based payments		**(153)**	(139)	(134)
Provision/(reversal of) for annual leave		**(7)**	9	(3)
Reversal of long service leave		**2**	–	1
Total compensation expenses		**(1,622)**	(1,630)	(1,442)
Other employment expenses including on-costs, staff procurement and staff training		**(108)**	(105)	(96)
Total employment expenses		**(1,730)**	(1,735)	(1,538)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses		**(301)**	(227)	(241)
Other fee and commission expenses		**(78)**	(57)	(79)
Total brokerage, commission and trading-related expenses		**(379)**	(284)	(320)
Occupancy expenses				
Operating lease rentals		**(114)**	(119)	(107)
Depreciation: buildings, furniture, fittings and leasehold improvements		**(47)**	(45)	(48)
Other occupancy expenses		**(34)**	(38)	(33)
Total occupancy expenses		**(195)**	(202)	(188)
Non-salary technology expenses				
Information services		**(72)**	(64)	(68)
Depreciation: equipment		**(11)**	(13)	(19)
Other non-salary technology expenses		**(50)**	(51)	(45)
Total non-salary technology expenses		**(133)**	(128)	(132)
Other operating expenses				
Professional fees		**(155)**	(118)	(114)
Auditor's remuneration		**(11)**	(14)	(10)
Travel and entertainment expenses		**(70)**	(71)	(63)
Advertising and promotional expenses		**(32)**	(32)	(28)
Communication expenses		**(14)**	(14)	(17)
Amortisation of intangibles		**(38)**	(35)	(27)
Other expenses		**(112)**	(82)	(100)
Total other operating expenses		**(432)**	(366)	(359)
Total operating expenses		**(2,869)**	(2,715)	(2,537)

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups and a corporate group. These segments have been set up based on the different core products and services offered. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy.

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

Corporate and Asset Finance is the lending and leasing business of the Consolidated Entity.

Banking and Financial Services Group is the primary relationship manager for the Consolidated Entity's retail client base. The group brings together the 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.

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.

Macquarie Capital comprises the Consolidated Entity's corporate advisory, equity underwriting and debt structuring and distribution businesses, private equity placements and principal 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 and foreign exchange related institutional trading, marketing, lending, and clearing or platform provision.

Corporate is not considered an operating group and includes Group Treasury, head office and central support functions. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non-controlling interests (NCI) and holders of loan capital.

Internal transactions

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

Internal funding arrangements

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

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

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

During the half-year ended 30 September 2013, Group Treasury revised internal funding transfer pricing arrangements relating to Banking and Financial Services' deposit and lending activities. Comparative information presented in this document has been restated to reflect the current methodology.

Transactions between Operating Groups

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

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

Internal management revenue/charges

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 3
Segment reporting continued
(i) Operating segments continued

The following is an analysis of the Consolidated Entity's results by reportable segment for the period:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income/(expense)	**(5)**	**277**	**366**
Fee and commission income/(expense)	**805**	**7**	**317**
Share of net profits/(losses) of associates and joint ventures	**47**	**4**	**1**
Other operating income and charges	**54**	**282**	**(19)**
Internal management revenue/(charge)	**6**	**8**	**2**
Net operating income	**907**	**578**	**667**
Total operating expenses	**(407)**	**(182)**	**(556)**
Profit/(loss) before tax	**500**	**396**	**111**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**500**	**396**	**111**
Reportable segment assets	**9,010**	**25,799**	**29,307**
Net interest and trading (expense)/ income	(7)	328	331
Fee and commission income/(expense)	778	25	309
Share of net (losses)/profits of associates and joint ventures	(12)	(4)	1
Other operating income and charges	23	192	(13)
Internal management revenue/(charge)	7	4	8
Net operating income	789	545	636
Total operating expenses	(390)	(186)	(517)
Profit/(loss) before tax	399	359	119
Tax expense	–	–	–
Profit attributable to non-controlling interests	–	–	–
Net profit/(loss) attributable to ordinary equity holders	399	359	119
Reportable segment assets	9,137	23,405	26,073
Net interest and trading income/(expense)	7	251	311
Fee and commission income/(expense)	664	16	336
Share of net profits/(losses) of associates and joint ventures	48	1	2
Other operating income and charges	(3)	235	5
Internal management revenue/(charge)	9	4	1
Net operating income	725	507	655
Total operating expenses	(370)	(172)	(531)
Profit/(loss) before tax	355	335	124
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Net profit/(loss) attributable to ordinary equity holders	356	335	124
Reportable segment assets	8,720	22,435	26,424

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
			Half-year to 30 September 2013	
125	**(3)**	**616**	**75**	**1,451**
315	**321**	**81**	**(8)**	**1,838**
–	**(5)**	**15**	**8**	**70**
(4)	**59**	**(64)**	**12**	**320**
–	**–**	**5**	**(21)**	**–**
436	**372**	**653**	**66**	**3,679**
(365)	**(283)**	**(450)**	**(626)**	**(2,869)**
71	**89**	**203**	**(560)**	**810**
–	**–**	**–**	**(307)**	**(307)**
–	**12**	**–**	**(14)**	**(2)**
71	**101**	**203**	**(881)**	**501**
24,143	**2,771**	**43,915**	**19,655**	**154,600**
			Half-year to 31 March 2013	
70	(22)	637	65	1,402
260	286	91	(6)	1,743
–	7	13	12	17
23	139	(28)	105	441
2	3	12	(36)	–
355	413	725	140	3,603
(341)	(259)	(381)	(641)	(2,715)
14	154	344	(501)	888
–	–	–	(377)	(377)
–	(14)	–	(7)	(21)
14	140	344	(885)	490
20,640	2,841	43,413	19,239	144,748
			Half-year to 30 September 2012	
62	(37)	537	68	1,199
242	300	80	(2)	1,636
–	6	15	3	75
–	(24)	(59)	(10)	144
4	7	5	(30)	—
308	252	578	29	3,054
(372)	(260)	(359)	(473)	(2,537)
(64)	(8)	219	(444)	517
–	–	–	(156)	(156)
–	18	–	(19)	–
(64)	10	219	(619)	361
19,513	3,230	48,634	23,224	152,180

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
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 2013
Revenues from external customers	**1,174**	**1,429**	**856**	**2,042**	**5,501**
					Half-year to 31 March 2013
Revenues from external customers	1,258	1,737	956	1,852	5,803
					Half-year to 30 September 2012
Revenues from external customers	1,043	1,544	637	1,938	5,162

(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.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Revenues from external customers			
Australia	**2,820**	2,798	2,556
Americas	**1,591**	1,681	1,502
Europe, Middle East and Africa	**710**	822	795
Asia Pacific	**380**	502	309
Total	**5,501**	5,803	5,162

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 4

Income tax expense

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

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Prima facie income tax expense on operating profit[1]	**(243)**	(267)	(155)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:			
Rate differential on offshore income	**(25)**	(70)	(7)
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	1
Share-based payments expense	**1**	7	1
Other items	**(41)**	(47)	4
Total income tax expense	**(307)**	(377)	(156)

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

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Available for sale reserves	**(92)**	(62)	(37)
Cash flow hedges	**(4)**	(2)	7
Foreign currency translation reserve	**(2)**	(28)	(24)
Share of other comprehensive income of associates and joint ventures	**(5)**	(1)	(6)
Total tax expense relating to items of other comprehensive income	**(103)**	(93)	(60)

(1) Prima facie income tax expense on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2013: 30 per cent; half-year to 30 September 2012: 30 per cent).

Revenue authorities undertake risk reviews and audits as part of their normal activities.

Macquarie Group has received amended assessments from the Australian Tax Office (ATO), which cover a range of items. In accordance with ATO practice, the Group has paid some of the primary tax and interest covered by these amended assessments and this has been recognised in these financial statements as a tax receivable within other assets.

The Group has assessed these and other taxation claims, including seeking advice where appropriate, and considers that it holds appropriate provisions.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid or provided for

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Ordinary share capital and exchangeable shares			
Interim dividend paid (half-year to 31 March 2013: $0.75 per share)(1)	**–**	252	–
2013 final dividend paid $1.25 per share (half-year to 30 September 2012: $0.75 per share)(2)	**420**	–	259
Dividend reversed	**(1)**	–	(2)
Total dividends paid or provided for (note 16)	**419**	252	257

(1) Interim dividend paid by the Consolidated Entity includes $nil (half-year to 31 March 2013: $1 million; half-year to 30 September 2012: $nil) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in note 15 – Contributed equity.

(2) Final dividend paid by the Consolidated Entity includes $1 million (half-year to 31 March 2013: $nil; half-year to 30 September 2012: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in note 15 – Contributed equity.

The final dividend paid during the period was 40 per cent franked based on tax paid at 30 per cent (half-year to 31 March 2013: unfranked; half-year to 30 September 2012: unfranked). The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. 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 shares purchased from the market and then issued as fully paid ordinary shares pursuant to the DRP are included in note 15 – 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 2013 of $1 per fully paid ordinary MGL share on issue on 15 November 2013, 40 per cent franked. The aggregate amount of the proposed dividend expected to be paid on 12 December 2013 from retained profits at 30 September 2013, but not recognised as a liability at the end of the period, is $336 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of $4 million to be received on treasury shares – refer to note 15 – Contributed equity for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 30 September 2013.

	Half-year to 30 Sep 2013	Half-year to 31 Mar 2013	Half-year to 30 Sep 2012
		Dividend per ordinary share	
Cash dividend per ordinary share (distribution of current year profits)	**$1.00**	$1.25	$0.75

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided for)	**5**	6	7
Distributions provided for	**4**	4	4
Total distributions paid or provided for	**9**	10	11

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to note 16 – Reserves, retained earnings and non-controlling interests for further details on these instruments. MIS are stapled arrangements, which include perpetual preference shares issued by Macquarie Bank Limited (MBL) subsidiary. No dividends are payable under the preference shares until MBL, exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise of the option, dividends on the preference shares are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion.

Macquarie Income Preferred Securities			
Distributions provided for	**2**	2	2
Total distributions provided for	**2**	2	2

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 16 - Reserves, retained earnings and non-controlling interests for further details on these instruments. MBL 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.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 6
Earnings per share

		Cents per share	
Basic earnings per share	**149.7**	146.1	105.5
Diluted earnings per share	**144.6**	142.1	99.7
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m	$m
Profit after income tax	**503**	511	361
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Securities	**(9)**	(10)	(11)
Macquarie Income Preferred Securities	**(2)**	(2)	(2)
Other non-controlling interests	**9**	(9)	13
Total profit attributable to ordinary equity holders of MGL	**501**	490	361
Less profit attributable to participating unvested Macquarie Group Employee Retained Equity Plan (MEREP) awards	**(37)**	(35)	(26)
Total earnings used in the calculation of basic earnings per share	**464**	455	335
Add back adjusted interest expense on Macquarie Group Capital Notes	**5**	–	–
Add back adjusted interest expense on Exchangeable Capital Securities	**6**	6	6
Add back adjusted interest expense on Macquarie Convertible Preference Securities[(1),(2)]	**7**	18	–
Add back profit attributable to dilutive participating unvested MEREP awards	**28**	24	–
Total earnings used in the calculation of diluted earnings per share	**510**	503	341

		Number of shares	
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share	**309,901,261**	311,341,727	317,589,425
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid externally held ordinary shares	**309,901,261**	311,341,727	317,589,425
Potential ordinary shares:			
Weighted average options	**61,289**	55,043	14,398
Weighted average retention securities and options	**–**	12,921	103,137
Weighted average Macquarie Group Capital Notes	**7,983,346**	–	–
Weighted average Exchangeable Capital Securities	**5,884,804**	6,800,228	8,908,190
Weighted average Macquarie Convertible Preference Securities[(1),(2)]	**6,426,467**	16,167,729	–
Weighted average unvested MEREP awards	**22,359,709**	19,537,071	15,337,132
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**352,616,876**	353,914,719	341,952,282

(1) Macquarie Convertible Preference Securities were not dilutive as at 30 September 2012 on the basis of share prices prevailing at that time.

(2) The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.

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 exercise price used in this assessment incorporates the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 31,127 (31 March 2013: 1,816; 30 September 2012: 120) options that were converted, lapsed or cancelled during the period. There are a further 185,551 (31 March 2013; 8,405,854; 30 September 2012: 10,197,502) 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 2013 and consequently, they are not considered to be dilutive.

The Company has suspended new offers under the MGESOP under the 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, the Company's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP).

Vested MEREP awards are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of vesting.

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average shares are 3,700,731 (31 March 2013: 449,548; 30 September 2012: 2,197,877) awards that were vested, lapsed or cancelled during the period. As at 30 September 2013, a further 19,500 (31 March 2013: 44,000; 30 September 2012: 7,000) MEREP awards have not been included in the balance of weighted average MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer note 15 - 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 are amortised over the vesting period.

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, issued US$250 million of Exchangeable Capital Securities (ECS).

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

The number of MGL ordinary shares that would be issued on an exchange based on the current share price is 5,884,804 (31 March 2013: 6,800,228; 30 September 2012: 8,908,190).

The ECS have not been included in the determination of basic earnings per share and have been included in diluted earning per share from their date of issue to the extent to which they are dilutive based on the conversion features measured using 30 September 2013 as the conversion date.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued $6 million Macquarie Convertible Preference Securities (CPS) at face value of $100 each. These instruments were potentially convertible to Macquarie ordinary shares and were redeemed during the half-year to 30 September 2013. The CPS have not been included in the determination of basic earnings per share and have been included in diluted earnings per share until their date of redemption to the extent to which they are dilutive based on the conversion features measured at their date of redemption.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 6
Earnings per share continued

Macquarie Group Capital Notes

In June 2013, Macquarie issued 6 million MCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be resold, redeemed on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) on 7 June 2021. In the event that the MCN do not convert and are not redeemed or resold, they will continue until such time as the conditions are met and the securities mandatorily convert. The MCN have not been included in the determination of basic earnings per share and have been included in diluted earnings per share from their date of issue to the extent to which they are dilutive based on the conversion features measured using 30 September 2013 as the conversion date.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 7
Trading portfolio assets

Equities			
Listed	**8,194**	6,831	4,858
Unlisted	**37**	31	35
Commonwealth government securities	**5,657**	5,601	3,599
Commodities	**3,425**	2,261	2,278
Foreign government securities	**2,467**	1,756	1,415
Corporate securities	**2,221**	2,218	2,171
Other government securities[1]	**224**	640	600
Bank bills	**112**	54	85
Treasury notes	**85**	252	265
Promissory notes	**67**	132	240
Total trading portfolio assets	**22,489**	19,776	15,546

(1) Other government securities include state and local governments and related enterprises predominantly in Australia.

Note 8
Investment securities available for sale

Equity securities			
Listed	**2,304**	2,236	1,845
Unlisted	**1,063**	920	797
Debt securities[1]	**13,211**	13,901	17,864
Total investment securities available for sale	**16,578**	17,057	20,506

(1) Included within this balance is $2,457 million (31 March 2013: $3,357 million; 30 September 2012: $4,947 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $265 million (31 March 2013: $20 million; 30 September 2012: $120 million) of bank bills.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
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Note 9
Loan assets held at amortised cost

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Due from other entities net of individually assessed provisions for impairment			
Other loans and advances[1]	**46,318**	42,227	41,531
Lease receivables[2]	**5,470**	5,275	5,102
Total due from other entities, net of individually assessed provisions for impairment	**51,788**	47,502	46,633
Due from clearing houses	**2,781**	1,578	1,017
Due from governments[3]	**177**	243	146
Total loan assets before collective allowance for credit losses	**54,746**	49,323	47,796
Less collective allowance for credit losses	**(270)**	(240)	(237)
Total loan assets held at amortised cost[4]	**54,476**	49,083	47,559

(1) The balance is net of $363 million (31 March 2013: $331 million; 30 September 2012: $382 million) of individually assessed provision for impairment.
(2) The balance is net of $12 million (31 March 2013: $4 million; 30 September 2012: $1 million) of individually assessed provision for impairment.
(3) Governments include federal, state and local governments and related enterprises, predominantly in Australia.
(4) Included within this balance are loans of $13,103 million (31 March 2013: $10,774 million; 30 September 2012: $12,244 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**335**	383	389
Provided for during the period (note 2)	**46**	39	65
Loan assets written off, previously provided for	**(33)**	(83)	(58)
Recovery of loans previously provided for (note 2)	**(6)**	(1)	(11)
Transfer from other provisions	**10**	–	–
Impact of foreign currency translation	**23**	(3)	(2)
Balance at the end of the period	**375**	335	383
Individually assessed provisions as a percentage of total gross loan assets	**0.68%**	0.67%	0.79%
Collective allowance for credit losses			
Balance at the beginning of the period	**240**	237	238
Provided for/(written back) during the period (note 2)	**21**	4	(1)
Impact of foreign currency translation	**9**	(1)	–
Balance at the end of the period	**270**	240	237

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

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 10

Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	**8**	9	11
Less individually assessed provisions for impairment	**(7)**	(7)	(10)
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	2	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**849**	828	856
Less individually assessed provisions for impairment	**(448)**	(415)	(461)
Loan assets and other financial assets after individually assessed provisions for impairment	**401**	413	395
Total net impaired financial assets	**402**	415	396

Note 11

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

Loans and investments without provisions for impairment	**2,327**	1,911	1,892
Loans and investments with provisions for impairment	**781**	720	1,023
Less provisions for impairment	**(611)**	(583)	(630)
Loans and investments at recoverable amount	**170**	137	393
Total interests in associates and joint ventures accounted for using the equity method	**2,497**	2,048	2,285

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 2013 %**	As at 31 Mar 2013 %	As at 30 Sep 2012 %
Chemoil Storage Limited[(1)]	Marshall Islands	31 December	**45**	–	–
Macquarie Goodman Japan Limited[(2),(3)]	Singapore	31 March	**–**	–	50
MPF Holdings Limited[(4)]	United Kingdom	31 December	**30**	30	–
Southern Cross Media Group[(5)]	Australia	30 June	**25**	25	25

(1) Oil storage facility
(2) Sold during the period ended 31 March 2013.
(3) Property development/management
(4) Infrastructure
(5) Television and radio

Notes to the consolidated financial statements
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	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 12
Trading portfolio liabilities

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Listed equity securities	**2,942**	1,057	2,385
Foreign government securities	**257**	253	260
Corporate securities	**282**	187	292
Commonwealth government securities	**4**	–	704
Total trading portfolio liabilities	**3,485**	1,497	3,641

Note 13
Other financial liabilities at fair value through profit or loss

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Equity linked notes	**1,204**	1,663	1,531
Debt issued at fair value	**1**	41	62
Total other financial liabilities at fair value through profit or loss	**1,205**	1,704	1,593

Note 14
Debt issued at amortised cost

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Debt issued at amortised cost[1]	**43,755**	38,014	40,714
Total debt issued at amortised cost	**43,755**	38,014	40,714

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $11,961 million (31 March 2013: $9,393 million;
30 September 2012: $10,817 million).

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

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

(In Australian dollar equivalent):

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
United States dollars	**21,516**	18,951	16,930
Australian dollars	**11,702**	9,085	11,778
Canadian dollars	**4,789**	5,868	6,636
Japanese yen	**2,260**	2,292	2,689
Euro	**1,632**	604	1,650
Swiss franc	**1,089**	1,004	510
Great British pounds	**782**	442	890
Korean won	**423**	431	451
South African rand	**418**	592	407
Hong Kong dollars	**198**	250	204
Singapore dollars	**119**	76	105
Others	**32**	123	57
Total by currency	**44,960**	39,718	42,307

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.

Note 15

Contributed equity

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Ordinary share capital			
Opening balance of 339,506,578 (1 October 2012: 339,009,111; 1 April 2012: 348,584,383) fully paid ordinary shares(1)	**6,882**	6,876	7,127
Issue of 329,188 (31 March 2013: 49,950; 30 September 2012: 2,726) shares on exercise of options	**10**	2	–
Issue of 32,384 (31 March 2013: 5,260; 30 September 2012: 16,688) shares on exercise of MEREP awards	**1**	1	–
Issue of 11,482 (31 March 2013: 332,685; 30 September 2012: 47,002) shares on retraction of exchangeable shares at $80.30 per share	**1**	26	4
Issue of 8,404 (31 March 2013: 126,212; 30 September 2012: 118,719) shares on retraction of exchangeable shares at $50.80 per share	**1**	6	6
Issue of nil (31 March 2013: 32,002; 30 September 2012: nil) shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**–**	–	–
Cancellation of nil (31 March 2013: 48,642; 30 September 2012: 9,760,407) shares under the share buyback program in the range of $nil (31 March 2013: $28.54; 30 September 2012: $24.27 to $28.95) per share	**–**	(1)	(250)
For employee MEREP awards that have vested and options excercised during the period:			
Transfer from share-based payments reserve	**191**	18	142
Transfer from treasury shares for shares withdrawn	**(202)**	(46)	(153)
Closing balance of 339,888,036 (31 March 2013: 339,506,578; 30 September 2012: 339,009,111) fully paid ordinary shares(1)	**6,884**	6,882	6,876
Treasury shares			
Opening balance of 28,981,801 (1 October 2012: 30,198,281; 1 April 2012: 24,646,608) treasury shares (1)	**(1,011)**	(1,058)	(968)
Purchase of 4,969,737 (31 March 2013: nil; 30 September 2012: 8,955,127) shares for employee MEREP awards	**(216)**	–	(242)
Transfer of 5,157,869 (31 March 2013: 1,167,838; 30 September 2012: 3,452,096) shares withdrawn/exercised for vested MEREP awards	**202**	46	153
Purchase of 1,866,577 (31 March 2013: 1,563,515; 30 September 2012: 1,176,028) shares for DRP share issue	**(81)**	(47)	(31)
Allocation of 1,866,577 (31 March 2013: 1,563,515; 30 September 2012: 1,176,028) shares under DRP scheme	**81**	47	31
Purchase of nil (31 March 2013: nil; 30 September 2012: 9,809,049) shares under the share buyback program pending cancellation	**–**	–	(251)
Cancellation of nil (31 March 2013: 48,642; 30 September 2012: 9,760,407) shares under the share buyback program	**–**	1	250
Closing balance of 28,793,669 (31 March 2013: 28,981,801; 30 September 2012: 30,198,281) Treasury shares(2)	**(1,025)**	(1,011)	(1,058)

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note1(iii).

(2) In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share which is held in shares of the Company by the Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) is presented as Treasury shares.

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Note 15
Contributed equity continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Exchangeable shares			
Opening balance of 604,206 (1 October 2012: 1,063,103; 1 April 2012: 1,759,522) exchangeable shares	**36**	69	82
Issue of nil (31 March 2013: nil; 30 September 2012: 38,118) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis(1),(2)	**–**	–	–
Retraction of 11,482 (31 March 2013: 332,685; 30 September 2012: 47,002) exchangeable shares at $80.30 per share, exchangeable to shares in MGL on a one-for-one basis(3)	**(1)**	(26)	(4)
Retraction of 8,404 (31 March 2013: 126,212; 30 September 2012: 118,719) exchangeable shares with vesting conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis	**(1)**	(6)	(6)
Cancellation of nil (31 March 2013: nil; 30 September 2012: 32,060) exchangeable shares at $80.30 per share	**–**	(1)	(2)
Cancellation of nil (31 March 2013: nil; 30 September 2012: 536,756) exchangeable shares at $50.80 per share(2)	**–**	–	(1)
Closing balance of 584,320 (31 March 2013: 604,206; 30 September 2012: 1,063,103) exchangeable shares	**34**	36	69

(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 MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

(2) The number of exchangeable shares was determined on July 18, 2012 pursuant to the settlement of the acquisition agreement with Tristone employees. The corresponding prior period value of the exchangeable shares includes a fair value adjustment due to an earn out mechanism.

(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 MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.
There are also retention agreements in place with key former Orion employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 30 September 2013, the total number of retention options remaining is nil (31 March 2013: nil; 30 September 2012: 32,002).

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Contributed equity	**5,893**	5,907	5,887

Note 16

Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(895)**	(804)	(777)
Currency translation differences arising during the period, net of hedges and tax	**573**	(91)	(27)
Balance at the end of the period	**(322)**	(895)	(804)
Available for sale reserve			
Balance at the beginning of the period	**313**	199	120
Revaluation movement for the period, net of tax	**208**	111	6
Transfer to income statement for impairment, net of tax	**49**	76	85
Transfer to profit on realisation, net of tax	**(50)**	(73)	(12)
Balance at the end of the period	**520**	313	199
Share-based payments reserve			
Balance at the beginning of the period	**688**	618	766
Option reversal for the period	**–**	–	(16)
MEREP expense including related tax effect for the financial period	**158**	134	137
Transfer to share capital on vesting of MEREP awards and exercise of options	**(191)**	(18)	(142)
Transfer to retained earnings[(1)]	**(94)**	(46)	(127)
Balance at the end of the period	**561**	688	618
Cash flow hedging reserve			
Balance at the beginning of the period	**(49)**	(61)	(47)
Revaluation movement for the period, net of tax	**5**	12	(14)
Balance at the end of the period	**(44)**	(49)	(61)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**–**	(2)	(18)
Share of other comprehensive income during the period	**11**	2	16
Balance at the end of the period	**11**	–	(2)
Total reserves at the end of the period	**726**	57	(50)
Retained earnings			
Balance at the beginning of the period	**5,439**	5,155	4,924
Profit attributable to ordinary equity holders of MGL	**501**	490	361
Dividends paid on ordinary share capital (note 5)	**(419)**	(252)	(257)
Transfer from share-based payments reserves[(1)]	**94**	46	127
Change in non-controlling ownership interest	**(5)**	–	–
Balance at the end of the period	**5,610**	5,439	5,155

(1) Includes $94 million (31 March 2013: $46 million; 30 September 2012: $127 million) transferred to retained earnings in respect of expired and lapsed options.

Notes to the consolidated financial statements
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Note 16
Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The Macquarie Income Securities issued by MBL, a subsidiary, 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 2013: 1.7 per cent per annum; 30 September 2012: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are perpetual instruments with no conversion rights.

Macquarie Income Preferred Securities

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 (31 March 2013: 6.177 per cent; 30 September 2012: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and 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. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

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 NCI, with distribution entitlements being included with NCI share of profit after tax. Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Macquarie Income Securities			
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
Macquarie Income Preferred Securities			
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	107
Less issue costs	**(1)**	(1)	(1)
	106	106	106
Foreign currency translation reserve	**(35)**	(46)	(42)
Total Macquarie Income Preferred Securities	**71**	60	64
Other non-controlling interests			
Ordinary share capital	**28**	63	43
Preference share capital	**2**	2	2
Foreign currency translation reserve	**(1)**	(16)	(17)
Retained earnings	**(1)**	52	29
Total other non-controlling interests	**28**	101	57
Total non-controlling interests	**490**	552	512

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 17

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

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Receivables from financial institutions[(1),(2)]	**9,877**	10,022	10,304
Trading portfolio assets and debt securities[(3)]	**3,701**	3,057	4,549
Cash and cash equivalents at the end of the period	**13,578**	13,079	14,853

(1) Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses.
(2) Cash and cash equivalents include $3,728 million (31 March 2013: $3,134 million; 30 September 2012: $3,117 million) held in segregated deposit fund and escrow account which are restricted for use.
(3) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Reconciliation of profit after income tax to net cash flows from/(used in) operating activities			
Profit after income tax	**503**	511	361
Adjustments to profit after income tax:			
Depreciation and amortisation	**287**	255	239
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**14**	(268)	(120)
Provision and impairment charge on financial and non-financial assets	**208**	316	319
Interest on available for sale financial assets	**(106)**	(75)	(57)
Net gains on sale of investment securities available for sale and associates and joint ventures	**(111)**	(361)	(82)
Share-based payments expense	**158**	134	121
Share of net profits of associates and joint ventures accounted for using the equity method	**(70)**	(17)	(75)
Changes in assets and liabilities:			
Change in dividends receivable	**(8)**	46	(43)
Change in values of associates due to dividends received	**60**	40	63
Change in fees and non-interest income receivable	**(29)**	(68)	48
Change in fees and commissions payable	**(2)**	(11)	(111)
Change in tax balances	**122**	(361)	51
Change in provisions for employee entitlements	**13**	(15)	(5)
Change in loan assets	**(5,592)**	(1,386)	(2,670)
Change in debtors, prepayments, accrued charges and creditors	**(106)**	437	(325)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(2,357)**	(479)	503
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**7,428**	(1,734)	3,783
Change in life investment contract receivables	**(52)**	(553)	(74)
Net cash flows from/(used in) operating activities	**360**	(3,589)	1,926

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 18
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Contingent liabilities exist in respect of:			
Guarantees	**405**	310	286
Indemnities	**20**	18	–
Letter of credit	**346**	271	267
Performance related contingents	**130**	228	211
Total contingent liabilities[1]	**901**	827	764
Commitments exist in respect of:			
Undrawn credit facilities	**3,379**	3,267	3,139
Forward asset purchases	**955**	849	1,432
Total commitments[2]	**4,334**	4,116	4,571
Total contingent liabilities and commitments	**5,235**	4,943	5,335

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. A provision is recognised where some loss is probable and can be reliably estimated. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(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 19

Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Consolidated Entity uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
- for financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the base interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- the Consolidated Entity's own credit risk is factored into the valuations of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the Consolidated Entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the Consolidated Entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 19

Fair values of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread; and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost:

	Carrying value $m	Fair value $m
Assets	**As at 30 Sep 2013**	
Receivables from financial institutions	20,001	20,001
Other financial assets	9,255	9,255
Loan assets held at amortised cost	54,476	54,803
Total assets	83,732	84,059
Liabilities		
Deposits	42,694	42,710
Other financial laibilities	9,333	9,333
Payables to financial institutions	19,625	19,755
Debt issued at amortised cost	43,755	44,340
Loan capital at amortised cost	3,438	3,588
Total liabilities	118,845	119,726

Note 19

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				As at 30 Sep 2013
Trading portfolio assets	15,927	6,427	135	22,489
Derivative assets	1,078	13,422	147	14,647
Investment securities available for sale	11,289	4,602	687	16,578
Other financial assets at fair value through profit or loss	526	2,539	51	3,116
Other financial assets[(1)]	381	776	-	1,157
Total assets	29,201	27,766	1,020	57,987
Liabilities				
Trading portfolio liabilities	2,143	1,342	–	3,485
Derivative liabilities	1,225	12,859	65	14,149
Other financial liabilities at fair value through profit or loss	50	1,105	50	1,205
Other financial liabilities[(1)]	380	749	–	1,129
Total liabilities	3,798	16,055	115	19,968

[(1)] Relates to life insurance contracts and other unitholder investment assets and liabilities.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 19

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the period ended 30 September 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the period	322	744
Purchases	68	129
Sales	(198)	(125)
Settlements	–	–
Net transfers (out of)/into level 3[1]	(54)	(115)
Fair value (losses)/gains recognised in the income statement[2]	(3)	47
Fair value gains recognised in other comprehensive income[2]	–	7
Balance at the end of the period	135	687
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[2]	(3)	21

(1) Transfers in and out of level 3 during the period are reported using their end of period fair values.

(2) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2. Total gains or losses recognised in the income statement are included in net trading income, and those recognised in other comprehensive income are included in the available-for-sale investments reserve.

(3) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $147 million and derivative liabilities are $65 million.

Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Derivative financial instruments (net replacement values)[3]	Total
$m	$m	$m	$m
			Half-year to 30 Sep 2013
69	(70)	23	1,088
–	–	46	243
(19)	23	(5)	(324)
–	(1)	(25)	(26)
(6)	–	39	(136)
7	(2)	4	53
–	–	–	7
51	(50)	82	905
4	(4)	1	19

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 19
Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period, the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the period.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Half-year to 30 Sep 2013 $m
Balance at the beginning of the period	32
Deferral on new transactions	3
Amounts recognised in the income statement during the period	(9)
Balance at the end of the period	26

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type			As at 30 Sep 2013	
Equity and equity linked products	6	68	(6)	(43)
Other products	30	–	(24)	–
Total	36	68	(30)	(43)

Note 19

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair values of the instruments. The range of values represent the highest and lowest of inputs used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Maximum value
					As at 30 Sep 2013	
Equity and equity linked products	**690**	**59**	Discounted cash flows	Discount rate	8.4%	13.5%
			Pricing model	Volatility	1.4%	107.7%
				Earnings multiple	0.4x	7x
				Correlation	(0.68)	0.63
			Market comparability	Price in %	94.8%	113.4%
Other products	**330**	**56**	Pricing model	Volatility	8.5%	92.0%
				Correlation	0.15	1
			Market comparability	Price in %	5%	337%
Total	**1,020**	**115**				

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility and skew

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Forward prices

Forward prices are a price or rate that is applicable to a financial transaction that will take place in the future. It is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment.

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earning multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples, discount rates, and forecast earnings of the investee companies.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 20
Events after the reporting period

Following a Board decision effective on 1 November 2013, shareholders will vote on a proposal to distribute approximately 340 million Sydney Airport (SYD) stapled securities (SYD Securities) (Distribution) to Macquarie ordinary shareholders and consolidate Macquarie ordinary shares (Consolidation).

If the Distribution is approved, eligible Macquarie ordinary shareholders will receive one SYD Security for each Macquarie ordinary share held. At 30 September 2013, these SYD Securities were recognised in the Statement of Financial Position within Investment securities available for sale at a carrying amount of $1,336 million. As described in note 19, the fair value is determined by reference to SYD's quoted market price. Upon distribution, the investment in these SYD Securities will be reduced along with a corresponding reduction in equity, and the cumulative amount carried in the Available for sale reserve in equity will be recycled to profit. At 30 September 2013, the cumulative amount carried in the Available for sale reserve related to the 340 million SYD Securities is $207 million, net of tax. The closing price of SYD Securities on the trading day prior to distribution will be used for recording the Distribution and will affect the amount recognised in profit.

If the Consolidation is approved there will be a conversion of one Macquarie ordinary share into 0.9438 Macquarie ordinary shares.

Directors' declaration
for the half-year ended 30 September 2013

In the Directors' opinion

a) the financial statements and notes for the half-year ended 30 September 2013 set out on pages 4 to 44 are in accordance with the *Corporations Act 2001 (Cth)*, including:
   i) complying with the Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001 (Cth);* and
   ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2013 and performance 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.

H Kevin McCann, AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
1 November 2013

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

pwc

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited, which comprises the statements of financial position as at 30 September 2013, and the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Macquarie Group Limited 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 internal 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 a 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 2013 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. 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.

Independence

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

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 (Cth)* including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2013 and of its performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001 (Cth).*

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
1 November 2013

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