Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2012

Dated: May 11, 2012

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2012 (this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*AASB*" means the Australian Accounting Standards Board;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means the Australian Competition and Consumer Commission and its successors;
- "*ADI*" means an institution that is an authorised deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*AGAAP*" means Australian GAAP that also ensures compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "*alternative asset funds*" means specific asset class investor funds, which are listed or unlisted in different regions and span such sectors as: (i) infrastructure and related sectors (toll roads, airports, communications infrastructure, energy utilities and other asset classes); (ii) sector-specific real estate assets (retail, office, industrial and commercial); and (iii) private equity and development capital;
- "*AML-CTF Act*" means the Anti Money Laundering and Counter-Terrorism Financing Act 2006 of Australia;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- *"Asset and Liability Committee"* means the committee established by the Executive Committee with responsibility for oversight of asset and liability management, liquidity policy compliance, liquidity scenario analysis and contingency planning;
- "*Assets under Management*" is a non-GAAP financial measure we use that calculates the value of the proportional ownership interest in assets of funds managed by entities in MBL Group or the Non-Banking Group, as applicable, plus other assets managed on behalf of third parties, see "Financial information presentation — Non-GAAP financial measures";
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited and its successors;
- "*Australian Banking Act*" means the Banking Act 1959 of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of Australia;
- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the US dollar;
- "*Bank*" and "*MBL*" each means Macquarie Bank Limited (ABN 46 008 583 542) (an ADI) and includes its predecessors and successors, and "*MBL Group*" means MBL and its controlled entities;
- "*Banking Group*" means Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary, including the Bank, that constitutes the Banking Group as described herein;
- "*Banking Holdco*" means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;

- "*CMA*" means Cash Management Accounts;
- "*CMT*" means the Macquarie Cash Management Trust;
- "*Commonwealth*" and "*Australia*" each means the Commonwealth of Australia;
- "*controlled entities*" means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objectives;
- "*CPS*" means Macquarie Convertible Preference Securities;
- "*ECS*" means Exchangeable Capital Securities;
- *"ELE"* means an Extended Licensed Entity (as defined in APRA prudential regulation) which is an ADI, such as the Bank, and any subsidiaries considered by APRA to be operating as a division of the ADI itself. In order to be part of the ELE, a subsidiary must, among other things: (i) not have liabilities to entities outside the ELE, including to third parties, where those liabilities exceed 5% of the subsidiary's assets; (ii) not undertake business that is not permitted by ADIs; (iii) be wholly-owned by the ADI itself or another ELE subsidiary; (iv) be entirely funded by the ADI; (v) face no regulatory or legal barriers to transferring assets back to the ADI; and (vi) have only the ADI's directors or senior managers on its board of directors;
- "*Equity under Management*" is a non-GAAP financial measure we use that aggregates the market capitalization of listed funds managed by entities in the Non-Banking Group, committed capital from investors in unlisted funds, the face value of hybrid instruments and invested capital in managed assets, see "Financial information presentation — Non-GAAP financial measures";
- "*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended;
- "*Executive Committee*" means the committee established and chaired by the managing director of MGL focusing on a variety of business issues, including key risks faced across the organization;
- "*financial statements*" means our historical financial statements;
- *"FIRB"* means the foundation internal ratings-based approach under Basel II;
- "*FSA*" means the United Kingdom Financial Services Authority;
- "*GAAP*" means generally accepted accounting principles;
- "*Guarantee*" means the guarantee contained in the Deed of Guarantee dated November 20, 2008 executed on behalf of the Commonwealth and which took effect from November 28, 2008, as amended from time to time;
- "*historical financial statements*" means our 2012 annual financial statements, our 2011 annual financial statements and our 2010 annual financial statements;
- "*IASB*" means the International Accounting Standards Board;
- "*IFRS*" means International Financial Reporting Standards;
- "*international income*" is a non-GAAP financial measure we use that means net operating income (excluding earnings on capital and other corporate income items) derived from our operations outside Australia, or in Australia for non-Australian clients and counterparties, see "Financial information presentation — Non-GAAP financial measures — International income";

- "*Macquarie Capital*" means, following the reorganizations of operating groups within MGL Group described below under "Macquarie Group Limited — Operating groups — Macquarie Capital", the Macquarie Capital Advisers division and certain activities of Fixed Income, Currencies & Commodities that transferred to the Non-Banking Group as part of the Restructure;

- "*managed assets*" means third party equity invested in assets managed by Macquarie Infrastructure and Real Assets where management fees may be payable to us and assets held directly by us acquired with a view that they may be sold into new or existing funds managed by Macquarie Infrastructure and Real Assets;

- "*MBIL*" means Macquarie Bank International Limited;

- "*MBL LB*" means the London branch of MBL;

- "*MCEL*" means Macquarie Capital (Europe) Limited;

- "*MEREP*" means Macquarie Group Employee Retained Equity Plan;

- "*MGL*" means Macquarie Group Limited (ABN 94 122 169 279), the authorised NOHC for the Banking Group and the Non-Banking Group, and includes its predecessors and its successors, as more fully described herein;

- "*MGL Group*", "we", "our" and "us" means MGL and its controlled entities, including MBL Group;

- "*MGL's U.S. Investors' Website*" means MGL's U.S. investors' website at www.macquarie.com/mgl/com/us/usinvestors;

- "*MIS*" means Macquarie Income Securities;

- "*MIPS*" means Macquarie Income Preferred Securities;

- "*net operating income*", an Australian GAAP financial measure, includes net interest income (interest income less interest expense), trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, and other sundry income items, and is net of impairment charges and is reported in the income statement in our financial statements;

- "*NOHC*" means an authorized non-operating holding company of an ADI;

- "*NOHC Authority*" means the authority to be a non-operating holding company of an ADI granted to MGL by APRA on September 5, 2007;

- "*Non-Banking Group*" means Non-Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary that constitute the Non-Banking Group as described herein;

- "*Non-Banking Holdco*" means Macquarie Financial Holdings Limited (ABN 63 124 071 398), the intermediate holding company established as a subsidiary of MGL and the parent of the Non-Banking Group as part of the Restructure;

- "*OFAC*" means the United States Office of Foreign Assets Control;

- "*operating expenses*", an Australian GAAP financial measure, include employment expenses (including staff profit sharing expense), brokerage and commission expense, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expense, and other sundry expenses and are reported in the income statement in our financial statements;

- "*RBA*" means the Reserve Bank of Australia;

- "*Restructure*" means the reorganization of MBL Group that was completed on November 19, 2007 that resulted in the establishment of MGL as the ultimate holding company of MBL and the transfer by MBL Group of certain businesses, subsidiaries and assets, primarily the Macquarie Capital operating group, to the Non-Banking Group;

- "*Services Agreements*" means the Outsourcing Master Services Agreements between MBL and MGL dated November 15, 2007, and between the Non-Banking Holdco and MGL dated December 10, 2007, and any supplements or amendments thereto;

- "*shared services*" means the services to be performed by MGL or its subsidiaries for the Banking and Non-Banking Groups pursuant to the Services Agreements described under "Macquarie Group Limited — Organizational structure";

- "*2011 annual financial statements*" means our audited consolidated financial statements contained in our 2011 Annual Report;

- "*2011 Annual Report*" means our 2011 annual report, extracts of which are incorporated by reference and which have been posted on MGL's U.S. Investor Website;

- "*2012 annual financial statements*" means our audited consolidated financial statements contained in our 2012 Annual Report;

- "*2012 Annual Report*" means our 2012 annual report, extracts of which are incorporated by reference and which have been posted on MGL's U.S. Investor Website; and

- "*2012 Fiscal Year Management's Discussion and Analysis Report*" means our Management's Discussion and Analysis report dated April 27, 2012, which has been posted on MGL's U.S. Investor Website, and which has been incorporated by reference herein.

Our fiscal year ends on March 31, so references to years such as 2012 or "fiscal year" and like references in the discussion of our financial statements, results of operation and financial condition are to the twelve months ending on March 31 of each such year.

In this Report, prior financial period amounts that have been reported in financial statements for or contained in the discussion of a subsequent financial period may differ from the amounts reported in the financial statements for or contained in the discussion of the financial statements for that prior financial period as the prior financial period amounts may have been adjusted to conform with changes in presentation in the subsequent financial period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “probability”, “risk”, and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- macroeconomic conditions in the global debt and equity markets;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, and government policy, including as a result of the regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- changes in market liquidity and investor confidence;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulty;
- our ability to complete, integrate or process acquisitions, dispositions, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- the performance of funds and other assets we manage;
- demographic changes and changes in political, social and economic conditions in any of the major markets in which we conduct our operations or which we may enter in the future;
- changes in consumer spending and saving and borrowing habits in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to adequately fund the operations of MGL and the Non-Banking Group;
- our ability to return capital or borrow from our subsidiaries;
- the impact of asset sales on our long-term business prospects;
- our ability to maintain or to increase market share and control expenses;

- the timely development of and acceptance of new products and services, the perceived overall value of these products and services by users, and the extent to which products and services previously sold by us require us to incur liabilities or absorb losses not contemplated at their initiation or origin;

- technological changes instituted by MGL, its counterparties or competitors;

- the ability of MGL to attract and retain employees;

- changes to the credit ratings assigned to each of MGL and MBL;

- adverse impact on our reputation; and

- various other factors beyond our control.

The foregoing list of important factors is not exhaustive. Statements that include forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

When relying on forward-looking statements to make decisions with respect to MGL Group, investors and others should carefully consider the foregoing factors and other uncertainties and events and are cautioned not to place undue reliance on forward-looking statements.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

Significant risk factors applicable to MGL Group are described under “Risk factors” and other factors are discussed in our 2012 Fiscal Year Management’s Discussion and Analysis Report and under “Management’s discussion and analysis of results of operation and financial condition” and elsewhere in this Report.

EXCHANGE RATES

MGL Group publishes its consolidated financial statements in Australian dollars and its fiscal year ends on March 31 of each year. For your convenience, the following table sets forth, for MGL Group's fiscal years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in US dollars per A$1.00.

In providing these translations, we are not representing that the Australian dollar amounts actually represent these US dollar amounts or that we could have converted those Australian dollars into US dollars. Unless otherwise indicated, conversions of Australian dollars to US dollars in this Report have been made at the noon buying rate at the close of business on March 31, 2012, which was US$1.0367 per A$1.00. The noon buying rate at the close of business on May 4, 2012 was US$1.0190 per A$1.00.

Fiscal year	**Period End**	**Average Rate**[1]	**High**	**Low**
2008	0.9132	0.8683	0.9463	0.7860
2009	0.6925	0.7948	0.9797	0.6073
2010	0.9169	0.8507	0.9369	0.6941
2011	1.0358	0.9450	1.0358	0.8172
2012	1.0367	1.0546	1.0803	1.0326
Month	**Period End**		**High**	**Low**
November 2011	1.0244		1.0366	0.9686
December 2011	1.0251		1.0298	0.9904
January 2012	1.0645		1.0651	1.0215
February 2012	1.0777		1.0806	0.8404
March 2012	1.0367		1.0803	1.0326
April 2012	1.0410		1.0447	1.0255
May 2012 (through May 4, 2012)	1.0190		1.0345	1.0190

1 The average of the noon buying rates on the last day of each month during the period.

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AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into US dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011, the Charter of the United Nations Act 1945 of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism which is available to the public at the Department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) at http://www.dfat.gov.au/un/unsc_sanctions/autonomous_sanctions_measures.html.

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the financial information presented elsewhere in this Report, our 2012 Fiscal Year Management's Discussion and Analysis Report and our historical financial statements.

Our financial information

In addition to this section, investors should refer to the discussion of our historical financial information included elsewhere in this Report and in the additional information posted on MGL's U.S. Investor Website, including:

- the section of this Report under the heading "Selected Financial Information", which presents summary audited consolidated statement of financial position data as at March 31, 2012, 2011, 2010, 2009 and 2008, income statement data for the fiscal years ended March 31, 2012, 2011, 2010, 2009 and 2008 and other historical financial data and metrics;

- the section of this Report under the heading "Macquarie Group Limited — Our business — Trading conditions and market update", which includes a discussion of operating conditions during the 2012 fiscal year and the impact on MGL Group;

- our 2012 Fiscal Year Management's Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the 2012 fiscal year compared to the 2011 fiscal year, along with other capital and liquidity disclosures for the 2012 fiscal year and which is posted on MGL's U.S. Investor Website;

- the section of this Report under the heading "Management's Discussion and Analysis of Results of Operation and Financial Condition" in this Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the 2011 fiscal year compared to the 2010 fiscal year;

- MBL's Pillar 3 Disclosure Document dated December 31, 2011, which describes MBL's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within the framework and which is posted on MGL's U.S. Investor Website; and

- our historical financial statements which are included in the extracts from our 2012 and 2011 Annual Reports posted on MGL's U.S. Investor Website.

Our historical financial statements

Our 2012 annual financial statements include our audited financial statements as at and for the years ended March 31, 2012 and 2011. Our operating segments, as reported in accordance with AGAAP, reflect our current operating groups and divisions. See our 2012 Fiscal Year Management's Discussion and Analysis Report for further information.

MGL Group is divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities; Fixed Income, Currencies & Commodities; Macquarie Funds; Banking & Financial Services; Macquarie Capital; and Corporate & Asset Finance. The Real Estate Banking division and Corporate segment are reported separately for internal reporting and risk management purposes. Transfers between segments are determined on an arm's-length basis and are eliminated on consolidation.

We report certain items in the Corporate segment, which includes the Group Treasury division, the Head Office and central support functions. Items of income and expense within the Corporate segment include the net impact of managing liquidity for MGL Group, earnings on capital, non-trading derivative volatility, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and distributions to holders of CPS, MIPS, MIS and ECS. The Corporate segment also includes the impact of changes in credit spreads on non-trading financial instruments that are classified as fair value through profit or loss. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equate to our total profit attributable to ordinary equity holders.

Changes to operating groups and reporting segments within MGL Group during the 2012 fiscal year

During the 2012 fiscal year, MGL Group completed a number of asset transfers between operating groups and the Corporate segment. These transfers were undertaken to better align the relevant assets. These transfers primarily comprised MGL Group's equity investments in certain assets as well as the transfer of Macquarie AirFinance, a consolidated subsidiary of MGL Group, from Macquarie Capital to Corporate & Asset Finance. In addition, certain assets that were no longer aligned with any operating group were transferred to the Corporate segment, including the investment in Sydney Airport (formerly known as MAp Group). As a result of these changes, the businesses and assets that comprised certain operating segments of MGL Group (including MBL Group) for financial reporting purposes were also changed. In our annual financial statements and, accordingly, this Report, the results of our operating groups for the year ended March 31, 2012 are presented to give effect to these asset transfers effective April 1, 2011, with the comparative information for the year ended March 31, 2011 presented based on the same basis.

Investors should note that while the financial information for the year ended March 31, 2012 included in this Report presents our current operating segments in accordance with AASB 8 "Operating Segments" following these internal asset transfers, and while in our 2012 financial statements we restated the comparative information for the year ended March 31, 2011 to reflect these internal asset transfers, we were not required to restate the operating segment presentation in the financial statements for earlier fiscal periods. As a result, our 2011 annual financial statements and our financial statements for prior fiscal years have not been restated to reflect our current reportable operating segments. Further, the audit reports on those historical financial statements report on historical financial statements that have not been re-presented on the same basis that our 2012 financial statements have been prepared. Investors are urged to use caution in analyzing the segment disclosures reported in our historical financial statements and the segment discussion presented in "Management's discussion and analysis of results of operation and financial condition — Year ended March 31, 2011 compared to year ended March 31, 2010 — Segment analysis" that include the disclosures of our previous operating segments and have not been restated to reflect our current reportable segments in accordance with AASB 8.

For further detail on our segment reporting, see Note 3 to our 2012 annual financial statements.

Impact of acquisitions and disposals on the 2012 and 2011 fiscal years

On October 24, 2011, MGL Group acquired Utility Metering Services (which trades as OnStream), a gas and electricity meter reading and installation business in the United Kingdom. In addition, Banking & Financial Services exited certain non-core activities and Macquarie Securities closed or scaled back a number of derivatives businesses, particularly in Europe. See our 2012 Fiscal Year Management's Discussion and Analysis of Report for further information.

During the 2011 fiscal year, MGL Group acquired a number of asset portfolios, entities and businesses, including:

- *Sal. Oppenheim*. On April 7, 2010, MGL Group acquired the equity derivatives, cash equities sales and research businesses of Sal. Oppenheim jr & Cie ("*Sal. Oppenheim*"), a German private bank;

- *International Lease Finance Corporation*. On April 14, 2010, MGL Group acquired International Lease Finance Corporation's ("*ILFC*") aircraft operating lease portfolio;

- *GMAC Australia.* On April 30, 2010, MGL Group acquired GMAC Australia's retail auto leases and loans portfolio;

- *Presidio Partners*. On November 18, 2010, MGL Group acquired Presidio Partners, a U.S. based real estate private capital raising and advisory firm with operations in North America and Europe;

- *INNOVEST Kapitalanlage AG*. On March 8, 2011, MGL Group acquired INNOVEST Kapitalanlage AG, an Austrian asset manager; and

- *REGAL Capital Advisors*. On March 10, 2011, MGL Group acquired REGAL Capital Advisors, a U.S.-based advisory firm specializing in the gaming, lodging and leisure industries.

In accordance with AASB 3 "Business Combinations", provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MGL Group's 2012 annual financial statements and 2011 annual financial statements, respectively.

For further information on how these businesses have been integrated into MGL Group, see "Macquarie Group Limited — Operating groups" below, and for information on their impact on our results of operation and financial condition for the 2012 and 2011 fiscal years, see our segment analysis in section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and "Management's discussion and analysis of results of operation and financial condition — Year ended March 31, 2011 compared to year ended March 31, 2010 — Segment analysis", respectively.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2012 and 2011 fiscal years, see Note 45 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2012 annual financial statements and Note 45 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2011 annual financial statements, respectively.

Certain differences between AGAAP and US GAAP

Investors should be aware that the financial information contained or incorporated by reference in this Report and in the additional information posted on MGL's U.S. Investor Website have been prepared and presented in accordance with Australian Accounting Standards and the recognition and measurement principles prescribed in the current interpretations of the International Financial Reporting Standards, or AGAAP. There are differences between AGAAP and US GAAP that may be material to the financial information contained or incorporated by reference in this Report and in the additional information posted on MGL's U.S. Investor Website. MGL Group has not provided a quantitative reconciliation or narrative discussion of these differences in this Report. Investors should therefore consult their own professional advisors for an understanding of the differences between AGAAP and US GAAP and how those differences might affect the financial information included in this Report and, more generally, the financial results of MGL Group going forward.

The accounting policies adopted by entities within MGL Group are as reported in Note 1 included in our 2012 annual financial statements.

Critical accounting policies and significant judgments

Note 1 to our 2012 annual financial statements provides a list of the significant accounting policies. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, we have identified the following policies as particularly involving critical accounting estimates and requiring management's exercise of judgment.

Basis of preparation and selection of policies

We prepare our financial statements in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements comply with IFRS as issued by the IASB. Consequently, the financial statements incorporated by reference herein and in the additional information posted on MGL's U.S. Investor Website are also prepared in accordance with and comply with IFRS as issued by the IASB.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying its accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements are discussed in this section, as a guide to understanding how their application affects our reported results. A broader and more detailed description of the accounting policies we employ is shown in Note 1 to our 2012 annual financial statements.

Estimates and judgments 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 statements are reasonable. Actual results in the future may differ from those reported.

Fair value of financial instruments

Financial assets and financial liabilities in our trading portfolio, those designated at fair value through profit and loss, and derivative instruments, are recorded at fair value on the balance sheet. Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms'-length transaction.

Key judgments affecting this accounting policy relate to how management determines fair value for such assets and liabilities. Market prices or rates are used to determine fair value where an active market exists.

Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at balance sheet dates. The values derived from applying these techniques are significantly affected by the choice of valuation model used and the underlying assumptions made regarding factors such as timing and amounts of future cash flows, discount rates, credit risk and volatility. The valuation techniques are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified by our Risk Management group before they are used, and models are calibrated to ensure the outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data (for example, for over the counter derivatives), however areas such as credit risk, volatilities and correlations require management to make estimates. Where fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique for which variables include only data from observable markets, then a profit is recognized immediately.

Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which occurred before April 1, 2010. From April 1, 2010, business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus, for business combinations occurring before April 1, 2010, any costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognized directly in equity, and those arising on borrowings are capitalized and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value on the acquisition date. MGL Group can elect, on a transaction-by-transaction basis, to measure any non-controlling interest ("*NCI*") either at fair value or at the NCI's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the cost of acquisition over the fair value of MGL Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than MGL Group's share of the fair value of the identifiable net assets of the business acquired, the difference is recognized directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from April 1, 2010, the amount is subsequently remeasured to its fair value with changes recognized in the consolidated income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Distinguishing between whether assets or a business is acquired therefore involves more judgment. Some of the factors that MGL Group uses in identifying a business combination are:

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

Impairment of loan assets

All loan assets are held at amortized cost and are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Provisions for loan losses are based on an incurred loss model, which recognizes a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows. Specific provisions are recognized where impairment of individual loans are identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

If, in a subsequent period, the amount of impairment losses decrease and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment losses are reversed through the income statement to the extent of what the amortized cost would have been had the impairment not been recognized.

Impairment of equity accounted investments

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

Impairment of investment securities available-for-sale

Investment securities available-for-sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognized directly in the available-for-sale reserve in equity, until the asset is derecognized or impaired, at which time the cumulative gain or loss will be recognized in the income statement. Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, MGL Group evaluates, among other factors, the normal volatility in share price and the amount of time for which the fair value has been below cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

Impairment losses recognized in the income statement for available-for-sale equity investments are not subsequently reversed through the income statement. However impairment losses recognized for available-for-sale debt investments are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognized in the income statement.

Impairment of disposal groups classified as held-for-sale

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

Acquisitions and disposals of controlled entities, joint ventures and associates, and held-for-sale investments

We acquire and dispose of investments regularly. Upon acquisition, the accounting treatment depends on the level of influence that we exert over the decision making in relation to the financial and operating policies of the investee:

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

- associates and joint ventures are entities over which we have significant influence or joint control, and are accounted for under the equity method except for those which are held-for-sale; and

- assets classified as held-for-sale include controlled entities and interests in associates or joint ventures whose carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets classified as held-for-sale are carried at the lower of carrying amount and fair value less costs to sell.

Management determines the dates of obtaining/losing control, significant influence or joint control, of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to influence the decision making in relation to 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/disposal date does not necessarily occur when the transaction is closed or finalized at law.

Debt issued at amortized cost

MGL Group has on issue debt securities and instruments which are initially recognized at fair value net of transaction costs incurred, and subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement over the period of the borrowings using the effective interest method.

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities that have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: (i) the liability contains embedded derivatives which must otherwise be separated and carried at fair value; (ii) the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or (iii) if by doing so eliminates (or significantly reduces) a measurement or recognition inconsistency that would otherwise arise. Interest expense on such items is recognized in the income statement in interest expense.

Loan capital

Loan capital is debt issued by MGL Group with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortized cost using the effective interest method (for convertible preference securities and subordinated debt at amortized cost) or at fair value through profit or loss (for subordinated debt at fair value through profit and loss).

Special purpose entities and securitizations

Securitized positions are held through a number of special purpose entities, which are generally categorized as mortgage special purpose entities and other special purpose entities, and include certain managed funds and repackaging vehicles. Where we are exposed to the majority of the residual risk associated with these special purpose entities, their underlying assets, liabilities, revenues and expenses are reported in the consolidated statement of financial position and income statement.

When assessing whether a special purpose entity is controlled (and therefore consolidated), judgment is required about risks and rewards as well as our ability to make operational decisions for the special purpose entity. The range of factors that are considered in assessing control are whether: (i) a majority of the benefits of a special purpose entity's activities are obtained; (ii) a majority of the residual ownership risks related to the special purpose entity's assets are obtained; (iii) the decision making powers of the special purpose entity vest with us; and (iv) the special purpose entity's activities are being conducted on behalf of us according to our specific business needs.

Income tax

The income tax expense for the year is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities and unused tax losses. Deferred tax assets are recognized when temporary differences arise between the tax base of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or where a benefit arises due to unused tax losses, but are only recognized in both cases to the extent that it is probable that future taxable amounts will be available to utilize those temporary differences or tax losses. Deferred tax liabilities are recognized when such temporary differences will give rise to taxable amounts being payable in future periods.

MGL and its wholly owned Australian controlled entities apply the tax consolidation regime in Australia. Under the terms and conditions of the tax funding agreement, MBL Group will be charged or reimbursed for current tax liabilities or assets incurred by MGL in connection with their activities. As a consequence, MBL Group will recognize amounts receivable or payable under a tax funding agreement with MGL.

Management exercises judgment in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the group in the relevant jurisdiction, the length of time that tax losses are eligible for carry forward to offset against future profits and whether future profits are expected to be sufficient to recoup losses.

Impairment of goodwill and other identifiable intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of MGL Group's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the balance sheet. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

An intangible asset is considered to have an indefinite useful life where it is expected to contribute to MGL Group's net cash inflows indefinitely.

Licenses and trading rights are carried at cost less accumulated impairment losses. These assets are not amortized because they are considered to have an indefinite useful life.

Management rights have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortization and any impairment losses. Amortization is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

Customer and servicing contracts with an indefinite useful life are carried at cost less accumulated impairment losses.

Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalized and amortized over the estimated useful life, usually a period of three years. Costs incurred on software maintenance are expensed as incurred.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date for indications of impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Revenue recognition of dividends and distributions

Dividends and distributions are recognized as income when MGL Group becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognized in the income statement when MGL Group's right to receive the dividend is established. When accounting for a dividend or distribution, judgment is required about whether it is recognized as income or a return of capital.

Management exercises judgment in determining whether a dividend or distribution is recognized as income or a return of capital. Factors considered include: whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital; whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor; the substance of the payment; whether other transactions occur with the same counterparty at the same time as, or in contemplation of, the payment; whether the payment is from profits in proportion to the investor's particular class of capital; when a dividend is paid in the form of additional equity of the investee, whether all investors retain their same relative ownership interest in the investee; and whether the criteria for derecognizing part, or all, of an investment in a financial asset are met, among others.

Pending accounting standards changes

For a description of standards, interpretations and amendments to AGAAP that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2012 annual financial statements.

Non-GAAP financial measures

We report our financial results in accordance with AGAAP. However, we include certain financial measures and ratios that are not prepared in accordance with AGAAP that we believe provide useful information to users in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by MGL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by AGAAP and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AGAAP. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MGL's U.S. Investor Website. These measures include:

Assets under Management

Assets under Management provides a consistent basis for measuring the scale of the funds management activities across our operating groups. Assets under Management is calculated as the proportional ownership interest in the underlying assets of funds and other assets managed by entities in MBL Group or the Non-Banking Group, as applicable, on behalf of third parties that are not funds managed by any MGL Group entity. This calculation is adjusted to exclude cross-holdings between funds managed by entities in MBL Group or the Non-Banking Group, as applicable, and is further adjusted to reflect the proportional ownership interest in the relevant fund manager.

Substantially all of MGL's Assets under Management is reported by Macquarie Funds with approximately 0.9% (as at March 31, 2012) reported by other operating groups.

Equity under Management

Equity under Management is a non-GAAP financial measure used by the Macquarie Infrastructure and Real Assets division, which is part of Macquarie Funds in the Non-Banking Group. Base management fees for that business, especially infrastructure and certain other alternative asset funds, are generally calculated with reference to Equity under Management. Equity under Management is considered an appropriate measure of the size of our funds as the calculation of Macquarie Infrastructure and Real Assets' base management fee income is based on a percentage of Equity under Management.

Equity under Management is the aggregate of listed funds — market capitalization at the measurement date plus underwritten or committed future capital raisings; unlisted funds — committed capital from investors at the measurement date less called capital subsequently returned to investors; hybrid instruments — face value of tickets and of exchangeable bonds; and managed assets — invested capital at measurement date.

Where a fund is managed through a joint venture with another party, the Equity under Management amount is then weighted based on our proportionate economic interest in the joint venture management entity.

International income

International income is a non-GAAP financial measure that we believe provides investors and analysts with a basis for determining the scale of our operations outside of Australia. Operating income is classified as "international" with reference to the geographic location in which the customer resides or services are provided. This may not be the same geographic location where the operating income is derived. For example, we classify operating income generated by work performed for clients based outside Australia and booked in Australia as “international”. Income from funds management activities are allocated by reference to the location of the funds’ assets.

International income as a percentage of net operating income (excluding earnings on capital and other corporate income items)

International income as a percentage of net operating income (excluding earnings on capital and other corporate income items) is a non-GAAP financial measure. To calculate this percentage, international income is divided by net operating income (excluding earnings on capital and other corporate income items).

Earnings on capital and other corporate income items

Earnings on capital and other corporate income items is a non-GAAP financial measure. Net operating income, an AGAAP financial measure, includes the income generated by our operating groups, income from the investment of our capital, and other items of operating income not attributed to our operating groups. Earnings on capital and other corporate income items is net operating income *less* the operating income generated by our operating groups.

Funded loan assets and funded statutory statement of financial position

Funded loan assets is a non-GAAP financial measure. Funded loan assets is determined based on the funded statements of financial position of MGL Group and not the statutory statement of financial position classification. MGL Group’s statutory statement of financial position is prepared based on AGAAP and includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of MGL Group. A reconciliation between the reported assets and the net funded loan assets at March 31, 2012 is presented in section 4.0 of our 2012 Fiscal Year Management’s Discussion and Analysis Report.

SUMMARY

This summary highlights selected information from this Report and does not contain all of the information that may be important to you. This summary does not purport to be complete and is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information appearing elsewhere in this Report. You should read this entire Report carefully, including the risk factors and the audited consolidated financial statements and the notes related thereto.

Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of banking, financial, advisory, investment and funds management services, MGL is primarily a client-driven business which generates income by providing a diversified range of products and services to clients. MGL Group acts on behalf of institutional, corporate, and retail clients and counterparties around the world. MGL's market capitalization as at the close of business on May 4, 2012 was A$10.1 billion (approximately US$10.3 billion based on the noon buying rate at the close of business on May 4, 2012 of US$1.0190 per A$1.00).

At March 31, 2012, MGL employed over 14,000 staff, had total assets of A$153.6 billion and total equity of A$11.7 billion. For the 2012 fiscal year, our net operating income was A$7.0 billion and profit after tax attributable to ordinary equity holders was A$730 million. As at March 31, 2012, MGL conducted its operations through more than 72 office locations in 28 countries, with 60% of our net operating income (excluding earnings on capital and other corporate income items) being derived from international income. See "Macquarie Group Limited — Our business — Regional activity" below for further information.

MGL was incorporated in the State of Victoria on October 12, 2006. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-5006.

Board and management changes during the 2012 fiscal year

The following board and management changes occurred during the 2012 fiscal year:

- Diane Grady joined the Boards of MGL and MBL as an Independent Voting Director in May 2011;

- Executive Chairman of Macquarie Capital and Macquarie Securities, Michael Carapiet, retired in July 2011. Roy Laidlaw, the Group Head of Macquarie Capital and Macquarie Securities, was appointed Executive Chairman of Macquarie Securities and continued in his capacity as Group Head of Macquarie Capital. Stevan Vrcelj, the Head of Cash Equities, was appointed Group Head of Macquarie Securities;

- Deputy Managing Director of MGL and Chief Executive Officer of MBL, Richard Sheppard, retired on December 20, 2011. Mr. Sheppard has been Deputy Managing Director since 1996 and, following the Restructure, in 2007 became Chief Executive Officer of MBL;

- MGL Group's Chief Financial Officer, Greg Ward, succeeded Richard Sheppard as Deputy Managing Director of MGL and Chief Executive Officer of MBL, effective December 21, 2011;

- Group Treasurer and Head of Group Treasury, Patrick Upfold (who succeeded Craig Shapiro as Group Treasurer in June 2011), succeeded Greg Ward as Chief Financial Officer and continues as Group Treasurer. Mr. Upfold joined MGL in 1997 and was appointed an Executive Director in 2002. He has 15 years of experience in finance and financial services. Mr. Upfold is a Fellow of the Institute of Chartered Accountants and holds a Bachelor of Economics;

- Executive Chairman of Macquarie Securities and Group Head of Macquarie Capital, Roy Laidlaw, retired on March 31, 2012 having joined MGL Group in 2003;

- Executive Committee Member and U.S. Country Head, Tim Bishop, succeeded Roy Laidlaw as Macquarie Capital Group Head. Mr. Bishop joined MGL in 1999 following its acquisition of the Australian investment banking business of Bankers Trust, and was appointed President and Chief Executive Officer of Macquarie Capital (USA) Inc. in January 2008. He has over 17 years of investment banking experience, having joined Bankers Trust in 1991. Mr. Bishop holds a Bachelor of Laws;

- U.S.-based Fixed Income, Currencies & Commodities Executive Director, Michael McLaughlin, succeeded Tim Bishop as U.S. Country Head and Head of U.S. Management Committee and joined the MGL Group Executive Committee on January 1, 2012; and

- Ben Brazil was appointed Co-head of Corporate & Asset Finance on February 1, 2012. Mr. Brazil originally joined MGL Group in 1994 and has more than 17 years experience operating across a range of business lines and geographies. He rejoined MGL Group in London in early 2009, and was responsible for the further development of Corporate & Asset Finance's Lending division.

Ratings review

On December 1, 2011, following a review under its revised bank criteria, Standard & Poor's updated its credit ratings for each of MGL and MBL. The rating for MGL changed to 'BBB' long-term from 'A-'. The outlook remained stable. This change reflected the application of the revised Standard & Poor's credit rating methodology that was published on November 9, 2011. MGL's short-term issuer credit rating remained unchanged at 'A-2'. Standard & Poor's lowered the issue ratings on MGL's subordinated debt to 'BBB-' from 'BBB+'. The credit ratings for MBL were affirmed at 'A' long-term and 'A-1' short-term, with a stable outlook. Standard & Poor's lowered the issue ratings on MBL's subordinated debt to 'BBB' from 'A-'.

On March 12, 2012, Fitch announced that following a review which stemmed from its broad review of the largest banking institutions in the world, it had downgraded its credit ratings for MGL and MBL. Fitch noted that these actions did not reflect any developments specific to MGL or MBL, but resulted from its broad global review. The long-term rating for MGL changed to 'A-' from 'A', and MGL's short-term rating changed to 'F2' from 'F1'. The long-term rating for MBL changed to 'A' from 'A+', while MBL's short-term rating was affirmed at 'F1'. Fitch lowered the ratings of MBL's subordinated debt to 'A-' from 'A'. The outlook for both the long-term and short-term ratings for each of MGL and MBL is stable.

On March 16, 2012, Moody's Investor Service ("*Moody's*") announced that it had revised the credit ratings for MGL and MBL. Moody's noted that these actions concluded the review commenced on November 4, 2011, and came as part of a global sector review of banks and securities firms with capital market operations. The long-term rating for MGL changed to 'A3' from 'A2', and MGL's short-term rating changed to 'P-2' from 'P-1'. The long-term rating for MBL changed to 'A2' from 'A1', and MBL's short-term rating of 'P-1' was affirmed. The outlook for both the long-term and short-term ratings for each of MGL and MBL is stable.

See section 5.1 of our 2012 Fiscal Year Management's Discussion and Analysis Report for the credit ratings of MGL and MBL at March 31, 2012.

Share buyback of MGL's ordinary shares

On April 27, 2012, MGL Group announced that MGL will purchase shares on market to satisfy the MEREP requirements of approximately A$275 million. In addition, shares for the Dividend Reinvestment Plan (DRP) for the second half of the 2012 calendar year will be acquired on market. Once the acquisition of the MEREP and DRP shares has been completed, MGL will buy back up to A$500 million of MGL's shares, subject to market conditions and the MGL share price. All of these share acquisitions have received regulatory approval. Once the above mentioned capital management activities have been completed, and subject to market conditions and the MGL share price, MGL intends, subject to regulatory approval, to continue the buyback for a total of up to 10% of MGL's ordinary shares.

Hybrid security issue

On March 26, 2012, MBL, acting through its London Branch, issued US$250 million of ECS to institutional and sophisticated investors. The ECS are unsecured subordinated notes of MBL and are quoted on the Singapore Stock Exchange. The ECS meet the requirements of Innovative Tier 1 Capital under the current regulatory framework of MBL. APRA has confirmed that, at a minimum, ECS will be eligible for transitional arrangements from January 1, 2013 under the new Basel III standards. On the information available as at March 31, 2012, MGL expects that ECS will fully qualify as Additional Tier 1 capital under the new Basel III standards. See section 6.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report for additional information on the regulatory framework.

Our key strengths

We believe our profitability, the diversification of our businesses and our geographic spread has been supported by the following key strengths:

- *Leading Australian and strong international franchise*. We are a leading Australian financial services firm that provides diverse financial services in Australia, with particular strengths in funds management, M&A, infrastructure advisory and management, securities origination, project advisory work and securities, foreign exchange, energy and commodities trading. This has created a strong base for our domestic and international growth and diversification. Over the last 10 years, we have significantly increased the amount of business we conduct outside of Australia and have transformed from a leading Australian financial services firm growing internationally into a global provider of diversified financial services headquartered in Australia. See "Macquarie Group Limited — Our history and evolution" below for further information.

- *Strong brand and reputation*. We believe our business successes have resulted in us achieving a level of recognition for quality, integrity, and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.

- *Diversified earnings*. Our diversified earnings base has been an important factor in our successful growth. MGL Group's diverse sources of income include the following:

  - *Fee and commission income*, including:

    - Brokerage and commission income from institutional cash equities services provided to retail and institutional clients by Macquarie Securities, brokerage fee income from Banking & Financial Services, as well as brokerage revenues in futures execution and clearing markets from Fixed Income, Currencies & Commodities;

    - Funds management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) from Macquarie Funds;

    - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital and Macquarie Securities as well as fee income from mortgage securitization vehicles, lending activities and transaction fees;

    - Other fee and commission income from the Macquarie Wrap and other administration fee income from Banking & Financial Services, and structuring fee income from Macquarie Funds' structured financial products; and

    - Income from life investment contracts and other unitholder investment assets from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds.

    - *Trading income* generated predominately through client trading activities and products issued by Macquarie Securities and Fixed Income, Currencies & Commodities;

    - *Interest income* earned on residential mortgages, loans to Australian and Canadian businesses, loans on capital protected products and credit cards of Banking & Financial Services, interest income on trading assets from Fixed Income, Currencies & Commodities and Macquarie Securities, and leasing, corporate lending and asset financing activities of Corporate & Asset Finance;

    - *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, operating lease income, dividends and distributions; and

    - *Equity accounted income* from principal investments in assets and businesses where significant influence is present.

- *Geographic diversity*. As at March 31, 2012, we employed over 14,000 people in 28 countries. Of those staff, approximately 53% were located in offshore markets. As MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions. We have sought to take advantage of new opportunities for acquisitions and organic growth in our areas of expertise and have also demonstrated a preparedness to exit businesses once profit opportunities have been exhausted. We believe our acquisitions have complemented our existing expertise in areas such as lending and leasing, energy, financial institutions and funds management and demonstrated our track record of successfully integrating new businesses. For further details of significant acquisitions, see “Macquarie Group Limited — Our history and evolution” below.

- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.

- *Experience managing growth and diversity*. The experience of our management team in managing our growth and diversification has been important to our success in realizing the benefits and controlling the risks associated with undertaking varying businesses, developing scale, and growing in new and existing geographic regions.

- *Business focus on fee income*. Our main business focus is providing services to our clients rather than engaging in principal activities. While several of our businesses have and expect to continue to undertake principal investments as part of their M&A and funds management strategies, respectively, our main focus is on generating management and advisory fees, not assuming significant principal exposure.

- *Strong capital position*. As at March 31, 2012, MGL had total regulatory capital of A$12.6 billion including A$4.3 billion surplus capital in excess of MGL Group’s minimum APRA regulatory requirement on a Basel II basis. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under “Regulation and supervision”.

- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 41 to our 2012 annual financial statements and in the “Risk Management Report” in our 2012 Annual Report incorporated by reference herein. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:

- *Independence.* Risk Management assesses and monitors risks for the entire MGL Group, is independent of the operating groups and is required to approve all major risk acceptance decisions.

- *Centralized risk management.* Risk Management's MGL Group-wide responsibilities enable it to assess risks from the perspective of the entire MGL Group and allow it to apply a consistent approach across all operating areas.

- *Approval of new business activities.* Operating groups are required to consult with Risk Management before undertaking new businesses or activities, offering new products or entering new markets. Risk Management's responsibility is to identify, quantify and assess the likely risks and establish prudential limits that, where appropriate, are approved by our Executive Committee and Board.

- *Continuous assessment.* Risk Management's responsibilities include the ongoing review of the risks that our businesses are exposed to in order to account for changes in market circumstances and to our operating groups.

- *Frequent monitoring*. Risk Management uses centralized systems to monitor credit and market risks daily and liaise with operating groups and supporting divisions.

Our strategy

Our strategy is to focus on the medium term and is built on: providing services to clients; aligning the interests with shareholders, investors and staff; utilizing what we believe is a conservative approach to risk management; continuing to focus on growth and evolution; diversifying by business and geography; and adapting to change. This approach provides the flexibility to enter into new business sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by our centralized Risk Management group whose responsibility is to implement appropriate assessment and management policies in respect of these risks throughout MGL Group. MGL applies this existing strategy and risk management framework across MGL Group.

Our business has always evolved and changed to adapt to market conditions. We continually examine investment opportunities and have undertaken a number of strategic acquisitions in response to changing market conditions and opportunities that have been presented to us. See "Macquarie Group Limited — Our history and evolution" for further information about our acquisitions in the 2012 fiscal year. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MGL Group in the medium term.

Across our international operations, the strategy focuses on building a global platform in our key areas of expertise, through both acquisitions and organic growth, which we believe will enable us to offer a comprehensive range of MGL products to clients around the world. See "Macquarie Group Limited — Our business — Regional activity" below for further information on MGL's performance across its key geographical regions.

Our business

Overview of MGL Group

At March 31, 2012, MGL had total assets of A$153.6 billion and total equity of A$11.7 billion. For the year ended March 31, 2012, our net operating income was A$7.0 billion and profit after tax attributable to ordinary equity holders was A$730 million, with 60% of our net operating income (excluding earnings on capital and other corporate income items) derived from international income.

The tables below show the relative revenues from external customers and profit contribution of each of our operating groups in the years ended March 31, 2012 and 2011:

Revenues from external customers of MGL Group by operating group for the years ended March 31, 2012 and 2011[1]

	Year ended		
	Mar 12	**Mar 11**	**Movement**[3]
	A$m	**A$m**	**%**
Macquarie Capital	903	1,150	(21)
Fixed Income, Currencies & Commodities	2,054	1,984	4
Macquarie Securities	1,057	1,445	(27)
Banking & Financial Services	2,238	2,417	(7)
Macquarie Funds	1,843	1,667	11
Corporate & Asset Finance	1,984	1,657	20
Real Estate Banking	29	85	(66)
Total revenues from external customers by operating group	10,108	10,405	(3)
Corporate[2]	1,503	1,619	(7)
Total revenues from external customers	11,611	12,024	(3)

Profit contribution of MGL Group by operating group for the years ended March 31, 2012 and 2011[1]

	Year ended		
	Mar 12	**Mar 11**	**Movement**[3]
	A$m	**A$m**	**%**
Macquarie Capital	85	214	(60)
Fixed Income, Currencies & Commodities	539	575	(6)
Macquarie Securities	(194)	184	*
Banking & Financial Services	265	275	(4)
Macquarie Funds	655	482	36
Corporate & Asset Finance	698	574	22
Real Estate Banking	(36)	(42)	(14)
Total contribution to profit by operating group	2,012	2,262	(11)
Corporate[2]	(1,282)	(1,306)	(2)
Net profit after tax	730	956	(24)

1 For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements.

2 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

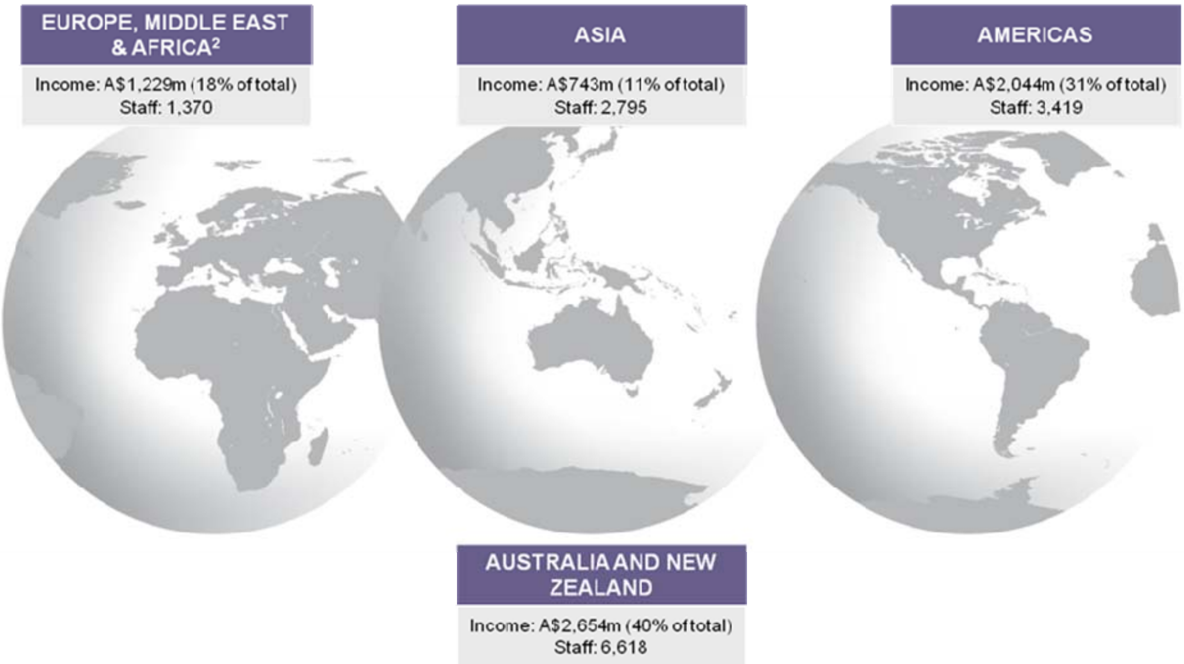
3 "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Regional activity

At March 31, 2012, MGL Group employed over 14,000 staff globally and conducted its operations in more than 72 office locations in 28 countries.

The chart below shows MGL Group's international income by region in the 2012 fiscal year.

International income of MGL Group[1] by region for the year ended March 31, 2012



1 For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements.

2 Staff seconded to joint venture not included in official headcount (South Africa: Macquarie First South, Moscow: Macquarie Renaissance).

Australia and New Zealand. MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2012, MGL Group employed over 6,600 staff across Australia and New Zealand. In the 2012 fiscal year, Australia and New Zealand contributed A$2.7 billion (40%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.9 billion (40%) in the 2011 fiscal year.

Americas. MGL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994, and has grown rapidly over the last three years, principally through acquisitions of Delaware Investments, FPK, Tristone, Blackmont and Constellation Energy, and the growth of our Energy Trading and Credit Trading businesses. As at March 31, 2012, MGL Group employed over 3,400 staff across the United States, Canada, Mexico and Brazil. In the 2012 fiscal year, the Americas contributed A$2.0 billion (31%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.2 billion (30%) in the 2011 fiscal year.

Asia. MGL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2012, MGL Group employed over 2,700 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. MGL has expanded the regional investment and product platforms of Macquarie Funds (including the Macquarie Infrastructure and Real Assets division), Corporate & Asset Finance as well as Fixed Income Currencies & Commodities, which had established an Asian regional "hub" in Singapore in the 2011 fiscal year. In the 2012 fiscal year, Asia contributed A$743 million (11%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.2 billion (16%) in the 2011 fiscal year.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2012, MGL Group employed over 1,300 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2012 fiscal year, Europe, Middle East & Africa contributed A$1.2 billion (18%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.0 billion (14%) in the 2011 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements. For further information on our international income for the 2012 and 2011 fiscal years, see section 3.10 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 41 to our 2012 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, results of operation or financial condition.

Our business and financial condition has been and may be negatively impacted by adverse credit and other market conditions. Economic conditions, particularly in Europe, may have a negative impact on MGL's financial condition and liquidity*.*

In recent years, global credit and equity markets have been characterized by uncertainty and volatility, with such markets continuing to demonstrate reduced liquidity, widened credit spreads and decreased price transparency. More recently, these challenging market conditions have resulted primarily from the ongoing sovereign debt concerns in Europe and concerns about U.S. and global growth, along with other developments, such as Standard & Poor's downgrade of the United States' long-term sovereign credit rating, uncertainty regarding the U.S. federal debt ceiling and systemic reviews of the banking sector by rating agencies and regulators, imposing additional capital and other regulatory requirements. Our businesses operate in or depend on the operation of global markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty in global credit markets, increased funding costs, constrained access to funding, and the decline in equity and capital market activity impacted transaction flow in a range of industry sectors, all of which adversely impacted our financial performance.

MGL may continue to endure similar or heightened adverse impacts in the future, depending upon factors such as whether economies in the United States and Europe recover and the rate at which those recoveries occur. MGL may also face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. recovery or departure of a European country from the Euro or the market perception of such events would disrupt global funding markets and the global financial system more generally. MGL may also be impacted indirectly through its counterparties that may have direct exposure to European sovereigns and financial institutions. See "Macquarie Group Limited — Additional financial disclosures for the 2012 fiscal year — Euro-zone exposures" for a description of MGL's exposure in certain European countries as of March 31, 2012.

Since 2008, governments, regulators and central banks globally have taken numerous steps to increase liquidity and to restore investor and public confidence. There can be no assurance that the relief measures implemented by governments and central banks around the globe to restore confidence in financial systems and bolster economic growth will result in a sustained long-term stabilization of financial markets, or what impact the withdrawal of such relief measures or the consequential impacts of substantial fiscal stimulus on the budgets of sovereigns will have on global economic conditions or MGL's financial condition.

Our advisory and transaction execution businesses have been and may be adversely affected by market uncertainty or lack of confidence due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.

Poor economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected investor and client confidence, resulting in significant industry-wide declines in the size and number of underwritings and of financial advisory transactions, which could have an adverse effect on our revenues and our profit margins. For example, our M&A advisory and underwriting fee income and our client facilitation fee income may be impacted by transaction volumes. In addition, in certain circumstances, market uncertainty or general declines in market or economic activity may affect our client execution businesses by decreasing levels of overall activity or by decreasing volatility, but at other times market uncertainty and even declining economic activity may result in higher trading volumes or higher spreads or both. Our trading income may be adversely impacted during times of subdued market conditions and client activity. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our funds management business. Our funds management fee income, including base and performance fees, may be impacted by volatility in equity values and returns from our managed funds. Our loan portfolio may also be impacted by deteriorating economic conditions. We may consider the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales are also subject to the current economic climate. In addition, if financial markets decline, revenues from our variable annuity products are likely to decrease.

Our liquidity, profitability and businesses may be adversely affected by an inability to access international capital markets or by an increase in our cost of funding.

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired by an inability to access secured or unsecured debt markets, an inability to sell assets or unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects our trading clients or ourselves, or changes in our credit spreads, which are continuous, market-driven, and subject at times to unpredictable and highly volatile movements. For a more detailed description of liquidity risk, refer to section 5.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

General business and economic conditions are key considerations in determining our access to capital markets, cost of funding and ability to meet our liquidity needs and include, but are not limited to, changes in short-term and long-term interest rates, inflation, monetary supply, commodities volatility and results, fluctuations in both debt and equity capital markets, relative changes in foreign exchange rates, consumer confidence and the relative strength of the economies in which we operate. Renewed turbulence or a worsening general economic climate, such as in Europe, could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate further, our funding costs may increase and may limit our ability to replace, in a timely manner, maturing liabilities, which could adversely affect our ability to fund and grow our business or otherwise have a material impact on us.

In the event that our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The availability of alternative financing will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit capacity. The cost of these alternatives may be more expensive than our current sources of funding or include other unfavorable terms, or we may be unable to raise as much funding as we need to support our business activities. This could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding, all of which could reduce our profitability. In the event that we are required to sell assets, there is no assurance that we will be able to obtain favorable prices on some or all of the assets we offer for sale or that we will be able to successfully complete asset sales at an acceptable price or in an acceptable timeframe. In addition, the sale of income earning assets may adversely impact our income in future periods.

Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in the markets in which we operate.

Many of our businesses are highly regulated in most jurisdictions in which we do business. We have businesses in multiple sectors, including as licensed brokers, investment advisers or other regulated financial services providers. We operate similar kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of MGL Group own or manage assets and businesses that are regulated. Our businesses include regulated banks (in Australia and the United Kingdom) that operate branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MGL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation in most jurisdictions in which we operate, including in the United States in respect of our broker-dealer and funds management businesses. Certain regulatory developments will significantly alter the regulatory framework and may adversely affect our competitive position and profitability. Some of the key regulators and regulatory frameworks applicable to our businesses are described below under "Regulation and supervision".

Regulatory agencies and governments frequently review banking and financial services laws, regulations and policies, including fiscal policies, for possible changes. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services offered or the value of our assets. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally and on financial transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Future changes in laws, regulations or policies as described above can be unpredictable and are beyond our control and could adversely affect our business.

MGL is regulated by APRA as a NOHC. APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MGL as a NOHC. Any such event could result in changes to the organizational structure of MGL Group and adversely affect the business or financial performance of MGL Group.

Global economic conditions have led to changes in regulation in markets in which we operate, particularly for financial institutions, and will lead to further significant changes of this kind. It is not possible to predict with certainty what regulatory or related changes may result from the recent financial market crisis or the effect any such changes would have on MGL and any of our businesses. However, there is operational and compliance risk associated with the implementation of any new laws and regulations that apply to us as a financial institution. In particular, changes in applicable laws, regulations or other governmental policies could adversely affect one or more of our businesses and could require us to incur substantial costs.

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards, where applicable, as well as rules and regulations relating to corrupt and illegal payments and money laundering) and industry codes of practice, as well as meeting our ethical standards. The failure to comply with applicable regulations could result in suspensions, restrictions of operating licenses, fines and penalties or limitations on our ability to do business. They could also have adverse reputational consequences. These costs, expenses and limitations could have an adverse affect on our business, results of operations, financial performance or financial condition. The legal, regulatory and consent requirements described above could also adversely affect the profitability and prospects of us or our businesses to the extent that they limit our operations and flexibility of our businesses. The nature and impact of future changes in such policies are not predictable and are beyond our control.

Changes and increased volatility in currency exchange rates may adversely impact our financial results and our financial and regulatory capital positions.

While our financial statements are presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies and with counterparties around the world. Changes in the rate at which the Australian dollar is exchangeable for other currencies can impact our financial statements and the economics of our business.

Although we believe that we carefully manage our exposure to foreign currencies through matching of assets and liabilities in local currencies and through the use of foreign exchange forward contracts to hedge our exposure, we are still exposed to exchange risk. Insofar as we are unable to hedge or have not completely hedged exposure to non-Australian currencies, our reported profit or foreign currency translation reserve would be affected.

Investors should be aware that exchange rate movements may adversely impact our future financial results. MGL Group's regulatory capital position may be adversely impacted by a depreciating Australian dollar, which increases the capital requirement for assets denominated in currencies other than Australian dollars.

Our business may be adversely affected by our failure to adequately manage the risks associated with certain strategic opportunities and new businesses, including acquisitions, and the exiting or restructuring of existing businesses.

From time to time we may evaluate strategic opportunities and undertake acquisitions of businesses, some of which may be material. Certain acquisition opportunities may arise, for example, as competitors choose to exit what they consider non-core activities. Our completed and prospective acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

We may not achieve expected synergies from the acquisition, we may achieve lower than expected cost savings or otherwise incur losses, we may lose customers and market share, we may face disruptions to our operations resulting from integrating the systems, processes and personnel (including in respect of risk management) of the acquired business into MGL Group, our management's time may be diverted to facilitate the integration of the acquired business into MGL Group, or the acquisition may have negative impacts on our results, financial condition or operations. We may also underestimate the costs associated with outsourcing, exiting or restructuring existing businesses.

In addition, there are current and prospective strategic risks associated with timely business decisions, proper implementation of decisions or responsiveness to changes in our current operating environment. From time to time, we may evaluate other strategic opportunities, the outcome of which is dependent upon the quality of our strategic planning process, the implications of the strategy on risk appetite and our ability to evaluate and, if determined, successfully implement such strategic opportunities.

Our business is substantially dependent on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MGL use the Macquarie name. Our reputation and, as a result, our business and business prospects could be adversely affected if any of the entities using the Macquarie name take actions that bring negative publicity on MGL Group.

The financial condition and results of operation of MGL Group may be indirectly adversely affected by the negative performance, or negative publicity in relation to, any Macquarie-managed fund or funds that Macquarie has promoted or is associated with, as investors and lenders may associate such funds with the name, brand and reputation of MGL Group and other Macquarie-managed funds. In addition, if funds that use the Macquarie name or are otherwise associated with Macquarie-managed infrastructure assets, such as roads, airports, utilities and water distribution facilities that people view as community assets, are perceived to be managed inappropriately, those managing entities could be subject to criticism and negative publicity, harming our reputation and the reputation of other entities that use the Macquarie name.

Competitive pressure, both in the financial services industry as well as the other industries in which we operate, could adversely impact our business and results of operation.

We face significant competition from local and international competitors, which compete vigorously for participation in the various markets and sectors across which we operate, including the financial services industry. We compete on the basis of a number of factors, including our products and services, innovation, reputation and price. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to increase market share. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms, internet based firms and other investment and service firms in connection with the various funds and assets we manage and services we provide. In addition, any trend toward consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do.

Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our employees are our most important resource, and our performance is largely dependent on the talents and efforts of highly skilled individuals. As such, our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry, such as professional service firms, hedge funds, private equity funds and venture capital funds, for qualified employees has historically been intense and is expected to increase during periods of economic growth.

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. Typically, those levels have caused employee remuneration to be our greatest expense as our performance-based remuneration has historically been cash based and highly variable. Recent market events have resulted in increased regulatory and public scrutiny of corporate remuneration policies and the establishment of criteria against which industry remuneration policies may be assessed. As discussed further under “Regulation and supervision — APRA — Remuneration – Extensions to governance requirements for APRA-regulated institutions”, we may be subject to limitations on remuneration practices (which may or may not affect our competitors). These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees. If we are unable to continue to attract and retain qualified employees, as a result of such changes or otherwise, or are required to pay higher remuneration in order to attract and retain qualified employees to maintain our competitive position, or if increased regulation requires us to further change our remuneration policies, our performance, including our competitive position, could be materially adversely affected.

In addition, current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business and growth opportunities or potential efficiencies, which could adversely affect our profitability.

Our business is subject to the risk of loss associated with falling prices in the equity and other markets in which we operate.

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees due to changes in interest rates, exchange rates, equity and commodity prices, credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors. We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are increasingly complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. We may incur losses as a result of decreased market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in the level of prices in the equity markets or increases in interest rates may reduce the value of our clients’ portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive conditions in other investments could cause our clients to transfer their assets out of our funds or other products.

Defaults by one or more other large financial institutions or counterparties could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. As a result of, and in light of, recent significant volatility in the financial sector and the capital markets, concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions globally that may further affect us. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis.

An increase in the failure of third parties to honor their commitments in connection with our trading, lending and other activities, including funds that we manage, may adversely impact our business.

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of a third party to satisfy its financial obligations to us on a timely basis. The resulting credit exposure will depend on a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 41 to our 2012 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances.

Credit constraints of purchasers of our investment assets or on our clients may impact our income.

Historically, a portion of our income has been generated from the sale of assets to third parties, including our funds. If buyers are unable to obtain financing to purchase assets that we currently hold or purchase with the intention to sell in the future, we may be required to hold investment assets for a longer period of time than we historically have or may sell these assets at lower prices than we historically would have expected to achieve, which may lower our rate of return on these investments and require funding for periods longer than we have anticipated.

In addition, we have historically derived a portion of our income from M&A advisory fees which are typically paid upon completion of a transaction. Our clients that engage in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit and the increased cost of credit may adversely affect the size, volume and timing of our clients’ merger and acquisition transactions – particularly large transactions – and may also adversely affect our financial advisory and underwriting businesses.

Our businesses have been and may continue to be affected by changes in the levels of market volatility.

Certain of our trading businesses benefit from the trading and arbitrage opportunities created by market volatility, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses. On the other hand, increased volatility, while potentially increasing trading volumes and spreads, also increases market risk. Market risk can lead to trading losses and may cause us to reduce the size of our trading businesses in order to limit our risk exposure. Limiting the size of our trading businesses can adversely affect our profitability.

In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets or it may only be possible to do so at steep discounts. In such circumstances we may be forced to either take on additional risk or to incur losses in order to decrease our market risk. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital.

Failure to maintain our credit ratings and those of our subsidiaries could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

The credit ratings assigned to us and our subsidiaries by rating agencies are based on an evaluation of a number of factors, including our ability to maintain a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and disciplined liquidity monitoring procedures. In addition, a credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events.

If we fail to maintain our current credit ratings, this could (i) adversely affect our cost of funds and related margins, liquidity, competitive position, the willingness of counterparties to transact with us and our ability to access capital markets or (ii) trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

We may incur losses as a result of ineffective risk management processes and strategies.

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

For a further discussion of our risk management policies and procedures, see our “Risk Management Report” in our 2012 Annual Report and Note 41 to our 2012 annual financial statements.

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our managerial, administrative, IT, risk management, operational and financial resources and may expose us to additional risks.

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our legal, accounting, risk management and operational infrastructure and result in increased expenses. Our future growth will depend, among other things, on our ability to integrate new businesses, maintain an operating platform and management system sufficient to address our growth, attract employees and other factors described herein. If we do not manage our expanding operations effectively, our ability to generate revenue and control our expenses could be adversely affected.

A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact, directly or indirectly, with individuals and entities that are new clients, with new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these businesses are being operated or conducted.

Poor performance of our funds would cause a decline in our revenue and results of operations and may adversely affect our ability to raise capital for future funds.

Our financial condition and results of operation are directly and indirectly affected by the results of the funds and the assets we manage, particularly our Macquarie-managed funds. Our revenue from Assets under Management is derived principally from three sources: (i) management fees, based on the size of our funds; (ii) incentive income, based on the performance of our funds; and (iii) investment income based on our investments in the funds, which we refer to as our “principal investments”. If the value of the funds we manage declines, our Assets under Management would also decline, which would result in a decrease in our management fees from our funds. In the event that any of our funds perform poorly due to market conditions or our underperformance, our revenue and results of operations may decline. In addition, investors may withdraw their investments in our funds or may decline to invest in future funds we establish as a result of poor performance of our funds or otherwise.

Long-term underperformance can have negative implications for incentive income. If the return of a fund is negative in any period (quarterly, semi-annually or annually, depending on the fund) then the amount of the performance deficit must be carried forward until eliminated.

The business model of MGL Group includes revenue it generates from management of alternative asset funds and transactions with the alternative asset funds it manages.

As at March 31, 2012, MGL Group had A$326.9 billion in Assets under Management, and for the year ended March 31, 2012 derived A$938 million of base fee income from the funds that it managed. In addition to risks relating to fee income (as described above) and any credit exposure we may have to funds or assets owned by funds, MGL Group's funds model exposes it to such risks as:

- *Equity at risk*: MGL Group maintains an equity interest in a number of the funds that it manages. The market value of MGL Group's assets is directly affected by the value of the funds managed by MGL Group to the extent of its equity interest in those funds.

- *Reputation risk*: The Macquarie name is attached to many of the funds managed by MGL Group. Any adverse developments at any of the funds we manage or the assets managed by those funds could have an adverse impact on our reputation and public image which could adversely affect our business and financial condition.

- *Contingent liabilities*: In some instances entities in MGL Group have sold assets to funds managed by MGL Group mostly in circumstances when MGL Group is seeding a newly-formed fund with assets, or MGL Group has sold its interest in such assets to third parties. Under the terms of some of the agreements pursuant to which those assets have been sold we may have contingent liabilities as a result of the representations and warranties, covenants, indemnities or other provisions of those agreements.

- *Conflicts of interest*: MGL Group manages and advises a large number of funds, many of which compete for assets and investors. We have policies in place designed to manage conflicts of interest within MGL Group, but no assurance can be given that those policies will be adequate to prevent actual or perceived conflicts of interest.

If we are unable to effectively manage these risks, our funds management business and reputation could be materially harmed or we could be exposed to claims or other liabilities to investors in the funds.

We may experience further writedowns of our funds management assets, other investments, loan impairment provisions and other losses related to volatile market conditions.

MGL Group recorded A$445 million of impairment charges for the year ended March 31, 2012, including A$266 million of impairment charges on investment securities available-for-sale, investments in associates and joint ventures, investments in disposal groups held-for-sale and other non-financial assets, and A$179 million of loan impairment provisions. Further impairments and provisions may be required in future periods if the market value of assets similar to those held were to decline.

In addition, market volatility has in recent years impacted the value of our funds. Future valuations, in light of factors then prevailing, may result in further impairments to our investments in our funds. In addition, at the time of any sale of our investments in our funds, the price we ultimately realize will depend on the demand in the market at the time and may be materially lower than their current market value. Any of these factors could require us to make further writedowns on our investments in our funds management assets and other investments and assets, which may be significant and may have an adverse effect on our results of operations and financial condition in future periods.

Our business operations expose us to potential tax liabilities that could have an adverse impact on our results of operation and our reputation.

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax planning and compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. In addition, as a result of increased funding needs by governments resulting from fiscal stimulus measures, revenue authorities in many of the jurisdictions in which we operate are known to have become more active in their tax collection activities. While we believe that we have in place controls and procedures that are designed to ensure that transactions involving third parties comply with applicable tax laws and regulations, any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events.

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. As our client base, business activities and geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. We must continuously update these systems to support our operations and growth, which may entail significant costs and risks of successful integration. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume or disruption in internet services provided by third parties, adversely affecting our ability to process these transactions or provide these services.

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, or from external events. Such operational risks may include theft and fraud, cyber attacks, improper business practices, client suitability and servicing risks, product complexity and pricing, and valuation risk or improper recording, evaluating or accounting for transactions or breach of security and physical protection systems, or breaches of our internal policies and regulations. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, we increasingly face the risk of operational failure with respect to our clients' and counterparties' systems. Any such failure, termination or constraint could adversely affect our ability to effect or settle transactions, service our clients, manage our exposure to risk, meet our obligations to counterparties or expand our businesses or result in financial loss or liability to our clients and counterparties, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

Our commodities activities, particularly our physical commodities trading businesses, subject us to the risk of unforeseen, hostile or potential catastrophic events, and environmental, reputational and other risks that may expose us to significant liabilities and costs.

Our physical oil and commodities-related activities are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. In addition, we rely on third party suppliers or service providers to perform their contractual obligations, and any failure on their part could adversely affect our business. In addition, we may not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm.

Conflicts of interest could limit our current and future business opportunities.

As we expand our businesses and our client base, we increasingly have to address potential conflicts of interest, including situations where our services to a particular client conflict with, or are perceived to conflict with, our own proprietary investments or other interests or with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within MGL Group. While we believe we have adequate procedures and controls in place to address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients to enter into transactions in which such a conflict might arise may be adversely affected if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to claims by and liabilities to clients, litigation or enforcement actions.

Litigation, regulatory actions and contingent liabilities may adversely impact our results of operations.

We may, from time to time, be subject to material litigation, regulatory actions and contingent liabilities, for example, as a result of inappropriate documentation of contractual relationships or regulatory violations, which, if they crystallize, may adversely impact upon our results of operation and financial condition in future periods or our reputation. We regularly obtain legal advice and make provisions, as deemed necessary. There is a risk that any losses may be larger than anticipated or provided for or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm our reputation or brand, thereby adversely affecting our business.

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks.

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as natural disasters, the outbreak of hostilities and acts of terrorism. We could also be affected by the occurrence of diseases. In some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

There are restrictions on the ability of subsidiaries, such as MBL, to make payments to MGL.

MGL is a holding company and many of its subsidiaries, including its broker-dealer, bank and insurance subsidiaries, such as MBL, are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to MGL. Restrictions or regulatory action of that kind could impede access to funds that MGL needs to make payments on its obligations, including debt obligations, or dividend payments. In particular, the availability of MBL's funding to meet the obligations of MGL or the Non-Banking Group is subject to regulatory restrictions.

Failure of our insurance carriers or our failure to maintain adequate insurance cover could adversely impact our results of operations.

We maintain third party insurance and self-insurance that we consider to be prudent for the scope and scale of our activities. If our carriers fail to perform their obligations to us, our third party cover is insufficient or our self-insurance is too great for a particular matter or group of related matters, our net loss exposure could adversely impact our results of operations.

We are subject to risks in using custodians.

Certain funds we manage depend on the services of custodians to carry out certain securities transactions. In the event of the insolvency of a custodian, the funds might not be able to recover equivalent assets in full as they will rank among the custodian's unsecured creditors in relation to assets which the custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a custodian will not be segregated from the custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2012.

The information relating to MGL Group in the following table is based on our 2012 annual financial statements, which were prepared in accordance with AGAAP, and should be read in conjunction therewith.

	As at	
	Mar 12	**Mar 12**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	26,064	25,141
Subordinated debt — due greater than 12 months	2,829	2,729
Total borrowings[3]	28,893	27,870
Equity		
Contributed equity		
Ordinary share capital	7,557	7,289
Treasury shares	(1,178)	(1,136)
Exchangeable shares	85	82
Reserves	46	44
Retained earnings	5,105	4,924
Macquarie Income Preferred Securities	65	63
Macquarie Income Securities	405	391
Other non-controlling interests	77	75
Total equity	12,162	11,732
TOTAL CAPITALIZATION	**41,055**	**39,602**

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2012, which was US$1.0367 per A$1.00. See “Exchange rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

2 At March 31, 2012, we had A$8.5 billion of secured indebtedness due in greater than 12 months compared to A$9.8 billion at March 31, 2011.

3 Total borrowings does not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$12.5 billion as at March 31, 2012 and securitizations totaled A$13.0 billion as at March 31, 2012 compared to A$14.1 billion and A$12.8 billion, respectively, as at March 31, 2011.

For details on our short-term debt position as at March 31, 2012, see section 5.3 of our 2012 Fiscal Year Management’s Discussion and Analysis Report.

SELECTED FINANCIAL INFORMATION

The summary consolidated statement of financial position data as at March 31, 2012, 2011, 2010, 2009 and 2008 and income statement data for the fiscal years ended March 31, 2012, 2011, 2010, 2009 and 2008 presented below have been derived from our audited financial statements for 2012, 2011, 2010, 2009 and 2008. These financial statements have been prepared in accordance with AGAAP, which also complied with International Financial Reporting Standards as issued by the International Accounting Standards Board. See "Financial information presentation" in this Report for further information.

The historical information in the following tables has been extracted from our historical financial statements.

Income statements

	Year ended					
	Mar 12	**Mar 12**	**Mar 11**	**Mar 10**	**Mar 09**	**Mar 08**
	US$m[1]	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
Net interest income	1,382	1,333	1,275	1,080	938	817
Fee and commission income	3,487	3,364	3,891	3,721	4,045	4,645
Net trading income	1,073	1,035	1,389	1,299	1,157	1,835
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	112	108	179	(230)	74	156
Other operating income and charges	1,165	1,123	931	768	(688)	795
Net operating income	**7,219**	**6,963**	**7,665**	**6,638**	**5,526**	**8,248**
Employment expenses	(3,691)	(3,560)	(3,890)	(3,101)	(2,359)	(4,177)
Brokerage and commission expenses	(751)	(724)	(785)	(645)	(685)	(702)
Occupancy expenses	(472)	(456)	(483)	(482)	(393)	(264)
Non-salary technology expenses	(301)	(290)	(316)	(283)	(263)	(214)
Other operating expenses	(916)	(884)	(920)	(833)	(837)	(686)
Total operating expenses	**(6,131)**	**(5,914)**	**(6,394)**	**(5,344)**	**(4,537)**	**(6,043)**
Operating profit before income tax	**1,088**	**1,049**	**1,271**	**1,294**	**989**	**2,205**
Income tax (expense)/benefit	(298)	(287)	(282)	(201)	(15)	(317)
Profit after income tax	**790**	**762**	**989**	**1,093**	**974**	**1,888**
Profit attributable to non-controlling interests	(33)	(32)	(33)	(43)	(103)	(85)
Profit attributable to ordinary equity holders of Macquarie Group Limited	**757**	**730**	**956**	**1,050**	**871**	**1,803**

Statement of financial position

	As at					
	Mar 12	**Mar 12**	**Mar 11**	**Mar 10**	**Mar 09**	**Mar 08**
	US$m[1]	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
ASSETS						
Receivables from financial institutions	11,312	10,912	9,817	8,251	12,412	10,117
Cash collateral on securities borrowed and reverse repurchase agreements	7,877	7,598	8,790	7,149	5,096	22,906
Trading portfolio assets	13,155	12,689	14,898	12,138	9,260	15,807
Loan assets held at amortized cost	46,879	45,218	46,016	44,267	44,751	52,407
Other financial assets at fair value through profit or loss	6,961	6,715	11,668	9,172	7,910	4,131
Derivative assets	22,888	22,078	21,185	21,561	27,428	21,136
Other assets	14,081	13,583	12,646	11,801	10,640	10,539
Investment securities available-for-sale	18,936	18,266	17,051	18,221	18,123	16,454
Intangible assets	1,401	1,351	1,317	1,456	759	494
Life investment contracts and other unit holder investment assets	6,121	5,904	5,059	4,846	4,314	5,699
Interest in associates and joint ventures accounted for using the equity method	2,762	2,664	2,790	3,927	6,123	5,500
Property, plant and equipment	5,427	5,235	5,007	1,900	605	375
Deferred income tax assets	1,326	1,279	1,245	1,124	1,186	718
Non-current assets and assets of disposal groups classified as held-for-sale	139	134	79	127	537	967
Total assets	**159,265**	**153,626**	**157,568**	**145,940**	**149,144**	**167,250**
LIABILITIES						
Payables to financial institutions	8,089	7,803	7,810	9,927	11,858	10,041
Cash collateral on securities lent and repurchase agreements	5,003	4,826	6,617	7,490	3,953	13,781
Trading portfolio liabilities	3,748	3,615	5,808	5,432	2,161	11,825
Derivative liabilities	21,794	21,022	21,572	21,706	27,371	21,399
Deposits	38,533	37,169	35,338	22,484	21,868	15,783
Debt issued at amortized cost	41,170	39,713	41,177	42,614	48,270	57,115
Other financial liabilities at fair value through profit or loss	2,833	2,733	4,339	4,413	6,203	6,288
Other liabilities	15,541	14,991	14,327	12,679	10,342	12,210
Current tax liabilities	109	105	197	119	187	193
Life investment contracts and other unit holder liabilities	6,113	5,897	5,055	4,864	4,312	5,689
Provisions	250	241	215	191	189	179
Deferred income tax liabilities	452	436	287	235	4	121
Liabilities of disposal groups classified as held-for-sale	–	–	–	9	328	215
Total liabilities excluding loan capital	**143,635**	**138,551**	**142,742**	**132,163**	**137,046**	**154,839**
Loan capital						
Macquarie Convertible Preference Securities	637	614	595	593	591	–
Subordinated debt at amortized cost	2,674	2,579	1,832	916	1,496	1,704
Subordinated debt at fair value through profit or loss	156	150	467	499	451	646
Total loan capital	**3,467**	**3,343**	**2,894**	**2,008**	**2,538**	**2,350**
Total liabilities	**147,102**	**141,894**	**145,636**	**134,171**	**139,584**	**157,189**
Net assets	**12,163**	**11,732**	**11,932**	**11,769**	**9,560**	**10,061**
EQUITY						
Contributed equity						
Ordinary share capital	7,557	7,289	7,140	6,990	4,906	4,534
Treasury shares	(1,178)	(1,136)	(731)	(443)	(2)	(12)
Exchangeable securities	85	82	104	137	116	133
Reserves	46	44	310	280	17	456
Retained earnings	5,105	4,924	4,581	4,268	3,627	3,718
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	11,615	11,203	11,404	11,232	8,664	8,829
Non-controlling interests	548	529	528	537	896	1,232
Total equity	**12,163**	**11,732**	**11,932**	**11,769**	**9,560**	**10,061**

Other financial data

	As at				
	Mar 12	**Mar 11**	**Mar 10**	**Mar 09**	**Mar 08**
Per Share Information					
(Amounts in A$)					
Basic earnings per share (cents per share)	210.1	282.5	320.2	309.6	670.6
Diluted earnings per share (cents per share)	202.3	275.9	317.4	308.6	653.5
(Amounts in US$)[1]					
Basic earnings per share (cents per share)	217.8	292.6	293.6	163.1	353.4
Diluted earnings per share (cents per share)	209.7	285.8	291.0	162.6	344.3
Number of shares on issue (at March 31; millions)	348.6	346.8	344.2	283.4	274.6
Ratios					
Net loan losses as a percentage of loan assets (%)[2]	0.5	0.4	0.8	1.9	0.3
Ratio of earnings to fixed charges[3]	1.3x	1.3x	1.5x	1.2x	1.4x
Expense/income ratio (%)[4]	84.9	83.4	80.5	82.1	73.3
Return on average ordinary shareholders funds (%)[5]	6.8	8.8	10.1	9.9	23.7
Dividend payout ratio (%)	66.4	67.3	60.4	60.2	52.2

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2012, which is US$1.0367 per A$1.00. See “Exchange rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

2 Net loan losses as a percentage of loan assets excludes amounts relating to mortgage securitization special purpose entities. Our exposure in relation to these entities is largely mitigated by credit insurance. Loan losses in these vehicles are not material.

3 For the purposes of computing ratios, earnings consist of net profit before interest costs, operating lease rental payments, income tax and non-controlling interests. Fixed charges consist of interest costs plus rental payments under operating leases.

4 Total operating expenses expressed as a percentage of net operating income.

5 The profit after income tax attributable to ordinary shareholders expressed as an annualized percentage of the average ordinary equity over the relevant period.

MACQUARIE GROUP LIMITED

Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of banking, financial, advisory, investment and funds management services, MGL is primarily a client-driven business which generates income by providing a diversified range of products and services to clients. MGL Group acts on behalf of institutional, corporate, and retail clients and counterparties around the world. MGL's market capitalization as at the close of business on May 4, 2012 was A$10.1 billion (approximately US$10.3 billion based on the noon buying rate at the close of business on May 4, 2012 of US$1.0190 per A$1.00).

At March 31, 2012, MGL employed over 14,000 staff, had total assets of A$153.6 billion and total equity of A$11.7 billion. For the 2012 fiscal year, our net operating income was A$7.0 billion and profit after tax attributable to ordinary equity holders was A$730 million. As at March 31, 2012, MGL conducted its operations through more than 72 office locations in 28 countries, with 60% of our net operating income (excluding earnings on capital and other corporate income items) being derived from international income. See "— Our business — Regional activity" below for further information.

MGL was incorporated in the State of Victoria on October 12, 2006. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-5006.

Board and management changes during the 2012 fiscal year

The following board and management changes occurred during the 2012 fiscal year:

- Diane Grady joined the Boards of MGL and MBL as an Independent Voting Director in May 2011;

- Executive Chairman of Macquarie Capital and Macquarie Securities, Michael Carapiet, retired in July 2011. Roy Laidlaw, the Group Head of Macquarie Capital and Macquarie Securities, was appointed Executive Chairman of Macquarie Securities and continued in his capacity as Group Head of Macquarie Capital. Stevan Vrcelj, the Head of Cash Equities, was appointed Group Head of Macquarie Securities;

- Deputy Managing Director of MGL and Chief Executive Officer of MBL, Richard Sheppard, retired on December 20, 2011. Mr. Sheppard has been Deputy Managing Director since 1996 and, following the Restructure, in 2007 became Chief Executive Officer of MBL;

- MGL Group's Chief Financial Officer, Greg Ward, succeeded Richard Sheppard as Deputy Managing Director of MGL and Chief Executive Officer of MBL, effective December 21, 2011;

- Group Treasurer and Head of Group Treasury, Patrick Upfold (who succeeded Craig Shapiro as Group Treasurer in June 2011), succeeded Greg Ward as Chief Financial Officer and continues as Group Treasurer. Mr. Upfold joined MGL in 1997 and was appointed an Executive Director in 2002. He has 15 years of experience in finance and financial services. Mr. Upfold is a Fellow of the Institute of Chartered Accountants and holds a Bachelor of Economics;

- Executive Chairman of Macquarie Securities and Group Head of Macquarie Capital, Roy Laidlaw, retired on March 31, 2012 having joined MGL Group in 2003;

- Executive Committee Member and U.S. Country Head, Tim Bishop, succeeded Roy Laidlaw as Macquarie Capital Group Head. Mr. Bishop joined MGL in 1999 following its acquisition of the Australian investment banking business of Bankers Trust, and was appointed President and Chief Executive Officer of Macquarie Capital (USA) Inc. in January 2008. He has over 17 years of investment banking experience, having joined Bankers Trust in 1991. Mr. Bishop holds a Bachelor of Laws;

- U.S.-based Fixed Income, Currencies & Commodities Executive Director, Michael McLaughlin, succeeded Tim Bishop as U.S. Country Head and Head of U.S. Management Committee and joined the MGL Group Executive Committee on January 1, 2012; and

- Ben Brazil was appointed Co-head of Corporate & Asset Finance on February 1, 2012. Mr. Brazil originally joined MGL Group in 1994 and has more than 17 years experience operating across a range of business lines and geographies. He rejoined MGL Group in London in early 2009, and was responsible for the further development of Corporate & Asset Finance's Lending division.

Ratings review

On December 1, 2011, following a review under its revised bank criteria, Standard & Poor's updated its credit ratings for each of MGL and MBL. The rating for MGL changed to 'BBB' long-term from 'A-'. The outlook remained stable. This change reflected the application of the revised Standard & Poor's credit rating methodology that was published on November 9, 2011. MGL's short-term issuer credit rating remained unchanged at 'A-2'. Standard & Poor's lowered the issue ratings on MGL's subordinated debt to 'BBB-' from 'BBB+'. The credit ratings for MBL were affirmed at 'A' long-term and 'A-1' short-term, with a stable outlook. Standard & Poor's lowered the issue ratings on MBL's subordinated debt to 'BBB' from 'A-'.

On March 12, 2012, Fitch announced that following a review which stemmed from its broad review of the largest banking institutions in the world, it had downgraded its credit ratings for MGL and MBL. Fitch noted that these actions did not reflect any developments specific to MGL or MBL, but resulted from its broad global review. The long-term rating for MGL changed to 'A-' from 'A', and MGL's short-term rating changed to 'F2' from 'F1'. The long-term rating for MBL changed to 'A' from 'A+', while MBL's short-term rating was affirmed at 'F1'. Fitch lowered the ratings of MBL's subordinated debt to 'A-' from 'A'. The outlook for both the long-term and short-term ratings for each of MGL and MBL is stable.

On March 16, 2012, Moody's Investor Service ("*Moody's*") announced that it had revised the credit ratings for MGL and MBL. Moody's noted that these actions concluded the review commenced on November 4, 2011, and came as part of a global sector review of banks and securities firms with capital market operations. The long-term rating for MGL changed to 'A3' from 'A2', and MGL's short-term rating changed to 'P-2' from 'P-1'. The long-term rating for MBL changed to 'A2' from 'A1', and MBL's short-term rating of 'P-1' was affirmed. The outlook for both the long-term and short-term ratings for each of MGL and MBL is stable.

See section 5.1 of our 2012 Fiscal Year Management's Discussion and Analysis Report for the credit ratings of MGL and MBL at March 31, 2012.

Share buyback of MGL's ordinary shares

On April 27, 2012, MGL Group announced that MGL will purchase shares on market to satisfy the MEREP requirements of approximately A$275 million. In addition, shares for the DRP for the second half of the 2012 calendar year will be acquired on market. Once the acquisition of the MEREP and DRP shares has been completed, MGL will buy back up to A$500 million of MGL's shares, subject to market conditions and the MGL share price. All of these share acquisitions have received regulatory approval. Once the abovementioned capital management activities have been completed, and subject to market conditions and the MGL share price, MGL intends, subject to regulatory approval, to continue the buyback for a total of up to 10% of MGL's ordinary shares.

Hybrid security issue

On March 26, 2012, MBL, acting through its London Branch, issued US$250 million of ECS to institutional and sophisticated investors. The ECS are unsecured subordinated notes of MBL and are quoted on the Singapore Stock Exchange. The ECS meet the requirements of Innovative Tier 1 Capital under the current regulatory framework of MBL. APRA has confirmed that, at a minimum, ECS will be eligible for transitional arrangements from January 1, 2013 under the new Basel III standards. On the information available as at March 31, 2012, MGL expects that ECS will fully qualify as Additional Tier 1 capital under the new Basel III standards. See section 6.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report for additional information on the regulatory framework.

Organizational structure

MGL Group's business operations are conducted primarily through two groups: the Banking Group and the Non-Banking Group, which include six operating groups and one division, within which individual businesses operate.

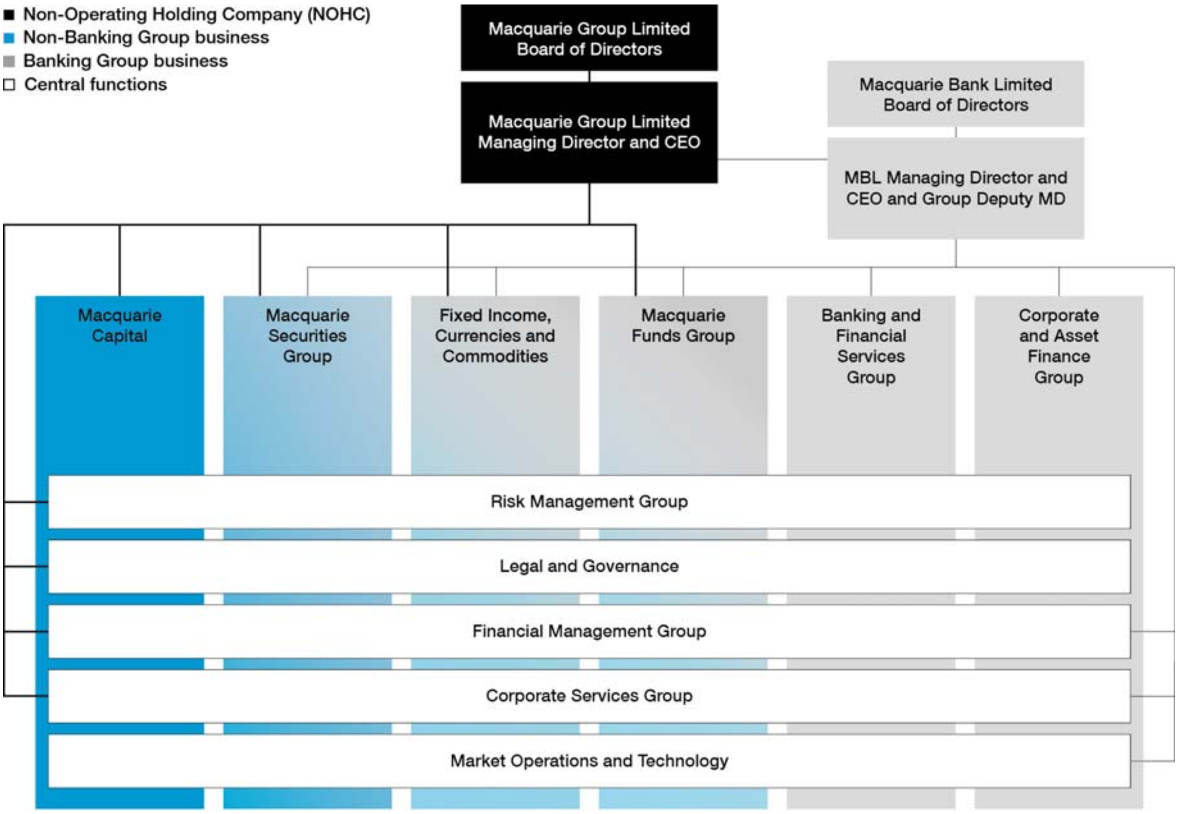
The Banking Group comprises MBL Group and has five operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division); Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities) and Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions). MBL Group also has one division: Real Estate Banking.

The Non-Banking Group consists of Macquarie Capital; the Macquarie Infrastructure and Real Assets division of Macquarie Funds; the Cash division of Macquarie Securities and certain activities of the Derivatives division of Macquarie Securities in certain jurisdictions; and certain assets of the Credit Trading business and some other less financially significant activities of Fixed Income, Currencies & Commodities.

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises five central functions: Risk Management, Legal and Governance, Financial Management, Corporate Services, and Market Operations and Technology. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Media Relations, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

The following diagram shows our current organizational structure of MGL Group and reflects the composition of the Banking and Non-Banking Groups.



[1] As of April 2011, the Real Estate Banking division is no longer included in MGL Group's organisational chart above, reflecting the reduced size of this business following the transfer of the real estate lending and development finance business to Corporate & Asset Finance in July 2010, as well as the transfer of certain unlisted funds management products to Macquarie Funds in November 2010.

MGL will continue to monitor and review the appropriateness of the MGL structure, including the provision of shared services. From time to time, the optimal allocation of our businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group may be adjusted and we may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

Our key strengths

We believe our profitability, the diversification of our businesses and our geographic spread has been supported by the following key strengths:

- *Leading Australian and strong international franchise*. We are a leading Australian financial services firm that provides diverse financial services in Australia, with particular strengths in funds management, M&A, infrastructure advisory and management, securities origination, project advisory work and securities, foreign exchange, energy and commodities trading. This has created a strong base for our domestic and international growth and diversification. Over the last 10 years, we have significantly increased the amount of business we conduct outside of Australia and have transformed from a leading Australian financial services firm growing internationally into a global provider of diversified financial services headquartered in Australia. See "— Our history and evolution" below for further information.

- *Strong brand and reputation*. We believe our business successes have resulted in us achieving a level of recognition for quality, integrity and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.

- *Diversified earnings*. Our diversified earnings base has been an important factor in our successful growth. MGL Group's diverse sources of income include the following:

  - *Fee and commission income*, including:

    - Brokerage and commission income from institutional cash equities services provided to retail and institutional clients by Macquarie Securities, brokerage fee income from Banking & Financial Services, as well as brokerage revenues in futures execution and clearing markets from Fixed Income, Currencies & Commodities;

    - Funds management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) from Macquarie Funds;

    - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital and Macquarie Securities as well as fee income from mortgage securitization vehicles, lending activities and transaction fees;

    - Other fee and commission income from the Macquarie Wrap and other administration fee income from Banking & Financial Services, and structuring fee income from Macquarie Funds' structured financial products; and

    - Income from life investment contracts and other unitholder investment assets from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds.

  - *Trading income* generated predominately through client trading activities and products issued by Macquarie Securities and Fixed Income, Currencies & Commodities;

  - *Interest income* earned on residential mortgages, loans to Australian and Canadian businesses, loans on capital protected products and credit cards of Banking & Financial Services, interest income on trading assets from Fixed Income, Currencies & Commodities and Macquarie Securities, and leasing, corporate lending and asset financing activities of Corporate & Asset Finance;

  - *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, operating lease income, dividends and distributions; and

  - *Equity accounted income* from principal investments in assets and businesses where significant influence is present.

- *Geographic diversity*. As at March 31, 2012, we employed over 14,000 people in 28 countries. Of those staff, approximately 53% were located in offshore markets. As MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions. We have sought to take advantage of new opportunities for acquisitions and organic growth in our areas of expertise and have also demonstrated a preparedness to exit businesses once profit opportunities have been exhausted. We believe our acquisitions have complemented our existing expertise in areas such as lending and leasing, energy, financial institutions and funds management and demonstrated our track record of successfully integrating new businesses. For further details of significant acquisitions, see "— Our history and evolution" below.

- *Selective approach to growth and diversification.* In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.

- *Experience managing growth and diversity.* The experience of our management team in managing our growth and diversification has been important to our success in realizing the benefits and controlling the risks associated with undertaking varying businesses, developing scale and growing in new and existing geographic regions.

- *Business focus on fee income.* Our main business focus is providing services to our clients rather than engaging in principal activities. While several of our businesses have and expect to continue to undertake principal investments as part of their M&A and funds management strategies, respectively, our main focus is on generating management and advisory fees, not assuming significant principal exposure.

- *Strong capital position.* As at March 31, 2012, MGL had total regulatory capital of A$12.6 billion including A$4.3 billion surplus capital in excess of MGL Group's minimum APRA regulatory requirement on a Basel II basis. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under "Regulation and supervision".

- *Risk management.* Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 41 to our 2012 annual financial statements and in the "Risk Management Report" in our 2012 Annual Report incorporated by reference herein. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:

  - *Independence.* Risk Management assesses and monitors risks for the entire MGL Group, is independent of the operating groups and is required to approve all major risk acceptance decisions.

  - *Centralized risk management.* Risk Management's MGL Group-wide responsibilities enable it to assess risks from the perspective of the entire MGL Group and allow it to apply a consistent approach across all operating areas.

  - *Approval of new business activities.* Operating groups are required to consult with Risk Management before undertaking new businesses or activities, offering new products or entering new markets. Risk Management's responsibility is to identify, quantify and assess the likely risks and establish prudential limits that, where appropriate, are approved by our Executive Committee and Board.

  - *Continuous assessment.* Risk Management's responsibilities include the ongoing review of the risks that our businesses are exposed to in order to account for changes in market circumstances and to our operating groups.

  - *Frequent monitoring*. Risk Management uses centralized systems to monitor credit and market risks daily and liaise with operating groups and supporting divisions.

Our strategy

Our strategy is to focus on the medium term and is built on: providing services to clients; aligning the interests with shareholders, investors and staff; utilizing what we believe is a conservative approach to risk management; continuing to focus on growth and evolution; diversifying by business and geography; and adapting to change. This approach provides the flexibility to enter into new business sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by the centralized Risk Management group, whose responsibility is to implement appropriate assessment and management policies in respect of these risks throughout MGL Group. MGL applies this existing strategy and risk management framework across MGL Group.

Our business has always evolved and changed to adapt to market conditions. We continually examine investment opportunities and have undertaken a number of strategic acquisitions in response to changing market conditions and opportunities that have been presented to us. See "— Our history and evolution" for further information about our acquisitions in the 2012 fiscal year. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MGL Group in the medium term.

Across our international operations, the strategy focuses on building a global platform in our key areas of expertise, through both acquisitions and organic growth, which we believe will enable us to offer a comprehensive range of MGL products to clients around the world. See "— Our business — Regional activity" below for further information on MGL's performance across its key geographical regions.

Our history and evolution

MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London. We obtained an Australian banking license as MBL in 1985 and in 1996, MBL was publicly listed on the ASX.

MBL's ordinary shares were listed on ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect subsidiary of MGL, a new ASX-listed company, and MBL Group transferred most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Macquarie Securities) and Treasury & Commodities (now part of Fixed Income, Currencies & Commodities) to the Non-Banking Group. The activities not transferred to the Non-Banking Group upon the Restructure formed part of the Banking Group or MBL. As MGL is the successor to MBL Group's businesses, the historical financial statements of MBL Group reflect the historical results of operation and financial condition of MGL Group's businesses.

Since listing, MGL has diversified its operations by business line and geography through a mix of organic growth and strategic acquisitions, including but not limited to the acquisition of the Bankers' Trust Australia Investment Banking business in the 1999 fiscal year and the acquisition of the cash equities business of ING Group (Asia) in the 2004 fiscal year.

In light of opportunities that emerged from the global financial crisis and ensuing market conditions, MGL made a number of strategic acquisitions which complemented existing operations and strengthened its global platform. These included, but were not limited to, the following:

- the acquisition of Constellation Energy in the 2009 fiscal year, which enhanced Fixed Income, Currencies & Commodities' position within the North American natural gas market;

- the acquisition of Tristone in the 2010 fiscal year, which enhanced Macquarie Securities' and Macquarie Capital's global energy offering;

- the acquisition of FPK in the 2010 fiscal year, which enhanced Macquarie Capital's and Macquarie Securities' global financial institutions expertise and further increased MGL's presence in the United States;

- the acquisition of Blackmont in the 2010 fiscal year, which expanded Banking & Financial Services' wealth management business in Canada and provided Canadian retail distribution capabilities for MGL's existing equity markets business and other product offerings;

- the acquisition of Delaware Investments in the 2010 fiscal year, which enhanced Macquarie Funds' global asset management capability;

- the acquisition of the Ford Credit and GMAC portfolios in the 2010 and 2011 fiscal years, which enhanced Corporate & Asset Finance's motor vehicle leasing portfolio; and

- the acquisition of the ILFC aircraft operating lease portfolio in the 2011 fiscal year, which enhanced Corporate & Asset Finance's portfolio and the Macquarie Aviation Finance business.

For further information on the integration of these businesses into our existing operating groups, see the discussion below under "— Operating groups" and for further information on the impact of these acquisitions on our results of operation and financial performance in the 2012 and 2011 fiscal years, see "Financial information presentation — Impact of acquisitions and disposals on the 2012 and 2011 fiscal years" above.

In addition to these strategic acquisitions, organic growth initiatives, particularly in the 2010 and 2011 fiscal years, such as the hiring of individuals and teams with extensive experience in targeted industries, added greater regional depth to key businesses. This allowed many of our businesses to expand their product offerings internationally. For further information on regional growth, see "— Our business — Regional activity" below for further information.

Evolution has played an important role in the growth of MGL Group's businesses and the development of global expertise in key areas. MGL Group intends to continue to evolve its products and services to ensure that it has the appropriate business mix to suit prevailing market conditions and client needs.

Our business

Trading conditions and market update

Operating conditions and impact on MGL Group

The 2012 fiscal year was marked by global economic uncertainty with substantially lower levels of client activity in many markets. This was reflected in the performance of MGL Group's capital markets businesses. Macquarie Securities was impacted by weak investor confidence as a result of ongoing sovereign debt concerns in Europe and concerns about U.S. and global growth along with other developments, such as Standard & Poor's downgrade of the United States' long-term sovereign credit rating and uncertainty regarding the U.S. federal debt ceiling. As a result, Macquarie Securities experienced a fall in cash and derivatives revenues and exited or scaled back a number of derivatives businesses, particularly in Europe. Macquarie Capital reported significantly lower results due to low levels of corporate activity across mergers and acquisitions and equity capital markets. Fixed Income, Currencies & Commodities was impacted by challenging global market conditions and deteriorating investor confidence in the first half of the year, particularly in credit and interest rate markets, however the business benefitted from a strong second half performance as conditions and sentiment improved activity in key markets.

MGL Group's annuity-style businesses, particularly Macquarie Funds and Corporate & Asset Finance, delivered improved results in this challenging environment, reflecting the investment that has been made in these businesses, as well as the benefits of recent acquisitions. Banking & Financial Services performed well despite the volatility in the advice and intermediary businesses, and also exited some non-core activities. During the year, Corporate & Asset Finance tripled its meters portfolio by acquiring the OnStream business in the United Kingdom, doubling its rail freight car portfolio with a North American acquisition, and began divesting its small portfolio of aircraft engines. The performance of these annuity-style businesses further highlighted the strength of MGL Group's diversified global platform, which provided a buffer during a period of market uncertainty and volatility.

During the 2012 fiscal year, MGL Group achieved a reduction in costs through a range of initiatives, including exiting unprofitable businesses, simplifying platforms, redesigning business and operating models, better utilizing regional service hubs and centralizing support functions and reducing front office costs, including reducing the scope of certain businesses in some cases. Lower profit share, as a result of reduced earnings and staff numbers, also contributed to a reduced compensation expense.

MGL continued to maintain what it believes to be a conservative approach to funding and capital. During the year ended March 31, 2012, MBL issued US$700 million of senior debt, US$1 billion of subordinated debt and US$250 million of ECS. During the year ended March 31, 2012, MGL also increased its total deposits by 7% from A$31.6 billion at March 31, 2011 to A$33.9 billion at March 31, 2012, largely due to an increase in retail deposits. As at March 31, 2012, MGL had A$4.3 billion of capital in excess of its minimum regulatory requirement. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed under "Regulation and supervision".

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the 2012 fiscal year, see our 2012 Fiscal Year Management's Discussion and Analysis Report for further information.

Overview of MGL Group

At March 31, 2012, MGL had total assets of A$153.6 billion and total equity of A$11.7 billion. For the year ended March 31, 2012, our net operating income was A$7.0 billion and profit after tax attributable to ordinary equity holders was A$730 million, with 60% of our net operating income (excluding earnings on capital and other corporate income items) derived from international income.

The tables below show the relative revenues from external customers and profit contribution of each of our operating groups in the years ended March 31, 2012 and 2011:

Revenues from external customers of MGL Group by operating group for the years ended March 31, 2012 and 2011[1]

	Year ended		
	Mar 12	**Mar 11**	**Movement**[3]
	A$m	**A$m**	**%**
Macquarie Capital	903	1,150	(21)
Fixed Income, Currencies & Commodities	2,054	1,984	4
Macquarie Securities	1,057	1,445	(27)
Banking & Financial Services	2,238	2,417	(7)
Macquarie Funds	1,843	1,667	11
Corporate & Asset Finance	1,984	1,657	20
Real Estate Banking	29	85	(66)
Total revenues from external customers by operating group	10,108	10,405	(3)
Corporate[2]	1,503	1,619	(7)
Total revenues from external customers	11,611	12,024	(3)

Profit contribution of MGL Group by operating group for the years ended March 31, 2012 and 2011[1]

	Year ended		
	Mar 12	**Mar 11**	**Movement**[3]
	A$m	**A$m**	**%**
Macquarie Capital	85	214	(60)
Fixed Income, Currencies & Commodities	539	575	(6)
Macquarie Securities	(194)	184	*
Banking & Financial Services	265	275	(4)
Macquarie Funds	655	482	36
Corporate & Asset Finance	698	574	22
Real Estate Banking	(36)	(42)	(14)
Total contribution to profit by operating group	2,012	2,262	(11)
Corporate[2]	(1,282)	(1,306)	(2)
Net profit after tax	730	956	(24)

1 For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements.

2 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

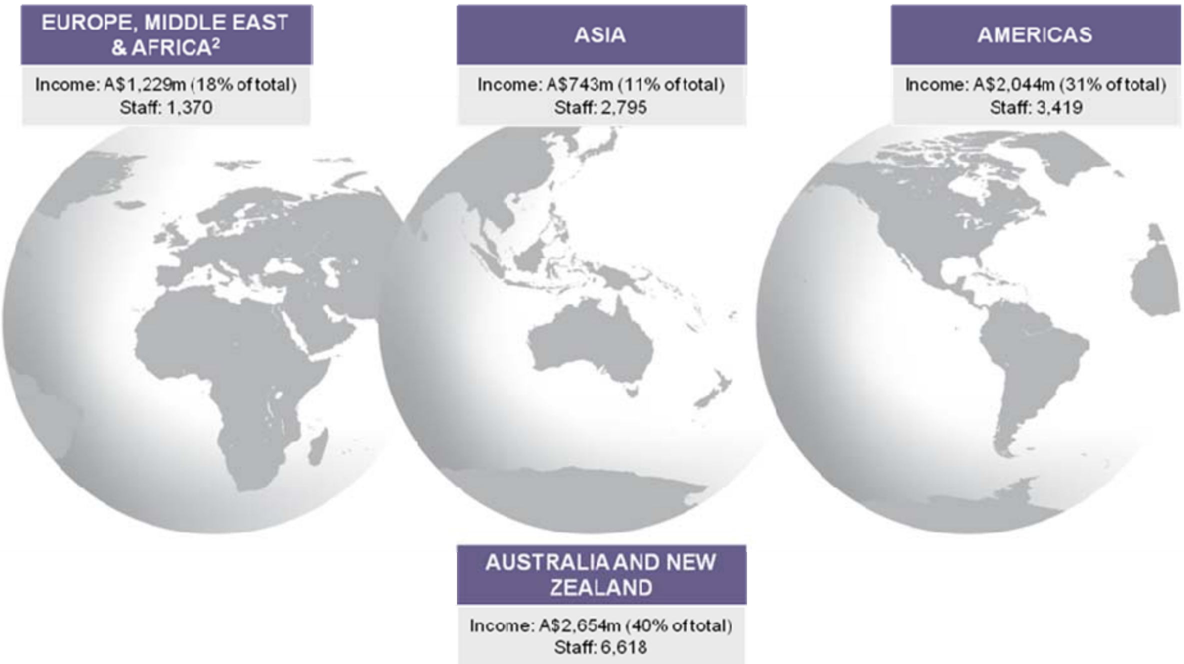
3 "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Regional activity

At March 31, 2012, MGL Group employed over 14,000 staff globally and conducted its operations through more than 72 office locations in 28 countries.

The chart below shows MGL Group's international income by region in the 2012 fiscal year.

International income of MGL Group[1] by region for the year ended March 31, 2012



1 For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements.

2 Staff seconded to joint venture not included in official headcount (South Africa: Macquarie First South, Moscow: Macquarie Renaissance).

Australia and New Zealand. MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2012, MGL Group employed over 6,600 staff across Australia and New Zealand. In the 2012 fiscal year, Australia and New Zealand contributed A$2.7 billion (40%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.9 billion (40%) in the 2011 fiscal year.

Americas. MGL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994, and has grown rapidly over the last three years, principally through acquisitions of Delaware Investments, FPK, Tristone, Blackmont and Constellation Energy, and the growth of our Energy Trading and Credit Trading businesses. As at March 31, 2012, MGL Group employed over 3,400 staff across the United States, Canada, Mexico and Brazil. In the 2012 fiscal year, the Americas contributed A$2.0 billion (31%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.2 billion (30%) in the 2011 fiscal year.

Asia. MGL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2012, MGL Group employed over 2,700 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. MGL has expanded the regional investment and product platforms of Macquarie Funds (including the Macquarie Infrastructure and Real Assets division), Corporate & Asset Finance as well as Fixed Income Currencies & Commodities, which had established an Asian regional "hub" in Singapore in the 2011 fiscal year. In the 2012 fiscal year, Asia contributed A$743 million (11%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.2 billion (16%) in the 2011 fiscal year.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2012, MGL Group employed over 1,300 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2012 fiscal year, Europe, Middle East & Africa contributed A$1.2 billion (18%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.0 billion (14%) in the 2011 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report and Note 3 to our 2012 annual financial statements. For further information on our international income for the 2012 and 2011 fiscal years, see section 3.10 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Operating groups

Macquarie Capital

Macquarie Capital is the primary business in the Non-Banking Group.

In the 2012 fiscal year, Macquarie Capital contributed A$85 million to MGL Group's net profit and as at March 31, 2012, had over 1,200 staff operating across 25 countries, including Australia, United States, United Kingdom, Canada, Hong Kong, South Korea, Singapore and China. For further information on Macquarie Capital's results of operation and financial condition for the year ended March 31, 2012, see section 3.6 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Macquarie Capital initiates, structures and executes a broad spectrum of transactions for corporate, institutional and government clients. It provides expert advice in areas such as mergers and acquisitions, takeovers, corporate restructuring advice, equity capital markets, debt capital markets, equity and debt capital management, and raises capital for clients in private and public markets. It also undertakes principal investing activities. It operates in six core industry sectors:

- infrastructure, utilities and renewables;
- resources (mining and energy);
- industrials;
- real estate;
- financial institutions; and
- telecommunications, media, entertainment and technology.

Macquarie Capital sources deal flow and assets for both third-party clients and Macquarie Infrastructure and Real Assets' funds management vehicles.

Macquarie Capital also undertakes principal investments, including a range of controlling and non-controlling equity stakes, and debt investments. These investments are often made in connection with advisory mandates or in pursuit of future advisory assignments. The Principal Investments team within Macquarie Capital works with Risk Management to review the legal and commercial aspects of all principal transactions to ensure that the business' commercial and strategic objectives are satisfied. This team is also responsible for managing the ongoing performance of principal assets on Macquarie Capital's balance sheet.

Prior to July 2010, Macquarie Capital comprised MGL Group's infrastructure and real estate funds management activities that formed the Macquarie Capital Funds business. In July 2010, Macquarie Capital Funds was consolidated with Macquarie Funds and became the Macquarie Infrastructure and Real Assets operating division. Macquarie Infrastructure and Real Assets now holds and manages the various non-controlling principal equity investments in Macquarie Infrastructure and Real Assets-managed funds (both listed and unlisted), and also holds funds that were formerly managed by Macquarie Infrastructure and Real Assets. For further information, see "— Macquarie Funds" below and " — Funds management business — MBL Group and the Non-Banking Group".

In the 2012 fiscal year, Macquarie Capital was involved in 435 transactions with a deal value of A$97 billion. Significant transactions that Macquarie Capital was involved in during the 2012 fiscal year are described in section 3.6 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Recent developments

In February 2012, MGL announced that it had signed an Exclusive Strategic Alliance with Kasikornbankgroup, a diversified banking group in Thailand. The agreement includes investment banking services in relation to equity capital markets transactions and inbound and outbound mergers and acquisitions. In addition it provides for exclusive cooperation in institutional equity sales and brokerage services and co-branded research to domestic clients. This cooperation is expected to create one of the largest institutional research and trading platforms in Thailand.

Fixed Income, Currencies & Commodities

Fixed Income, Currencies & Commodities is primarily in the Banking Group, however, certain assets of the Credit Trading business and some other less financially significant activities are in the Non-Banking Group.

In the 2012 fiscal year, Fixed Income, Currencies & Commodities contributed A$539 million to MGL Group's net profit and as at March 31, 2012, had over 900 staff operating across 14 countries, with locations in Australia, Asia, the Middle East, North and South America and the United Kingdom and Europe. For further information on Fixed Income, Currencies & Commodities' results of operation and financial condition for the year ended March 31, 2012, see section 3.7 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Fixed Income, Currencies & Commodities is a client and counterparty driven business, offering risk management services, trading in select physical commodities, financing and access to markets through specialization in fixed income, currency and commodity markets. Fixed Income, Currencies & Commodities' products and services range from exchange traded futures, over-the-counter derivatives and customized risk management solutions, physical supply and purchase agreements, equity and asset investments and other financing arrangements. Clients are typically large producers or consumers of commodities, or those exposed to price movement risks in interest rates, currencies and commodities, or funds and other financial institutions looking to invest in those markets.

Fixed Income, Currencies & Commodities services its clients via regional hubs located in New York, London, Houston and Singapore. As a primarily client and counterparty driven business, Fixed Income, Currencies & Commodities undertakes market making activities and in doing so, acts as principal in accordance with predetermined limits.

Fixed Income, Currencies & Commodities comprises the following divisions:

Asian Markets. Asian Markets, which was established in 2010 and is headquartered in Singapore and also operates in Hong Kong, Seoul and Mumbai, is predominantly a corporate and institutional investor facing business focused on offering Asian currencies (spot, forwards, non-deliverable forwards), corporate debt (local currency & G3 (US dollar, Euro and Yen), private debt, credit default swaps, credit linked notes) and sovereign debt (interest rate swaps, options, cross currency swaps, structured products) trading, and risk management services.

Credit Trading. Credit Trading operates primarily in the United States via its team based in New York, but has additional presence in London and Sydney. Credit Trading facilitates client transactions with institutional investors and participates on a principal basis in markets for corporate debt securities, credit default swaps, syndicated bank loans, collateralized debt obligations, asset-backed and mortgage backed securities and derivatives of these products. Credit Trading focuses on the high-yield and distressed sectors and to compliment this focus, its activities include commercial mortgage finance and commercial mortgage backed securities. Other industry specialties include healthcare, consumer/retail, energy/utilities, gaming/leisure, commodities/metals, infrastructure/transport and media/telecommunications.

Energy Markets. Energy Markets operates in London, Geneva, Sydney, Melbourne, Houston, Calgary, New York, Singapore, Seoul, Jakarta and Tokyo, providing products and solutions to a broad customer base across the energy sector. Traded energy products include renewables, power, liquefied natural gas, natural gas and natural gas liquids, and crude oil and refined products (including physical oil). Energy Markets also provides storage and transportation services, and commodities based financing. Energy Markets serves clients and market participants including producers, large industrials, airlines, utilities, wholesale marketers and aggregators. The division is also active in physical and financial gas and electricity trading in North America through its subsidiary, Macquarie Energy. Macquarie Energy is ranked by Platts as the number four physical gas marketer in North America. Energy Markets offers energy services in Europe through the utility services business, providing power and gas services in select European markets. In the 2012 fiscal year, Energy Markets expanded its power trading activities to include an Australian-based offering.

Fixed Income & Currencies. Fixed Income & Currencies provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally, operating from Sydney, Melbourne, Singapore, Tokyo, Hong Kong, London and New York. The business offers 24-hour price making in all major currency pairs via specialist sales and trading staff in Sydney, London, New York and Singapore, as well as offering structured solutions and risk management hedging services. Additionally, Fixed Income & Currencies offers retail and wholesale currency delivery and technology platforms. In fixed income markets, Fixed Income & Currencies arranges and places primary debt for clients and provides secondary market liquidity in Australian government, semi-government fixed income and inflation linked bond markets, as well as issuance activities and interest rate risk management services via structured solutions and derivative based products. In the 2012 fiscal year, Fixed Income & Currencies established a G10 currencies sales and trading platform in Singapore.

Futures. Futures provides a full range of broking and clearing services to corporate and institutional clients, with access to most major exchanges and memberships of many. Futures also provides futures services to other divisions within Fixed Income, Currencies & Commodities. Futures offers broking (telephone and electronic) and clearing services and makes extensive use of proprietary technology to provide clients customized execution and clearing solutions, including direct market access and straight through processing. Futures operates from offices in Sydney, Melbourne, Brisbane, London, New York, Chicago, Hong Kong and Mumbai. In February 2012, Futures announced the expansion of its global operations to include a listed derivatives sales office in Montreal, Canada.

Metals & Agriculture Sales and Trading. In November 2011, Fixed Income, Currencies & Commodities merged its sales and trading activities in metals and agricultural commodities into one division called Metals & Agriculture Sales and Trading. Metals & Agriculture Sales and Trading has staff in London, Geneva, New York, Des Moines, Sao Paulo, Ribeirao Preto, Singapore, Hong Kong, Sydney and Melbourne providing corporate and institutional clients with trading, risk management and selected physical supply solutions. Metals related risk management trading and hedging services are provided via 24-hour trading and price-making services in industrial metals, bulk metals and precious metals. The agricultural offering includes grain, sugar, coffee, cocoa, soybean complex, rapeseed/canola, palm oil, ethanol, dairy products, livestock and meat, and pulp and paper. Dry freight services include bespoke risk management solutions to ship owners, charterers and operators across all major vessel sizes.

Metals and Energy Capital. Metals and Energy Capital operates in Sydney, Perth, Tokyo, London, Houston, Calgary, Toronto and Vancouver providing debt financing, equity capital and price risk management to producers across the metals, industrial minerals, bulk commodities and upstream oil and gas sectors globally and, in addition, makes markets in precious metals. Metals and Energy Capital targets opportunities in the US$5 million to US$150 million range and provides a wide range of equity and debt facilities at the corporate and project level. The division includes in-house industry experts, such as geologists, petroleum and mining engineers. MGL is an Associate Broker Clearing Member of the London Metal Exchange, a Clearing Member of the London Clearing House and an Ordinary Member of the London Bullion Market Association.

Central. Central serves as an incubator for various non-division specific or early stage or cross-divisional initiatives as well as housing various Fixed Income, Currencies & Commodities-wide services including:

- Environmental Financial Products, which is active in originating/structuring emission reduction credits from projects in China and Russia under the Kyoto Clean Development Mechanism and Joint Implementation, and distributing these credits to compliance buyers in Europe, Australia, New Zealand and Japan. Environmental Financial Products' dedicated, environmental professionals are located in Sydney, London, Hong Kong and Beijing, offering trading and client services with the benefit of knowledge and experience located at the project source;

- Structured Commodity Finance, which offers services across agriculture, energy and metals including revolving, working capital facilities secured by exchange traded commodities and also provides repurchase-style physical transactions. Additionally, Structured Commodity Finance provides mezzanine debt, structured facilities or transactions in conjunction with other Fixed Income, Currencies & Commodities divisions;

- new jurisdictions and branch initiatives; and

- joint-venture and alliances.

Recent developments

During the 2012 fiscal year, the Asian Markets business, which formerly operated as part of the Central division, became a standalone division. In addition, the Fixed Income & Currencies division established a G10 currencies sales and trading presence in Singapore.

In May 2011, MBL was granted a Category 4 License from the Dubai Financial Services Authority, which allows MBL to operate in the Dubai International Financial Centre. The Fixed Income, Currencies & Commodities' team is utilizing this license to market risk management solutions across a range of products in the Middle East through MBL Dubai Branch.

In September 2011, Fixed Income, Currencies & Commodities ceased providing fixed income products in Latin America due to challenging market conditions. Fixed Income, Currencies & Commodities continues to provide a diverse range of products in Latin America including repurchase agreements, foreign exchange, agricultural commodities, metals and energy financing and physical oil.

In March 2012, Fixed Income, Currencies & Commodities transferred certain of Credit Trading's activities, including the securitization desk, to a newly established hedge fund in the Non-Banking Group.

Macquarie Securities

Macquarie Securities operates businesses across the Banking Group and Non-Banking Group. The Cash division's activities including cash equities broking and equity capital markets services are in the Non-Banking Group. Generally, the Derivatives division's activities including sales of retail derivatives, arbitrage trading, equity finance and capital management are in the Banking Group, however certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

Macquarie Securities contributed a net loss of A$194 million to MGL Group's net profit in the 2012 fiscal year and as at March 31, 2012, had over 1,100 staff operating across 19 countries, including Australia, Canada, China, Germany, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, South Africa, Switzerland, Taiwan, Thailand, the United Kingdom and the United States. For further information on Macquarie Securities' results of operation and financial condition for the year ended March 31, 2012, see section 3.5 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Macquarie Securities comprises the following two divisions:

Cash. The Cash division is a full-service institutional cash equities broker in the Asia Pacific region, South Africa and Canada. In the rest of the world, it operates as a specialized institutional cash equities broker. It provides equity capital markets products and services through a joint venture with Macquarie Capital. The Cash division forms part of the Non-Banking Group.

Derivatives. The Derivatives division combines MGL Group's retail derivatives and arbitrage trading activities, including sales of retail derivatives, arbitrage trading, equity finance and capital management. The Derivatives division predominantly forms part of the Banking Group.

Recent developments

In response to difficult market conditions experienced during the 2012 fiscal year, Macquarie Securities reviewed its portfolio mix and subsequently exited and scaled back a number of its businesses. Within the Cash division, steps were taken to focus research on specialty areas and to right size operations for current market conditions, particularly in Australia and Asia. Within the Derivatives division, which was impacted by a number of cyclical factors and structural changes, the following businesses were exited during the 2012 fiscal year:

- Institutional derivatives in the United States, the United Kingdom, Asia and South Africa;
- Retail structured products in Australia;
- Synthetic products in Europe and South Africa; and
- Listed public securities in Germany.

Banking & Financial Services

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

Banking & Financial Services' business strategy is to develop an integrated suite of advice, wealth management and lending products and services and to build broader and more valuable client relationships.

Banking & Financial Services contributed A$265 million to MGL Group's net profit in the 2012 fiscal year and as at March 31, 2012 had over 3,100 staff operating across nine countries, including Australia, Canada, the United Kingdom, New Zealand, India and Singapore.

Cash deposits continued to be a major focus of Banking & Financial Services, with retail cash deposits growing from A$26.6 billion at March 31, 2011 to A$29.0 billion at March 31, 2012. This was primarily due to continuing volatile markets and investors favoring the security of cash and term deposits.

The division also offers the Macquarie Australian Wrap platform, which had A$22.0 billion in funds under administration at March 31, 2012. See "— Funds management business". For further information on Banking &

Financial Services' results of operation and financial condition for the year ended March 31, 2012, see section 3.4 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Banking & Financial Services comprises the following four divisions:

Macquarie Adviser Services. Macquarie Adviser Services manages relationships with external financial, insurance and mortgage intermediaries and provides sales service and product management of in-house and external products including retail superannuation, mortgages, investment lending, Macquarie Life insurance, Coin financial planning software and outsourced paraplanning. The division includes the A$16.1 billion CMA and the Macquarie Wrap administration service. Macquarie Adviser Services was recently integrated with Macquarie Global Investments, which provides Banking & Financial Services with product development capabilities for retail and wholesale investors globally. The division includes the Macquarie Professional Series, Macquarie Private Portfolio Management, the Macquarie Pastoral Fund (which owns cattle, sheep and crop properties throughout Australia's eastern states), and the Macquarie Agricultural Funds Management business which previously sat within Macquarie Funds.

Macquarie Private Wealth. Macquarie Private Wealth (which includes the former Macquarie Direct division) maintains direct relationships with clients, offering a range of services including full-service broking, strategic financial planning, executive wealth management and private banking. The stockbroking business is Australia's leading full-service retail stockbroker by market share and trading volumes, and Macquarie Private Wealth continues to grow its adviser base as well as its client numbers. Macquarie Private Wealth currently has a 19.9% interest in online foreign exchange company OzForex, which also has subsidiary outlets UKForex and Canadian Forex. Macquarie Private Wealth has a strategic partnership with WHK, a listed Australasian financial services company and a member of Horwath International, and collaborate on product distribution in the Australian market.

Macquarie Relationship Banking. Macquarie Relationship Banking provides innovative banking services to small- to medium-sized businesses, professionals and high net worth individuals in Australia and the United Kingdom. Banking services include finance for business growth, business and property acquisition and succession planning. The business also provides deposit facilities and payment collection systems to the professional services sector. Other core activities include financing business insurance premiums and providing flexible lending facilities to active property investors.

BFS North America. BFS North America is responsible for expanding the Macquarie Private Wealth Canada into the North American market.

Recent developments

In October 2010, Banking & Financial Services announced that, due to execution challenges and difficult business conditions, it did not see a long-term future for its UK wrap platform business. The business was wound up in June 2011. This decision significantly reduced Banking & Financial Services' presence in the United Kingdom where it now only runs a small premium funding operation.

In June 2011, BFS North America announced it was outsourcing the servicing of its C$8 billion Canadian mortgage portfolio to Paradigm Quest Inc. ("*Paradigm*"), while Canadiana Financial Corp. ("*Canadiana*") will assume loan origination functions for Banking & Financial Services. As part of the transition to the new partnership agreements, approximately 50 employees from Banking & Financial Services transferred to Paradigm and Canadiana to continue in new roles.

On October 5, 2011, Macquarie Adviser Services and Perpetual Limited ("*Perpetual*") agreed that Macquarie Wrap will provide back office service and administration for Perpetual's A$8.7 billion of high net worth Wrap accounts, covering both Perpetual's private client and fiduciary businesses. The integration process is expected to be completed within 12 months.

On October 13, 2011, MGL announced that it had entered into a strategic collaboration agreement with Julius Baer Group Ltd, a Swiss private banking group. Under this agreement, Banking & Financial Services transferred its

Asian Private Wealth business to Julius Baer, and will refer clients who require private banking services to Julius Baer. Julius Baer will refer its clients' investment banking transactions to Macquarie Capital, and will make more of Macquarie Capital investment banking products available to Julius Baer's clients in Asia within the framework of Julius Baer's open product platform.

In March 2012, Banking & Financial Services entered into an agreement to sell its Premium Funding business to Wintrust Financial Corporation, which is subject to regulatory approval.

During the 2012 fiscal year, Banking & Financial Services continued to build its client base, particularly in Australia and Canada. Macquarie Private Wealth Canada increased its client numbers by 13% during the 2012 fiscal year, and Canadian client assets also grew 25% over the period, from C$10.0 billion as at March 31, 2011 to C$12.2 billion as at March 31, 2012.

Macquarie Funds

Macquarie Funds operates businesses across the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Funds is a full service asset manager, offering a diverse range of capabilities and products including securities investment management and fund and equity-based solutions. In the Non-Banking Group, Macquarie Funds manages alternative assets, specializing in infrastructure and other real asset classes via public and private funds, co-investments, partnerships and separately managed accounts. With a strong client focus, disciplined investment processes and proven success in product innovation, Macquarie Funds has built a strong reputation as a leading provider of investment solutions on a global scale.

Macquarie Funds contributed A$655 million to MGL Group's profit in the 2012 fiscal year and as at March 31, 2012 had over 1,300 staff operating across 17 countries, including Australia, the United States, the United Kingdom and Hong Kong.

As at March 31, 2012, Macquarie Funds had Assets under Management of A$323.8 billion. For further information on Macquarie Funds' results of operation and financial condition for the year ended March 31, 2012, see section 3.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Macquarie Funds operates across the following three divisions: Macquarie Investment Management and Macquarie Specialised Investment Solutions, which form part of the Banking Group, and Macquarie Infrastructure and Real Assets, which forms part of the Non-Banking Group. Further details of each division are contained below:

Macquarie Investment Management. Macquarie Investment Management offers securities investment management capabilities across a number of asset classes including fixed interest, currencies, equities, infrastructure securities, private equity markets and multi-asset allocation solutions. It delivers a full-service offering to both retail and institutional clients in Australia and the United States, with selective offerings in other regions.

Macquarie Specialised Investment Solutions. Macquarie Specialised Investment Solutions manufactures and distributes a range of fund and equity-based solutions including capital protected investments, fund-linked products, retirement income options, alternative funds, residential real estate products and annuity reinsurance offerings.

Macquarie Infrastructure and Real Assets. Macquarie Infrastructure and Real Assets manages alternative assets, specializing in infrastructure and other real asset classes via public and private funds, co-investments, partnerships and separately managed accounts. Its client base is primarily institutional investors, including global pension and superannuation funds, other institutions and governments.

Recent developments

Macquarie Funds continued to focus on organic growth of its asset base and leveraging existing operating support systems to drive cost synergies across the business in the 2012 fiscal year.

In the Non-Banking Group, Macquarie Funds focused on investing capital strategically across its global business, with over A$1.3 billion of equity invested and raised over A$2.2 billion of new equity commitments during the 2012 fiscal year. In the Banking Group, Macquarie Funds saw strong inflows in the securities investment management business.

Corporate & Asset Finance

Corporate & Asset Finance provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in corporate debt and asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$698 million to MGL Group's profit in the 2012 fiscal year and as at March 31, 2012 had over 900 staff across 14 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance's results of operation and financial condition for the year ended March 31, 2012, see section 3.3 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

As at March 31, 2012, Corporate & Asset Finance managed A$20.6 billion in lease and loan assets (A$19.5 billion at March 31, 2011). The increase in the assets was due to the acquisition of new portfolios and continued organic growth across most businesses.

During the 2012 fiscal year, strong securitization activity continued with A$2.6 billion of motor vehicle leases and loans secured. Approximately A$13.5 billion of external funding from global securitization markets and warehouse facilities has been accessed since the program's inception in 2007.

Corporate & Asset Finance comprises the following seven businesses:

Macquarie AirFinance. Macquarie AirFinance provides operating leases and other financial products across multiple aviation asset types, including the aircraft portfolio that was acquired from ILFC during the 2011 fiscal year. On April 1, 2011, Macquarie AirFinance, formerly part of Macquarie Capital, was consolidated within Corporate & Asset Finance to capitalize on synergies between the businesses.

Macquarie Equipment Finance. Macquarie Equipment Finance is a global business providing specialist equipment finance and services solutions for a broad range of equipment types, including healthcare, technology, communications, materials handling, manufacturing and related equipment. Macquarie Equipment Finance provides these services directly to large customers through vendor finance solutions developed for equipment manufacturers and resellers, and with other financial services partners. In the 2012 fiscal year, Corporate & Asset Finance combined Macquarie Equipment Finance and Macquarie Manufacturing into a single global business unit, Macquarie Equipment Finance, to enhance its efficiency and scale.

Macquarie Leasing. Macquarie Leasing provides finance leases to small to medium enterprises, corporate, government and retail clients in Australia. Macquarie Leasing offers products including finance leases, novated lease agreements and commercial hire purchases for motor vehicles and other income producing plant and equipment.

Macquarie Lending. Macquarie Lending provides bridging and term finance to corporate clients and invests in select debt assets trading in secondary debt markets. Macquarie Lending has expertise across a diverse range of industries including telecommunications, media, entertainment and technology, real estate, financials, industrials, infrastructure and leasing. The Lending team operates out of Sydney, Singapore, London, New York and Chicago.

Macquarie Meters. Macquarie Meters owns an electricity and gas metering portfolio in the United Kingdom. The portfolio comprises traditional 'mechanical' meters and newer 'Smart' electronic meters, which are capable of communicating remotely via GSM and GPRS mobile technology. Clients are major United Kingdom energy providers.

Macquarie Rail. Macquarie Rail specializes in providing leasing solutions on freight rail car assets in the United States. Macquarie Rail offers operating leases, portfolio sale and leaseback, and portfolio acquisition services.

Macquarie Global Mining Equipment Finance. In February 2011, Corporate & Asset Finance established the mining business, which provides finance for mining equipment through finance and operating leases and secured lending. This covers a range of surface and underground mobile mining equipment such as haul trucks, excavators and diggers. The team operates globally and its clients include miners, contract miners and rental companies. This business also complements MGL's existing capabilities in resources mergers and acquisitions and commodity hedging and trading.

Recent developments

In July 2011, Corporate & Asset Finance expanded its asset finance offering to include a distribution finance capability and also entered the Australian motor vehicle wholesale floor plan finance market. The entry into the wholesale floor plan finance market follows the purchase of the Ford and GMAC Australian retail motor vehicle finance portfolios in 2009 and 2010, respectively.

In September 2011, Corporate & Asset Finance entered into an agreement to sell 47 leased aircraft engines to Engine Lease Finance Corporation, subject to customary conditions precedent. As at March 31, 2012, five of the 47 aircraft engines remain to be sold, with these sales expected to be finalized by June 2012.

In October 2011, Corporate & Asset Finance acquired Utility Metering Services (which trades as OnStream), a gas and electricity meter reading and installation business in the United Kingdom. This acquisition increased the scale of Corporate & Asset Finance's meters business.

In November 2011, Corporate & Asset Finance acquired a portfolio of North American rail freight cars, bringing Macquarie Rail's assets to a total of A$0.5 billion and approximately doubling the size of Corporate & Asset Finance's rail portfolio to approximately 10,000 rail cars.

Throughout the year, Corporate & Asset Finance's lending business delivered a number of selective new primary financings, while continued deleveraging across the financial system created opportunities to add to the portfolio via the secondary market. Corporate & Asset Finance's lending business remained active in commercial real estate lending, completing several opportunistic acquisitions and client financing transactions. The business also expanded its presence in Asia, establishing an office in Singapore.

Division within MGL Group

Real Estate Banking

Real Estate Banking is an international business focused on managing balance sheet positions across a number of locations and products. Real Estate Banking's expertise encompasses real estate development management and asset management.

The Real Estate Banking division contributed a net loss of A$36 million to MGL Group's profit in the 2012 fiscal year and as at March 31, 2012, had 25 staff operating across four countries, including Australia, South Africa and the United States.

For further information on Real Estate Banking's results of operation and financial condition for the year ended March 31, 2012, see section 3.8 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

In October 2011, the division sold its investment in Charter Hall Retail REIT, an Australian listed property fund. In March 2012, MGL's co-investment in AXA Tower was transferred to the Macquarie Infrastructure and Real Assets division of Macquarie Funds.

As a result of these changes, Real Estate Banking is now primarily focused on real estate development projects around the world. In Australia, it owns the developer Urban Pacific Limited and participates in the Medallist joint venture with Great White Shark Enterprises. The Medallist joint venture also extends to operations in the United States and South Africa.

Corporate

The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, share based payments expense, income tax expense, amounts attributable to non-controlling interests and internal management accounting adjustments and charges.

Corporate contributed a net loss of A$1.3 billion for the year ended March 31, 2012 and as at March 31, 2012, had over 5,300 staff across all countries in which MGL operates.

For further information on Corporate's results of operation and financial condition for the year ended March 31, 2012, see section 3.9 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Funds management business

MGL Group's funds management businesses are conducted by both the Non-Banking Group and the Banking Group.

The Non-Banking Group, through Macquarie Infrastructure and Real Assets is a manager of listed and unlisted funds which invest in infrastructure (including airports, toll roads, communications infrastructure, utilities and related sectors), private equity and real estate (including retail, office, industrial, commercial and development capital). Macquarie Infrastructure and Real Assets has listed funds in Australia, Canada, the United States, South Korea and Singapore and unlisted funds in Australia, South Korea, Hong Kong, India, Canada, the United States, Mexico, Europe, Russia, South Africa and the Middle East. See "— Operating groups — Macquarie Funds — Macquarie Infrastructure and Real Assets" for further information.

MBL Group, through Macquarie Funds, Banking & Financial Services and Real Estate Banking also manages a range of funds including traditional funds management and investment services to retail and institutional investors and international listed and unlisted REITs. See "— Operating groups — Macquarie Funds", "— Operating groups — Banking & Financial Services" and "— Division within MBL Group — Real Estate Banking" above for further information.

Assets under Management provides a consistent measure for measuring the scale of MGL Group's funds management activities across our operating groups in the Banking and Non-Banking Group, which is discussed in "— Assets under Management" section below. The earnings of base management fees is closely aligned with the Equity under Management measure for Macquarie Infrastructure and Real Assets, which is discussed in section 7.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report. For a further explanation of the distinction between Assets under Management and Equity under Management, see "Financial information presentation — Non-GAAP financial measures" in this Report.

Assets under Management

MGL Group had an aggregate of A$326.9 billion of Assets under Management as at March 31, 2012, from which it derived an aggregate of A$938 million of funds management base fees for the year ended March 31, 2012. As at March 31, 2012, Macquarie Infrastructure and Real Assets represented A$99.4 billion of Assets under Management, or 30% of MGL Group's total Assets under Management.

	As at		
	Mar 12	Mar 11	Movement
	A$m	A$m	%
Assets under Management by group			
Macquarie Investment Management	222,247	205,546	8
Macquarie Infrastructure and Real Assets	99,443	97,328	2
Macquarie Specialised Investment Solutions	2,135	2,529	(16)
Total Macquarie Funds	323,825	305,403	6
Other operating groups	3,088	4,408	(30)
Total Assets under Management	326,913	309,811	6
Assets under Management by region			
Americas	196,162	179,266	9
Europe, Middle East and Africa	64,415	63,589	1
Australia	54,354	54,466	(<1)
Asia	11,982	12,490	(4)
Total Assets under Management	326,913	309,811	6
Assets under Management by industry sector			
Fixed interest	132,593	122,257	8
Direct infrastructure	90,752	88,993	2
Equities	64,328	54,689	18
Cash	17,099	20,076	(15)
Direct real estate	7,184	7,870	(9)
Currency	4,407	5,330	(17)
Specialist investments	3,293	3,653	(10)
Alternatives	2,871	2,262	27
Multi-asset allocation solutions	4,386	4,681	(6)
Total Assets under Management	326,913	309,811	6

Assets under Management at March 31, 2012 were A$326.9 billion, a 6% increase from A$309.8 billion at March 31, 2011. The overall net increase in Assets under Management was primarily driven by net inflows into the securities investment management business and the infrastructure and real assets business, which was partially offset by negative market movements.

Macquarie Investment Management. Macquarie Investment Management's Assets under Management increased 8% to A$222.2 billion at March 31, 2012 from A$205.5 billion at March 31, 2011. This was largely due to net inflows into the securities investment business, which was partially offset by the strengthening of the Australian dollar against the Euro compared to the year ended March 31, 2011.

Macquarie Infrastructure and Real Assets. Macquarie Infrastructure and Real Assets' Assets under Management increased 2% to A$99.4 billion at March 31, 2012 from A$97.3 billion at March 31, 2011, largely due to investments in the infrastructure and real assets business partially offset by asset disposals including Macquarie Essential Assets Partnership's assets, the internalization of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation) and the sale of Macquarie Fund's 50% interest in the manager of Retirement Villages Group. Macquarie Infrastructure and Real Assets' Assets under Management was also adversely impacted by the strengthening of the Australian dollar against the Euro compared to the year ended March 31, 2011.

For further information on Macquarie Funds' results of operation and financial condition for the year ended March 31, 2012, see section 3.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Other operating groups. Assets under Management from other operating groups decreased 30% to A$3.1 billion at March 31, 2012 from A$4.4 billion at March 31, 2011. This was largely due to negative market movements.

MGL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform pre-determined benchmarks. For listed funds, incentive income is earned for outperformance of a benchmark rate of return. This may be either a widely acknowledged market index, generally either S&P/ASX or MSCI indices, or a pre-determined rate of return, typically 8% per annum. For Macquarie Infrastructure and Real Assets funds which invest in infrastructure and other sectors, the incentive income is typically 20% of any outperformance. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of performance fee. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return typically 8%. Unlisted performance fees are generally payable upon the occurrence of a "liquidity event", such as asset sale or fund listing, and are therefore unpredictable.

During the year ended March 31, 2012 performance fees of A$130 million for MGL Group increased significantly from A$36 million in the prior fiscal year, primarily due to performance fees earned as a result of Macquarie Essential Assets Partnership, Macquarie Atlas Roads, Thames Water and Quant hedge funds outperforming their respective benchmarks.

For further detail on MGL Group's income from funds management, see section 2.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

For the Macquarie Infrastructure and Real Assets division, see section 7.2 of our 2012 Fiscal Year Management's Discussion and Analysis Report for further information. The earning of base fees is closely aligned with the Assets under Management measure for funds in Macquarie Funds and other operating groups.

Senior credit facility

To finance the Restructure, on November 13, 2007, MGL entered into a A$9 billion senior credit facility. As at March 31, 2012, the facility limit was A$3.5 billion and the amount drawn under the facility was A$3.2 billion. During the 2012 fiscal year, the facility was refinanced to provide additional commitments totaling US$2.0 billion for tenors between 3.5 and 5 years. The senior credit facility now comprises three term facilities totaling A$2.4 billion and three revolving credit facilities totaling A$1.1 billion maturing November 2012, February 2015 and November 2016, respectively.

MGL is the guarantor of principal, interest and any other payments due under the senior credit facility in respect of its subsidiaries that are borrowers under the facility.

The senior credit facility includes a negative pledge that restricts MGL or any subsidiary from incurring, issuing or assuming any financial indebtedness if it is secured by a security interest over (i) any voting shares of Banking Holdco or Non-Banking Holdco or any other subsidiary that is a borrower, whether such voting shares are owned now or acquired in the future; or (ii) any right, entitlement or claim of MGL to be paid, repaid or reimbursed for any amount by a subsidiary in relation to any loan or other facility provided by MGL utilizing all or part of the proceeds of the senior credit facility; in each case, without providing that the lenders shall be secured equally and ratably with such financial indebtedness. The facility agreement also includes an undertaking that the consolidated net worth of MGL and its subsidiaries shall not at any time be less than A$7.0 billion.

Interest on outstanding amounts drawn under the senior credit facility is payable at the base rate plus a margin. For drawings in Australian dollars, the base rate is BBSY; for drawings in Euro, the base rate is EURIBOR; and for drawings in U.S. dollars, pounds sterling or Japanese yen, the base rate is LIBOR in the relevant currency. Funds drawn under the senior credit facility are used for MGL's general corporate purposes.

As at March 31, 2012, MGL had drawn down the equivalent of A$3.2 billion in Australian dollars under the senior credit facility in the term and revolving facilities.

Legal proceedings

On December 22, 2010, ASIC commenced legal proceedings in the Federal Court of Australia against a number of banking institutions, including MBL. In one proceeding, ASIC is seeking compensation for investors arising out of the collapse of Storm Financial Limited ("*Storm*") for (i) an alleged breach of contract, contravention of the statutory prohibitions against unconscionable conduct and liability as linked credit providers of Storm under section 73 of the Trade Practices Act 1974 of Australia. In another, ASIC alleges there was an unregistered managed investment scheme in which the banks were involved.

Representative legal action has also been brought through a private law firm in the same court claiming an unregistered managed investment scheme involving Storm on a similar basis as ASIC's action and claiming compensation for those investors.

As at the date of this Report, the proceedings are progressing through a pre-trial process. MBL denies liability with respect to these claims.

Revenue authorities undertake risk reviews and audits as part of their normal activities. We have assessed these and other taxation claims and litigation, including seeking advice where appropriate, and consider that MGL Group currently holds appropriate provisions.

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 37 to our 2012 annual financial statements. We do not believe that the outcome of any such claims of which we are aware, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

The financial services industry — and all of our businesses — are intensely competitive, and we expect them to remain so. See “Risk factors — Competitive pressure, both in the financial services industry as well as the other industries in which we operate, could adversely impact our business and results of operation”. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, non-bank mortgage brokers, private banking firms, investment banking firms and brokerage firms. The Non-Banking Group also competes with industry focused competitors in connection with its infrastructure and real estate businesses.

In Australia, we face significant competition from the four major Australian commercial banks, international banks, regional commercial banks, building societies, brokerage firms, private equity firms, mortgage repackagers and other financial intermediaries. In recent years, competition has increased as international banks have established an Australian presence, large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships.

The international trend towards consolidation and strategic alliances, has significantly increased the capital base and geographic reach of some of our competitors. This trend has also hastened the globalization of the securities and financial services markets. To take advantage of some of our recent strategic acquisitions and organic growth opportunities, we will need to compete successfully with financial institutions that are larger and that may have a stronger local presence and longer operating history outside of Australia.

In North America, Europe and Asia, the principal markets in which we operate outside Australia, we compete with commercial banks, investment banking and brokerage firms, private equity firms, large fund managers, integrated energy companies and other broad-based financial services firms that have historically offered a broad range of products to enhance their competitive position. See “Risk factors — Competitive pressure, both in the financial services industry as well as the other industries in which we operate, could adversely impact our business and results of operation”.

In other overseas markets where we offer limited products and services, we face the challenge of competing with firms that offer a broader range of services than we do, are better known or have a broader platform or more financial, capital, employee or other resources. In an attempt to overcome these barriers, MBL Group or MGL Group, where appropriate, has established alliances with local providers in a number of international markets in an attempt to benefit from the market strength of an existing player.

We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees and to continue to compensate employees competitively amid intense public and regulatory scrutiny on the employee remuneration practices of financial institutions. See “Risk factors — Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance” and “Regulation and supervision — Remuneration - Extensions to governance requirements for APRA-regulated institutions” for more information on the regulation of our remuneration practices.

Additional financial disclosures for the 2012 fiscal year

Euro-zone exposures

This table includes MGL Group's exposures to Euro-zone countries that are currently experiencing significant economic, fiscal and/or political strains such that the likelihood of default would be higher than would be anticipated when such factors do not exist. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures. The total exposure to these countries are predominantly fully funded with minimal unfunded committed exposures.

MGL continues to monitor these exposures and notes that due to their size and associated security they are not considered to be material in relation to overall balance sheet size.

	As at Mar 31, 2012			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure**
	A$m	**A$m**	**A$m**	**A$m**
Italy				
Loans, receivables & commitments[1]	-	2.7	0.6	3.3
Derivative assets[2]	-	0.4	7.7	8.1
Italy totals	**-**	**3.1**	**8.3**	**11.4**
Spain				
Loans, receivables & commitments and leases[1]	-	0.8	87.4	88.2
Derivative assets[2]	-	2.1	12.2	14.3
Spain totals	**-**	**2.9**	**99.6**	**102.5**
Portugal				
Loans, receivables & commitments[1]	-	-	96.1	96.1
Derivative assets[2]	-	-	10.2	10.2
Portugal totals	**-**	**-**	**106.3**	**106.3**
Ireland				
Loans, receivables & commitments[1]	-	11.0	185.1	196.1
Derivative assets[2]	-	8.2	14.2	22.4
Traded debt securities	-	-	7.0	7.0
Ireland totals	**-**	**19.2**	**206.3**	**225.5**
Greece				
Loans, receivables & commitments[1]	-	-	-	-
Derivative assets[2]	-	-	-	-
Greece totals	**-**	**-**	**-**	**-**
Total exposure	**-**	**25.2**	**420.5**	**445.7**

1 Includes debt instruments held as loans, hold-to-maturity securities or available-for-sale securities, measured on an amortized cost basis. Includes finance lease receivables, but does not include assets which are on operating leases. Unfunded commitments are measured as the value of the commitment.

2 Derivative asset exposures represent the sum of positive market-to-market counterparty positions, net of any cash collateral held against such positions.

Lease, capital and other expenditure commitments, contingent liabilities and assets

We do not expect our capital and other expenditure commitments and our lease commitments to have a significant effect on our liquidity needs. See Note 38 “Capital and other expenditure commitments” and Note 39 “Lease commitments” to our 2012 annual financial statements for further information. Lease, capital and other expenditure commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at March 31, 2012, MGL Group had A$5.9 billion of contingent liabilities and commitments, including A$614 million of contingent liabilities and A$4.3 billion of commitments under undrawn credit facilities. See Note 37 “Contingent liabilities and commitments” to our 2012 annual financial statements which shows MGL Group’s contingent liabilities and commitments at March 31, 2012.

Quantitative and Qualitative Disclosures about Market Risk

Each year we prepare a detailed analysis of market risk as it applies to MGL Group and a quantitative analysis of MGL Group’s value at risk for equities, interest rates, foreign exchange, bullion, and commodities and in the aggregate thereof. See Note 41 “Financial risk management” to MGL Group’s 2012 annual financial statements for a quantitative and qualitative discussion of these risks.

REGULATION AND SUPERVISION

Australia

In Australia, the principal regulators that supervise and regulate our activities are the Australian Prudential Regulation Authority ("*APRA*"), the Reserve Bank of Australia ("*RBA*"), the Australian Securities and Investments Commission ("*ASIC*"), ASX Limited (as the operator of the Australian Securities Exchange ("*ASX*") market), Australian Securities Exchange Limited (as the operator of the ASX24 (formerly known as the Sydney Futures Exchange) market) and the Australian Competition and Consumer Commission ("*ACCC*").

Set out below is a summary of certain key Australian legislative provisions that are applicable to our operations, and a summary of the functions of each of the principal regulators.

APRA

MBL and MGL have corporate governance and policy frameworks designed to meet APRA's requirements for ADIs and NOHCs, respectively.

APRA is the prudential regulator of the Australian financial services industry. APRA establishes and enforces prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions under APRA's supervision are met within a stable, efficient and competitive financial system. In Australia, MBL is an ADI under the Australian Banking Act and, as such, is subject to prudential regulation and supervision by APRA. The Australian Banking Act confers wide powers on APRA which are to be exercised ultimately for the protection of depositors of ADIs in Australia.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management and securitization activities. APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

Under its Prudential Standard APS 111: Capital Adequacy: Measurement of Capital ("*APS 111*"), APRA requires that an ADI's capital should (i) provide a permanent and unrestricted commitment of funds; (ii) be freely available to absorb losses; (iii) not impose any unavoidable servicing charge against earnings; and (iv) rank behind the claims of depositors and other creditors in the event of a winding-up of the ADI. For capital adequacy purposes, an ADI's capital is assessed in two tiers (1) Tier 1 or core capital, which comprises the highest quality components of capital that fully meet all the essential characteristics of capital described above; and (2) Tier 2 or supplementary capital, which includes other components that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI as a going concern. An ADI's capital base (the numerator of the capital ratio) is defined for the purposes of APS 111 as the sum of eligible Tier 1 and Tier 2 capital ("*total capital*") less prescribed deductions and adjustments, subject to the various relevant limits, where applicable. APRA requires all ADIs to maintain a minimum prudential capital ratio of total capital to risk-weighted assets, including a minimum amount of Tier 1 capital.

APRA will also review and agree with an ADI the adequacy and appropriateness of the ADI's liquidity management strategy, having regard to the ADI's size and nature of its operations. Under APRA's Prudential Standard APS 210: Liquidity ("*APS 210*"), an ADI's liquidity management strategy is required to include (i) a liquidity management policy statement approved by the board of directors, or a board committee, of the ADI; (ii) a system for measuring, assessing and reporting liquidity; (iii) procedures for managing liquidity; (iv) clearly defined managerial responsibilities and controls; and (v) a formal contingency plan for dealing with a liquidity crisis. Pursuant to APS 210, an ADI's liquidity management strategy must cover both the local and overseas operations of the ADI, as well as all related entities of the ADI which have impact on the ADI's liquidity. Where an ADI manages liquidity on a group basis, the strategy shall cover both the ADI and the group as a whole. The strategy shall address all on- and off-balance sheet activities of the ADI and, where relevant, the ADI group as a whole across all currencies. In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective "on site" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. In addition, each ADI's chief executive officer attests to the adequacy and operating effectiveness of the ADI's risk management systems to control exposures and limit risks to prudent levels.

As well as MBL being subject to regulation by APRA as an ADI, MGL is subject to regulation by APRA as a NOHC.

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as an NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Measurement of capital adequacy and our economic capital model is more fully described in Section 4 of the MBL Pillar 3 Disclosures as at December 31, 2011 posted on MGL's U.S. Investor Website. APRA has advised that it will monitor the overall MGL Group and may increase the prudential requirements it applies to MBL if the conduct of MGL Group places financial strain on MBL.

MGL models twelve month liquidity scenarios for MGL Group, MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business. See Section 5.1 of our 2012 Fiscal Year Management's Discussion and Analysis Report for further information on our liquidity policies and principles.

In addition to ADIs and NOHCs, APRA is responsible for the prudential regulation and supervision of life and general insurance companies and superannuation funds ultimately for the benefit of policyholders and superannuation fund beneficiaries. MGL Group's life insurance and funds management businesses are subject to and impacted by those regulations which, among other things, regulate the operation and capital adequacy standards of statutory funds for the life insurance business and provide for the licensing of trustees of superannuation funds.

Release of the Basel III framework

On December 16, 2010, the Basel Committee on Banking Supervision ("*Basel Committee*") issued the text of the Basel III framework, which had been agreed to by the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, and endorsed by the G20 Leaders at their November summit in Seoul.

The framework includes higher capital requirements and better quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement, measures to promote the build up of capital that can be drawn down in periods of stress, which member countries will be required to implement from January 1, 2013. Further, the Basel III framework introduces the Liquidity Coverage Ratio ("*LCR*") requirement (to be implemented by January 1, 2015), which aims to ensure that banks have sufficient high-quality liquid assets to survive an acute stress scenario lasting for one month and the Net Stable Funding Ratio ("*NSFR*"), as a separate liquidity metric (to be implemented by January 1, 2018). Although the Basel Committee has not asked for additional comment on the LCR and NSFR, both are subject to observation periods and transitional arrangements, with supervisory monitoring of these two new quantitative standards by the Basel Committee having commenced on January 1, 2011.

For a description of APRA's proposed approach to the Basel III liquidity framework, see "— APRA's approach to the Basel III liquidity framework" below.

MGL currently expects that if APRA implements the Basel III framework as proposed, the key implications for MGL would be more conservative risk-weighting of assets and a stricter capital deduction regime, increased minimum capital ratios, additional capital conservation and countercyclical buffers and a revised definition of eligible capital. It is likely that MGL will operate with a reduced capital surplus over minimum requirements under Basel III. However, it is not possible to predict the final impact of the reforms that will be adopted by APRA and, in particular, their impact on the capital structure or businesses of MGL. For a description of APRA's proposed approach to capital frameworks, see "— APRA's approach to capital frameworks" below.

APRA's approach to the Basel III liquidity framework

Subject to industry consultation and ongoing international supervisory developments, APRA has indicated that it intends to issue final standards and reporting forms to implement the global liquidity standards issued by the Basel Committee in the text of the Basel III framework. Transition arrangements are also expected to apply as appropriate.

In line with the liquidity standards contained within the Basel III framework, it is expected that APRA will introduce the LCR and NSFR as part of their liquidity framework. The LCR requires high-quality liquid assets to be held to cover net cash outflows and provide an adequate buffer under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 days and will be introduced as a minimum requirement from 2015. The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' is sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months, and will be introduced as a minimum requirement from 2018.

In November 2011, APRA announced that it intends to adopt the Basel III definitions for high-quality liquid assets. In addition, APRA also announced that it will adopt the Basel III net cashflow assumptions, subject to certain modifications or clarifications. The only modifications or clarifications that will be made by APRA relate to the treatment of self-managed superannuation funds, high run-off less stable retail and qualifying small and medium enterprise deposits, contingent funding obligations, recognition of head office liquidity to support Australian branches of foreign banks and recognition of New Zealand dollar liquid assets nominated by the Reserve Bank of New Zealand.

APRA has publicly indicated that the only assets that would qualify as high-quality liquid assets for the purposes of satisfying the LCR requirement are cash balances held with the RBA and Australian Government and semi-government securities. APRA has acknowledged that the supply of Australian Commonwealth Government and semi-government securities in Australia is relatively limited. To assist ADIs with meeting their LCR requirements, APRA and the RBA have agreed an approach to allow ADIs to establish a committed secured liquidity facility ("*CLF*") with the RBA to cover any shortfall of its holdings of high-quality liquid assets and the LCR requirement in return for a market based commitment fee of 0.15% and an interest rate that is in line with current arrangements for RBA's overnight repurchase facility. Qualifying collateral for the facility will comprise of all assets eligible for repurchase transactions with the RBA under normal market operations and other assets the RBA deems appropriate (including certain related-party assets issued by bankruptcy remote vehicles like self-securitized residential mortgage-backed securities). Before an ADI can rely on the CLF to meet the requirements of the LCR, it will be required to demonstrate to APRA that it has taken all reasonable steps towards meeting the LCR requirement through its own balance sheet management and, at a minimum, that it has increased the duration of its liabilities and maximized its reliance on stable sources of funding to the greatest reasonable extent. With the introduction of the CLF, MGL currently expects that it will meet the requirements of the LCR. However, final details of the CLF, including operational aspects, have not yet been released and as such may be subject to change.

APRA has noted that ongoing international supervisory developments occurring prior to the LCR requirement coming into effect on January 1, 2015 may lead to the expansion of the list of assets that would qualify as high-quality liquid assets for the purposes of satisfying the LCR requirement, although this is not certain.

In November 2011, APRA announced its proposal to adopt the Basel III 'available stable funding' and 'required stable funding' factors in determining an ADI's NSFR. In addition, APRA also announced its proposal to introduce a specific required stable funding factor for assets held by ADIs as collateral for their CLF. This will approximate the factor that would apply if adequate supplies of high-quality liquid assets were available in Australia. MGL currently expects that it will meet the requirements of the NSFR. However, final details of the NSFR have not yet been released.

Details of APRA's prudential standard on liquidity risk management, which will give effect to the global liquidity framework in Australia, is currently subject to consultation until mid-2012. APRA intends to issue the final standards on liquidity risk management in mid-2012.

For a description of APRA's current liquidity risk regulation, see "— APRA" above.

APRA's approach to capital frameworks

APRA has indicated that, subject to industry consultation, it will adopt as a minimum the capital framework proposed under the Basel III framework. In March 2012, APRA released for consultation a series of five draft prudential standards that give effect to the Basel III capital reforms in Australia. This will allow implementation of revised capital standards by January 1, 2013, in line with the timetable proposed by the Basel Committee. Included in the release were details of APRA's proposed transitional arrangements for implementing certain elements of the Basel III capital adequacy framework. This prudential standard, together with the other prudential standards that were released, are currently under review by MBL to determine the impact these standards will have on MBL's capital framework.

In addition, in its discussion paper concerning supervision of conglomerate groups issued on March 18, 2010, APRA proposed to extend the existing bank supervisory framework to cover conglomerate groups (similar to the existing NOHC supervisory framework as it applies to MGL), including the introduction of minimum capital requirements for funds management businesses conducted as part of financial conglomerates. If implemented, such proposals would increase MGL's minimum capital requirements and reduce its capital surplus. The extent and timing of these proposals is uncertain at this time and is expected to be subject to further consultation during 2012 for implementation in the second quarter of 2013.

Basel Committee requirements for loss absorbency

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all non-common Tier 1 and Tier 2 instruments issued by a bank on or after January 1, 2013 must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (1) a write-off is necessary; and (2) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 capital as set out in the text of the Basel III framework will be considered as an instrument that no longer qualifies as such and phased out from January 1, 2013.

APRA's implementation of these new minimum requirements were included in the March 2012 release of draft prudential standards and are currently under review by MGL Group. These new standards may result in MGL Group operating with a reduced capital surplus over minimum requirements to the extent any non-common Tier 1 and Tier 2 instruments issued or on issue by MBL on or after January 1, 2013 fails to satisfy these new requirements.

Remuneration – Extensions to governance requirements for APRA-regulated institutions

Prudential requirements on remuneration for ADIs, NOHCs, general insurers and life insurers came into effect on April 1, 2010 imposing new governance standards on APRA-regulated institutions and aligning APRA's requirements with the Financial Stability Board's Principles for Sound Compensation Practices.

The prudential requirements require boards of regulated institutions to (i) unless otherwise approved in writing by APRA, establish a remuneration committee comprising only non-executive directors and a majority of “independent” directors, as defined by the prudential requirements, and (ii) have in place a written remuneration policy that aligns remuneration arrangements with the long-term financial soundness of the institution and its risk management framework. The policy extends beyond senior executives to all persons who, because of their roles, have the capacity to put the institution’s financial soundness at risk. Where the remuneration arrangements of a regulated institution are likely to encourage excessive risk taking, APRA will have several supervisory options, including the power to impose additional capital requirements on that institution.

RBA

In exercising its powers, APRA works closely with the RBA. The RBA is Australia’s central bank and an active participant in the financial markets. It also manages Australia’s foreign reserves, issues Australian currency notes, serves as banker to the Australian Government and, through the Payment Systems Board, supervises the payments system.

ASIC

ASIC is Australia’s corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

ASIC regulates each of the entities we operate in Australia as the corporate regulator and is responsible for enforcing appropriate standards of corporate governance and conduct by directors and officers. A number of MGL Group entities hold Australian financial services (“*AFS*”) licenses. ASIC licenses and monitors AFS licensees and requires AFS licensees to ensure the financial services covered by their license are provided efficiently, honestly and fairly. A number of MGL Group entities also hold Australian Credit Licences (*ACL*”). ASIC regulates ACL holders as the consumer credit regulator, licensing and regulating those entities to ensure they meet standards set out in the National Consumer Credit Protection Act 2009.

ASIC is Australia’s market regulator and is responsible for the supervision of trading on Australia’s domestic licensed equity, derivatives and future markets, including trading by MBL and other ASX and ASX24 market participants in the MGL Group.

ASX24

The ASX24 market provides exchange traded and over-the-counter services and regulates the cash and derivative trades that we execute through the ASX24 as a market participant in the ASX24. This business is conducted primarily within MBL Group.

As a licensed market operator, MBL Group is subject to the operating rules of ASX24 which contain comprehensive provisions for preventing conflicts and enforcing compliance with the operating rules. The rules cover all aspects of trading and of clearing and settling, including monitoring market conduct, disciplining of participants and suspension or termination of participation rights and market access.

ASX

ASX is Australia’s primary securities market. The MIS and MGL’s ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX’s listing rules, which have the statutory backing of the Australian Corporations Act. The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee our compliance with ASX’s listing rules, including any funds we manage that are listed on the ASX.

ACCC

The ACCC is Australia's competition regulator. Its objectives are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third-party access to facilities of national significance. The ACCC's consumer protection activities complement those of Australia state and territory consumer affairs agencies that administer the unfair trading legislation of those jurisdictions.

Anti-Money Laundering and Counter Terrorism Financing

The AML-CTF Act places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in MGL Group are considered to be "reporting entities" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, transactions above a set threshold and international funds transfer instructions to the Australian Transaction Reports and Analysis Centre (AUSTRAC).

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of MGL Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat financial crime and prosecute criminals in Australia and overseas.

Other

In addition to the foregoing regulators, MGL Group and the businesses and funds we manage are subject to supervision by various other regulators, including the Essential Services Commission and Economic Regulation Authority in connection with the management of utility and energy funds.

International

Our businesses and the funds we manage outside of Australia are subject to various regulatory regimes.

United States

As a result of the global economic crisis, the United States government has enacted legislation, and the applicable regulatory authorities have adopted or proposed regulations that would make significant changes in the regulation of the financial services industry including reforming the financial supervisory and regulatory framework in the United States, which could have a material impact on financial institutions and their activities, including the activities of MGL and its subsidiaries in the United States. The reform process will be implemented over a number of years and the final effects are not yet certain. See "Risk factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in markets in which we operate" above for further information.

MGL Group is currently subject to regulation in the United States as a financial intermediary, which is described below.

Banking and derivatives regulations. In the United States, MBL operates solely through representative offices, which by law cannot engage in business or handle customer funds, and thus are not subject to the full regime of banking regulation. These offices are limited to soliciting business on behalf of MBL, which must then be approved and booked offshore, and performing administrative tasks as directed by MBL. Our representative offices are licensed by individual states, in our case, the states of New York, Texas and Illinois, and are subject to periodic examination by the applicable state licensing authority and the Federal Reserve. These examinations primarily focus on whether the offices are compliant with the limits of representative office activities and on key areas of regulatory concern, such as anti-money laundering compliance.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*"). Many of the provisions of the Dodd-Frank Act require rulemaking by the applicable U.S. regulatory agency, such as the Federal Reserve Board ("*FRB*"), the SEC and the Commodity Futures Trading Commission ("*CFTC*") before the related provisions of the Dodd-Frank Act become effective. The Dodd-Frank Act will result in significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. MGL's businesses may be affected by a variety of new regulations under the Dodd-Frank Act including, but not limited to: (i) greater regulation of over-the-counter derivatives, including stricter capital and margin requirements, the centralized execution and clearing of standardized over-the-counter derivatives, and registration and heightened supervision of all over-the-counter swap dealers and major swap participants; (ii) more stringent position limits on derivatives on physical commodities; and (iii) increased regulation of investment advisers. In addition, if MGL is determined by U.S. regulators to be a "systemically important" nonbank financial company, U.S. regulators may have increased regulatory authority over MGL and may impose stricter capital, leverage and risk management requirements. The Dodd-Frank Act will likely increase compliance and execution costs for derivative trading in the United States and have an impact on certain MGL Group businesses, such as on its U.S. derivatives business. We also believe certain of our affiliates will have to register as swap dealers, and possibly futures commission merchants and investment advisors. However, it is not possible at this point in time to determine the full extent of the impact of the Dodd-Frank Act because many important details will be formulated during the process of proposing and implementing rules and regulations, a process which is expected to continue for several years. The reaction of market participants to these regulatory developments over the next several months will also be an important determinant of the final content and impact of the rules and regulations implementing the Dodd-Frank Act.

On December 14, 2010, the FRB, the Office of the Comptroller of the Currency ("*OCC*") and the Federal Deposit Insurance Corporation ("*FDIC*") approved a proposed rulemaking to implement certain provisions of Section 171 (often referred to as the "*Collins Amendment*") of the Dodd-Frank Act, which provides that capital requirements generally applicable to insured banks will serve as a floor for other capital requirements established by the FRB, OCC and FDIC. The FRB, OCC and FDIC requested comment on how to apply the Collins Amendment to foreign banks in evaluating capital equivalency in the context of applications to establish branches or make bank or non-bank acquisitions in the United States, and in evaluating capital comparability in the context of financial holding company declarations. The final rule has not yet been issued.

Anti-money laundering regulations. The MBL representative offices as well as MGL Group's U.S. broker-dealer subsidiaries and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to anti-money laundering laws and regulations, including regulations issued by the U.S. Treasury Department to implement various anti-money laundering requirements of Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "*USA PATRIOT Act*").

The USA PATRIOT Act requires U.S. representative offices of foreign banks and U.S. broker-dealers and mutual funds to establish and maintain written anti-money laundering compliance programs that include the following components: (i) a system of internal controls to assure ongoing compliance with applicable anti-money laundering laws and regulations; (ii) independent testing of compliance by the institution's personnel or by a qualified outside party; (iii) the designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance; and (iv) training for appropriate personnel. The compliance program must be approved by the board of directors, board of trustees or senior management depending on the institution. United States representative offices of foreign banks and U.S. broker-dealers and mutual funds are also required to establish and maintain a customer identification program and, as necessary, to file suspicious activity reports with appropriate federal law enforcement agencies and the U.S. Treasury Department.

The MBL representative offices and MGL Group's other operations within the United States must also comply with the regulations and economic sanctions programs administered by OFAC, which enforces economic sanctions against targeted foreign countries, individuals and entities.

The MBL representative offices and MGL's U.S. broker-dealer subsidiaries and other subsidiaries in the United States have adopted written anti-money laundering compliance programs designed to comply with the USA PATRIOT Act and have implemented procedures to comply with OFAC.

Securities and commodities regulations. In the United States, certain members of MGL Group are regulated by the U.S. Securities and Exchange Commission ("*SEC*") and by the Financial Industry Regulatory Authority ("*FINRA*") with respect to certain securities and corporate finance related activities conducted through broker-dealers, or through investment advisors or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or the U.S. Investment Company Act of 1940, as amended (the "*ICA*"). We will be subject to greater oversight and regulation by the SEC and FINRA as our business grows in the United States.

In addition, certain members of MGL Group are regulated by the Commodity Futures Trading Commission ("*CFTC*") and the CME Group with respect to the trading of futures and commodity options for customers and clearing activities. The Federal Energy Regulatory Commission ("*FERC*") also regulates our energy trading activities and our downstream natural gas business. As we continue to expand our U.S. energy trading business, our compliance with energy trading regulations will become increasingly important.

Other regulations. Under recently enacted legislation, the Hiring Incentives to Restore Employment Act (the "*HIRE Act*") requires foreign financial institutions ("*FFIs*"), such as MGL, to enter into an agreement with the U.S. Internal Revenue Service (the "*IRS*") and agree to provide the IRS with certain information on accounts held by U.S. persons and U.S.-owned foreign entities, or otherwise face a 30% withholding tax on certain payments made to the FFI from U.S. sources. The term FFI is broadly defined and includes such entities as banks, brokers, hedge funds, private equity funds and foreign investment entities. The HIRE Act is expected to require substantial investment in a compliance and reporting framework in order to meet the HIRE Act standards.

Other regulators that impact the funds and companies we manage include, but are not limited to, the Federal Communications Commission with respect to certain media-related investments, and various other applicable federal, state and local agencies. In addition, our entry into the physical commodities trading business has subjected us to further U.S. regulations, including, but not limited to, federal, state and local environmental laws.

United Kingdom

The FSA is the single regulator for the full range of financial business in the United Kingdom, including banking, investment business and insurance. However, it is expected that in early 2013, as part of the reforms being made to the U.K.'s regulatory framework, the FSA will be replaced by a new Prudential Regulatory Authority and Financial Conduct Authority. Deposit-taking institutions, insurers and investment banks will be dual-regulated under the new regime, with the Prudential Regulatory Authority responsible for the authorization, prudential regulation and day-to-day supervision of such firms, and the Financial Conduct Authority responsible for regulating conduct of business requirements.

MBL operates a branch, MBL LB, and a subsidiary, Macquarie Bank International Ltd ("*MBIL*"), in the United Kingdom. APRA remains the lead prudential regulator for MBL LB, with regulatory oversight by the FSA in the UK. MBIL, a United Kingdom incorporated subsidiary is authorized and regulated by the FSA as a bank. MGL also has two subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*") and Macquarie Capital (Europe) Limited ("*MCEL*"), authorized and regulated by the FSA. MIRAEL is authorized and regulated by the FSA as a limited license firm, while MCEL is authorized and regulated by the FSA as a full scope investment firm. As FSA regulated entities MBIL, MIRAEL, MCEL and MBL LB are required to comply with the FSA rules. The rules include requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, conduct of business and the treatment of customers, the application of which varies depending on whether it is a subsidiary or a branch of MBL.

In many cases, the FSA's rules implement applicable European Union Directives (such as the Capital Requirements Directive, which relates to regulatory capital and the Markets in Financial Instruments Directive, which relates to the carrying on of investment business). Under FSA liquidity standards, FSA regulated banks and certain investment firms, including MBIL, MIRAEL, MCEL and MBL LB, are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. See section 5.1 of our 2012 Fiscal Year Management's Discussion and Analysis Report.

Effective January 1, 2011, the United Kingdom has introduced a bank levy which provides for an annual charge on certain equity and liabilities of banks and certain other financial institutions in respect of periods of account ending on or after January 1, 2011. In respect of foreign banking groups with banking operations in the United Kingdom, the bank levy is calculated by reference to the aggregated equity and liabilities of the group's relevant UK sub-groups, UK subsidiaries, non-UK resident subsidiaries with a UK parent and UK branches (in each case as shown in appropriate balance sheets). The bank levy is charged at different rates for short-term chargeable liabilities on the one hand and long-term chargeable equity and liabilities on the other hand. The following rates of the bank levy apply: (a) for the period from January 1, 2011 to February 28, 2011, 0.05% for short-term chargeable liabilities and 0.025% for long-term chargeable equity and liabilities; (b) for the period from March 1, 2011 to April 30, 2011, 0.1% for short-term chargeable liabilities and 0.05% for long-term chargeable equity and liabilities; (c) for the period from May 1, 2011 to December 31, 2011, 0.075% for short-term chargeable liabilities and 0.0375% for long-term chargeable equity and liabilities; (d) for the 2012 calendar year, 0.088% for short-term chargeable liabilities and 0.044% for long-term chargeable equity and liabilities; and (e) from January 1, 2013 onwards, 0.105% for short-term chargeable liabilities and 0.0525% for long-term chargeable equity and liabilities. The bank levy is not applicable to the first £20 billion of chargeable equity and liabilities. Based on the March 31, 2012 balance sheet position (the first period of account ending after January 1, 2011), it is not anticipated that MGL Group will be impacted by the bank levy on the basis that its chargeable equity and liabilities are expected to be below £20 billion for the full period of account. MGL Group will continue to monitor its position on a regular basis.

Other United Kingdom regulators that impact our business and the funds we manage include the Office of Communication (Ofcom) which regulates the United Kingdom communications and broadcasting industry and the Gas and Electricity Markets Authority (Ofgem), which regulates the United Kingdom gas and electricity industry. The Office of Fair Trading is the United Kingdom's consumer and competition authority. The Information Commissioner's Office is responsible for regulating compliance with legislation in the United Kingdom governing data protection, electronic communications, freedom of information and environmental information.

Other regulators

Outside Australia, the United States and the United Kingdom, MBL has branches in the Dubai International Finance Centre, Hong Kong, Seoul and Singapore that are regulated by the Dubai Financial Services Authority, the Hong Kong Monetary Authority, the Financial Supervisory Service and the Monetary Authority of Singapore, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, and in Zürich, regulated by the Swiss Financial Markets Supervisory Authority, which gives MBL limited authorization to conduct marketing of its products and services to institutions (and, in Switzerland, high net worth individuals), subject to local license limitations. Bank regulation varies from country to country, but generally is designed to protect depositors and the banking system as a whole, not holders of a bank's securities. Bank regulations may cover areas such as capital adequacy, minimum levels of liquidity, and the conduct and marketing of banking services.

Outside Australia, the United States and the United Kingdom, some of the other key financial regulators of our businesses include but are not limited to:

- the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) of Germany and the Federal Bank of Germany (Deutsche Bundesbank);

- the Securities and Futures Commission of Hong Kong and the Hong Kong Exchanges and Clearing Limited;

- the Investment Industry Regulation Organization of Canada, the TMX and the various provincial and territorial securities regulatory authorities in Canada;
- in South Korea, the Financial Services Commission, the Financial Supervisory Service, the Bank of Korea, the Ministry of Strategy and Finance, the Korea Exchange, the Ministry of Land, Transport and Maritime Affairs, and the Fair Trade Commission;
- the Monetary Authority of Singapore, the Singapore Exchange Securities Trading Limited and the Competition Commission of Singapore;
- the Financial Services Agency of Japan and the Japanese Fair Trade Commission;
- the Financial Services Board of South Africa; and
- the Reserve Bank of India and the Securities and Exchange Board of India.

During the 2012 fiscal year, MBL was granted a banking license by the Hong Kong Monetary Authority and in March 2012, the Hong Kong Monetary Authority confirmed MBL Hong Kong Branch's "Registered Institution" status. The branch is expected to be operational later in the year. The Hong Kong branch will be regulated by the Hong Kong Monetary Authority.

Financial regulation varies from country to country and may include the regulation of securities offerings, mergers and acquisitions activity, commodities and futures activities, anti-trust issues, investment advice, trading and brokerage, sales practices, and the offering of investment products and services.

In addition to the foregoing, certain businesses and assets owned or managed by MGL Group in international jurisdictions are subject to additional laws, regulations and oversight that are specific to the industries applicable to those businesses and assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

In addition to the information included in this Report, investors should refer to our 2012 Fiscal Year Management's Discussion and Analysis Report for a comparative discussion and analysis of our results of operation and financial condition for the 2012 fiscal year compared to the 2011 fiscal year, along with other capital and liquidity disclosures for the 2012 fiscal year, which is posted on MGL's U.S. Investor Website.

Year ended March 31, 2012 compared to year ended March 31, 2011

See section 1.0 – 6.0 of our 2012 Fiscal Year Management's Discussion and Analysis Report for a discussion of our results of operation and financial condition for the 2012 fiscal year, which has been incorporated by reference herein.

Year ended March 31, 2011 compared to year ended March 31, 2010

Results overview

	Year ended		
	Mar 11	**Mar 10**	**Movement**[1]
	A$m	**A$m**	**%**
Income statement			
Net interest income	1,275	1,080	18
Fee and commission income	3,891	3,721	5
Net trading income	1,368	1,299	5
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	179	(230)	large
Other operating income and charges[2]	931	768	21
Net operating income	**7,644**	**6,638**	15
Employment expenses	(3,890)	(3,101)	25
Brokerage and commission expenses	(785)	(645)	22
Occupancy expenses	(483)	(482)	nm
Non-salary technology expenses	(316)	(283)	12
Other operating expenses	(899)	(833)	8
Total operating expenses	**(6,373)**	**(5,344)**	19
Operating profit before income tax	1,271	1,294	(2)
Income tax benefit/(expense)	(282)	(201)	40
Profit from ordinary activities after income tax	**989**	**1,093**	(10)
Profit/(loss) attributable to non-controlling interests	**(33)**	**(43)**	(23)
Profit attributable to ordinary equity holders of Macquarie Group Limited	**956**	**1,050**	(9)
Operating metrics			
Expense to income ratio (%)	83.4	80.5	
Compensation ratio (%)	47.3	42.9	
Effective tax rate (%)	22.8	16.1	
Basic earnings per share (cents per share)	282.5	320.2	
Diluted earnings per share (cents per share)	275.9	317.4	
Dividends per share (cents per share)	186.0	186.0	
Dividend payout ratio (%)	67.3	60.4	
Return on equity (%)	8.8	10.1	

[1] "nm" indicates that the percentage change was less than 1% and therefore not meaningful, and "large" indicates that actual movement was greater than 300%.

[2] "Other operating income and charges" includes A$258 million in impairment charges and provisions (March 31, 2010: A$686 million).

Profit after income tax attributable to ordinary equity holders of A$956 million for the year ended March 31, 2011 decreased 9% from A$1,050 million in the prior fiscal year. This was primarily due to increased operating expenses, including higher employment expenses due to increased headcount as a result of recent acquisitions, including Sal. Oppenheim, Macquarie Private Wealth Canada and Delaware Investments, and increased brokerage and commission expenses mainly due to the full year contribution of Delaware Investments, which were partially offset by increased interest income from growth in Corporate & Asset Finance's loan and lease portfolio, increased equity accounted income from improved underlying results of investments and reduced levels of writedowns and impairments. Overall, there was a negative impact on net operating income due to the strengthening of the Australian dollar against major currencies. See "— Segment analysis — Macquarie Securities", "— Segment analysis — Macquarie Funds" and "— Segment analysis — Banking & Financial Services" for further information.

Net operating income of A$7,644 million for the year ended March 31, 2011 increased 15% from A$6,638 million in the prior fiscal year. The main drivers of this increase were:

- an 18% increase in net interest income to A$1,275 million for the year ended March 31, 2011 from A$1,080 million in the prior fiscal year driven by an increase in corporate lending volumes, recent acquisitions of leasing portfolios and improved margins;

- MGL Group's share of equity accounting income from investments in associates and joint ventures of A$179 million for the year ended March 31, 2011 improved significantly from a net loss of A$230 million in the prior fiscal year driven by an improvement in the underlying results of investments. In addition, the prior fiscal year included equity accounted losses of A$82 million relating to fees paid by MAp Group (the predecessor of Sydney Airport), Southern Cross Media Group and Macquarie Infrastructure Group to terminate management agreements with MGL Group; and

- a 21% increase in other operating income to A$931 million for the year ended March 31, 2011 from A$768 million in the prior fiscal year driven by a 76% increase in net operating lease income from A$138 million in the prior fiscal year to A$243 million for the year ended March 31, 2011 largely due to the acquisition of lease portfolios during the 2011 fiscal year, and a significant increase in distributions received on investment securities available-for-sale from A$22 million in the prior fiscal year to A$126 million for the year ended March 31, 2011. In addition, there was a significant reduction in write-downs and impairment charges from a net expense of A$686 million in the prior fiscal year to a net expense of A$258 million for the year ended March 31, 2011.

Total operating expenses of A$6,373 million for the year ended March 31, 2011 increased 19% from A$5,344 million in the prior fiscal year. The increase was largely driven by:

- a 25% increase in employment expenses to A$3,890 million for the year ended March 31, 2011 from A$3,101 million in the prior fiscal year, which was due to a 17% increase in average headcount resulting from the full year impact of acquisitions. The increase in employment expenses resulted in a compensation ratio of 47.3% for the year ended March 31, 2011, up from 42.9% in the prior fiscal year; and

- a 22% increase in brokerage and commission expenses to A$785 million from A$645 million in the prior fiscal year mainly due to the full year contribution of Delaware Investments.

Income tax expense of A$282 million increased from A$201 million in the prior fiscal year, as a result of reduced levels of write-downs and impairment charges. See "— Results analysis — Income tax expense" for further information. As a result, the effective tax rate for the year ended March 31, 2011 of 22.8% increased from 16.1% in the prior fiscal year.

See "— Results analysis" below for further information on each of these drivers.

Our results for the 2011 fiscal year continued to be affected by trading and market conditions. See "Macquarie Group Limited — Our business — Trading conditions and market update" above for further information. Overall, there was a negative impact on net operating income due to the strengthening of the Australian dollar against major currencies.

The compensation ratio of 47.3% for the year ended March 31, 2011 increased from 42.9 % in the prior fiscal year due to increased employment expenses as described above.

Results analysis

MGL Group presents the information below relating to our financial results on a consolidated MGL Group basis.

Net interest income

	Year ended		
	Mar 11	Mar 10	Movement
	A$m	A$m	%
Net interest income			
Interest revenue	5,304	4,591	16
Interest expense	(4,029)	(3,511)	15
Net interest income (as reported)	**1,275**	**1,080**	18
Adjustment for accounting for swaps[1]	(45)	(117)	(62)
Adjusted net interest income	**1,230**	**963**	28

[1] Australian Accounting Standards require derivatives hedging interest rate risk to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. This distorts the analysis of net interest income and trading income in each operating group. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against net interest income and shown separately above.

Adjusted net interest income of A$1,230 million for the year ended March 31, 2011, increased 28% from A$963 million in the prior fiscal year. The main drivers of the increase were improved margins and continued growth of the lending and finance leasing portfolio, including acquisition of the GMAC portfolio and the full year impact of the acquisition of the Ford Credit portfolio.

The table below provides further details of adjusted net interest income.

Analysis of net interest margins

	Year ended Mar 11			Year ended Mar 10		
	Interest	Average volume	Average Spread	Interest	Average volume	Average Spread
	A$m	A$m	%	A$m	A$m	%
Mortgages	188	21,766	0.86	183	22,399	0.82
Other lending areas	929	25,299	3.67	680	23,113	2.94
Total net interest margin from interest bearing assets	**1,117**	**47,065**	**2.37**	**863**	**45,512**	**1.90**
Other net interest income/(expense)	113			100		
Adjusted net interest income[1]	**1,230**			**963**		

[1] Australian Accounting Standards require derivatives hedging interest rate risk to be carried at fair value through trading income so that both sides are eliminated and only external derivatives can form part of a hedge relationship. This distorts the analysis of net interest income and trading income in each operating group. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against net interest income and shown separately. Refer to the table above under "— Net interest income".

Mortgages

Net interest income from mortgage assets of A$188 million for the year ended March 31, 2011 increased 3% from A$183 million in the prior fiscal year. This was primarily due to an increase in average margins from 82 basis points in the prior fiscal year to 86 basis points in the year ended March 31, 2011. The impact of increased margins was partially offset by a reduction in average mortgage volumes which decreased 3% from A$22.4 billion at March 31, 2010 to A$21.8 billion at March 31, 2011 resulting from run-off of the Australian residential mortgage portfolio (at March 31, 2011, A$11.6 billion (March 31, 2010: A$14.3 billion) of the Australian mortgage portfolio was funded by third parties through external securitizations) and the impact of the stronger Australian dollar on the Canadian mortgage portfolio.

See "— Segment analysis — Banking & Financial Services — Net interest income" below for further information.

Other lending areas

Net interest income from other lending areas of A$929 million for the year ended March 31, 2011 increased 37% from A$680 million in the prior fiscal year. Average margins of 367 basis points for the year ended March 31, 2011 increased from 294 basis points in the prior fiscal year. The increase in average margins can be largely attributed to a change in the product mix, including the full year impact of higher margin corporate lending and leasing written and acquired in the prior fiscal year within Corporate & Asset Finance. Overall, average volumes increased 9% from A$23.1 billion in the prior fiscal year to A$25.3 billion at March 31, 2011. The growth in the Corporate & Asset Finance loan and finance lease portfolio, including the acquisition of the GMAC portfolio, has been partially offset by a decrease in real estate loans and structured finance loans.

Other net interest income

Other net interest income includes earnings on capital offset by costs associated with excess liquidity and the funding cost of non-interest bearing assets. Other net interest income of A$113 million for the year ended March 31, 2011 increased 13% from A$100 million in the prior fiscal year. This increase was mainly driven by an increased earnings base and a decrease in the Guarantee fee payable under the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding resulting from reduced deposits subject to the Guarantee. This was partially offset by the increase in the cost of funding non-interest bearing assets.

Fee and commission income

	Year ended		
	Mar 11	**Mar 10**	**Movement**
	A$m	**A$m**	**%**
Fee and commission income			
Base fees	950	926	3
Performance fees	36	57	(37)
Mergers and acquisitions, advisory and underwriting fees	931	1,085	(14)
Brokerage and commissions	1,137	1,077	6
Income from life investment contracts and other unit holder investment assets	83	44	89
Other fee and commission income	754	532	42
Total fee and commission income	**3,891**	**3,721**	5

Total fee and commission income of A$3,891 million for the year ended March 31, 2011 increased 5% from A$3,721 million in the prior fiscal year largely due to the full year contribution of Delaware Investments to base fees and other fee and commission income and an increase in brokerage and commissions from the acquisition of Macquarie Private Wealth Canada.

Base and performance fees

Base fees of A$950 million for the year ended March 31, 2011, increased by 3% from A$926 million for the prior fiscal year. This increase was driven by the full year impact of the acquisition of Delaware Investments, which contributed base fees of A$393 million in the year ended March 31, 2011 (A$90 million in the year ended March 31, 2010), and Assets under Management of A$151 billion in January 2010, offset by the impact of the conversion of the CMT to CMA in July 2010, which reduced Assets under Management by A$9.6 billion, the internalization of certain Macquarie Infrastructure and Real Assets funds in the prior fiscal year and the adverse impact of a stronger Australian dollar on Assets under Management denominated in foreign currencies. At March 31, 2011, Delaware Investments had Assets under Management of A$153 billion. See "Macquarie Group Limited — Funds management business — Assets under Management" for further discussion on the movements in Assets under Management during the period.

Performance fees of A$36 million for the year ended March 31, 2011 decreased 37% from A$57 million in the prior fiscal year. This was primarily due to the one-off inclusion of A$34 million in performance fees from the sale of the Kukdong building by Macquarie Central Office CR-REIT in the prior fiscal year.

The table below summarizes base and performance fees by operating group and by listed funds, unlisted funds and managed assets. See "— Segment analysis" below for a discussion of base and performance fees by operating group.

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

	Year ended		
	Mar 11	**Mar 10**	**Movement**
	A$m	**A$m**	**%**
Base fees			
Macquarie Funds			
Macquarie Investment Management	502	210	139
Macquarie Infrastructure and Real Assets	351	463	(24)
Macquarie Specialist Investment Solutions	20	24	(17)
Total Macquarie Funds	**873**	**697**	25
Other Operating groups	**77**	**229**	(66)
Total base fee income	**950**	**926**	3

	Year ended		
	Mar 11	**Mar 10**	**Movement**
	A$m	**A$m**	**%**
Performance fees			
Macquarie Funds			
Macquarie Investment Management	18	9	100
Macquarie Infrastructure and Real Assets	12	12	–
Macquarie Specialist Investment Solutions	–	1	(100)
Total Macquarie Funds	**30**	**22**	36
Other Operating groups	**6**	**35**	(83)
Total performance fee income	**36**	**57**	(37)

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A$931 million for the year ended March 31, 2011 decreased 14% from A$1,085 million in the prior fiscal year which reflected lower levels of activity, especially in equity capital markets. For a discussion of significant transactions for the year ended March 31, 2011, see "— Segment analysis — Macquarie Capital".

Brokerage and commissions

Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional and retail clients. Brokerage and commission income of A$1,137 million for the year ended March 31, 2011 increased 6% from A$1,077 million in the prior fiscal year mainly due to the acquisition by Banking & Financial Services of Macquarie Private Wealth Canada in December 2009, improvements in market conditions globally and increased brokerage revenues in the Fixed Income, Currencies & Commodities futures execution and clearing markets.

Brokerage and commission income from Macquarie Securities was broadly in line with the prior fiscal year. The Americas and Europe continued to grow principally from recent acquisitions including Sal. Oppenheim in Europe and FPK in the United States. This was offset by lower commissions in Asia and Australia due to reduced client activity as well as Asian revenues being negatively impacted by the stronger Australian dollar.

Other fee and commission income

Other fee and commission income of A$754 million for the year ended March 31, 2011 increased 42% from A$532 million in the prior fiscal year. This increase was mainly due to distribution service fees in Delaware Investments, which were offset with related expenses that, for accounting purposes, are recognized in brokerage and commission expense. The fees relate to marketing or distribution fees on mutual funds. In addition, there was an increase in platform fees from higher average Wrap funds under administration compared to the prior fiscal year and the growth of the Macquarie Professional Series. The average Australian Wrap platform volumes during the year ended March 31, 2011 increased 6% on the prior fiscal year and funds under administration in the Macquarie Professional Series grew by 28% primarily due to new inflows.

Income from life investment contracts and other unit holder investment assets

Income from life investment contracts and other unit holder investment assets includes income from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds. Macquarie True Index delivers clients pre-tax returns (before buy/sell spreads on transactions). Any under-performance is compensated by MGL and conversely, any out-performance is retained by MGL. Income from this category of A$83 million for the year ended March 31, 2011 increased 89% from A$44 million in the prior fiscal year largely as a result of growth in the insurance inforce book. The inforce book is the aggregate annualized life insurance premium payable for policies issued by the life company, and still paying premiums, at the balance date.

Net trading income

The composition of net trading income set out below excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. See "— Segment analysis — Macquarie Securities" and "— Segment analysis — Fixed Income, Currencies & Commodities" for further discussion of MGL's trading activities.

	Year ended		
	Mar 11	**Mar 10**	**Movement[1]**
	A$m	**A$m**	**%**
Net trading income (as reported)	**1,368**	**1,299**	5
Adjustment for accounting for swaps[2]	45	117	(62)
Adjusted net trading income	**1,413**	**1,416**	nm

1 "nm" indicates that the percentage change was less than 1% and therefore not meaningful.

2 Australian Accounting Standards require derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. This distorts the analysis of net interest income and trading income in each operating group. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes has been adjusted against interest rate products in the analysis below.

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Equities	392	590	(34)
Commodities			
Trading Income	570	623	(9)
Fair value adjustments relating to leasing contracts[2]	(17)	42	large
Foreign exchange products	192	145	32
Interest rate products			
Trading income	267	271	(1)
Fair value adjustments on fixed rate issued debt	9	(255)	large
Adjusted net trading income	**1,413**	**1,416**	nm

1 "nm" indicates that the percentage change was less than 1% and therefore not meaningful and "large" indicates that actual movement was greater than 300%.

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

Adjusted net trading income of A$1,413 million for the year ended March 31, 2011 was broadly in line with A$1,416 million in the prior fiscal year. The year ended March 31, 2011 and the prior fiscal year included fair value adjustments relating to leasing contracts (recognized in commodities related income) and a fair value adjustment on fixed rate issued debt (recognized in interest rate products related income). Excluding these fair value adjustments, total adjusted trading income decreased 13% from A$1,629 million in the prior fiscal year to A$1,421 million for the year ended March 31, 2011. The year was characterized by challenging market conditions which impacted equities and commodities related trading income particularly in the first half of the 2011 fiscal year.

Equities

Trading income from equities of A$392 million for the year ended March 31, 2011 decreased 34% from A$590 million in the prior fiscal year. The decrease was driven by challenging market conditions which impacted revenue throughout the year, particularly in the first half of the 2011 fiscal year.

Retail and institutional product revenues were down across all regions with the exception of Europe which benefited significantly from the acquisition of Sal. Oppenheim. Arbitrage trading continued to make a strong contribution. Reduced volatility and liquidity in equities markets, especially in the first half of the 2011 fiscal year, adversely impacted trading income. See "— Segment analysis — Macquarie Securities".

Commodities

Commodities trading income of A$570 million for the year ended March 31, 2011 decreased 9% from A$623 million in the prior fiscal year. Challenging trading conditions and lower client term hedging activity in some commodities markets during the year ended March 31, 2011 negatively impacted trading revenues particularly in the first half. Energy markets occasionally experienced more difficult trading conditions with periods when the market moved away from fundamentals resulting in reduced income compared to the prior fiscal year.

Commodities trading income, including in metals and agricultural markets and client activity in term hedging, improved in the second half of the 2011 fiscal year after a sporadic first half. Global weather events and geopolitical unrest in the Middle East led to significant volatility in a number of commodities markets during the year. Northern hemisphere energy revenues were stronger in the second half of the 2011 fiscal year reflecting the seasonal nature of the energy market.

Foreign exchange products

Trading income on foreign exchange products of A$192 million for the year ended March 31, 2011 increased 32% from A$145 million in the prior fiscal year, however the total net income from trading activities relating to foreign exchange products, including net interest income/expense, was down. Global volatility in currency markets remained suppressed and the higher Australian dollar impacted the level of client term hedging. Together with some margin compression this had a negative impact on total net income from trading activities. See "— Segment analysis — Fixed Income, Currencies & Commodities" below for further information.

Interest rate products

Trading income on interest rate products of A$267 million for the year ended March 31, 2011 was broadly in line with A$271 million in the prior fiscal year. Trading income in the year ended March 31, 2011 included gains on the sale of fixed rate bonds from the liquid assets portfolio that were classified as fair value through profit or loss by Group Treasury. See "— Critical accounting policies and significant judgments — Other financial liabilities at fair value through profit or loss" above for further information. These gains were offset by lower levels of income in Fixed Income Currencies & Commodities. Although Fixed Income, Currencies & Commodities' base of offerings has been expanded in the United States and Asia over the last twelve months, trading income for the year ended March 31, 2011 was down, reflecting lower levels of client activity. The prior fiscal year was characterized by strong rallies in credit markets globally post the financial crisis. This yielded strong returns in Fixed Income, Currencies & Commodities' interest rate related businesses.

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

	Year ended		
	Mar 11	**Mar 10**	**Movement[1]**
	A$m	**A$m**	**%**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**179**	**(230)**	large

[1] "large" indicates that actual movement was greater than 300%.

Share of net equity accounted profits/(losses) of associates and joint ventures of A$179 million for the year ended March 31, 2011 increased significantly from a loss of A$230 million in the prior fiscal year. The increase was due to the improvement in global economic conditions and the effect on the underlying results of the investments. The prior fiscal year also included one-off equity accounted losses of A$82 million relating to the impact of fees paid by MAp Group (the predecessor of Sydney Airport), Macquarie Media Group and Macquarie Infrastructure Group to terminate management agreements with MGL Group. See "— Other operating income and charges" and "— Segment analysis — Macquarie Capital" below.

Other operating income and charges

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Net gains on sale of investment securities available-for-sale	229	96	139
Impairment charge on investment securities available-for-sale	(38)	(77)	(51)
Net gains on sale of associates (including associates held-for-sale) and joint ventures	19	50	(62)
Impairment charge on investments in associates and joint ventures[2]	(69)	(357)	(81)
Impairment charge on disposal groups held-for-sale	(16)	–	nm
Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held-for-sale[3]	96	393	(76)
Gain on re-measurement of retained investments	129	–	nm
Impairment charge on non-financial assets	(7)	(36)	(81)
Sale of management rights[4]	14	428	(97)
Gain on repurchase of subordinated debt	–	55	(100)
Net operating lease income[5]	243	138	76
Dividends/distributions received/receivable from investment securities available-for-sale	126	22	large
Collective allowance for credit losses written-back/(provided for) during the fiscal year	5	2	150
Specific provisions	(133)	(218)	(39)
Other income	333	272	22
Total other operating income and charges	**931**	**768**	21

1 "nm" indicates that the percentage change was less than 1% and therefore not meaningful, and "large" indicates that actual movement was greater than 300%.

2 Includes impairment reversals of A$10 million (March 31, 2010: A$43 million).

3 Includes gains on re-measurement of retained ownership interests to fair value on the loss of control of investments in subsidiaries and the loss of significant influence on investments in associates.

4 Sale of management rights to Macquarie Power and Infrastructure Corporation (2010: MAp Group (the predecessor of Sydney Airport), Macquarie Media Group and Macquarie Infrastructure Group) as part of the internalization of the management of these funds.

5 Includes rental income of A$401 million (2010: A$370 million) less depreciation of A$158 million (2010: A$232 million) in relation to operating leases where MGL Group is the lessor.

Total other operating income and charges of A$931 million for the year ended March 31, 2011 increased 21% from A$768 million in the prior fiscal year.

Net gains on sale of investment securities available-for-sale of A$229 million for the year ended March 31, 2011 increased 139% from A$96 million in the prior fiscal year. The year ended March 31, 2011 included realizations of investments in resource markets, particularly in the gold sector, and the sale of debt securities held for liquidity management purposes by Group Treasury.

Impairment charges on investment securities available-for-sale, associates, non-financial assets and disposal groups held-for-sale of A$130 million in the year ended March 31, 2011 decreased 72% from A$470 million in the prior fiscal year. Lower impairment charges on MGL's co-investments during the period compared to the prior fiscal year resulted from a stabilization of global markets and improved operating conditions.

Gains on acquiring, disposing and change in ownership interests in subsidiaries, associates and businesses held-for-sale of A$96 million for the year ended March 31, 2011 decreased 76% from A$393 million in the prior fiscal year. The result for the year ended March 31, 2011 included A$33 million income from the sale of Macquarie Asset Leasing Trust and a A$23 million gain from the partial sell-down of ownership in OzForex. The prior fiscal year result included a one-off gain of A$127 million from the financing of £157.5 million of Macquarie Income Preferred Securities, income from the sale of Macquarie Communications Infrastructure Management Limited and income from the sale of the majority of the real estate funds platform to Charter Hall Group.

Gains on re-measurement of retained investments of A$129 million related to the reclassification of an investment in MAp Group (the predecessor of Sydney Airport) and OzForex from an associate to available-for-sale due to loss of significant influence. On reclassification the retained stakes were required to be remeasured to fair value and the gain recognized in the income statement.

The gain on sale of management rights of A$14 million in the year ended March 31, 2011 related to the sell-down of management rights in Macquarie Power and Infrastructure Corporation. The income of A$428 million in the prior fiscal year comprised A$345 million from MAp Group (the predecessor of Sydney Airport), A$42 million from Macquarie Infrastructure Group and A$41 million from Macquarie Media Group.

Net operating lease income of A$243 million for the year ended March 31, 2011 increased 76% from A$138 million in the prior fiscal year mainly due to the acquisition by Corporate & Asset Finance of aircraft assets and associated operating leases from ILFC during the year. As at March 31, 2011, the operating lease portfolio was A$4.4 billion compared to A$1.3 billion in the prior fiscal year.

The dividends/distributions received/receivable on investment securities available-for-sale of A$126 million in the year ended March 31, 2011 increased significantly from A$22 million in the prior fiscal year. The increase was largely attributable to distributions received from MAp Group (the predecessor of Sydney Airport) subsequent to its reclassification from an investment in associate to an available-for-sale investment.

Net charges for specific and collective provisions of A$128 million in the year ended March 31, 2011 decreased by 41% from A$216 million in the prior fiscal year. The decrease reflected improved market and economic conditions.

Other income of A$333 million for the year ended March 31, 2011 increased 22% from A$272 million in the prior fiscal year largely due to the sale of net profit interests and royalties from participants in the metals and energy sectors.

Operating expenses

	Year ended		
	Mar 11	Mar 10	Movement
	A$m	A$m	%
Operating expenses			
Employment expenses:			
Compensation expenses:			
Salary, commissions, superannuation and performance-related profit share	(3,269)	(2,595)	26
Share based payments	(306)	(224)	37
Provision for annual leave	(29)	(21)	38
Provision for long service leave	(8)	(8)	–
Total compensation expense	**(3,612)**	**(2,848)**	27
Other employment expenses including on-costs, staff procurement and staff training	(278)	(253)	10
Total employment expenses	**(3,890)**	**(3,101)**	25
Brokerage and commission expenses	(785)	(645)	22
Occupancy expenses	(483)	(482)	nm
Non-salary technology expenses	(316)	(283)	12
Professional fees	(296)	(287)	3
Travel and entertainment expenses	(184)	(160)	15
Advertising and communication expenses	(127)	(99)	28
Other expenses	(292)	(287)	2
Total operating expenses	**(6,373)**	**(5,344)**	19

[1] "nm" indicates that the percentage change was less than 1% and therefore not meaningful.

Total operating expenses of A$6,373 million for the year ended March 31, 2010 increased 19% from A$5,344 million in the prior fiscal year, predominately due to increased employment expenses and brokerage and commission expenses reflecting the investment in and expansion of global platforms.

Compensation expenses of A$3,612 million for the year ended March 31, 2011 increased 27% from A$2,848 million in the prior fiscal year and total employment expenses of A$3,890 million for the year ended March 31, 2011 increased 25% from A$3,101 million in the prior fiscal year mainly due to a 17% increase in average headcount during the year and higher average compensation rates for employees largely as a result of increased competition for employees in the financial services industry, particularly in high growth regions and businesses. The impact of higher average compensation rates was partially offset by the strengthening of the Australian dollar during the period which decreased the Australian dollar value of compensation paid in other currencies. For more information, see MGL's Remuneration Report in the Director's Report included in its 2011 financial statements.

Brokerage and commission expenses of A$785 million for the year ended March 31, 2011 increased 22% from A$645 million in the prior fiscal year, mainly due to the full year contribution of Delaware Investments. The brokerage and commission expenses for Delaware Investments of A$94 million in the year ended March 31, 2011 (A$22 million in the year ended March 31, 2010) was primarily related to distribution expenses in Delaware Investments that offset with related distribution service fee income that, for accounting purposes, is recognized in other fee and commission income.

Non-salary technology expenses of A$316 million for the year ended March 31, 2011 increased 12% from A$283 million in the prior fiscal year mainly due to increased investment in technology platforms, especially in Macquarie Securities and Fixed Income, Currencies & Commodities.

Travel and entertainment expense of A$184 million for the year ended March 31, 2011 increased 15% from A$160 million in the prior fiscal year mainly due to increased overseas travel to support recent acquisitions and growth of the global operating platform.

Advertising and communication expenses of A$127 million for the year ended March 31, 2011 increased 28% from A$99 million in the prior fiscal year largely due to increased advertising and communication expense in offshore locations to support the continued expansion of the global operating platform.

Headcount

Total headcount of 15,556 as at March 31, 2011 increased 6% from 14,657 as at March 31, 2010. The increase was mainly outside of Australia and was driven by investment in MGL Group's global operating platform. The slight increase in the headcount in Australia as at March 31, 2011 was due to organic growth.

Our headcount by operating group and region at March 31, 2011 is provided in the table below:

	Year ended		
	Mar 11	**Mar 10**	**Movement**
	A$m	**A$m**	**%**
Headcount by operating group			
Macquarie Securities	1,768	1,673	6
Macquarie Capital	1,397	1,632	(14)
Macquarie Funds	1,457	1,610	(10)
Fixed Income, Currencies & Commodities	980	884	11
Corporate & Asset Finance	888	717	24
Banking & Financial Services	3,228	3,268	(1)
Real Estate Banking	57	73	(22)
Total headcount – operating groups	**9,775**	**9,857**	(1)
Total headcount – corporate	**5,781**	**4,800**	20
Total headcount	**15,556**	**14,657**	6
Headcount by region			
Australia	7,386	7,296	1
International:			
Americas	3,723	3,478	7
Asia	2,834	2,410	18
Europe, Middle East and Africa	1,613	1,473	10
Total headcount – International	**8,170**	**7,361**	11
Total headcount	**15,556**	**14,657**	6
International headcount ratio (%)	53	50	

Average headcount is calculated as the 13-month average based on month end headcount numbers.

Income tax expense

	Year ended	
	Mar 11	Mar 10
	A$m	A$m
Net profit before tax	**1,271**	**1,294**
Add back: write-downs, impairment charges and equity accounted gains/(losses)	79	854
Net profit before write-downs, impairment charges, equity accounted gains/(losses) and tax	**1,350**	**2,148**
Prima facie tax @ 30%	405	644
Income tax permanent differences	(99)	(187)
Income tax expense (before impact of write-downs, impairment charges and equity accounted gains/(losses))	**306**	**457**
Implied effective tax rate (%)[1]	23	22
Prima facie tax of write-downs, impairment charges and equity accounted gains/(losses) @ 30%	(24)	(256)
Income tax benefit/(expense)	282	201
Actual effective tax rate (%)[1]	23	16

1 The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduced net profit before tax by A$33 million and A$43 million for the year ended March 31, 2011 and March 31, 2010, respectively.

The effective tax rate for the year ended March 31, 2011 was 23%, which increased from 16% in the prior fiscal year. The increase was largely due to reduced write-downs and impairment charges in the year ended March 31, 2011 compared to the prior fiscal year and a reduction in income tax permanent differences compared to the prior fiscal year.

Segment overview

Summary of segment results

	Macquarie Capital	Fixed Income, Currencies & Commodities	Macquarie Securities	Macquarie Funds	Banking & Financial Services	Corporate & Asset Finance	Real Estate Banking	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Year ended March 31, 2011									
Net interest income/(expense)	(151)	(29)	(28)	(120)	713	583	(12)	319	1,275
Fee and commission income	796	171	927	1,153	752	5	12	75	3,891
Trading income	45	954	394	8	6	(3)	(1)	(35)	1,368
Share of net profits/(losses) of associates and JVs accounted for using the equity method	47	15	1	112	1	9	(5)	(1)	179
Other operating income and charges	235	250	11	214	12	171	–	38	931
Internal management revenue/(charges)	29	55	(6)	43	10	21	(2)	(150)	–
Net operating income	1,001	1,416	1,299	1,410	1,494	786	(8)	246	7,644
Total operating expenses	(711)	(841)	(1,124)	(818)	(1,214)	(285)	(34)	(1,346)	(6,373)
Profit before tax	290	575	175	592	280	501	(42)	(1,100)	1,271
Tax expense	–	–	–	–	–	–	–	(282)	(282)
Profit attributable to non-controlling interests	(9)	–	–	10	(5)	–	–	(29)	(33)
Net profit/(loss) contribution	**281**	**575**	**175**	**602**	**275**	**501**	**(42)**	**(1,411)**	**956**
Year ended March 31, 2010									
Net interest income/(expense)	(113)	116	(46)	(103)	551	382	(37)	330	1,080
Fee and commission income	837	155	977	911	727	8	67	39	3,721
Trading income	77	1,042	525	2	1	41	(6)	(383	1,299
Share of net profits/(losses) of associates and JVs accounted for using the equity method	(22)	11	2	(170)	2	(5)	(41)	(7)	(230)
Other operating income and charges	(124)	37	–	735	(41)	7	(102)	256	768
Internal management revenue/(charges)	30	80	22	61	11	32	5	(241)	–
Net operating income	685	1,441	1,480	1,436	1,251	465	(114)	(6)	6,638
Total operating expenses	(728)	(614)	(900)	(624)	(984)	(208)	(34)	(1,252)	(5,344)
Profit before tax	(43)	827	580	812	267	257	(148)	(1,258)	1,294
Tax expense	–	–	–	–	–	–	–	(201)	(201)
Profit attributable to non-controlling interests	(13)	–	–	1	(6)	(2)	–	(23)	(43)
Net profit/(loss) contribution	**(56)**	**827**	**580**	**813**	**261**	**255**	**(148)**	**(1,482)**	**1,050**

Basis of preparation

MGL Group segments

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

For internal reporting and risk management purposes, MGL Group is divided into six operating groups and one division, as set forth below.

Operating groups:

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

Division:

- Real Estate Banking

In addition, a separate Corporate segment includes Group Treasury, head office and central support functions. Items of income and expense within the Corporate segment include the net impact of managing liquidity for MGL, earnings on capital, non-trading derivative volatility, unallocated head office costs and employment related costs of central support functions (service areas), performance related profit share and share based payments expense, income tax expense and distributions to holders of CPS, MIS and MIPS.

MGL operating group restructures

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

- Macquarie Infrastructure and Real Assets (formerly Macquarie Capital Funds) – a division of Macquarie Capital was transferred to Macquarie Funds; and
- Real Estate Structured Finance – a division of Real Estate Banking was transferred to Corporate & Asset Finance.

All restructures have been reported as effective from April 1, 2010, and comparative information for the 2010 fiscal year has been restated to reflect the current structure. See "Financial information presentation" above for further information on restructures that have occurred in prior periods. See "— Reconciliation of segment results for year ended March 31, 2010 to our historical financial statements" below for further information on the reconciliation of segment results for the 2010 fiscal year.

Internal transactions

Any transactions or transfers between segments have been determined on what MGL believes is 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 applied to internal transactions.

Internal funding arrangements

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

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

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

Transactions between operating groups

Operating groups that enter into arrangements with other operating groups must do so on an arm's-length basis. There is a requirement for accounting symmetry in such transactions. Transactions between operating groups are recognized in each of the relevant categories of income and expense as appropriate.

Service area recoveries

Service areas recover their costs to operating groups on either a time and effort allocation basis or a fee for service basis. Service areas include Financial Management, Market Operations and Technology, Corporate Services, Risk Management, Legal and Governance, and Central Executive. Service area recoveries are recognized within other operating expenses in the income statement.

Internal management revenue/(charges)

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

Presentation of segment income statements

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

Reconciliation of segment results for year ended March 31, 2010 to our historical financial statements

In order to illustrate the financial impact of the internal reorganizations during the 2011 fiscal year on our historical results of operations, the table below reconciles the 2010 operating segment results prior to the reorganizations discussed below under "— Year ended March 31, 2010 compared to year ended March 31, 2009" (and as reported in the 2010 annual financial statements) to the comparative information for the 2010 fiscal year presented in the 2011 operating segment analysis below. See "Financial information presentation" above for further information.

Net profit contribution for the year ended March 31, 2010

	Operating group contribution as previously reported	Transfer of Macquarie Infrastructure and Real Assets (formerly Macquarie Capital Funds) to Macquarie Funds	Transfer of real estate lending within Real Estate Banking to Corporate & Asset Finance	Transfer of certain real estate funds from Real Estate Banking to Macquarie Funds	Operating group contribution as restated
Macquarie Securities.	**580**	–	–	–	**580**
Macquarie Capital.....	**657**	(713)	–	–	**(56)**
Macquarie Funds	**95**	713	–	5	**813**
Fixed Income, Currencies & Commodities............	**827**	–	–	–	**827**
Corporate & Asset Finance	**264**	–	(9)	–	**255**
Banking & Financial Services....................	**261**	–	–	–	**261**
Real Estate Banking..	**(152)**	–	9	(5)	**(148)**
Corporate	**(1,482)**	–	–	–	**(1,482)**
Total.........................	**1,050**	**-**	**-**	**-**	**1,050**

Segment analysis

Macquarie Capital

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**(151)**	**(113)**	34
Fee and commission income/(expense)			
Mergers and acquisitions, advisory and underwriting fees	862	996	(13)
Other fee and commission income/(expenses)	(66)	(159)	(58)
Total fee and commission income	**796**	**837**	(5)
Net trading income	**45**	**77**	(42)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**47**	**(22)**	large
Other operating income and charges			
Net gains on sale of equity investments	7	84	(92)
Gain on reclassification of retained investments	17	–	nm
Impairment charge on equity investments	(30)	(387)	(92)
Impairment charge on non-financial assets	(1)	(6)	(83)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	41	27	52
Net operating lease income	92	66	39
Specific provisions and collective allowance for credit losses	(10)	(4)	150
Other income	119	96	24
Total other operating income and charges	**235**	**(124)**	large
Internal management revenue/(charges)[2]	**29**	**30**	(3)
Total operating income	**1,001**	**685**	46
Operating expenses			
Employment expenses	(388)	(386)	1
Brokerage and commission expenses	(6)	(6)	–
Other operating expenses	(317)	(336)	(6)
Total operating expenses	(711)	(728)	(2)
Non-controlling interests[3]	(9)	(13)	(31)
Net profit/(loss) contribution	**281**	**(56)**	large
Other metrics			
Headcount	1,397	1,632	(14)

1 "nm" indicates that the percentage change was less than 1% and therefore not meaningful, and "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

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

Macquarie Capital's net profit contribution of A$281 million for the year ended March 31, 2011 increased significantly from a net loss of A$56 million in the prior fiscal year due to lower impairment charges on equity investments, which was partially offset by reduced advisory income.

Net interest expense

Net interest expense of A$151 million for the year ended March 31, 2011 increased 34% from A$113 million in the prior fiscal year. The expense mainly relates to the funding cost of principal investments. The increase is primarily due to higher interest rates during the period compared to the prior fiscal year.

Fee and commission income

Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income of A$862 million for the year decreased 13% from A$996 million in the prior fiscal year reflecting lower levels of equity capital markets activity. The volume and value of transactions in which MGL participated for the year ended March 31, 2011 (547 transactions valued at approximately A$159 billion) was higher compared to the prior fiscal year (448 transactions valued at approximately A$121 billion). Mergers and acquisitions, advisory and underwriting income increased 27% from A$380 million in the first half of the 2011 fiscal year to A$482 million in the second half of the 2011 fiscal year due to a 50% increase in the volume of transactions completed.

For a list of significant advisory deals completed for the year ended March 31, 2011, see "Macquarie Group Limited — Operating groups — Macquarie Capital".

Other fee and commission expense

Other fee and commission expense of A$66 million for the year ended March 31, 2011 decreased 58% from a A$159 million loss in the prior fiscal year. For Macquarie Capital, other fee and commission expense predominantly related to internal transactions with other operating groups. The decreased expense for the year ended March 31, 2011 was driven by a decrease in payments to Macquarie Securities on equity underwriting transactions, which were well down on the prior fiscal year due to reduced equity capital markets activity, partially offset with receipts from Corporate & Asset Finance relating to the acquisition of aircraft assets and associated leases from ILFC.

Net trading income

Net trading income of A$45 million for the year ended March 31, 2011 decreased 42% from income of A$77 million in the prior fiscal year. The year ended March 31, 2011 included profits in relation to listed and unlisted equity investments of A$19 million, interest rates swaps of A$15 million and unrealized profits on warrants and options of A$16 million. The income in the prior fiscal year included realized profit of A$8 million in relation to a United States listed investment and unrealized profit on warrants and options of A$55 million.

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

Net equity accounted profits of A$47 million for the year ended March 31, 2011 increased significantly from a net loss of A$22 million in the prior fiscal year, driven by profits of A$20 million recognized in the year ended March 31, 2011 for listed associates and A$27 million for unlisted associates.

Other operating income and charges

Net gains on sale of equity investments

Net gains on sale of equity investments of A$7 million for the year ended March 31, 2011 decreased significantly from A$84 million in the prior fiscal year. The net gain for the year ended March 31, 2011 included a gain on an unlisted investment in the infrastructure industry. The prior fiscal year included income from the sale of Moto Hospitality and Puget Energy.

Gain on reclassification of retained investments

Macquarie Capital lost significant influence over an equity investment in Ambow Education Holding Limited upon an initial public offering and was required to revalue its retained investment to fair value, recognizing a gain of A$17 million for the year ended March 31, 2011.

Impairment charges on equity investments

Impairment charges on equity investments of A$30 million for the year ended March 31, 2011 decreased significantly from A$387 million in the prior fiscal year, as global markets stabilized and showed some signs of improvement. The prior fiscal year charges included writedowns of equity investments of A$306 million and the write-down of a United States portfolio of asset-backed securities held as available-for-sale of A$62 million.

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

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale of A$41 million for the year ended March 31, 2011 increased 52% from A$27 million in the prior fiscal year. The gain in the year ended March 31, 2011 related to income from the sale of Macquarie Asset Leasing Trust. The prior year included income from the sale of the Microstar assets.

Operating expenses

Total operating expenses of A$711 million for the year ended March 31, 2011 decreased 2% from A$728 million in the prior fiscal year.

Employment expenses

Employment expenses of A$388 million for the year ended March 31, 2011 were broadly in line with A$386 million in the prior fiscal year. See " — Year ended March 31, 2011 compared to year ended March 31, 2010 — Results analysis — Operating expenses" for further information.

Brokerage and commission expenses

Brokerage and commission expenses of A$6 million for the year ended March 31, 2011 were in line with expenses of A$6 million in the prior fiscal year. Brokerage and commission expenses are not a significant expense for Macquarie Capital.

Other operating expenses

Other operating expenses of A$317 million for the year ended March 31, 2011 decreased 6% from A$336 million in the prior fiscal year, primarily due to lower average headcount. This was partially offset by foreign exchange movements, which had a favorable impact on other operating expenses as the Australian dollar strengthened against the currencies in the majority of countries where Macquarie Capital operates. See "Macquarie Group Limited — Operating groups — Macquarie Capital" for more information.

Fixed Income, Currencies & Commodities

	Year ended Mar 11	Year ended Mar 10	Movement[1]
	A$m	A$m	%
Net trading income (including net interest income)[2, 3]			
Commodities[4]	618	671	(8)
Foreign exchange products	38	93	(59)
Interest rate products	286	352	(19)
Fair value adjustments relating to leasing contracts[4]	(17)	42	large
Net trading income/(expenses) (including net interest income)	**925**	**1,158**	(20)
Fee and commission income			
Brokerage and commissions	87	69	26
Other fee and commission income	84	86	(2)
Total fee and commission income	**171**	**155**	10
Share of net profits of associates and joint ventures accounted for using the equity method	**15**	**11**	36
Other operating income and charges			
Net gains/(losses) on sale of equity investments	139	64	117
Impairment charge on equity investments	(9)	(3)	200
Specific provisions and collective allowance for credit losses	13	(53)	large
Other income	107	29	269
Total other operating income and charges	**250**	**37**	large
Internal management revenue/(charges)[5]	**55**	**80**	(31)
Total operating income	**1,416**	**1,441**	(2)
Operating expenses			
Employment expenses	(302)	(209)	44
Brokerage and commission expenses	(173)	(138)	25
Other operating expenses	(366)	(267)	37
Total operating expenses	**(841)**	**(614)**	37
Net profit/(loss) contribution	**575**	**827**	(30)
Other metrics			
Headcount	980	884	11

1 "large" indicates that actual movement was greater than 300%.

2 The relative contribution of net interest income and trading income to income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by MGL and its clients. As such, to obtain a more complete view of Fixed Income, Currencies & Commodities' trading activities, net interest income has been combined with trading income above. The categories of trading income above are based on business lines within Fixed Income, Currencies & Commodities.

3 There were no impairments taken through trading income for the year ended March 31, 2011 (March 31, 2010: A$20 million).

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

5 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

Fixed Income, Currencies & Commodities' net profit contribution of A$575 million for the year ended March 31, 2010 decreased 30% from A$827 million in the prior fiscal year, primarily due to lower trading income as a result of challenging trading conditions and increased employment and operating expenses due to an increase in headcount and continued expansion of business platforms. This was partially offset by increased gains on the sale of equity investments as a result of stronger resource equity markets.

Total operating income of A$1,416 million for the year ended March 31, 2011 decreased 2% from A$1,441 million in the prior fiscal year primarily due to lower net trading income across all product categories. Fixed Income, Currencies & Commodities experienced challenging trading conditions and subdued client activity in a number of markets during the first half of the year with client activity beginning to show signs of improvement in the second half of the 2011 fiscal year. Net trading income of A$597 million for the second half of the 2011 fiscal year increased 82% from A$328 million in the first half of the 2011 fiscal year. In addition to lower total operating income for the fiscal year ended March 31, 2011, operating expenses of A$841 million for the year ended March 31, 2011 increased 37% from A$614 million in the prior fiscal year, which reflected investment in new capabilities in credit sales and trading, the extension of these platforms from the United States into Europe and the establishment of new capabilities in rates, currencies and credit sales and trading in Asia. See "Macquarie Group Limited — Operating groups — Fixed Income, Currencies & Commodities".

Net trading income

Commodities trading income

Commodities trading income of A$618 million for the year ended March 31, 2011 decreased 8% from A$671 million in the prior fiscal year. In line with the broader market, Fixed Income, Currencies & Commodities experienced challenging trading conditions and lower client term hedging activity in some of its commodities markets during the year, especially in the first half of the 2011 fiscal year.

In metals and agricultural markets, client activity in term hedging improved in the second half of the 2011 fiscal year after a sporadic first half. Global weather events and geopolitical unrest in the Middle East led to significant volatility in a number of commodities markets during the year. Energy markets experienced more difficult trading conditions with periods when the market moved away from fundamentals resulting in lower income compared to the prior fiscal year. Northern hemisphere energy revenues were stronger in the second half of the 2011 fiscal year reflecting the seasonal nature of the energy market.

Foreign exchange products trading income

Foreign exchange products of A$38 million for the year ended March 31, 2011 decreased 59% from A$93 million in the prior fiscal year. Global volatility in currency markets remained suppressed and the higher Austrian dollar adversely impacted the level of client term hedging. Together with margin compression due to increased volatility and the trading environment, this had a significant impact on revenues.

Interest rate products trading income

Interest rate products trading income of A$286 million for the year ended March 31, 2011 decreased 19% from A$352 million in the prior fiscal year. The prior fiscal year was characterized by strong rallies in credit markets globally post the financial crisis, which yielded strong returns in Fixed Income, Currencies & Commodities' interest rate related businesses. Although Fixed Income, Currencies & Commodities' base of offerings has been expanded in the United States and Asia over the last twelve months, income for the year ended March 31, 2011 decreased, reflecting lower levels of client activity.

Fee and commission income

Fee and commission income of A$171 million for the year ended March 31, 2011 increased 10% from A$155 million in the prior fiscal year mainly due to improved brokerage revenues in the futures execution of the clearing markets.

Other operating income and charges

Net gains/(losses) on sale of equity investments

Net gains on sale of resources sector equity investments of A$139 million for the year ended March 31, 2011 increased 117% from A$64 million in the prior fiscal year. The improved result from equity realizations was as a result of stronger resource equity markets, particularly in the gold sector.

Impairment charge on equity investments

Impairment charges on equity investments of A$9 million recognized for the year ended March 31, 2011, and the A$3 million impairment charge in the prior fiscal year mainly related to impairments of certain investments in the resource sector.

Specific provisions and collective allowance for credit losses

Net provision releases of A$13 million for the year ended March 31, 2011 decreased significantly from a net charge of A$53 million in the prior fiscal year. This reflects an overall improvement in the collectability of the loan portfolio primarily in the resource sector and the impact of restructures or repayments received on previously provided for receivables.

Other income

Other income of A$107 million for the year ended March 31, 2011 increased 269% from A$29 million in the prior fiscal year. Net profit interest sales of A$43 million in the year ended March 31, 2011 related to interests and royalties from participants in the metals and energy sectors.

Operating expenses

Total operating expenses of A$841 million for the year ended March 31, 2011 increased 37% from A$614 million in the prior fiscal year.

Employment expenses

Employment expenses of A$302 million for the year ended March 31, 2011 increased 44% from A$209 million in the prior fiscal year. The main driver of the increase in employment costs was headcount growth of 11% from 884 at March 31, 2010 to 980 at March 31, 2011 as a result of continued investment in the credit trading business, as well as the establishment of the new Asian Markets business in Singapore. Over half the increase in headcount since March 31, 2010 relates to coverage in new markets or regions.

Brokerage and commission expenses

Brokerage and commission expenses of A$173 million for the year ended March 31, 2011 increased 25% from A$138 million in the prior fiscal year. This increase was primarily a result of growth in futures execution and clearing volumes.

Other operating expenses

Other operating expenses of A$366 million for the year ended March 31, 2011 increased 37% from A$267 million in the prior fiscal year. Other operating expenses primarily relate to costs supporting the expansion of the Fixed Income, Currencies & Commodities business platforms, including risk management, information technology and operations.

Macquarie Securities

	Year ended Mar 11	Mar 10	Movement
	A$m	A$m	%
Net trading income (including net interest income)[1]	**366**	**479**	(24)
Fee and commission income			
Brokerage and commissions	715	714	nm
Other fee and commission income	212	263	(19)
Total fee and commission income	**927**	**977**	(5)
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	**2**	(50)
Other operating income and charges	**11**	**–**	nm
Internal management revenue/(charges)[2]	**(6)**	**22**	large
Total operating income	**1,299**	**1,480**	(12)
Operating expenses			
Employment expenses	(382)	(278)	37
Brokerage and commission expenses	(242)	(218)	11
Other operating expenses	(500)	(404)	24
Total operating expenses	**(1,124)**	**(900)**	25
Net profit/(loss) contribution	**175**	**580**	(70)
Other metrics			
Headcount	1,768	1,673	6

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

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

Macquarie Securities' net profit contribution of A$175 million for the year ended March 31, 2011 decreased 70% from A$580 million in the prior fiscal year primarily due to reduced equity capital market activity in Australia and reduced levels of both institutional and retail client activity globally. Operating expenses also increased as a result of the full year impact of prior fiscal year acquisitions including FPK and the acquisition of Sal. Oppenheim in the year ended March 31, 2011.

Net trading income (including net interest income)

Net trading income (including net interest income) of A$366 million for the year ended March 31, 2011 decreased 24% from A$479 million in the prior fiscal year. As a result of challenging market conditions, retail and institutional product revenues were down across all regions, with the exception of Europe which benefited significantly from the acquisition of Sal. Oppenheim. The second half of the 2011 fiscal year provided some improvement over the first half of the 2011 fiscal year, with net trading income (including net interest income) increasing by 46% in the second half of the 2011 fiscal year, as compared to the first half.

Arbitrage trading continued to make a strong contribution to net trading income. Lower volatility and liquidity in the market, notably in the first half of the 2011 fiscal year, adversely impacted trading conditions.

Fee and commission income

Brokerage and commissions

Brokerage and commission income of A$715 million for the year ended March 31, 2011 was broadly in line with A$714 million in the prior fiscal year. Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional clients. Revenues from the Americas and Europe continued to grow, which significantly benefited from the Sal. Oppenheim acquisition, as well as the FPK acquisition. This was offset by lower commissions in Asia and Australia due to reduced client activity. Asian revenues were also negatively affected by the translation impact of the stronger Australian dollar.

Other fee and commission income

Other fee and commission income of A$212 million for the year ended March 31, 2011 decreased 19% from A$263 million in the prior fiscal year. Other fee and commission income consists primarily of equity capital markets fees which were adversely impacted by lower transaction volumes in certain markets. Capital raising activity was down in Australia and Europe compared to the prior fiscal year, however increased activity in America and Asia resulted in increased revenues in these regions with notable transactions for the period including the Agricultural Bank of China Limited on the Stock Exchange of Hong Kong as part of a A$22.1 billion dual listing in Hong Kong and Shanghai, the world's largest ever IPO, featuring Macquarie Securities as Joint Book Runner and Lead Manager.

Operating expenses

Total operating expenses of A$1,124 million for the year ended March 31, 2011 increased 25% from A$900 million in the prior fiscal year.

Employment expenses

Employment expenses of A$382 million for the year ended March 31, 2011 increased 37% from A$278 million in the prior fiscal year. This increase was mainly due to the full year impact of prior fiscal year acquisitions including FPK and the acquisition of Sal. Oppenheim in the year ended March 31, 2011, as well as the build out of new business in Europe and the Americas.

Brokerage and commission expenses

Brokerage and commission expenses of A$242 million for the year ended March 31, 2011 increased 11% from A$218 million in the prior fiscal year. The increase was primarily driven by the acquisition of the Sal. Oppenheim business in Europe, higher rebates paid to clients in Asia and increased fee trades in the securities borrowing and lending business.

Other operating expenses

Other operating expenses of A$500 million for the year ended March 31, 2011 increased 24% from A$404 million in the prior fiscal year primarily driven by the full year impact of prior fiscal year acquisitions including FPK and the acquisition of Sal. Oppenheim in the year ended March 31, 2011, and the build out of new business in Europe and America. Other operating expenses were also impacted by increased investment in technology platforms during the year.

Banking & Financial Services

	Year ended Mar 11 A$m	Year ended Mar 10 A$m	Movement[1] %
Net interest income	**713**	**551**	29
Fee and commission income			
Base fees	76	199	(62)
Brokerage and commissions	260	224	16
Other fee and commission income	365	264	38
Income from life insurance business and other unit holder businesses	51	40	28
Total fee and commission income	**752**	**727**	3
Net trading income	**6**	**1**	large
Share of net profits of associates and joint ventures accounted for using the equity method	**1**	**2**	(50)
Other operating income and charges			
Net gains on sale of equity investments	3	2	50
Impairment charge on equity investments and disposal groups held-for-sale	(9)	(5)	80
Impairment charge on non-financial assets	(5)	(3)	67
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	24	4	large
Gain on re-measurement of retained investments	18	–	nm
Specific provisions and collective allowance for credit losses	(37)	(45)	(18)
Other income	18	6	200
Total other operating income and charges	**12**	**(41)**	large
Internal management revenue/(charges)[2]	**10**	**11**	(9)
Total operating income	**1,494**	**1,251**	19
Operating expenses			
Employment expenses	(506)	(408)	24
Brokerage and commission expenses	(149)	(121)	23
Other operating expenses	(559)	(455)	23
Total operating expenses	**(1,214)**	**(984)**	23
Non-controlling interests[3]	(5)	(6)	(17)
Net profit/(loss) contribution	**275**	**261**	5
Other metrics			
Assets under Management[4] (A$ billion)	3.9	14.3	(73)
Funds under management/advice/administration (A$ billion)[5]	121.7	120.0	1
Loan portfolio (A$ billion)[6]	25.5	26.4	(3)
Deposits (A$ billion)	26.6	15.5	72
Headcount	3,228	3,268	(1)

1 "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

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

4 The CMT, included in Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The balance of the CMT of A$9.6 billion was moved to the CMA effective July 31, 2010 following a meeting of unitholders who voted to transition their holdings.

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

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

Banking & Financial Services' net profit contribution of A$275 million for the year ended March 31, 2011 increased 5% from a net profit contribution of A$261 million in the prior fiscal year primarily due to increased net interest income as a result of growth in retail deposits and increases in other fee and commission income due to strong inflows in funds under administration and the impact of the acquisition of Macquarie Private Wealth Canada. See "Macquarie Group Limited — Basis of preparation — Internal funding arrangements" for more information.

Net interest income/(expense)

Net interest income of A$713 million for the year ended March 31, 2011 increased 29% from A$551 million in the prior fiscal year predominately due to growth in retail deposits, which increased 72% to A$26.6 billion at March 31, 2011 from A$15.5 billion at March 31, 2010 primarily due to the conversion of A$9.6 billion of CMT balances to CMA on July 31, 2010. See "Macquarie Group Limited — Basis of preparation — Internal funding arrangements" for more information.

Banking & Financial Services' loan book primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products, and credit cards. The total loan book of A$25.5 billion as at March 31, 2011 decreased 3% from A$26.4 billion as at March 31, 2010. The decrease was primarily due to run-off in the Australian mortgage portfolio, which decreased 19% to A$11.6 billion at March 31, 2011 (from A$14.3 billion) at March 31, 2010.

The Canadian loan portfolio, which includes mortgages, insurance premium funding, margin loans and capital protected products, closed at A$8.8 billion at March 31, 2011, up 26% from A$7.0 billion at March 31, 2010 despite the stronger Australian dollar.

Fee and commission income

Base fees

Base fee income of A$76 million for the year ended March 31, 2011 decreased 62% from A$199 million in the prior fiscal year largely as a result of a 73% decrease in Assets under Management to A$3.9 billion at March 31, 2011 from A$14.3 billion at March 31, 2010. The decrease was predominantly due to the conversion of A$9.6 billion of CMT balances to CMA on July 31, 2010.

CMA do not form part of Assets under Management and income from these accounts is reported in net interest income.

Brokerage and commissions

Brokerage and commission income of A$260 million for the year ended March 31, 2011 increased 16% from A$224 million in the prior fiscal year as a result of the full year impact of the acquisition of Macquarie Private Wealth Canada in December 2009 and improving equity market conditions globally. Macquarie Private Wealth Canada contributed A$64 million in brokerage and commission income in the year ended March 31, 2011.

Other fee and commission income

Other fee and commission income of A$365 million for the year ended March 31, 2011 increased 38% from A$264 million in the prior fiscal year mainly due to an increase in platform and other administration fee income.

Funds under Administration on the Australian Wrap platform closed at A$22.7 billion at March 31, 2011, up from A$22.5 billion at March 31, 2010. While closing Wrap Funds under Administration on the Australian Wrap platform at March 31, 2011 increased 1% on the prior fiscal year, average volumes of Funds under Administration on the Australian Wrap platform during the year ended March 31, 2011 increased 6% on the prior fiscal year mainly due to the impact of inflows and market volatility. Inflows of A$2.6 billion were largely offset by negative market movements of A$2.4 billion.

The decision was taken to exit the UK wrap platform business in November 2010.

Funds under Administration in the Macquarie Professional Series increased 28% from A$2.9 billion at March 31, 2010 to A$3.7 billion at March 31, 2011.

Other fee and commission income from Macquarie Private Wealth Canada, which was acquired in December 2009, increased 17% to A$33 million in the year ended March 31, 2011 from A$4 million in the prior fiscal year due to the full year impact of the acquisition.

The transfer of some agricultural businesses that were previously part of Macquarie Funds into Banking & Financial Services also contributed to the increase in other fee and commission income in the year ended March 31, 2011. Income from these agricultural businesses accounted for A$23 million of this income category in the year ended March 31, 2011.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder business of A$51 million for the year ended March 31, 2011 increased 28% from A$40 million in the prior fiscal year, primarily due to growth in the insurance inforce book, which grew 59% to A$94 million at March 31, 2011 from A$59 million at March 31, 2010. The inforce book is the aggregate annualized life insurance premium payable for polices issued by the life company, and still paying premiums, at the balance date.

Net trading income

Net trading income of A$6 million for the year ended March 31, 2011, increased significantly from A$1 million in the prior fiscal year. Net trading income is not a significant income source for Banking & Financial Services.

Other operating income and charges

Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale and gain on re-measurement

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale of A$24 million and the gain on re-measurement of A$18 million in the year ended March 31, 2011 was primarily due to the partial sell down of ownership in Ozforex in November 2010, which recognized a total gain of A$40 million.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$37 million for the year ended March 31, 2011 decreased 18% from A$45 million in the prior fiscal year. Provision charges in the year ended March 31, 2011 were lower compared to the prior fiscal year across most of the loan portfolio, particularly the capital protected products in Australia as a result of improving equity markets, loans approaching maturity and product redemptions.

Other income

Other income of A$18 million for the year ended March 31, 2011 increased 200% from $6 million in the prior fiscal year, primarily due to increased payments from Macquarie Securities in relation to trading products offered to retail clients.

Operating expenses

Total operating expenses of A$1,214 million for the year ended March 31, 2011 increased 23% from A$984 million in the prior fiscal year.

Employment expenses

Employment expenses increased 24% from A$408 million for the prior fiscal year to A$506 million. While headcount at March 31, 2011 decreased 1%, from 3,268 at March 31, 2010 to 3,228 at March 31, 2011, average headcount in the year ended March 31, 2011 was 19% higher than the prior fiscal year. The increase in average headcount was primarily driven by the acquisition of Macquarie Private Wealth Canada in December 2009, which added 398 staff to Banking & Financial Services at the time of acquisition.

Brokerage and commission expenses

Brokerage and commission expenses of A$149 million for the year ended March 31, 2011 increased 23% from A$121 million in the prior fiscal year, which was largely due to increased transactional expenses incurred as a result of increased volumes in products such as the Macquarie Professional Series, insurance premium funding and credit cards.

Other operating expenses

Other operating expenses for the year ended March 31, 2011 of A$559 million increased 23% from A$445 million in the prior fiscal year. Expenses associated with the integration of Macquarie Private Wealth Canada and the closure of the UK wrap business contributed to the increase, as well as the contribution of some agricultural products to Banking & Financial Services that had been transferred from Macquarie Funds in the 2011 fiscal year. See "Macquarie Group Limited — Operating groups — Banking & Financial Services."

Macquarie Funds

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**(120)**	**(103)**	17
Fee and commission income			
Base fees	873	697	25
Performance fees	30	22	36
Mergers and acquisitions, advisory and underwriting fees	21	39	(46)
Other fee and commission income	229	153	50
Total fee and commission income	**1,153**	**911**	27
Net trading income/(expense)	**8**	**2**	300
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**112**	**(170)**	large
Other operating income and charges			
Impairment (charge)/writeback on equity investments	(23)	31	large
Impairment charge on non-financial assets	–	(6)	(100)
Gain/(loss) on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	(5)	238	large
Gain on reclassification of retained investments	95	–	nm
Sale of management rights	14	428	(97)
Specific provisions and collective allowance for credit losses	(13)	(9)	44
Other income	146	53	175
Total other operating income and charges	**214**	**735**	(71)
Internal management revenue/(charges)[2]	**43**	**61**	(30)
Total operating income	**1,410**	**1,436**	(2)
Operating expenses			
Employment expenses	(312)	(248)	26
Brokerage and commission expenses	(136)	(101)	35
Other operating expenses	(370)	(275)	35
Total operating expenses	**(818)**	**(624)**	31
Non-controlling interests[3]	10	1	large
Net profit/(loss) contribution	**602**	**813**	(26)
Other metrics			
Assets under Management[4] (A$ billion)	305.1	311.0	nm
Headcount[5]	1,457	1,610	(10)

1 "nm" indicates that the percentage change was less than 1% and therefore not meaningful, and "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

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

4 The CMT, excluded from Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The balance of the CMT of A$9.6 billion was moved to the CMA effective July 31, 2010 following a meeting of unitholders who voted to transition their holdings.

5 The acquisition of Delaware Investments in January 2010 contributed 521 staff to headcount.

Macquarie Funds' net profit contribution of A$602 million for the year ended March 31, 2011 decreased 26% from A$813 million in the prior fiscal year. Notwithstanding that the year ended March 31, 2011 benefited from higher fee and commission income as a result of the full year effect of the acquisition of Delaware Investments. The prior fiscal year included significant gains from listed fund initiatives described in "— Fee and commission income — Base fees". Excluding the gains from listed fund initiatives in both years, net profit contribution increased 105%.

Net interest expense

Net interest expense of A$120 million for the year ended March 31, 2011 increased 17% from A$103 million in the prior fiscal year, primarily driven by the full year effect of funding of the investment in Delaware Investments and higher interest rates on Macquarie Funds' other investments.

Fee and commission income

Base fees

Base fee income of A$873 million for the year ended March 31, 2011 increased 25% from A$697 million in the prior fiscal year. The increase in base fee income was largely as a result of the full year effect of the acquisition of Delaware Investments, which increased Assets under Management by A$151 billion in January 2010. At March 31, 2011, Delaware Investments had Assets under Management of A$153 billion, which contributed A$393 million to base fees (A$90 million in the 2010 fiscal year). The increase in Assets under Management as a result of the Delaware Investments acquisition was partially offset by decreases due to listed fund initiatives undertaken during the 2011 fiscal year (including MAp Group (the predecessor of Sydney Airport), Macquarie Infrastructure Group and the sale of the majority of the listed real estate funds management platform to Charter Hall Group) and the strengthening of the Australian dollar against major currencies, particularly the U.S. dollar. See "Macquarie Group Limited — Operating groups — Macquarie Funds" for a breakdown of Macquarie Funds' Assets under Management by asset class.

Performance fees

Performance fee income of A$30 million for the year ended March 31, 2011 increased 36% from A$22 million in the prior fiscal year due to additional performance fees from the sale of co-investments and a performance fee from Macquarie Atlas Roads.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A$21 million for the year ended March 31, 2011 decreased 46% from A$39 million in the prior fiscal year primarily related to the listed real estate funds transactions, which occurred in the prior fiscal year. The majority of the Australian listed real estate funds management platform was sold to Charter Hall in the 2010 fiscal year.

Other fee and commission income

Other fee and commission income includes brokerage and commission income, structuring fees, capital protection fees, wholesale threshold management fees, income from True Index products and internal fees received for managing and administering investment products on behalf of Banking & Financial Services. See "Macquarie Group Limited — Operating groups — Macquarie Funds" for more information.

Other fee and commission income of A$229 million for the year ended March 31, 2011 increased 50% from A$153 million in the prior fiscal year mainly due to distribution service fees in Delaware Investments, which are offset with associated expenses that, for accounting purposes, are recognized in brokerage and commission expense.

Net trading income

Net trading income of A$8 million for the year ended March 31, 2011 increased 300% from A$2 million in the prior fiscal year. Net trading income is not a significant income source for Macquarie Funds.

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

Net equity accounted profits of A$112 million for the year ended March 31, 2011 increased significantly compared to a A$170 million loss in the prior fiscal year. The result in the prior fiscal year was driven by the significant market disruption associated with the global financial crisis and the resultant deterioration of the underlying results of the investments held by funds, and a combined equity accounted loss of A$82 million from investments in MAp Group (the predecessor of Sydney Airport), Southern Cross Media Group and Macquarie Infrastructure Group arising from the fees paid to Macquarie by these funds to terminate management arrangements. The profit for the year ended March 31, 2011 reflects improved economic and operating conditions for the investments.

Other operating income and charges

Impairment (charge)/writeback on equity investments

The impairment charge on equity investments for the year ended March 31, 2011 of A$23 million related to the writedown of listed investments. The writeback of impairment charges of A$31 million in the prior period was primarily due to write-backs in relation to Macquarie Infrastructure Company and Southern Cross Media Group of A$23 million and A$20 million, respectively.

Gain/(loss) on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale of A$238 million in the prior fiscal year was primarily related to income from the sale of Macquarie Communications Infrastructure Management Limited and income in relation to the internalization of management of Ardent Leisure Group.

Gain on reclassification of retained investments

In early September 2010, MGL Group lost significant influence over MAp Group (the predecessor of Sydney Airport) and consequently reclassified its retained investment in MAp Group to available-for-sale. On reclassification, MGL Group was required to re-measure its retained stake in MAp Group to fair value. The gain on reclassification of this investment was A$95 million.

Sale of management rights

Income from the termination of management arrangements of A$14 million in the year ended March 31, 2011 related to the sale of the management rights of Macquarie Power and Infrastructure Corporation. Fees to terminate management arrangements of A$428 million in the prior fiscal year and related to the sale of the management rights of MAp Group (the predecessor of Sydney Airport), Macquarie Infrastructure Group (A$42 million) and Southern Cross Media Group (A$41 million) which were non-recurring transactions.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$13 million for the year ended March 31, 2011 increased 44% from A$9 million in losses in the prior fiscal year. The charges in each period primarily related to specific provisions booked in Macquarie Infrastructure and Real Assets and Specialised Investment Solutions.

Other income

Other income of A$146 million for the year ended March 31, 2011 increased 175% from A$53 million in the prior fiscal year. The income for the year ended March 31, 2011 included distributions from MAp Group (the predecessor of Sydney Airport) of A$83 million subsequent to its reclassification from an associate to an available-for-sale investment. Other income also included a gain on the disposal of Macquarie Funds' investment in Intoll (A$11 million).

Operating expenses

Total operating expenses of A$818 million for the year ended March 31, 2011 increased 31% from A$624 million in the prior fiscal year.

Employment expenses

Employment expenses of A$312 million for the year ended March 31, 2011 increased 26% from A$248 million in the prior fiscal year primarily due to the effect of the acquisition of Delaware Investments, which increased average headcount in the 2011 fiscal year.

Brokerage and commission expenses

Brokerage and commission expenses of A$136 million increased 35% to A$101 million for the year ended March 31, 2011 in the prior fiscal year. The increase in brokerage and commission expenses was primarily related to distribution expenses in Delaware Investments that were offset with related distribution service fee income that, for accounting purposes, is recognized in other fee and commission income.

Other operating expenses

Other operating expenses of A$370 million for the year ended March 31, 2011 increased 35% from A$275 million in the prior fiscal year. The increase in other operating expenses was primarily due to the full year effect of the acquisition of Delaware Investments, which incurred other operating expenses of A$155 million in the year ended March 31, 2011 (A$29 million in the prior fiscal year).

Corporate & Asset Finance

	Year ended		
	Mar 11	**Mar 10**	**Movement**[1]
	A$m	**A$m**	**%**
Net interest income/(expense)	**583**	**382**	53
Fee and commission income	**5**	**8**	(38)
Net trading income/(expense)	**(3)**	**41**	large
Share of net profits of associates and joint ventures accounted for using the equity method	**9**	**(5)**	large
Other operating income and charges			
Impairment charge/writeback on non-financial assets		(16)	(100)
Impairment charge/writeback on equity investments	(3)	(7)	(57)
Net operating lease income	150	68	121
Specific provisions and collective allowance for credit losses	(40)	(86)	(53)
Other income	64	48	33
Total other operating income and charges	**171**	**7**	large
Internal management revenue[2]	**21**	**32**	(34)
Total operating income	**786**	**465**	69
Operating expenses			
Employment expenses	(142)	(99)	43
Other operating expenses	(143)	(109)	31
Total operating expenses	**(285)**	**(208)**	37
Non-controlling interests[3]	**–**	(2)	(100)
Net profit/(loss) contribution	**501**	**255**	96
Other metrics			
Loan, finance lease and operating lease portfolio (A$ billion)	17.3	14.2	22
Headcount	888	717	24

1 "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

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

Corporate & Asset Finance's net profit contribution of A$501 million for the year ended March 31, 2011 increased 96% from A$255 million in the prior fiscal year primarily due to improved margins and growth of the loan and lease portfolio to A$17.3 billion at March 31, 2011 from A$14.2 billion at March 31, 2010 through acquisitions of the ILFC and GMAC portfolios and continued organic growth, which increased net interest income and net operating lease income.

Net interest income

Net interest income of A$583 million for the year ended March 31, 2011 increased 53% from A$382 million in the prior fiscal year. The increase was driven by higher margins resulting from the purchase of new finance lease and loan portfolios at a discount, and the full year impact of recent acquisitions. The increase in the loan and finance lease portfolio is mainly due to improved volumes as a result of increased corporate lending and the acquisition of the GMAC portfolio.

Fee and commission income

Fee and commission income of A$5 million for the year ended March 31, 2011 decreased 38% from A$8 million for the prior fiscal year. Fee and commission income is not a significant income source for Corporate & Asset Finance.

Net trading income/(expense)

Net trading expense of A$3 million for the year ended March 31, 2011 compared to income of A$41 million in the prior fiscal year. The expense in the prior fiscal year resulted from changes to the fair value of options and equity securities that were subsequently sold. There were no equivalent transactions in the year ended March 31, 2011.

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

Net equity accounted profits of A$9 million for the year ended March 31, 2011 increased significantly compared to A$5 million of losses in the prior fiscal year. Equity accounted income is not a significant income source for Corporate & Asset Finance.

Other operating income and charges

Impairment charge on non-financial assets

There were no impairment charges on non-financial assets during the 2011 fiscal year. The impairment charges of A$16 million recognized in the prior fiscal year related to investments in the real estate sector.

Net operating lease income

Net operating lease income (net of depreciation) of A$150 million for the year ended March 31, 2011 increased 121% from A$68 million in the prior fiscal year largely due to the acquisition of 44 aircraft assets and associated leases from ILFC during the 2011 fiscal year.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$40 million for the year ended March 31, 2011 decreased 53% from A$86 million in the prior fiscal year, mainly due to a reduction in the collective allowance for credit losses due to improved loss rates on the loan and lease portfolio compared to the prior fiscal year.

Other income

Other income of A$64 million for the year ended March 31, 2011 increased 33% from A$48 million in the prior fiscal year largely as a result of increased sale of off-lease assets and inventory in the electronics and equipment finance business.

Operating expenses

Total operating expenses of A$285 million for the year ended March 31, 2011 increased 37% from A$208 million in the prior fiscal year. The increase was driven by a 43% increase in employment expenses A$142 million for the year ended March 31, 2011 from A$99 million in the prior fiscal year, which reflected increased average headcount.

Employment expenses

Employment expenses of A$142 million increased 43% from A$99 million driven by a 24% increase in headcount mainly as a result of growth in the business.

Real Estate Banking

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**(12)**	**(37)**	(68)
Fee and commission income			
Base fees	1	30	(97)
Performance fees	6	35	(83)
Other fee and commission income	5	2	150
Total fee and commission income	**12**	**67**	(82)
Net trading income/(expense)	**(1)**	**(6)**	(83)
Share of net profits of associates and joint ventures accounted for using the equity method	**(5)**	**(41)**	(88)
Other operating income and charges			
Net gains/(losses) on sale of equity investments	31	(33)	large
Impairment charge on equity investments	(20)	(61)	(67)
Impairment charge on non-financial assets	–	(4)	(100)
Specific provisions and collective allowance for credit losses	(31)	(25)	24
Other income	20	21	(5)
Total other operating income and charges	**–**	**(102)**	(100)
Internal management revenue/(charges)[2]	**(2)**	**5**	(140)
Total operating income	**(8)**	**(114)**	(93)
Operating expenses			
Employment expenses	(11)	(11)	–
Other operating expenses	(23)	(23)	–
Total operating expenses	**(34)**	**(34)**	–
Net profit/(loss) contribution	**(42)**	**(148)**	(72)
Other metrics			
Assets under Management (A$ billion)	0.5	0.4	25
Headcount	57	73	(22)

1 "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

Real Estate Banking's net loss contribution of A$42 million for the year ended March 31, 2011 decreased 72% from a net loss of A$148 million in the prior fiscal year driven by the recognition of lower asset impairment losses for the year and challenging market conditions.

Net interest income/(expense)

Net interest expense of A$12 million for the year ended March 31, 2011 decreased from A$37 million in the prior fiscal year. The reduced charge for the year ended March 31, 2011 reflected a net reduction in the investment portfolio following disposals and write-downs.

Fee and commission income

Base fees

Base fee income of A$1 million for the year ended March 31, 2011 decreased 97% from A$30 million in the prior fiscal year. Base fee income of A$30 million in the prior fiscal year included A$16 million received from Macquarie Central Office CR-REIT on the sale of the Kukdong building and A$12 million from Macquarie Office Trust (renamed Charter Hall Office REIT). Accordingly, base fee income for the year ended March 31, 2011 was nominal.

Performance fees

Performance fee income of A$6 million for the year ended March 31, 2011 decreased 83% from A$35 million in the prior fiscal year. The prior fiscal year included A$34 million of fees from the disposal of Macquarie Central Office CR-REIT's Kukdong building in South Korea.

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

Equity accounted losses of A$5 million for the year ended March 31, 2011 decreased 88% from equity accounted losses of A$41 million in the prior fiscal year. This result for the year ended March 31, 2011 was driven by losses in Real Estate Banking's investments in associates, primarily Medallist. The losses in the prior fiscal year was driven by losses in Real Estate Banking's associates, including investments in Medallist and Macquarie Goodman Japan.

Other operating income and charges

Net gains/(losses) on sales of equity investments

The net gain on sales of equity investments of A$31 million for the year ended March 31, 2011 increased significantly from a A$33 million loss in the prior fiscal year. The gain in the current year included a profit on disposal of investments in Charter Hall Office Trust, Australian development projects and the US manager for EDT Retail Trust (formerly Macquarie DDR Trust). The net loss for the year ended March 31, 2010 mainly relates to the sale of the Australian listed REIT unit holdings to Charter Hall Group.

Impairment charge on equity investments

The impairment charge on equity investments of A$20 million for the year ended March 31, 2011 decreased 67% from A$61 million in the prior fiscal year. The write-downs for the year ended March 31, 2011 related to impairments of an Australian listed REIT investment of A$8 million and other Australian investments of A$12 million.

The impairment charge of A$61 million in the prior fiscal year included A$28 million relating to offshore investments, A$9 million relating to Australian listed and unlisted REIT investments and A$24 million relating to other Australian investments.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$31 million for the year ended March 31, 2011 increased 24% from A$25 million in the prior fiscal year. Provisions during the 2011 fiscal year included amounts provided for loans extended to Medallist.

Operating expenses

Total operating expenses of A$34 million for the year ended March 31, 2011 were in line with A$34 million in the prior fiscal year. Operating expenses during the year included transaction costs related to the disposal of investments.

Corporate

	Year ended		
	Mar 11	Mar 10	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**319**	**330**	(3)
Fee and commission income/(expense)	**75**	**39**	92
Net trading income/(expense)	**(35)**	**(383)**	(91)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**(1)**	**(7)**	(86)
Other operating income and charges			
Net gains on sale of debt and equity securities	60	28	114
Impairment charge on equity investments	(30)	(1)	large
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	–	128	(100)
Gain on repurchase of debt	–	55	(100)
Specific provisions and collective allowance for credit losses	(15)	6	large
Other income	23	40	(43)
Total other operating income and charges	**38**	**256**	(85)
Internal management revenue/(charges)[2]	**(150)**	**(241)**	(38)
Total operating income/(expense)	**246**	**(6)**	large
Operating expenses			
Employment expenses	(1,848)	(1,463)	26
Brokerage and commission expenses	(62)	(49)	27
Other operating expenses	564	260	117
Total operating expenses	**(1,346)**	**(1,252)**	8
Tax expense	(282)	(201)	40
Macquarie Income Preferred Securities	(4)	(8)	(50)
Macquarie Income Securities	(26)	(21)	24
Other non-controlling interests[3]	1	6	(83)
Net profit/(loss) contribution	**(1,411)**	**(1,482)**	(5)
Other metrics			
Headcount	5,781	4,800	20

1 "large" indicates that actual movement was greater than 300%.

2 See "— Basis of preparation — Internal transactions — Internal management revenue/(charges)".

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

The Corporate segment's net loss contribution of A$1,411 million for the year ended March 31, 2011 decreased 5% from a net loss of A$1,482 million in the prior fiscal year.

Net interest income

Interest income is mainly generated through the investment of MGL's capital, offset by funding costs not passed on to businesses through Group Treasury. Net interest income of A$319 million for the year ended March 31, 2011 decreased 3% from A$330 million in the prior fiscal year. Interest income was mainly generated through the investment of MGL's capital, offset by funding costs not passed onto the businesses through Group Treasury.

Fee and commissions expense

Fee and commissions expenses primarily relate to internal transactions with operating groups that net out in their entirety on consolidation across MGL Group. External fee and commission income is negligible. Fee and commissions expense of A$75 million for the year ended March 31, 2011 increased 92% from an expense of A$39 million in the prior fiscal year. The increase in the year ended March 31, 2011 mainly offsets with a related item that, for accounting purposes, is required to be recognized in brokerage and commission expense.

Net trading income/(expense)

The primary drivers of net trading income/(expense) in the Corporate segment were derivative volatility and the impact of changes in the fair value of fixed rate issued debt. Net trading expense of A$35 million for the year ended March 31, 2011 decreased 91% from net trading expense of A$383 million in the prior fiscal year, which included negative fair value adjustments on fixed rate issued debt of A$255 million. This compared to positive fair value adjustments of A$9 million for the year ended March 31, 2011.

Other operating income and charges

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of A$60 million for the year ended March 31, 2011 increased 114% from net gains on sale of debt and equity securities of A$28 million in the prior fiscal year. Gains in the year ended March 31, 2011 primarily related to liquidity management activities by Group Treasury in the first half of the year.

Impairment charges on equity investments

The impairment charge on equity investments of A$30 million for the year ended March 31, 2011 increased significantly from A$1 million in the prior fiscal year and related to investments in the real estate sector.

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

The gain of A$128 million in the year ended March 31, 2010 largely related to gains from financing the acquisition of Macquarie Income Preferred Securities (MIPS). There were no equivalent transactions in the year ended March 31, 2011.

Gain on repurchase of debt

In the year ended March 31, 2010, MGL Group undertook a buy-back of a portion of MGL Group's outstanding subordinated debt carried at amortized cost at a discount to face value that realized a profit of A$55 million. There were no equivalent transactions in the year ended March 31, 2011.

Operating expenses

Employment expenses

Employment expenses in the Corporate segment relate to staff profit share, share based payments expense, the impact of mark-to-market adjustments of Director's profit share plan liabilities and the employment costs associated with MGL Group's support functions, including Corporate Affairs, Risk Management and Information Technology.

Employment expenses of A$1,848 million for the year ended March 31, 2011 increased 26% from A$1,463 million in the prior fiscal year. The majority of the increase was due to a 20% increase in support function headcount to 5,781 at March 31, 2011, up from 4,800 at March 31, 2010. The growth in Corporate headcount is predominantly due to Information Technology staff increases, reflecting the continued investment in capabilities and technology to support acquisitions and growth of the global operating platform.

Brokerage and commission expenses

Brokerage and commission expenses of A$62 million for the year ended March 31, 2011 increased 27% from A$49 million in the prior fiscal year. This primarily related to expenses that were offset with related fee and commission income that, for accounting purposes, is recognized in other fee and commission income.

Other operating expenses

The other operating expenses category in the Corporate segment relates to the recovery of service area costs from the operating groups. The 117% net increase in net recoveries from the prior fiscal year is largely due to the increase in employment costs of the support functions as described above.

International income

International income by region

	Year ended		
	Mar 11	**Mar 10**	**Movement**
	A$m	**A$m**	**%**
Americas	2,229	1,349	65
Asia	1,150	1,139	1
Europe, Middle East and Africa	1,009	863	17
Total international income	**4,388**	**3,351**	31
Australia	2,891	3,098	(7)
Net operating income (excluding earnings on capital and other corporate items)	**7,279**	**6,449**	13
Earning on capital and other corporate items	365	189	93
Total net operating income (as reported)	**7,644**	**6,638**	15
International income/net operating income (excluding earnings on capital and other corporate items) (%)	60	52	15

Total international income increased 31% to A$4,388 million for the year ended March 31, 2011 from A$3,351 million in the prior year. The main drivers of the increase, especially in the Americas, has been the full year effect of recent acquisitions including Delaware Investments, Macquarie Private Wealth Canada FPK, combined with reduced impairment charges. This has been partially offset by the strengthening of the Australian dollar against major currencies since the prior year.

The tables below show a breakdown of our net operating income (excluding earnings on capital and other corporate items) by operating group for the year ended March 31, 2011.

International income by group and region

	Year ended					
	Mar 11					
	Americas	**Asia**	**Europe, Middle East and Africa**	**Total international**	**Australia**	**Total**
	A$m	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
Macquarie Securities	190	737	193	1,120	185	1,305
Macquarie Capital	294	197	100	591	381	972
Macquarie Funds	724	54	214	922	386	1,378
Fixed Income, Currencies & Commodities	627	103	327	1,057	304	1,361
Corporate & Asset Finance	242	30	169	441	324	765
Real Estate Banking	(27)	15	(2)	(14)	8	(6)
Banking & Financial Services	179	14	8	201	1,283	1,484
Corporate	–	–	–	–	20	20
Total net operating income (excluding earnings on capital and other corporate items)	**2,229**	**1,150**	**1,009**	**4,388**	**2,891**	**7,279**

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