

MACQUARIE GROUP
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED 31 MARCH 2012



The Holey Dollar

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

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



The Macquarie name and Holey Dollar device are registered trade marks of Macquarie Group Limited.

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Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the year ended 31 March 2012 to provide further detail in relation to key elements of Macquarie Group Limited's financial performance and financial position. It also provides an analysis of the funding profile of the Group because maintaining the structural integrity of the Group's balance sheet requires active management of both asset and liability portfolios. Active management of the funded balance sheet enables the Group to strengthen its liquidity and funding position.

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

Date of this report

This report has been prepared for the year ended 31 March 2012 and is current as at 27 April 2012.

Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2011.

References to the first half are to the six months ended 30 September 2011.

References to the second half are to the six months ended 31 March 2012.

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

Independent audit report

This document should be read in conjunction with the Macquarie Group Limited Financial Report for the year ended 31 March 2012, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' Independent audit report to the members of Macquarie Group Limited dated 27 April 2012 was unqualified.

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

Disclaimer

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

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

Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside Macquarie's control. Past performance is not a reliable indication of future performance.

1.0 Result overview

1.1 Executive summary

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Financial performance summary						
Net interest income	635	698	(9)	1,333	1,275	5
Fee and commission income	1,598	1,766	(10)	3,364	3,891	(14)
Net trading income	661	374	77	1,035	1,389	(25)
Share of net profits of associates and joint ventures accounted for using the equity method	59	49	20	108	179	(40)
Other operating income and charges	767	356	115	1,123	931	21
Net operating income	3,720	3,243	15	6,963	7,665	(9)
Employment expenses	(1,908)	(1,652)	15	(3,560)	(3,890)	(8)
Brokerage and commission expenses	(338)	(386)	(12)	(724)	(785)	(8)
Occupancy expenses	(243)	(213)	14	(456)	(483)	(6)
Non-salary technology expenses	(141)	(149)	(5)	(290)	(316)	(8)
Other operating expenses	(456)	(428)	7	(884)	(920)	(4)
Total operating expenses	(3,086)	(2,828)	9	(5,914)	(6,394)	(8)
Operating profit before income tax	634	415	53	1,049	1,271	(17)
Income tax expense	(180)	(107)	68	(287)	(282)	2
Profit after income tax	454	308	47	762	989	(23)
Profit attributable to non-controlling interests	(29)	(3)	*	(32)	(33)	(3)
Profit attributable to ordinary equity holders of Macquarie Group Limited	425	305	39	730	956	(24)
Key metrics						
Expense to income ratio (%)	83.0	87.2		84.9	83.4	
Compensation ratio (%)	48.5	47.2		47.9	47.1	
Effective tax rate (%)	29.8	26.0		28.2	22.8	
Basic earnings per share (cents per share)	123.6	86.6		210.1	282.5	
Diluted earnings per share (cents per share)	119.1	85.3		202.3	275.9	
Dividends per share (cents per share)	75.0	65.0		140.0	186.0	
Dividend payout ratio (%)	61.2	73.8		66.4	67.3	
Annualised return on equity (%)	7.8	5.7		6.8	8.8	

Profit attributable to ordinary equity holders of \$A730 million for the year ended 31 March 2012 decreased 24% from \$A956 million in the prior year. Challenging global market conditions, especially during the first half of the year, resulted in lower net operating income compared with the prior year. The impact was partially offset through lower operating expenses resulting from cost management initiatives and lower staff profit share expense due to reduced earnings. The stronger Australian Dollar in the current year compared to the prior year adversely impacted net earnings.

The second half of the year saw improved market conditions for predominantly Fixed Income, Currencies and Commodities, which made a strong contribution during the period and was a key driver in the 39% increase in profit attributable to ordinary equity holders to \$A425 million in the half-year to 31 March 2012 from \$A305 million in the prior period.

1.0 Result overview

continued

Net operating income of \$A6,963 million for the year ended 31 March 2012 decreased 9% from \$A7,665 million in the prior year. The main drivers of this change were:

- a 14% decrease in fee and commission income to \$A3,364 million for the year ended 31 March 2012 from \$A3,891 million in the prior year with weak investor confidence and increased market volatility adversely impacting fee income from mergers, acquisition, advisory and underwriting transactions as well as a decrease in brokerage and commissions income, particularly in cash equities as a result of weaker levels of activity;
- a 25% decrease in net trading income to \$A1,035 million for the year ended 31 March 2012 from \$A1,389 million in the prior year largely driven by the impact on equity derivatives revenues from continued weak demand for retail and structured products. In the first half of the year extreme volatility in credit and financial markets, compounded by concerns over global growth, resulted in a decrease in trading income from interest rate products. The second half saw improved market conditions across the markets in which Fixed Income, Currencies and Commodities operates, which resulted in a significant increase in trading income in the half-year ended 31 March 2012 compared to the first half of the year;
- a 21% increase in other net operating income and charges to \$A1,123 million for the year ended 31 March 2012 from \$A931 million in the prior year. The increase was due to:
 - receipt of a special distribution¹ from Sydney Airport (formerly MAp Group) of \$A295 million (\$A0.80 per unit) in December 2011;
 - growth in net operating lease income which was largely attributable to the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation, the full year impact of the acquisition of the remaining 62.5% of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, in November 2010, and the acquisition of OnStream UK, a utility metering services business, in October 2011; and
 - partially offsetting these were increased impairment charges and lower income from the sale of equity investments.

Total operating expenses of \$A5,914 million for the year ended 31 March 2012 decreased 8% from \$A6,394 million in the prior year. The decrease was in part driven by the impact of cost management initiatives and business rationalisation activities that are primarily responsible for a 9% reduction in headcount from 15,556 at 31 March 2011 to 14,202 at 31 March 2012. Operating expenses were also favourably impacted by the stronger Australian Dollar compared to the prior year.

The impact of the stronger Australian Dollar, reduced headcount and lower staff profit share expense due to lower earnings were partially offset by increased costs associated with targeted growth in certain businesses and the costs of scaling back or exiting certain businesses. Overall this resulted in an 8% decrease in employment expenses to \$A3,560 million for the year ended 31 March 2012 from \$A3,890 million in the prior year. The compensation ratio of 47.9% for the year ended 31 March 2012 increased from 47.1% in the prior year largely due to the reduction in operating income.

Income tax expense for the year ended 31 March 2012 of \$A287 million increased 2% from \$A282 million in the prior year. The effective tax rate for the year ended 31 March 2012 was 28%, up from 23% in the prior year, largely due to changes in the mix and location of income.

¹ The special distribution received in December 2011 from Sydney Airport (formerly MAp Group) refers to the cash received as part of its restructure following asset sales.

2.0 Financial performance analysis

2.1 Net interest income

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Interest revenue	2,579	2,789	(8)	5,368	5,304	1
Interest expense	(1,944)	(2,091)	(7)	(4,035)	(4,029)	<1
Net interest income (as reported)	635	698	(9)	1,333	1,275	5
Adjustment for accounting for swaps ¹	(18)	(3)	*	(21)	(45)	(53)
Adjusted net interest income	617	695	(11)	1,312	1,230	7

¹ Australian Accounting Standards require derivatives economically 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. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against net interest income above.

Adjusted net interest income of \$A1,312 million for the year ended 31 March 2012, up 7% from \$A1,230 million in the prior year due to growth of the corporate lending and finance lease portfolios and accelerated recognition of discounts on some early loan repayments in the corporate lending portfolio. These were partially offset by increased funding costs associated with a larger portfolio of operating leased assets, reduced earnings on capital and the impact of a stronger Australian Dollar on foreign currency denominated net interest income.

The table below provides an analysis of net interest margins and adjusted net interest income.

	Full-year to Mar 12			Full-year to Mar 11		
	Interest \$Am	Average volume \$Am	Average spread %	Interest \$Am	Average volume \$Am	Average spread %
Mortgages	158	20,228	0.78%	188	21,766	0.86%
Other lending areas	1,115	27,596	4.04%	929	25,299	3.67%
Total net interest margin from interest bearing assets	1,273	47,824	2.66%	1,117	47,065	2.37%
Other net interest income	39			113		
Adjusted net interest income	1,312			1,230		

Mortgages

Net interest income from mortgage assets of \$A158 million is down 16% from \$A188 million in the prior year due to lower average net interest margins as some higher margin products in Canada are being refinanced, combined with an overall 7% reduction in average mortgage volumes from \$A21.8 billion at 31 March 2011 to \$A20.2 billion at 31 March 2012¹. The reduction in mortgage volumes is mainly attributable to the Australian residential mortgage portfolio.

Other lending areas

Net interest income from other lending areas increased 20% from \$A929 million in the prior year to \$A1,115 million in the year to 31 March 2012 as a result of both volumes and average margins increasing. Overall, average volumes increased 9% from \$A25.3 billion at 31 March 2011 to \$A27.6 billion at 31 March 2012 mainly due to increases in the corporate lending portfolio within Corporate and Asset Finance. Net interest income and the related margins from this portfolio also benefited from an increase in early loan repayments that resulted in the acceleration of the recognition of discounts.

¹ At 31 March 2012, \$A7.0 billion (31 March 2011: \$A8.8 billion) of the Australian mortgage portfolio was funded by third parties through external securitisations.

2.0 Financial performance analysis

continued

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 \$A39 million for the year ended 31 March 2012 decreased 65% from \$A113 million in the prior year. The movement largely relates to:

- reduced earnings on capital mainly driven by a change in the currency mix of the capital earnings base as part of the Group's capital management activities;
- increased cost of funding; and
- an increased level of non-interest bearing assets, driven by investment in transport assets including aircraft, railcars and meters.

2.2 Fee and commission income

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Base fees	475	463	3	938	950	(1)
Performance fees	41	89	(54)	130	36	261
Mergers and acquisitions, advisory and underwriting fees	343	339	1	682	931	(27)
Brokerage and commissions	422	488	(14)	910	1,137	(20)
Other fee and commission income	279	354	(21)	633	754	(16)
Income from life investment contracts and other unit holder investment assets	38	33	15	71	83	(14)
Total fee and commission income	1,598	1,766	(10)	3,364	3,891	(14)

Total fee and commission income of \$A3,364 million for the year ended 31 March 2012 decreased 14% from \$A3,891 million in the prior year largely due to the impact of weak investor confidence and poor market conditions on mergers and acquisitions, advisory and underwriting activity and client activity in cash equities. This was partially offset by an increase in performance fees.

Base and performance fees

Base fees of \$A938 million for the year ended 31 March 2012 were down slightly from \$A950 million in the prior year.

In Macquarie Funds, base fees increased from \$A874 million to \$A893 million due to an increase in Assets under Management (AUM) and Equity under Management (EUM) as a result of net inflows into the securities investment management business, investments in the infrastructure and real assets business, positive market movements and valuation changes. These increases were partially offset by the impact of a stronger Australian Dollar on AUM and EUM, asset disposals in the infrastructure and real assets business including Macquarie Essential Assets Partnership and the internalisation of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation). Base fees were also down due to the full year impact of the conversion of Cash Management Trust to Cash Management Accounts issued by Macquarie Bank Limited in July 2010. For further details of Assets under Management refer to Section 7.1.

Performance fees of \$A130 million for the year ended 31 March 2012 increased significantly from \$A36 million in the prior 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.

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

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Base fees						
Macquarie Funds						
Macquarie Investment Management	266	262	2	528	502	5
Macquarie Infrastructure and Real Assets	173	171	1	344	351	(2)
Macquarie Specialist Investment Solutions	14	7	100	21	21	—
Total Macquarie Funds	453	440	3	893	874	2
Other Operating Groups	22	23	(4)	45	76	(41)
Total base fee income	475	463	3	938	950	(1)
Performance fees						
Macquarie Funds						
Macquarie Investment Management	15	10	50	25	18	39
Macquarie Infrastructure and Real Assets	21	79	(73)	100	12	*
Total Macquarie Funds	36	89	(60)	125	30	*
Other Operating Groups	5	—	*	5	6	(17)
Total performance fee income	41	89	(54)	130	36	261

2.0 Financial performance analysis

continued

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of \$A682 million for the year ended 31 March 2012 decreased 27% from \$A931 million in the prior year due to weak investor confidence and increased market volatility adversely impacting client activity levels. Refer to Section 3.6 Macquarie Capital for further information and details of significant transactions for the year ended 31 March 2012.

Brokerage and commission

Brokerage and commission income of \$A910 million for the year ended 31 March 2012 decreased 20% from \$A1,137 million in the prior year mainly driven by weaker market conditions and reduced client activity in cash equities across all regions. The full year effect of the partial sale of a majority shareholding in OzForex in November 2010 also adversely impacted brokerage and commissions income in Banking and Financial Services.

Other fee and commission income

Other fee and commission income of \$A633 million for the year ended 31 March 2012 decreased 16% from \$A754 million in the prior year. This decrease resulted from:

- the strengthening of the Australian Dollar against major currencies;
- lower True Index revenues;
- a reduction in income from Infrastructure Bonds as a result of scheduled maturities; and
- lower Funds under Administration on the Australian Wrap platform due to negative equity market movements.

The prior year also included the recognition of certain items in the Corporate segment that, for accounting purposes, are presented gross as other fee and commission income and expense.

2.3 Net trading income

The composition of net trading income set out below excludes interest revenue and expense, brokerage and commission revenue and expense, and some items of operating income and costs of trading activities. To obtain a more complete view of the performance of Macquarie's trading activities, refer to Sections 3.5 Macquarie Securities and 3.7 Fixed Income, Currencies and Commodities.

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net trading income (as reported)	661	374	77	1,035	1,389	(25)
Adjustment for accounting for swaps ¹	18	3	*	21	45	(53)
Adjusted net trading income	679	377	80	1,056	1,434	(26)

- ¹ Australian Accounting Standards require derivatives economically 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. To assist in the analysis of net trading income, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against interest rate products above.

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Equities	89	129	(31)	218	413	(47)
Commodities						
Trading income	333	226	47	559	570	(2)
Fair value adjustments relating to leasing contracts ²	16	(19)	*	(3)	(17)	(82)
Foreign exchange products	166	119	39	285	192	48
Interest rate products	75	(78)	*	(3)	276	*
Adjusted net trading income	679	377	80	1,056	1,434	(26)

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

Adjusted net trading income of \$A1,056 million for the year ended 31 March 2012 decreased 26% from \$A1,434 million in the prior year. The primary driver of the change has been the adverse impact of weak investor confidence and the resulting lower levels of client activity on equity derivatives revenues. The half-year ended 30 September 2011 saw particularly volatile conditions in the credit and financial markets, which negatively impacted trading income from interest rate products. While these conditions improved in the second half of the year, this was partially offset by continued weak demand for retail and structured equity derivatives products.

2.0 Financial performance analysis

continued

Equities

Trading income from equities of \$A218 million for the year ended 31 March 2012 decreased 47% from \$A413 million in the prior year. The contribution from Macquarie Securities was down on the prior year with equity derivatives revenues severely impacted by continued weak demand for retail and structured products globally as market conditions remained subdued across most markets.

Refer Section 3.5 Macquarie Securities for further details.

Commodities

Commodities trading income of \$A559 million for the year ended 31 March 2012 decreased 2% from \$A570 million in the prior year. Metals and agricultural markets remained more challenging with subdued client volumes being reflective of the macro-economic conditions throughout the year. This was partially offset by improved results from energy markets compared with the prior year as customer activity across the global platform continued to grow.

Refer Section 3.7 Fixed Income, Currencies and Commodities for further details.

Foreign exchange products

Trading income on foreign exchange products of \$A285 million for the year ended 31 March 2012 was up 48% from \$A192 million in the prior year. The improved result was driven by opportunities arising from increased volatility in currencies and improved client margins.

Refer Section 3.7 Fixed Income, Currencies and Commodities for further details.

Interest rate products

Trading losses from interest rate products of \$A3 million for the year to 31 March 2012 compared to income of \$A276 million in the prior year. The significant reduction was mainly due to the extreme volatility and market dislocations in the first half of the year that impacted Fixed Income, Currencies and Commodities. Increased confidence in the second half of the year resulted in improved volumes and an increased level of trading income from interest rate products.

Refer Section 3.7 Fixed Income, Currencies and Commodities for further details.

2.4 Share of net profits of associates and joint ventures

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Share of net profits of associates and joint ventures accounted for using the equity method	59	49	20	108	179	(40)

Share of net equity accounted profits of associates and joint ventures decreased 40% to \$A108 million for the year ended 31 March 2012 from \$A179 million in the prior year, partially due to equity accounted losses recognised by Macquarie Funds during the year ended 31 March 2012 relating to investments in funds that recognised impairments and revaluation losses. The prior year also included equity accounted income of \$A16 million from Macquarie AirFinance, prior to the acquisition of a controlling interest in November 2010.

2.0 Financial performance analysis

continued

2.5 Other operating income and charges

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net gains on sale of investment securities available for sale	53	78	(32)	131	229	(43)
Impairment charge on investment securities available for sale	(26)	(56)	(54)	(82)	(38)	116
Net gains on sale of associates (including associates held for sale) and joint ventures	95	13	*	108	19	*
Impairment (charge)/reversal on investments in associates and joint ventures	(143)	24	*	(119)	(69)	72
Impairment charge on associates and disposal groups held for sale	(9)	—	*	(9)	(16)	(44)
Gains on acquiring, disposing and change in ownership interest in subsidiaries	30	5	*	35	96	(64)
Gains on re-measurement of retained investments ¹	66	—	*	66	129	(49)
Impairment charge on non-financial assets	(49)	(7)	*	(56)	(7)	*
Gains on sale of non-financial assets	104	—	*	104	13	*
Sale of management rights	—	—	—	—	14	(100)
Net operating lease income ²	202	188	7	390	243	60
Dividends/distributions received/receivable	362	81	*	443	126	252
Collective allowance for credit losses written back/(provided for) during the financial year	3	(16)	*	(13)	5	*
Specific provisions	(116)	(50)	132	(166)	(133)	25
Other income	195	96	103	291	320	(9)
Total other operating income and charges	767	356	115	1,123	931	21

¹ 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.

² Includes rental income of \$A649 million (31 March 2011: \$A401 million) less depreciation of \$A259 million (31 March 2011: \$A158 million) in relation to operating leases where Macquarie is the lessor.

Total other operating income of \$A1,123 million for the year ended 31 March 2012 increased 21% from \$A931 million in the prior year mainly due to the special distribution of \$A295 million (\$A0.80 per unit) received from Sydney Airport (formerly MAp Group) in December 2011 and an increase in net operating lease income in Corporate and Asset Finance. Partially offsetting these were increased impairment charges and lower income from the sale of debt and equity securities.

Net gains on sale of investment securities (including available for sale, associates and joint venture investments) totalled \$A239 million for the year ended 31 March 2012, a decrease of 4% from \$A248 million in the prior year. The current year result was driven by gains on the sale of equity investments within Macquarie Capital and continued realisations of resources sector equity investments in Fixed Income, Currencies and Commodities.

Impairment charges on investment securities available for sale, associates, disposal groups held for sale and non-financial assets of \$A266 million for the year ended 31 March 2012 increased significantly from \$A130 million in the prior year due to increased impairments of resource equity holdings in addition to impairments on legacy investments within the Corporate segment that are no longer aligned with the operations of the Operating Groups.

Gains on acquiring, disposing and change in ownership interests in subsidiaries and businesses held for sale for the year ended 31 March 2012 was \$A35 million, down 64% from \$A96 million in the prior year. The year ended 31 March 2012 included a gain on sale of the partial stake of an investment in Energy Assets Limited on IPO by Fixed Income, Currencies and Commodities as well as gains on the sale of unlisted investments in Macquarie Capital. The prior year result included \$A33 million from the sale of Macquarie Asset Leasing Trust and \$A23 million from the partial sell-down of ownership in the OzForex group of companies.

Gains on re-measurement of retained investments of \$A66 million decreased 49% from \$A129 million in the prior year. The year ended 31 March 2012 included gains of \$A29 million due to the acquisition of the remaining 50% of Macquarie Korean Asset Management Co. Ltd. This resulted in a reclassification of Macquarie Korean Asset Management Co. Ltd from an investment in associate to a subsidiary, and Macquarie Korean Infrastructure Fund from an investment security available for sale to an associate investment. In addition, a gain on re-measurement was also recognised when Macquarie lost control of Energy Assets Limited on IPO. On reclassification the retained stakes are required to be re-measured to fair value. The prior year predominantly related to the reclassification of Macquarie's investment in Sydney Airport (formerly MAp Group) from an associate to an available for sale investment due to the loss of significant influence during the period.

Gains on sale of non-financial assets of \$A104 million increased significantly from \$A13 million in the prior year due to the sale of net profit interests in the energy sector during the year by Fixed Income, Currencies and Commodities.

Net operating lease income of \$A390 million increased 60% from \$A243 million in the prior year largely due to the full year impact of the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation, the acquisition in November 2010 of the remaining 62.5% of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, and the acquisition in October 2011 of OnStream UK, a utility metering services business.

Dividends/distributions received/receivable on investment securities available for sale of \$A443 million for the year ended 31 March 2012 increased significantly from \$A126 million in the prior year. The increase was largely attributable to the special distribution of \$A295 million (\$A0.80 per unit) received from Macquarie's investment in Sydney Airport (formerly MAp Group) in December 2011.

Net charges for specific and collective provisions of \$A179 million for the year ended 31 March 2012 increased 40% from \$A128 million in the prior year, primarily due to growth in the lending and leasing portfolios.

2.0 Financial performance analysis

continued

2.6 Operating expenses

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Employment expenses						
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,637)	(1,398)	17	(3,035)	(3,269)	(7)
Share based payments	(161)	(113)	42	(274)	(306)	(10)
Provision for annual leave	(7)	(16)	(56)	(23)	(29)	(21)
Provision for long service leave	1	(4)	*	(3)	(8)	(63)
Total compensation expense	(1,804)	(1,531)	18	(3,335)	(3,612)	(8)
Other employment expenses including on-costs, staff procurement and staff training	(104)	(121)	(14)	(225)	(278)	(19)
Total employment expenses	(1,908)	(1,652)	15	(3,560)	(3,890)	(8)
Brokerage and commission expenses	(338)	(386)	(12)	(724)	(785)	(8)
Occupancy expenses	(243)	(213)	14	(456)	(483)	(6)
Non-salary technology expenses	(141)	(149)	(5)	(290)	(316)	(8)
Professional fees	(158)	(116)	36	(274)	(296)	(7)
Travel and entertainment expenses	(76)	(81)	(6)	(157)	(184)	(15)
Advertising and communication expenses	(55)	(57)	(4)	(112)	(127)	(12)
Other expenses	(167)	(174)	(4)	(341)	(313)	9
Total operating expenses	(3,086)	(2,828)	9	(5,914)	(6,394)	(8)

Total operating expenses of \$A5,914 million for the year ended 31 March 2012 decreased 8% from \$A6,394 million in the prior year. Cost management initiatives, including business rationalisations and the centralisation of support functions to generate scale efficiencies, were a key driver of the overall reduction in operating expenses. The year ended 31 March 2012 also benefited from a stronger Australian Dollar compared with the prior year, having a favourable impact on costs incurred outside of Australia. These cost reductions were partially offset by targeted growth in certain businesses, including Corporate and Asset Finance with the acquisition of a controlling interest in Macquarie AirFinance in November 2010 and the acquisition of OnStream UK in October 2011, and costs associated with scaling back or exiting certain businesses.

Employment expenses of \$A3,560 million for the year ended 31 March 2012 decreased 8% from \$A3,890 million in the prior year mainly due to reduced headcount as a result of business rationalisation, the favourable impact of a stronger Australian Dollar on employment expenses incurred offshore, lower profit share as a result of lower earnings and reduced recruitment activity. Headcount decreased 9% during the year from 15,556 at 31 March 2011 to 14,202 at 31 March 2012. These reductions were partially offset by an increase in termination costs, the impact of targeted growth in certain businesses and the impact of recently consolidated subsidiaries.

Brokerage and commission expenses of \$A724 million for the year ended 31 March 2012 decreased 8% from \$A785 million in the prior year, reflecting the impact of recent trading conditions.

Occupancy expenses of \$A456 million for the year ended 31 March 2012 decreased 6% from \$A483 million in the prior year, mainly due to consolidation of office premises following lease expiries and subleasing activities. The prior year also includes overlapping rental periods whilst new premises in London were in the process of fit-out.

Other operating expenses, including non-salary technology expenses, professional fees, travel and entertainment, and advertising and communication expenses all decreased compared to the prior year mainly due to cost reduction initiatives and the impact of a stronger Australian Dollar, partially offset by increased costs associated with targeted growth.

2.0 Financial performance analysis

continued

2.7 Headcount

	As at			Movement	
	Mar 12	Sep 11	Mar 11	Sep 11 %	Mar 11 %
Headcount by group					
Macquarie Funds	1,368	1,381	1,457	(<1)	(6)
Corporate and Asset Finance	953	948	888	<1	7
Banking and Financial Services	3,163	3,076	3,228	3	(2)
Macquarie Securities	1,187	1,322	1,768	(10)	(33)
Macquarie Capital	1,215	1,341	1,397	(9)	(13)
Fixed Income, Currencies and Commodities	949	939	980	1	(3)
Real Estate Banking	25	33	57	(24)	(56)
Total headcount — Operating Groups	8,860	9,040	9,775	(2)	(9)
Total headcount — Corporate	5,342	6,048	5,781	(12)	(8)
Total headcount	14,202	15,088	15,556	(6)	(9)
Headcount by region					
Australia	6,618	7,060	7,503	(6)	(12)
International:					
Americas	3,419	3,577	3,723	(4)	(8)
Asia	2,795	2,954	2,717	(5)	3
Europe, Middle East and Africa	1,370	1,497	1,613	(8)	(15)
Total headcount — International	7,584	8,028	8,053	(6)	(6)
Total headcount	14,202	15,088	15,556	(6)	(9)
International headcount ratio (%)	53	53	52		

Total headcount of 14,202 at 31 March 2012 decreased 9% from 15,556 at 31 March 2011. Most Operating Groups and service areas reported a reduction in headcount resulting from cost management initiatives and business rationalisations.

2.8 Income tax expense

	Full-year to	
	Mar 12 \$Am	Mar 11 \$Am
Operating profit before income tax	1,049	1,271
Prima facie tax @ 30%	315	381
Income tax permanent differences	(28)	(99)
Income tax expense	287	282
Effective tax rate (%)¹	28%	23%

¹ The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduce net profit before tax by \$A32 million for the year ended 31 March 2012 (31 March 2011: \$A33 million). The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.

The effective tax rate for the year ended 31 March 2012 was 28%, up from 23% in the prior year largely due to changes in the mix and location of income.

3.0 Segment analysis

3.1 Basis of preparation

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

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

Operating Groups:

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

Division:

- Real Estate Banking

In addition, there is a Corporate segment which includes Group Treasury, head office and central support functions. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and distributions to holders of CPS, MIS, MIPS and PMI.

Asset transfers

Since 31 March 2011 there have been a number of asset transfers between Operating Groups and the Corporate segment. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. In addition, certain assets no longer aligned with any of the Operating Groups were transferred to the Corporate segment, including the investment in Sydney Airport (formerly MAp Group). Comparative information presented in this document has been restated to reflect the current operating structure.

Internal transactions

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

Internal funding arrangements

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

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

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

Transactions between Operating Groups

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

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

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, Group Legal and Central Executive.

Internal management revenue/charges

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

Presentation of segment income statements

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

3.0 Segment analysis

continued

Segment income statements

	Macquarie Funds \$Am	Corporate and Asset Finance \$Am	Banking and Financial Services \$Am
Full-year ended 31 March 2012			
Net interest income/(expense)	76	591	691
Fee and commission income/(expense)	1,214	33	727
Trading income/(expense)	39	(5)	5
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(12)	5	(1)
Other operating income and charges	28	427	(10)
Internal management revenue/(charge)	21	26	1
Total operating income	1,366	1,077	1,413
Total operating expenses	(714)	(376)	(1,148)
Profit before tax	652	701	265
Tax expense	—	—	—
Profit attributable to non-controlling interests	3	(3)	—
Net profit/(loss) contribution	655	698	265
Full-year ended 31 March 2011			
Net interest income/(expense)	1	561	680
Fee and commission income	1,161	39	794
Trading income/(expense)	12	1	6
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	67	24	1
Other operating income and charges	35	231	5
Internal management revenue/(charge)	17	20	10
Total operating income	1,293	876	1,496
Total operating expenses	(817)	(302)	(1,216)
Profit before tax	476	574	280
Tax expense	—	—	—
Profit attributable to non-controlling interests	6	—	(5)
Net profit/(loss) contribution	482	574	275

Macquarie Securities \$Am	Macquarie Capital \$Am	Fixed Income, Currencies and Commodities \$Am	Real Estate Banking \$Am	Corporate \$Am	Total \$Am
(24)	(77)	(94)	(5)	175	1,333
665	573	148	9	(5)	3,364
251	(44)	977	(1)	(187)	1,035
—	80	19	14	3	108
(1)	110	298	(36)	307	1,123
2	17	16	(2)	(81)	—
893	659	1,364	(21)	212	6,963
(1,087)	(574)	(825)	(15)	(1,175)	(5,914)
(194)	85	539	(36)	(963)	1,049
—	—	—	—	(287)	(287)
—	—	—	—	(32)	(32)
(194)	85	539	(36)	(1,282)	730
(19)	(108)	(29)	(12)	201	1,275
927	716	171	12	71	3,891
416	27	954	(1)	(26)	1,389
1	55	15	(5)	21	179
11	198	250	—	201	931
(6)	29	55	(2)	(123)	—
1,330	917	1,416	(8)	345	7,665
(1,146)	(694)	(841)	(34)	(1,344)	(6,394)
184	223	575	(42)	(999)	1,271
—	—	—	—	(282)	(282)
—	(9)	—	—	(25)	(33)
184	214	575	(42)	(1,306)	956

3.0 Segment analysis

continued

	Macquarie Funds \$Am	Corporate and Asset Finance \$Am	Banking and Financial Services \$Am
Half-year ended 31 March 2012			
Net interest income/(expense)	9	295	339
Fee and commission income/(expense)	586	18	353
Trading income/(expense)	12	(2)	3
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(28)	3	—
Other operating income and charges	17	214	(3)
Internal management revenue/(charge)	4	21	—
Total operating income	600	549	692
Total operating expenses	(355)	(209)	(564)
Profit before tax	245	340	128
Tax expense	—	—	—
Profit attributable to non-controlling interests	1	—	—
Net profit/(loss) contribution	246	340	128
Half-year ended 30 September 2011			
Net interest income/(expense)	67	296	352
Fee and commission income	628	15	374
Trading income/(expense)	27	(3)	2
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	16	2	(1)
Other operating income and charges	11	213	(7)
Internal management revenue/(charge)	17	5	1
Total operating income	766	528	721
Total operating expenses	(359)	(167)	(584)
Profit before tax	407	361	137
Tax expense	—	—	—
Profit attributable to non-controlling interests	2	(3)	—
Net profit/(loss) contribution	409	358	137

Macquarie Securities \$Am	Macquarie Capital \$Am	Fixed Income, Currencies and Commodities \$Am	Real Estate Banking \$Am	Corporate \$Am	Total \$Am
(29)	(33)	(66)	(2)	122	635
293	281	68	4	(5)	1,598
86	(17)	662	—	(83)	661
—	62	10	11	1	59
—	90	266	(38)	221	767
2	8	9	(2)	(42)	—
352	391	949	(27)	214	3,720
(527)	(296)	(416)	(6)	(713)	(3,086)
(175)	95	533	(33)	(499)	634
—	—	—	—	(180)	(180)
—	(18)	—	—	(12)	(29)
(175)	77	533	(33)	(691)	425
5	(44)	(28)	(3)	53	698
372	292	80	5	—	1,766
165	(27)	315	(1)	(104)	374
—	18	9	3	2	49
(1)	20	32	2	86	356
—	9	7	—	(39)	—
541	268	415	6	(2)	3,243
(560)	(278)	(409)	(9)	(462)	(2,828)
(19)	(10)	6	(3)	(464)	415
—	—	—	—	(107)	(107)
—	18	—	—	(20)	(3)
(19)	8	6	(3)	(591)	305

3.0 Segment analysis

continued

3.2 Macquarie Funds

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest income	9	67	(87)	76	1	*
Fee and commission income						
Base fees	453	440	3	893	874	2
Performance fees	36	89	(60)	125	30	*
Mergers and acquisitions, advisory and underwriting fees	3	1	200	4	21	(81)
Brokerage and commissions	13	14	(7)	27	33	(18)
Other fee and commission income	81	84	(4)	165	203	(19)
Total fee and commission income	586	628	(7)	1,214	1,161	5
Net trading income	12	27	(56)	39	12	225
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(28)	16	*	(12)	67	*
Other operating income and charges						
Impairment (charge)/reversal on equity investments and non-financial assets	(16)	7	*	(9)	(23)	(61)
Net gains/(losses) on sale of equity investments	9	(2)	*	7	4	75
Gain on reclassification of retained investments	29	—	*	29	—	*
Specific provisions and collective allowance for credit losses	(12)	(7)	71	(19)	(7)	171
Other income	7	13	(46)	20	61	(67)
Total other operating income and charges	17	11	55	28	35	(20)
Internal management revenue	4	17	(76)	21	17	24
Total operating income	600	766	(22)	1,366	1,293	6
Operating expenses						
Employment expenses	(129)	(124)	4	(253)	(313)	(19)
Brokerage and commission expenses	(68)	(72)	(6)	(140)	(136)	3
Other operating expenses	(158)	(163)	(3)	(321)	(368)	(13)
Total operating expenses	(355)	(359)	(1)	(714)	(817)	(13)
Non-controlling interests ¹	1	2	(50)	3	6	(50)
Net profit contribution	246	409	(40)	655	482	36
Non-GAAP metrics						
MFG (including MIRA) assets under management (\$A billion)	323.8	324.1	(<1)	323.8	305.4	6
MIRA equity under management (\$A billion)	37.1	37.2	(<1)	37.1	36.4	2
Headcount	1,368	1,381	(<1)	1,368	1,457	(6)

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

Macquarie Funds' net profit contribution of \$A655 million for the year ended 31 March 2012 increased 36% from \$A482 million in the prior year. The result was driven by strong annuity style income from base fees, increased performance fee income, additional income from the provision of financing facilities to external funds and their investors and lower operating expenses. Net operating income and expenses were adversely impacted by the strengthening of the Australian Dollar against major currencies compared to the prior year.

Net interest income

Net interest income of \$A76 million for the year ended 31 March 2012 increased significantly from \$A1 million in the prior year. This was primarily driven by the expansion of the wholesale lending business in the US and Europe with income earned from the provision of financing facilities to a number of external funds and their investors.

Base fees

Base fee income of \$A893 million for the year ended 31 March 2012 increased 2% from \$A874 million in the prior year. This was primarily driven by an increase in AUM as a result of net inflows into the securities investment management business, investments in the infrastructure and real assets business, positive market movements and valuation changes. These growth factors were partially offset by asset disposals in the infrastructure and real assets business, including Macquarie Essential Assets Partnership's assets, and the internalisation of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation). Base fees were also adversely impacted by the strengthening of the Australian Dollar against major currencies compared to the prior year.

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

Performance fees

Performance fee income of \$A125 million for the year ended 31 March 2012 increased significantly from \$A30 million in the prior year. This is 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.

Mergers and acquisitions, advisory and underwriting fees

Minimal mergers and acquisitions, advisory and underwriting fees were earned for the year ended 31 March 2012. Fees earned in the current and prior year primarily relate to one-off fees on the termination of asset advisory agreements.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and income from True Index products. Distribution service fees are offset with associated expenses that, for accounting purposes, are recognised in brokerage and commissions expense.

Other fee and commission income of \$A165 million for the year ended 31 March 2012 decreased 19% from \$A203 million in the prior year mainly due to a reduction in income from Infrastructure Bonds as a result of scheduled maturities, the continued strengthening of the Australian Dollar against major currencies and lower True Index revenues.

Net trading income

Net trading income of \$A39 million for the year ended 31 March 2012 increased from \$A12 million in the prior year. The main driver of the increase is income relating to new swap-deposit and leveraged-swap transactions with external funds and their investors.

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

Net equity accounted losses of \$A12 million for the year ended 31 March 2012 decreased from a net profit of \$A67 million in the prior year primarily related to investments in funds that recognised impairments and revaluation losses.

Net gains/(losses) on sale of equity investments

Income of \$A7 million for the year ended 31 March 2012 primarily related to the sale of Macquarie Funds' 50% interest in the manager of Retirement Villages Group.

3.0 Segment analysis

continued

Gain on reclassification of retained investments

In February 2012, Macquarie Funds acquired the remaining 50% interest in Macquarie Korean Asset Management Co. Ltd (MKAM), the management company of Macquarie Korean Infrastructure Fund (MKIF), bringing its ownership of MKAM to 100%. This resulted in Macquarie gaining control of MKAM and significant influence over MKIF. Consequently Macquarie reclassified its investment in MKAM as a subsidiary from an associate, and reclassified its investment in MKIF as an associate from an available for sale investment. On reclassification, Macquarie was required to re-measure its investments in MKAM and MKIF to fair value. The total gain on reclassification was \$A29 million.

Other income

Other income of \$A20 million for the year ended 31 March 2012 decreased 67% from \$A61 million in the prior year. The decline primarily reflects the income earned in the prior year of \$A14 million on the sale of the management rights of Capstone Infrastructure Corporation, the disposal of securities in, and termination of the services agreement with, Intoll, which contributed income of \$A11 million in the prior year, together with lower internal fees where there is cross-collaboration with affiliated businesses.

Operating expenses

Total operating expenses of \$A714 million for the year ended 31 March 2012 decreased 13% from \$A817 million in the prior year. Employment expenses decreased 19% from \$A313 million to \$A253 million primarily as a result of a 6% decrease in headcount from 1,457 at 31 March 2011 to 1,368 at 31 March 2012 together with the impact of the strong Australian Dollar on expenses incurred outside of Australia.

Other operating expenses of \$A321 million for the current year decreased 13% from \$A368 million in the prior year due to the impact of cost management initiatives, lower headcount driven costs, the completion of the Delaware systems integration and the strengthening of the Australian Dollar.

3.3 Corporate and Asset Finance

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest income	295	296	(<i><1</i>)	591	561	5
Fee and commission income	18	15	20	33	39	(15)
Net trading (expense)/income	(2)	(3)	(33)	(5)	1	*
Share of net profits of associates and joint ventures accounted for using the equity method	3	2	50	5	24	(79)
Other operating income and charges						
Impairment charge on non-financial assets	(7)	—	*	(7)	—	*
Impairment charge on equity investments	(5)	(1)	*	(6)	(3)	100
Net operating lease income	198	183	8	381	200	91
Specific provisions and collective allowance for credit losses	(32)	(18)	78	(50)	(40)	25
Other income	60	49	22	109	74	47
Total other operating income and charges	214	213	<1	427	231	85
Internal management revenue	21	5	*	26	20	30
Total operating income	549	528	4	1,077	876	23
Operating expenses						
Employment expenses	(95)	(70)	36	(165)	(149)	11
Brokerage and commission expenses	(5)	(11)	(55)	(16)	(11)	45
Other operating expenses	(109)	(86)	27	(195)	(142)	37
Total operating expenses	(209)	(167)	25	(376)	(302)	25
Non-controlling interests ¹	—	(3)	(100)	(3)	—	*
Net profit contribution	340	358	(5)	698	574	22
Non-GAAP metrics						
Loan and finance lease portfolio (\$A billion)	15.9	16.1	(1)	15.9	15.2	5
Operating lease portfolio (\$A billion)	4.7	4.4	7	4.7	4.3	9
Headcount	953	948	<1	953	888	7

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

Corporate and Asset Finance’s net profit contribution of \$A698 million for the year ended 31 March 2012 increased by 22% from \$A574 million in the prior year. The increase is predominantly driven by the accelerated recognition of discounts on early loan repayments, the acquisition of OnStream UK, a utility metering services business, in October 2011 and the full year effect of the prior year acquisitions of a controlling interest in Macquarie AirFinance, an aircraft portfolio leasing business with 91 aircraft assets and associated leases, and an aircraft operating lease portfolio from AIG’s International Lease Finance Corporation.

Net interest income

Net interest income of \$A591 million for the year ended 31 March 2012 increased 5% from \$A561 million in the prior year. The increase was driven by accelerated recognition of discounts on early loan repayments and a 5% increase in the loan and finance lease portfolios to \$A15.9 billion at 31 March 2012 from \$A15.2 billion at 31 March 2011. This was partially offset by an increase in external funding expense due to the acquisition of a controlling interest in Macquarie AirFinance in November 2010, the aircraft operating lease portfolio from International Lease Finance Corporation and OnStream UK meters business in October 2011.

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

Share of net profits of associates and joint ventures accounted for under the equity method of \$A5 million for the year ended 31 March 2012 decreased 79% from \$A24 million in the prior year. The prior year included equity accounted income of \$A16 million from Macquarie AirFinance, prior to the acquisition of a controlling interest in November 2010.

3.0 Segment analysis

continued

Net operating lease income

Net operating lease income of \$A381 million for the year ended 31 March 2012 increased 91% from \$A200 million in the prior year. This is largely driven by the full year effect of the acquisition of 44 aircraft assets and associated operating leases from International Lease Finance Corporation, the controlling interest in Macquarie AirFinance in November 2010 and the acquisition of the OnStream UK meters business in October 2011.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses totalled \$A50 million for the year to 31 March 2012, an increase of 25% from \$A40 million in the prior year due to the increase in the loan and finance lease portfolio and the reduction in the collective provisions in the prior year. The current year expense represents 0.3% of the total loan and finance leasing portfolio. This ratio is broadly in line with the prior year.

Other income

Other income of \$A109 million for the year ended 31 March 2012 increased 47% from \$A74 million in the prior year largely as a result of the sale of the majority of the aircraft engines operating lease portfolio. This income category also benefited from the sale of one aircraft in September 2011. These increases are partially offset by a reduction in income from the sale of off-lease manufacturing equipment.

Operating expenses

Total operating expenses of \$A376 million for the year ended 31 March 2012 increased 25% from \$A302 million in the prior year, reflecting increased average headcount and operating expenses mainly from the acquisition of a controlling interest in Macquarie AirFinance in November 2010 and the OnStream UK meters business in October 2011.

3.4 Banking and Financial Services

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest income	339	352	(4)	691	680	2
Fee and commission income						
Base fees	23	21	10	44	74	(41)
Brokerage and commissions	99	118	(16)	217	257	(16)
Other fee and commission income	204	204	—	408	412	(<1)
Income from life insurance business and other unit holder businesses	27	31	(13)	58	51	14
Total fee and commission income	353	374	(6)	727	794	(8)
Net trading income	3	2	50	5	6	(17)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	—	(1)	(100)	(1)	1	*
Other operating income and charges						
Net gains on sale of equity investments	—	1	(100)	1	3	(67)
Impairment charge on equity investments and disposal groups held for sale	(4)	(1)	300	(5)	(9)	(44)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	—	—	—	—	23	(100)
Gain on reclassification	1	—	*	1	18	(94)
Specific provisions and collective allowance for credit losses	(15)	(19)	(21)	(34)	(44)	(23)
Other income	15	12	25	27	14	93
Total other operating income and charges	(3)	(7)	(57)	(10)	5	*
Internal management revenue	—	1	(100)	1	10	(90)
Total operating income	692	721	(4)	1,413	1,496	(6)
Operating expenses						
Employment expenses	(222)	(244)	(9)	(466)	(505)	(8)
Brokerage and commission expenses	(86)	(81)	6	(167)	(150)	11
Other operating expenses	(256)	(259)	(1)	(515)	(561)	(8)
Total operating expenses	(564)	(584)	(3)	(1,148)	(1,216)	(6)
Non-controlling interests ¹	—	—	—	—	(5)	(100)
Net profit contribution	128	137	(7)	265	275	(4)
Non-GAAP metrics						
Assets under management (\$A billion)	3.1	3.0	3	3.1	3.4	(9)
Funds under management/advice/administration ² (\$A billion)	117.9	113.7	4	117.9	120.7	(2)
Loan portfolio ³ (\$A billion)	23.5	23.9	(2)	23.5	24.4	(4)
Retail deposits (\$A billion)	29.0	28.6	1	29.0	26.6	9
Headcount	3,163	3,076	3	3,163	3,228	(2)

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

² Funds under management/advice/administration includes Assets under Management plus items such as funds on Banking and Financial Services platforms (e.g. Wrap Funds under Administration), total Banking and Financial Services loan and deposit portfolios, CHESS holdings of Banking and Financial Services clients, and funds under advice (e.g. assets under advice of Macquarie Private Bank).

³ The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards.

3.0 Segment analysis

continued

Banking and Financial Services' net profit contribution of \$A265 million for the year ended 31 March 2012 decreased 4% from \$A275 million in the prior year.

Net interest income

Net interest income of \$A691 million for the year ended 31 March 2012 is up 2% from \$A680 million in the prior year. Increased net interest income from a larger retail deposits base has been partially offset by a lower loan portfolio and an increased cost of funding.

Retail deposits increased 9% to \$A29.0 billion at 31 March 2012 from \$A26.6 billion at 31 March 2011.

The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards. The total loan portfolio of \$A23.5 billion at 31 March 2012 decreased 4% from \$A24.4 billion at 31 March 2011 primarily due to a reduction in the size of the Australian mortgage portfolio, which decreased 7% to \$A10.8 billion³ at 31 March 2012 from \$A11.6 billion at 31 March 2011.

The Canadian loan portfolio, which includes mortgages, insurance premium funding, margin loans and capital protected products, closed at \$A8.6 billion at 31 March 2012, down 2% from \$A8.8 billion at 31 March 2011. In July 2011 Banking and Financial Services finalised an agreement to outsource the servicing of its Canadian mortgage portfolio to Paradigm Quest Inc. and to outsource the loan origination function to Canadian Financial Corp.

Base fees

Base fee income of \$A44 million for the year ended 31 March 2012 decreased 41% from \$A74 million in the prior year largely as a result of the conversion of \$A9.6 billion of CMT accounts into CMA on 31 July 2010.

CMA forms part of Macquarie's balance sheet and income from these accounts is reported in net interest income.

Brokerage and commissions

Brokerage and commission income of \$A217 million for the year ended 31 March 2012 decreased 16% from \$A257 million in the prior year due to the partial sale of a majority shareholding in OzForex in November 2010 and deterioration in equities market conditions globally.

³ At 31 March 2012, \$A7.0 billion (31 March 2011: \$A8.8 billion) of the Australian mortgage portfolio was funded by third parties through external securitisations.

Other fee and commission income

Other fee and commission income of \$A408 million for the year ended 31 March 2012 was broadly in line with \$A412 million in the prior year.

Funds under Administration on the Australian Wrap platform closed at \$A22.0 billion at 31 March 2012, a decrease of 3% from \$A22.7 billion at 31 March 2011 mainly due to negative market movements on products that are impacted by equity movements.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder businesses of \$A58 million increased 14% from \$A51 million in the prior year, primarily due to growth in the insurance inforce book, which grew to \$A125 million at 31 March 2012 from \$A94 million at 31 March 2011. The inforce book is the aggregate annualised life insurance premium payable for policies issued by the life company at the balance date.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of \$A34 million for the year ended 31 March 2012 decreased 23% from \$A44 million in the prior year largely due to the write back of some provisions.

Other income

Other income for the year ended 31 March 2012 of \$A27 million increased 93% from \$A14 million in the prior year. The increase was primarily due to income generated from the outsourcing of mortgages servicing and origination by Mortgages Canada.

Operating expenses

Total operating expenses of \$A1,148 million for the year ended 31 March 2012 decreased 6% from \$A1,216 million in the prior year.

Employment expenses of \$A466 million for the year ended 31 March 2012 were down 8% from \$A505 million in the prior year. Most of this decrease was due to reduced headcount resulting from business divestments and internal restructures, as well as reduced adviser sales commissions, resulting from subdued equity market conditions.

Brokerage and commission expenses of \$A167 million for the year ended 31 March 2012 increased 11% from \$A150 million in the prior year due to increased Cash, Professional Series and Business Banking volumes, combined with Mortgages Canada outsourcing fees.

Other operating expenses for the year ended 31 March 2012 of \$A515 million decreased 8% from \$A561 million in the prior year due to business divestments, expense controls and cost management initiatives implemented across Banking and Financial Services.

3.0 Segment analysis

continued

3.5 Macquarie Securities

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net trading income (including net interest income)¹	57	170	(66)	227	397	(43)
Fee and commission income						
Brokerage and commissions	242	283	(14)	525	715	(27)
Other fee and commission income	51	89	(43)	140	212	(34)
Total fee and commission income	293	372	(21)	665	927	(28)
Share of net profits of associates and joint ventures accounted for using the equity method	—	—	—	—	1	(100)
Other operating income and charges	—	(1)	(100)	(1)	11	*
Internal management revenue/(charge)	2	—	*	2	(6)	*
Total operating income	352	541	(35)	893	1,330	(33)
Operating expenses						
Employment expenses	(159)	(149)	7	(308)	(381)	(19)
Brokerage and commission expenses	(91)	(145)	(37)	(236)	(242)	(2)
Other operating expenses	(277)	(266)	4	(543)	(523)	4
Total operating expenses	(527)	(560)	(6)	(1,087)	(1,146)	(5)
Net (loss)/profit contribution	(175)	(19)	*	(194)	184	*
Non-GAAP metrics						
Headcount	1,187	1,322	(10)	1,187	1,768	(33)

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 Macquarie 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.

Macquarie Securities' net loss of \$A194 million for the year ended 31 March 2012 decreased from a profit of \$A184 million in the prior year. Weak investor confidence, uncertain economic outlook and high levels of volatility in global equity markets negatively impacted most of the business in which Macquarie Securities operates. This impact was particularly severe in derivatives markets, where there were significant falls in demand for retail and structured products leading to the decision to exit a number of Macquarie's institutional and retail derivatives businesses globally. Cash equities and ECM also suffered significant drops in operating income due to low levels of equity volumes traded and a drop in primary and secondary equity issuance throughout the year.

Net trading income (including net interest income)

Net trading income (including net interest income) of \$A227 million for the year ended 31 March 2012 decreased 43% from \$A397 million in the prior year.

Derivatives revenues were adversely impacted by continued weak product demand for retail and structured products globally as market conditions remained subdued across most markets. This was especially significant in Asia and Europe. In particular the third fiscal quarter was characterised by difficult trading conditions for our clients leading to significantly reduced institutional and retail client activity.

Brokerage and commissions

Brokerage and commission income of \$A525 million for the year ended 31 March 2012 decreased 27% from \$A715 million in the prior year, reflecting lower market levels and weaker levels of client activity in cash equities across all regions, especially Asia, as a result of investor uncertainty regarding the economic outlook.

Other fee and commission income

Other fee and commission income of \$A140 million for the year ended 31 March 2012 decreased 34% from \$A212 million in the prior year. Other fee and commission income consists of equity capital markets fees, and fees charged to Macquarie Capital. Capital raising activity was significantly down in all regions compared to the prior year as a result of subdued market conditions, driving the lower income in the current year.

Operating expenses

Total operating expenses of \$A1,087 million for the year ended 31 March 2012 decreased 5% from \$A1,146 million in the prior year.

Employment expenses of \$A308 million for the year ended 31 March 2012 decreased 19% from \$A381 million in the prior year due to reduced headcount. Over 360 staff moved from Macquarie Securities into Market Operations and Technology Group (MOT) and Human Resources through the year. Whilst this directly reduced the direct employment costs, it also resulted in an increased level of internal recharges from services areas, which is included in other operating expenses.

Excluding the impact of the above transfers, employment expenses have decreased compared to the prior year driven by reduced headcount and procurement costs, partially offset by redundancy costs recognised in the second half of the year relating to business rationalisations.

Brokerage and commission expenses of \$A236 million for the year ended 31 March 2012 are slightly down from \$A242 million in the prior year. Although net trading income was down year on year, there was increased activity as a result of increased volatility in the market.

Other operating expenses of \$A543 million for the year ended 31 March 2012 have increased 4% from \$A523 million in the prior year. This increase is driven by staff transfers to MOT and exit costs associated with closing down and scaling back businesses. These increases are offset by reductions resulting from lower headcount and cost savings arising from cost reduction initiatives, including reduced technology spend, centralisation of shared services, and the selective rationalisation of various businesses.

3.0 Segment analysis

continued

3.6 Macquarie Capital

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest expense	(33)	(44)	(25)	(77)	(108)	(29)
Fee and commission income						
Mergers and acquisitions, advisory and underwriting fees	322	313	3	635	853	(26)
Brokerage and commissions	18	21	(14)	39	43	(9)
Other fee and commission expense	(59)	(42)	40	(101)	(180)	(44)
Total fee and commission income	281	292	(4)	573	716	(20)
Net trading (expense)/income	(17)	(27)	(37)	(44)	27	*
Share of net profits of associates and joint ventures accounted for using the equity method	62	18	244	80	55	45
Other operating income and charges						
Net gains on sale of debt and equity investments	66	35	89	101	6	*
Gain on reclassification of retained investments	—	—	—	—	19	(100)
Impairment charge on equity investments	(8)	—	*	(8)	(13)	(38)
Impairment charge on non-financial assets	(16)	—	*	(16)	(1)	*
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	10	8	25	18	41	(56)
Net operating lease income	4	5	(20)	9	43	(79)
Specific provisions and collective allowance for credit losses	(25)	(5)	*	(30)	(8)	275
Other income	59	(23)	*	36	111	(68)
Total other operating income and charges	90	20	*	110	198	(44)
Internal management revenue	8	9	(11)	17	29	(41)
Total operating income	391	268	46	659	917	(28)
Operating expenses						
Employment expenses	(156)	(153)	2	(309)	(380)	(19)
Brokerage and commission expenses	(3)	(2)	50	(5)	(5)	—
Other operating expenses	(137)	(123)	11	(260)	(309)	(16)
Total operating expenses	(296)	(278)	6	(574)	(694)	(17)
Non-controlling interests ¹	(18)	18	*	—	(9)	(100)
Net profit contribution	77	8	*	85	214	(60)
Non-GAAP metrics						
Headcount	1,215	1,341	(9)	1,215	1,397	(13)

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

Macquarie Capital's net profit contribution of \$A85 million for the year ended 31 March 2012 decreased 60% from \$A214 million in the prior year primarily due to reduced advisory and underwriting income. This was partially offset by reduced operating expenses and increased net gains on sale of debt and equity investments.

Net interest expense

Net interest expense of \$A77 million for the year ended 31 March 2012 decreased 29% from \$A108 million in the prior year. Interest income increased 179% to \$A68 million from \$A24 million as a result of an expanded debt portfolio. Funding costs increased 10% from \$A132 million to \$A145 million as a result of growth in the debt portfolio, offset slightly by the disposal of some equity investments. Funding is held against both the principal debt and equity investment portfolios.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of \$A635 million for the year ended 31 March 2012 decreased 26% from \$A853 million in the prior year reflecting weak investor confidence and increased market volatility primarily due to European sovereign debt concerns and expectations of weakening global economic growth. The number and value of deals in which Macquarie participated for the year ended 31 March 2012 (435 deals valued at approximately \$A97 billion) was lower compared to the prior year (547 deals valued at approximately \$A159 billion).

Significant advisory deals completed for the year ended 31 March 2012 included:

- Adviser to Telstra Corporation on its \$A11 billion tripartite cooperation agreement with the Commonwealth Government and National Broadband Network Company (NBN Co)
- Adviser to Rio Tinto on its \$A4 billion acquisition of the ASX-listed coking coal developer Riversdale Mining
- Adviser to SK Telecom, South Korea's leading telecommunication service provider, on its acquisition of a 21% controlling interest in Hynix Semiconductor for \$US3 billion
- Adviser to a consortium led by Daewoo Engineering & Construction Co. Ltd. for its KRW1.7 trillion (\$US1.5 billion) greenfield financing of the Guri~Pocheon Expressway Project
- Adviser on the \$US1 billion financing of the Mareña Renovables project, one of the largest wind financings in the world to date. The 396MW wind farm, to be built in the State of Oaxaca in the southwest of Mexico, will be the largest wind farm in Latin America
- Joint financial advisor to Cumulus Media Inc. on its acquisition of Citadel Broadcasting Corporation, creating the second largest radio broadcasting company in the US. Macquarie was also joint bookrunner and joint lead arranger on the \$US3 billion debt financing and provider, along with Crestview Partners, of a \$US500 million equity commitment
- Adviser to HgCapital on the disposal of lighting products and systems provider SLV Group to Cinven, one of the largest private equity transactions in Germany in 2011
- Adviser to sponsors Samsung Engineering, Invest AD and United Utilities for the project financing of the Muharraq Wastewater Treatment Plant and Sewage Conveyance PPP. This was the first PPP in Bahrain's wastewater sector and Macquarie Capital's first transaction in Bahrain.

3.0 Segment analysis

continued

Other fee and commission expense

Other fee and commission expense of \$A101 million for the year ended 31 March 2012 decreased 44% from \$A180 million in the prior year. Other fee and commission expense predominantly relates to transactions with other Operating Groups. The decrease is primarily a result of lower equity underwriting transaction revenue which is shared with Macquarie Securities through other fee and commission expense.

Net trading (expense)/income

Net trading expense of \$A44 million for the year ended 31 March 2012 compares to net trading income of \$A27 million in the prior year. The trading expense in the current year reflects Macquarie Capital's share of fair value movement on swap transactions which are shared with Fixed Income, Currencies and Commodities. The trading income in the prior year included fair value movements in relation to listed and unlisted equity investments, interest rate swaps and warrants and options.

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

Net equity accounted profits of \$A80 million for the year ended 31 March 2012 increased 45% from \$A55 million in the prior year. Net equity accounted profits of \$A51 million were booked for the year ended 31 March 2012 for listed associates and \$A29 million for unlisted associates.

Net gains on sale of debt and equity investments

Net gains on the sale of debt and equity investments of \$A101 million for the year ended 31 March 2012 increased significantly from \$A6 million in the prior year. The net gains for the year ended 31 March 2012 were driven primarily by sales of renewable energy and resource investments.

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

Gains on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale of \$A18 million for the year ended 31 March 2012 decreased 56% from \$A41 million in the prior year. The year ended 31 March 2012 included gains on a number of unlisted investments.

Net operating lease income

Net operating lease income of \$A9 million for the year ended 31 March 2012 decreased 79% from \$A43 million in the prior year. The income in the prior year included operating lease income in relation to the Macquarie Asset Leasing Trust which was sold in November 2010.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of \$A30 million in the year ended 31 March 2012 increased significantly from \$A8 million in the prior year, reflecting some isolated specific credit events and an increased collective allowance for credit losses given the growth in the debt portfolio held during the year.

Other income

Other income for the year ended 31 March 2012 of \$A36 million decreased 68% from \$A111 million in the prior year. The prior year included profit on a significant leasing transaction that was not repeated in the current year.

Operating expenses

Total operating expenses for the year ended 31 March 2012 were \$A574 million, a reduction of 17% from \$A694 million in the prior year mainly due to a 19% decrease in employment expenses to \$A309 million for the year ended 31 March 2012 from \$A380 million in the prior year as a result of a 13% reduction in headcount from 1,397 at 31 March 2011 to 1,215 at 31 March 2012, and the impact of the strong Australian Dollar on expenses incurred outside of Australia.

3.7 Fixed Income, Currencies and Commodities

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net trading income (including net interest income)¹						
Commodities ²	297	279	6	576	618	(7)
Foreign exchange products	38	27	41	65	38	71
Interest rate products	245	—	*	245	286	(14)
Fair value adjustments relating to leasing contracts ²	16	(19)	*	(3)	(17)	(82)
Total net trading income (including net interest income)	596	287	95	883	925	(5)
Fee and commission income						
Brokerage and commissions	49	51	(4)	100	87	15
Other fee and commission income	19	29	(34)	48	84	(43)
Total fee and commission income	68	80	(15)	148	171	(13)
Share of net profits of associates and joint ventures accounted for using the equity method	10	9	11	19	15	27
Other operating income and charges						
Net gains on sale of equity investments	113	32	253	145	144	<1
Impairment charge on equity investments	(29)	(23)	26	(52)	(9)	*
Gain on re-measurement of retained investments	36	—	*	36	—	*
Gain on sale of non-financial assets	104	—	*	104	13	*
Specific provisions and collective allowance for credit losses	(14)	(15)	(7)	(29)	13	*
Other income	56	38	47	94	89	6
Total other operating income and charges	266	32	*	298	250	19
Internal management revenue	9	7	29	16	55	(71)
Total operating income	949	415	129	1,364	1,416	(4)
Operating expenses						
Employment expenses	(135)	(122)	11	(257)	(302)	(15)
Brokerage and commission expenses	(82)	(74)	11	(156)	(173)	(10)
Amortisation of intangibles	(19)	(15)	27	(34)	(12)	183
Other operating expenses	(180)	(198)	(9)	(378)	(354)	7
Total operating expenses	(416)	(409)	2	(825)	(841)	(2)
Net profit contribution	533	6	*	539	575	(6)
Non-GAAP metrics						
Headcount	949	939	1	949	980	(3)

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 Macquarie and its clients. As such, to obtain a more complete view of Fixed Income, Currencies and Commodities' trading activities, net interest income has been combined with trading income above. The categories of trading income above are based on business lines within Fixed Income, Currencies and Commodities.

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

3.0 Segment analysis

continued

Fixed Income, Currencies and Commodities' net profit contribution was \$A539 million for the year to 31 March 2012, a decrease of 6% from \$A575 million in the prior year. Total operating income of \$A1,364 million was down 4% from \$A1,416 million in the prior year.

Fixed Income, Currencies and Commodities' result was characterised by challenging global market conditions in the first half of the year which led to a marked deterioration in investor confidence, particularly in credit and interest rate markets. Improved macro-economic conditions and investor sentiment in many markets led to a significant turnaround in the second half.

Commodities trading income

Commodities trading income of \$A576 million for the year ended 31 March 2012 decreased by 7% from \$A618 million in the prior year.

Metals and agricultural markets experienced difficult trading conditions in line with the macro-economic conditions throughout the year resulting in more subdued client volumes.

This was partially offset by energy markets which experienced strong revenues across its global energy platform as customer activity continued to grow and volatility in energy prices led to increased client hedging activity and improved trading conditions, particularly in the US gas and power and the European utilities businesses.

Foreign exchange products trading income

Trading income on foreign exchange products of \$A65 million for the year to 31 March 2012 increased 71% from \$A38 million in the prior year. The growth in revenues was driven by both market volatility and improved client margins. Client activity increased with flow from start up businesses based in Asia and opportunities in America as competition within the market receded.

Interest rate products trading income

Trading income on interest rate products of \$A245 million for the year to 31 March 2012 decreased 14% from \$A286 million in the prior year. The first half was dominated by extreme volatility due to uncertainty in Europe and the US, compounded by concerns over global growth, which heavily impacted credit and financial markets. The threat of a US default and European financial contagion receded in the second half which led to improved volumes as confidence began to return to the market.

Fee and commission income

Fee and commission income of \$A148 million for the year to 31 March 2012 decreased 13% from \$A171 million in the prior year. The decrease is primarily due to a decrease in fees shared with Macquarie Capital on deals involving cross collaboration partially offset by increased brokerage and commission income predominantly relating to increased volumes in the futures business.

Net gains on sale of equity investments

Net gains on sale of resources sector equity investments of \$A145 million for the year to 31 March 2012 was broadly in line with \$A144 million in the prior year. Gains were driven by opportunistic asset realisations in the second half of 2012 and the sale of a partial stake in Energy Assets Limited on IPO.

Gain on re-measurement of retained investments

The gain on the re-measurement of retained investments of \$A36 million relates to a gain recognised when Macquarie lost control of Energy Assets Limited on IPO and was required to revalue its retained investment to fair value.

Impairment charge on equity investments

Impairment charges of \$A52 million for the year to 31 March 2012 increased significantly from \$A9 million in the prior year, comprising write downs on resource equity holdings in specific sectors throughout the year.

Gain on sale of non-financial assets

The gain on sale of non-financial assets of \$A104 million for the year ended 31 March 2012 increased significantly from \$A13 million in the prior year primarily due to income earned from the sale of a net profit interest in a substantial North American oil asset during the year in the energy sector.

Specific provisions and collective allowance for credit losses

Net provision charges of \$A29 million for the year to 31 March 2012 compared to net provision releases of \$A13 million in the prior year, reflecting some isolated specific credit events.

Other income

Other income of \$A94 million increased 6% from \$A89 million in the prior year driven largely by income from net profit interests and interests in commercial subsidiaries.

Operating expenses

Total operating expenses of \$A825 million for the year to 31 March 2012 decreased 2% from \$A841 million in the prior year.

Employment expenses of \$A257 million for the year to 31 March 2012 decreased 15% from \$A302 million in the prior year. Employment costs per head decreased during the year to 31 March 2012, with the prior year being significantly higher driven by the build out of the global platform. Approximately half of the total decrease in headcount from 31 March 2011 to 31 March 2012 related to Fixed Income, Currencies and Commodities ceasing to provide financial products in Latin America.

Brokerage and commission expenses of \$A156 million for the year to 31 March 2012 decreased 10% from \$A173 million in the prior year as a result of more subdued client activity in credit markets.

Amortisation of intangibles expense of \$A34 million for the year to 31 March 2012 increased significantly from \$A12 million in the prior year. These expenses relate to the holdings of net profit interests predominantly in the energy sector, and the level of amortisation will fluctuate with the production levels of the underlying assets.

Other operating expenses increased 7% from \$A354 million to \$A378 million for the year ending 31 March 2012. The changing regulatory environment continues to have additional requirements for risk, operations and information technology resulting in increased expense recharges from support functions. However during the second half costs associated with the previous platform development projects normalised and benefits of the cost management initiatives began to be observed.

3.0 Segment analysis

continued

3.8 Real Estate Banking

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest expense	(2)	(3)	(33)	(5)	(12)	(58)
Total fee and commission income	4	5	(20)	9	12	(25)
Net trading expense	—	(1)	(100)	(1)	(1)	—
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	11	3	267	14	(5)	*
Other operating income and charges						
Net gains on sale of equity investments	1	5	(80)	6	31	(81)
Impairment charge on equity investments	(17)	(11)	55	(28)	(20)	40
Specific provisions and collective allowance for credit losses	(14)	—	*	(14)	(31)	(55)
Other income	(8)	8	*	—	20	(100)
Total other operating income and charges	(38)	2	*	(36)	—	*
Internal management charge	(2)	—	*	(2)	(2)	—
Total operating income	(27)	6	*	(21)	(8)	163
Operating expenses						
Employment expenses	(2)	(4)	(50)	(6)	(11)	(45)
Other operating expenses	(4)	(5)	(20)	(9)	(23)	(61)
Total operating expenses	(6)	(9)	(33)	(15)	(34)	(56)
Net loss contribution	(33)	(3)	*	(36)	(42)	(14)
Non-GAAP metrics						
Headcount	25	33	(24)	25	57	(56)

Real Estate Banking's net loss of \$A36 million for the year ended 31 March 2012 compares to a net loss of \$A42 million in the prior year. Conditions during the period remained challenging for the Real Estate Banking business and the result for the year to 31 March 2012 was characterised by further impairments on the remaining investment portfolio.

A specific provision of \$A14 million is directly offset by a reversal of share of associate losses of \$A14 million. Partially offsetting the impairment charges on equity investments were \$A6 million of gains on the sale of some equity investments.

Total operating expenses of \$A15 million for the year ended 31 March 2012 decreased 56% from \$A34 million in the prior year, reflecting the net reduction in headcount.

3.9 Corporate

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Net interest and trading income/(expense)	39	(51)	*	(12)	175	*
Fee and commission (expense)/income	(5)	—	*	(5)	71	*
Share of net profits of associates and joint ventures accounted for using the equity method	1	2	(50)	3	21	(86)
Other operating income and charges						
Net (losses)/gains on sale of debt and equity securities	(25)	25	*	—	49	(100)
Impairment charge on debt and equity securities	(104)	(2)	*	(106)	(47)	126
Net (losses)/gains on sale of associates and joint ventures	—	(5)	(100)	(5)	8	*
Dividends and distributions received	336	64	*	400	83	*
Specific provisions and collective allowance for credit losses	—	(1)	(100)	(1)	(15)	(93)
Other income	14	5	180	19	123	(85)
Total other operating income and charges	221	86	157	307	201	53
Internal management charge	(42)	(39)	8	(81)	(123)	(34)
Total operating income	214	(2)	*	212	345	(39)
Operating expenses						
Employment expenses	(1,009)	(788)	28	(1,797)	(1,848)	(3)
Brokerage and commission expenses	(3)	(1)	200	(4)	(63)	(94)
Other operating expenses	299	327	(9)	626	567	10
Total operating expenses	(713)	(462)	54	(1,175)	(1,344)	(13)
Tax expense	(180)	(107)	68	(287)	(282)	2
Macquarie Income Preferred Securities	(2)	(2)	—	(4)	(4)	—
Macquarie Income Securities	(13)	(13)	—	(26)	(26)	—
Non-controlling interests ¹	3	(5)	*	(2)	5	*
Net loss contribution	(691)	(591)	17	(1,282)	(1,306)	(2)
Non-GAAP metrics						
Headcount	5,342	6,048	(12)	5,342	5,781	(8)

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

3.0 Segment analysis

continued

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

The Corporate segment's net loss for the year ended 31 March 2012 of \$A1,282 million was broadly in line with a net loss of \$A1,306 million in the prior year.

Net interest and trading income/(expense)

Net interest and trading income/(expense) in the Corporate segment includes income generated by the investment of Macquarie's capital, non-trading derivative volatility and realised and unrealised gains and losses from the disposal and revaluation of Macquarie's liquid asset portfolio. Net interest and trading expense for the year ended 31 March 2012 of \$A12 million decreased from net interest and trading income of \$A175 million in the prior year. This was primarily due to the impact of reduced earnings on capital driven by a change in the currency mix of the capital earnings base as part of the Group's capital management activities. In addition the current period includes losses relating to fair value adjustments on assets held for liquidity purposes resulting from credit spread movements and losses relating to fair value adjustments that were incurred on assets held to hedge exposures to liabilities under the Directors' profit share (DPS) plan.

Fee and commission (expense)/income

Fee and commissions (expense)/income primarily relates to internal transactions with Operating Groups that net to nil on aggregation across the Group. External fee and commissions income is minimal. The prior year included the recognition of certain items that, for accounting purposes, offset with other fee and commission expense.

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

There was no significant equity accounted income in the year ended 31 March 2012. The income in the prior year related to investments previously held within operating groups that have been transferred to the Corporate segment.

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

Net (losses)/gains on sale of debt and equity securities of nil for the year ended 31 March 2012 compares with \$A49 million in the prior year. Gains in the prior year related to the sale of debt securities by Group Treasury for liquidity management purposes. In the current year, gains from the sale of debt securities by Group Treasury in the half-year to 30 September 2011 were offset by losses in the half-year to 31 March 2012 on the sale of a portfolio of mortgage-backed securities.

Impairment charge on debt and equity securities

Impairment charge on debt and equity securities of \$A106 million for the year ended 31 March 2012 increased 126% from \$A47 million for the year ended 31 March 2011. The impairment charges relate to a number of legacy investments that are no longer aligned with the operations of any of the Operating Groups and have been transferred to the Corporate segment.

Dividends and distributions received

Dividends and distributions received of \$A400 million in the year ended 31 March 2012 increased significantly from \$A83 million in the prior year. Dividends are received on investments held to hedge DPS liabilities and on the investment in Sydney Airport (formerly MAp Group), which was transferred from Macquarie Funds to the Corporate segment on 1 April 2011. The increase is largely due to a special distribution of \$A295 million (\$A0.80 per unit) received from Sydney Airport (formerly MAp Group) in December 2011.

Other income

Other income of \$A19 million for the year ended 31 March 2012 decreased 85% from \$A123 million in the prior year. The income in the prior year primarily relates to the gain on the reclassification of Sydney Airport (formerly MAp Group) from an investment in associate to investment security available for sale upon the loss of significant influence.

Employment expenses

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

For the year ended 31 March 2012, employment expenses were \$A1,797 million, down 3% from \$A1,848 million in the prior year. This decrease is mainly attributable to lower profit share resulting from lower earnings. This is partially offset by increases in support function employment expenses as a result of the realignment of support roles that were previously embedded in the business to drive scale efficiencies. These efficiencies are starting to be achieved as evidenced by a reduction in support area headcount from 5,781 at 31 March 2011 to 5,342 at 31 March 2012.

Brokerage and commission expenses

Brokerage and commission expenses in the Corporate segment primarily relate to fees and commissions paid on the issuance of debt instruments by Group Treasury. Brokerage and commission expenses of \$A4 million for the year ended 31 March 2012 decreased 94% from \$A63 million in the prior year. The expense in the prior period includes amounts that offset with fee and commission income as described above.

Other operating expenses

The other operating expenses category in the Corporate segment relates to the recovery of support function costs from the Operating Groups and other non-employment related operating costs of support functions. The 10% increase in the net recoveries from the Operating Groups from \$A567 million in the prior year to \$A626 million in the year ended 31 March 2012 is predominantly due to the realignment of corporate roles that have previously been embedded in the business.

3.0 Segment analysis

continued

3.10 International income

International income by region

	Half-year to			Full-year to		
	Mar 12 \$Am	Sep 11 \$Am	Movement %	Mar 12 \$Am	Mar 11 \$Am	Movement %
Americas	1,123	921	22	2,044	2,229	(8)
Asia	342	401	(15)	743	1,150	(35)
Europe, Middle East and Africa	608	621	(2)	1,229	1,030	19
Total international income	2,073	1,943	7	4,016	4,409	(9)
Australia	1,392	1,262	10	2,654	2,891	(8)
Total income (excluding earnings on capital and other corporate items)	3,465	3,205	8	6,670	7,300	(9)
Earnings on capital and other corporate items	255	38	*	293	365	(20)
Total operating income (as reported)	3,720	3,243	15	6,963	7,665	(9)
International income (excluding earnings on capital and other corporate items) ratio (%)	60	61		60	60	

International income by group and region

	Full-year to Mar 12						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia \$Am	Total Income \$Am	Total International %
Macquarie Funds	663	107	285	1,055	290	1,345	78
Corporate and Asset Finance	286	15	412	713	338	1,051	68
Banking and Financial Services	181	(2)	7	186	1,226	1,412	13
Macquarie Securities	131	440	175	746	145	891	84
Macquarie Capital	193	93	26	312	330	642	49
Fixed Income, Currencies and Commodities	586	87	324	997	351	1,348	74
Real Estate Banking	4	3	—	7	(26)	(19)	*
Total	2,044	743	1,229	4,016	2,654	6,670	60

Total international income decreased 9% to \$A4.0 billion for the year ended 31 March 2012 from \$A4.4 billion in the prior year.

Income from capital markets facing businesses was adversely impacted by challenging global market conditions during the year ended 31 March 2012. This was especially evident across Asia where capital market businesses have a significant presence and led to a decline in the proportion of income generated from this region.

There was an increase in the income generated from Europe, Middle East and Africa, primarily due to growth in the Corporate and Asset Finance business including the full year impact of the November 2010 acquisition of the remaining 62.5% of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, and the acquisition of OnStream UK, a utility metering services business, in October 2011.

Proportionately, income derived from Australia and Americas in the year ended 31 March 2012 remained broadly in line with the prior year reflecting the diversity of businesses in these regions.

4.0 Balance sheet

4.1 Statutory consolidated balance sheet

	As at		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Assets					
Receivables from financial institutions	10,912	11,525	9,817	(5)	11
Cash collateral on securities borrowed and reverse repurchase agreements	7,598	6,696	8,790	13	(14)
Trading portfolio assets	12,689	14,616	14,898	(13)	(15)
Derivative assets	22,078	34,201	21,185	(35)	4
Investment securities available for sale	18,266	21,334	17,051	(14)	7
Other assets	13,583	14,960	12,646	(9)	7
Loan assets held at amortised cost	45,218	45,843	46,016	(1)	(2)
Other financial assets at fair value through profit or loss	6,715	9,998	11,668	(33)	(42)
Life investment contracts and other unit holder investment assets	5,904	4,758	5,059	24	17
Property, plant and equipment	5,235	5,133	5,007	2	5
Interests in associates and joint ventures accounted for using the equity method	2,664	2,891	2,790	(8)	(5)
Intangible assets	1,351	1,393	1,317	(3)	3
Deferred tax assets	1,279	1,251	1,245	2	3
Non-current assets and assets of disposal groups classified as held for sale	134	89	79	51	70
Total assets	153,626	174,688	157,568	(12)	(3)
Liabilities					
Cash collateral on securities lent and repurchase agreements	4,826	8,844	6,617	(45)	(27)
Trading portfolio liabilities	3,615	4,425	5,808	(18)	(38)
Derivative liabilities	21,022	32,240	21,572	(35)	(3)
Deposits	37,169	38,050	35,338	(2)	5
Current tax liabilities	105	72	197	46	(47)
Other liabilities	14,991	15,180	14,327	(1)	5
Other financial liabilities at fair value through profit or loss	2,733	3,334	4,339	(18)	(37)
Life investment contracts and other unit holder liabilities	5,897	4,759	5,055	24	17
Debt issued at amortised cost	39,713	42,258	41,177	(6)	(4)
Payables to financial institutions	7,803	9,557	7,810	(18)	(<1)
Provisions	241	232	215	4	12
Deferred tax liabilities	436	351	287	24	52
Total liabilities excluding loan capital	138,551	159,302	142,742	(13)	(3)
Loan capital					
Macquarie Convertible Preference Securities	614	596	595	3	3
Subordinated debt at amortised cost	2,579	2,877	1,832	(10)	41
Subordinated debt at fair value through profit or loss	150	149	467	1	(68)
Total loan capital	3,343	3,622	2,894	(8)	16
Total liabilities	141,894	162,924	145,636	(13)	(3)
Net assets	11,732	11,764	11,932	(<1)	(2)

4.0 Balance sheet

continued

	As at		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Equity					
Contributed equity					
Ordinary share capital	7,289	7,245	7,140	1	2
Treasury shares	(1,136)	(1,135)	(731)	<1	55
Exchangeable shares	82	98	104	(16)	(21)
Reserves	44	504	310	(91)	(86)
Retained earnings	4,924	4,539	4,581	8	7
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	11,203	11,251	11,404	(<1)	(2)
Non-controlling interests					
Macquarie Income Securities	391	391	391	—	—
Macquarie Income Preferred Securities	63	66	63	(5)	—
Other non-controlling interests	75	56	74	34	1
Total equity	11,732	11,764	11,932	(<1)	(2)

Total assets of \$A153.6 billion at 31 March 2012 decreased 3% from \$A157.6 billion at 31 March 2011.

Trading portfolio assets decreased 15% from \$A14.9 billion at 31 March 2011 to \$A12.7 billion at 31 March 2012 and trading portfolio liabilities decreased 38% from \$A5.8 billion at 31 March 2011 to \$A3.6 billion at 31 March 2012 primarily as a result of decreased trading activities in Macquarie Securities.

Derivative assets increased 4% from \$A21.2 billion at 31 March 2011 to \$A22.1 billion at 31 March 2012 and derivative liabilities decreased 3% from \$A21.6 billion at 31 March 2011 to \$A21.0 billion at 31 March 2012. Whilst the current year balances are broadly in line with the prior year, they have reduced significantly since 30 September 2011 due to reduced trading activities in Macquarie Securities and Fixed Income, Currencies and Commodities.

Other assets increased 7% from \$A12.6 billion at 31 March 2011 to \$A13.6 billion at 31 March 2012 and other liabilities increased 5% from \$A14.3 billion at 31 March 2011 to \$A15.0 billion at 31 March 2012 as a result of increased unsettled trade receivables and payables at the end of the period arising from increased trading activity.

Loan assets decreased 2% from \$A46.0 billion at 31 March 2011 to \$A45.2 billion at 31 March 2012 due to an increase in corporate lending in Corporate Asset and Finance, offset by a decrease in the Australian mortgage portfolio in Banking and Financial Services.

Other financial assets at fair value through profit or loss decreased 42% from \$A11.7 billion at 31 March 2011 to \$A6.7 billion at 31 March 2012 and Investment securities available for sale increased 7% from \$A17.1 billion at 31 March 2011 to \$A18.3 billion at 31 March 2012 mainly due to liquidity management activities within Group Treasury. The decrease in other financial assets at fair value through profit or loss was also driven by the scheduled maturity and redemption of structured products and lending products.

Total liabilities (excluding loan capital) decreased 3% from \$A142.7 billion at 31 March 2011 to \$A138.6 billion at 31 March 2012.

Deposits increased 5% from \$A35.3 billion at 31 March 2011 to \$A37.2 billion at 31 March 2012 due to continuing growth in CMA account balances and corporate banking deposits.

Other financial liabilities at fair value through profit or loss decreased 37% from \$A4.3 billion at 31 March 2011 to \$A2.7 billion at 31 March 2012 mainly due to reduced trading activities in Macquarie Securities and the scheduled maturity and redemption of structured products.

Total equity decreased 2% from \$A11.9 billion at 31 March 2011 to \$A11.7 billion at 31 March 2012. The decrease since 31 March 2011 is due to decreased reserves, including share based payments and available for sale, an increase of \$A405 million in treasury shares relating to Macquarie shares acquired in relation to the Macquarie Group Employee Retained Equity Plan, offset by a net increase in retained earnings of \$A343 million.

4.2 Loan assets

Reconciliation between loan assets per statutory and funded balance sheets

	As at			Movement	
	Mar 12 \$Ab	Sep 11 \$Ab	Mar 11 \$Ab	Sep 11 %	Mar 11 %
Loan assets at amortised cost per statutory balance sheet	45.2	45.8	46.0	(1)	(2)
Other loans held at fair value ¹	2.0	2.0	2.5	—	(20)
Operating lease assets	4.8	4.5	4.4	7	9
Other reclassifications ²	0.1	(0.2)	(0.6)	*	*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers	(12.9)	(12.9)	(12.8)	—	<1
Less: segregated funds ³	(0.6)	(1.2)	(1.3)	(50)	(54)
Less: margin balances (reclassified to trading) ⁴	(1.6)	(1.4)	(2.0)	14	(20)
Total per funded balance sheet	37.0	36.6	36.2	1	2

¹ Excludes other loans held at fair value that are self-funded.

² Reclassification between loan assets and other funded balance sheet categories.

³ These represent the assets and liabilities that are recognised where Macquarie provides products such as investment-linked policy contracts. The policy (contract) liability will be matched by assets held to the same amount and hence does not require funding.

⁴ For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.

4.0 Balance sheet

continued

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

	Notes	As at			Movement	
		Mar 12 \$Ab	Sep 11 \$Ab	Mar 11 \$Ab	Sep 11 %	Mar 11 %
Mortgages:	1					
Australia		2.6	2.3	2.1	13	24
United States		0.7	0.8	0.8	(13)	(13)
Canada		8.2	8.5	8.5	(4)	(4)
Structured investments	2	2.9	3.0	3.4	(3)	(15)
Banking	3	4.0	3.9	3.7	3	8
Real estate	4	0.4	0.4	0.4	—	—
Resources and commodities	5	1.7	1.9	1.5	(11)	13
Leasing (finance and operating)	6	7.8	7.7	8.2	1	(5)
Corporate and Asset Finance lending	7	7.0	7.0	6.5	—	8
Other lending	8	1.7	1.1	1.1	55	55
Total		37.0	36.6	36.2	1	2

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential mortgages and supported by mortgage insurance:

- Australia: most loans are fully mortgage insured
- United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured
- Canada: most loans are fully insured with underlying government support.

2. Structured investments

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

3. Banking

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

4. Real estate

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

5. Resources and commodities

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

6. Leasing (finance and operating)

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

7. Corporate and Asset Finance lending

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

8. Other lending

Deposits with financial institutions held as collateral for trading positions.

4.3 Equity investments

Equity investments are reported in the following categories in the statutory balance sheet:

- Other financial assets at fair value through profit or loss
- Investment securities available for sale
- Interests in associates and joint ventures
- Assets and disposal groups held for sale.

The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short term. For the purpose of analysis, equity investments have been re-grouped into the following categories:

- Investments in Macquarie-managed funds
- Other investments not held for sale or which are not investments in Macquarie-managed funds
- Held for sale investments.

Equity investments reconciliation

	As at		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Equity investments (excluding held for sale)					
Statutory balance sheet					
Equity investments within other financial assets at fair value through profit or loss	2,255	2,904	2,542	(22)	(11)
Equity investments within investment securities available for sale	2,456	2,612	2,541	(6)	(3)
Interests in associates and joint ventures accounted for using the equity method	2,664	2,891	2,790	(8)	(5)
Total equity investments per statutory balance sheet	7,375	8,407	7,873	(12)	(6)
Adjustment for funded balance sheet					
Equity hedge positions ¹	(2,071)	(2,621)	(2,332)	(21)	(11)
Total funded equity investments	5,304	5,786	5,541	(8)	(4)
Adjustments for equity investments analysis					
Available for sale reserves ²	(144)	(234)	(385)	(38)	(63)
Associates reserves ³	25	8	2	213	*
Total adjusted equity investments⁴	5,185	5,560	5,158	(7)	<1
Held for sale investments					
Net assets of disposal groups classified as held for sale	134	89	79	51	70
Total equity investments including held for sale investments	5,319	5,649	5,237	(6)	2

¹ These relate to assets held for the purposes of economically hedging Macquarie's fair valued liabilities to external parties arising from various equity linked instruments. These have been excluded from the analysis of equity investment exposures as Macquarie does not have an economic exposure to them.

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

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

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

4.0 Balance sheet

continued

Equity investments by category

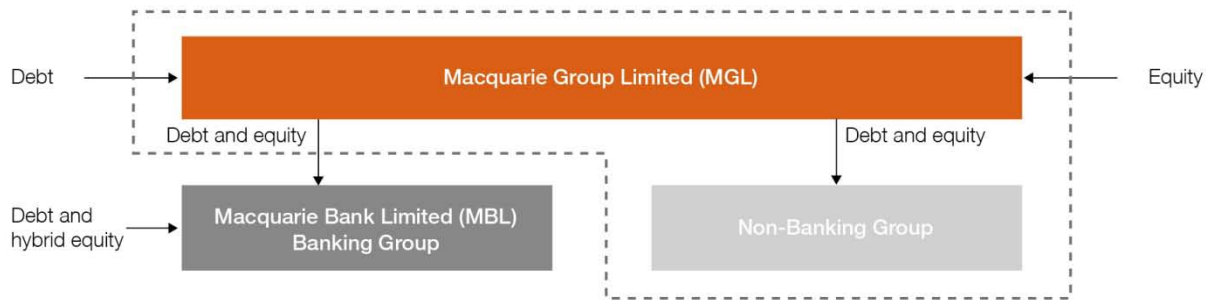
	As at		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Macquarie-managed funds					
Macquarie Atlas Roads Group	102	101	80	<1	28
Macquarie Infrastructure Company	79	78	65	1	22
Macquarie Korea Infrastructure Fund	57	50	51	14	12
Macquarie International Infrastructure Fund	52	55	54	(5)	(4)
DUET Group	17	17	15	—	13
Total listed MIRA managed funds	307	301	265	2	16
Unlisted MIRA managed funds	562	634	615	(11)	(9)
Other Macquarie-managed funds	222	337	361	(34)	(39)
Total Macquarie-managed funds	1,091	1,272	1,241	(14)	(12)
Other investments					
Transport, industrial and infrastructure	1,730	1,893	1,862	(9)	(7)
Telecommunications, internet, media and entertainment	702	642	369	9	90
Finance, investment, funds management and exchanges	650	677	619	(4)	5
Energy and resources	619	575	509	8	22
Real estate	371	460	479	(19)	(23)
Debt investment entities	22	41	79	(46)	(72)
Total other investments	4,094	4,288	3,917	(5)	5
Held for sale investments	134	89	79	51	70
Total equity investments including held for sale investments	5,319	5,649	5,237	(6)	2

5.0 Funding and liquidity

5.1 Overview

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

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



Liquidity management

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and the Risk Management Group (RMG). MGL Group and MBL Group's liquidity policies are approved by their respective Boards after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer and Business Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity policy and principles

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

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

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses. MBL is funded mainly by capital, long-term liabilities and deposits.

5.0 Funding and liquidity continued

The liquidity management principles apply to both MGL and MBL and include the following:

Liquidity and funding management

- All liquidity requirements are managed centrally by Group Treasury
- Liquidity risk is managed through setting limits on the maturity profile of assets and liabilities
- A liquidity contingency plan is approved by the Board and reviewed periodically
- A funding strategy is prepared annually and the funding position is monitored throughout the year
- Internal pricing incorporates liquidity costs, benefits and risks to align risk-taking activities with liquidity risk exposures
- Diversity and stability of funding sources is a key priority.

Liquidity limits

- Term assets must be funded by term liabilities
- Cash and liquid assets are sufficient to cover a 12 month stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash
- Short-term assets exceed short-term wholesale liabilities.

Scenario analysis

Scenario analysis is central to the Group's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure MGL and MBL's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

The scenarios separately consider the requirements of the Banking Group, Non-Banking Group and the consolidated Group. They are run over a number of timeframes and a range of conservative assumptions are used regarding access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in both MGL and MBL to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and complies with minimum regulatory requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2012, 99% of the liquid asset portfolio was eligible for repurchase with central banks.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible government, semi-government, supranational, government guaranteed and unguaranteed bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper.

The liquid asset portfolio is largely denominated and held in Australian Dollars and to a lesser extent in US Dollars or other currencies where appropriate.

MGL Group had \$A23.2 billion cash and liquid assets at 31 March 2012 (31 March 2011: \$A26.0 billion), of which \$A20.9 billion was held by the MBL Group (31 March 2011: \$A23.8 billion).

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Macquarie Group and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

Funding transfer pricing

An internal funding transfer pricing framework is in place which aims to align businesses with the overall funding strategy of the Group. Under this framework the costs of long and short-term funding are charged out and credits are made to business units that provide long-term stable funding.

Credit ratings

Credit ratings at 31 March 2012 are detailed below.

	Macquarie Group Limited			Macquarie Bank Limited		
	Short-term rating	Long-term rating	Long-term rating outlook	Short-term rating	Long-term rating	Long-term rating outlook
Moody's Investors Service	P-2	A3	Stable	P-1	A2	Stable
Standard and Poor's	A-2	BBB	Stable	A-1	A	Stable
Fitch Ratings	F-2	A-	Stable	F-1	A	Stable

As part of broader reviews of the banking sector globally, the three major rating agencies have now concluded their reviews on MBL, MGL and other entities in the Group. These reviews have resulted in a general downward migration of bank ratings globally.

Following these reviews, MBL is now rated 'A' equivalent by all three agencies. Standard and Poor's confirmed MBL's rating in December 2011 and Moody's Investors Service and Fitch Ratings announced one notch downgrades in March 2012. MGL is now rated 'A-' equivalent by Moody's Investors Service and Fitch Ratings, and 'BBB' by Standard and Poor's following their respective downgrades.

Macquarie has demonstrated ratings stability over the past 20 years:

- Standard and Poor's: MBL has maintained its 'A' rating for 21 years.
- Moody's Investors Service: MBL had either an 'A1' or 'A2' rating with Moody's Investors Service for the last 12 years.
- Fitch Ratings: MBL had maintained its 'A+' rating with Fitch Ratings for 21 years, before moving to 'A' as part of the global industry review.

5.0 Funding and liquidity continued

Regulatory developments

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

Liquidity Coverage Ratio

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

Australia has an insufficient quantity of assets that meet the narrow liquid asset definition proposed by the Basel Committee. APRA announced that this issue would be resolved through a secured committed liquidity facility (CLF) with the Reserve Bank of Australia (RBA) that would count towards meeting LCR requirements. In November 2011, the RBA announced that all assets eligible for intra-day repurchase with the RBA will be eligible collateral for the CLF, including related party assets (self securitised residential mortgage securities). The size of any CLF allocation must be agreed by each institution on a bilateral basis with APRA and a fee of 15 bps per annum will apply based on the size of the commitment, irrespective of the level of usage.

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

Net Stable Funding Ratio

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

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

Macquarie continues to monitor developing liquidity regulations.

5.2 Funded balance sheet

The Group's statutory balance sheet is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of the Group.

The table below reconciles the reported assets of the consolidated Group to the net funded assets at 31 March 2012. This is later split between the Banking Group and Non-Banking Group to assist in the analysis of each of the separate funding profiles of MGL and MBL.

	Notes	As at	
		Mar 12 \$Ab	Mar 11 \$Ab
Total assets per MGL statutory balance sheet		153.6	157.6
Accounting deductions:			
Self funded trading assets	1	(10.0)	(14.7)
Derivative revaluation accounting gross-ups	2	(20.5)	(20.5)
Life investment contracts and other segregated assets	3	(9.0)	(8.1)
Broker settlement balances	4	(9.2)	(6.3)
Short-term working capital assets	5	(5.7)	(7.6)
Non-recourse funded assets:			
Securitised assets and non-recourse warehouses	6	(13.0)	(12.8)
Net funded assets		86.2	87.6

Explanatory notes concerning net funded assets

1. Self funded trading assets

There are a number of entries on the balance sheet that arise from the normal course of trading activity Macquarie conducts with its clients and counterparties. They typically represent both sides of a transaction. The entries offset each other as both the asset and liability positions are recorded separately. Where these entries are matched, they do not require funding.

2. Derivative revaluation accounting gross-ups

Macquarie's derivative activities are mostly client driven with client positions hedged by offsetting positions. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

3. Life investment contracts and other segregated assets

These represent the assets and liabilities that are recognised where Macquarie provides products such as investment-linked policy contracts. The policy (contract) liability will be matched by assets held to the same amount and hence does not require funding.

4. Broker settlement balances

At any particular time Macquarie's broking business will have outstanding trades to settle with other brokers. These amounts (payables) can be offset in terms of funding by amounts that Macquarie is owed at the same time by brokers on other trades (receivables).

5. Short-term working capital assets

As with the broker settlement balances above, Macquarie through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

6. Securitised assets and non-recourse warehouses

Some lending assets (mortgages and leasing) are commonly sold down into external securitisation entities or transferred to external funding warehouses. As a consequence they are non-recourse to Macquarie and are funded by third parties rather than Macquarie.

5.0 Funding and liquidity continued

5.3 Funding profile for consolidated MGL Group

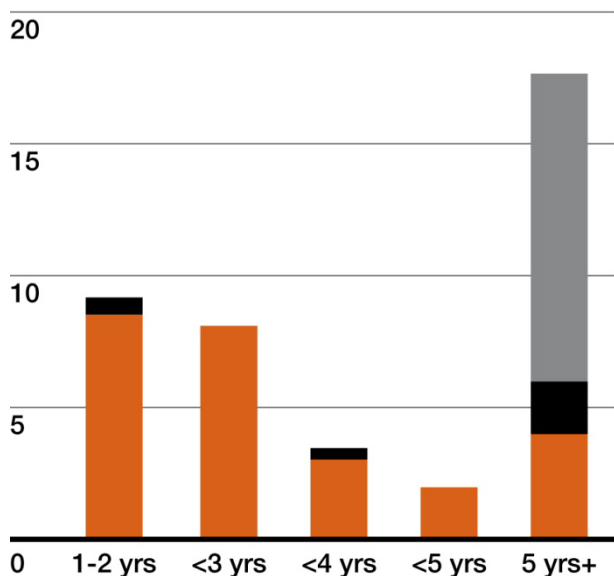
Funded balance sheet

		As at	
	Notes	Mar 12 \$Ab	Mar 11 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.7	1.7
Commercial paper		4.6	3.5
Net trade creditors	2	0.2	0.5
Structured notes	3	2.3	3.5
Secured funding	4	10.9	10.6
Bonds	5	14.0	16.6
Other loans	6	0.4	0.3
Senior credit facility	7	3.2	4.5
Deposits:	8		
Retail deposits		29.0	26.6
Corporate and wholesale deposits		4.9	5.0
Loan capital	9	3.3	2.9
Equity and hybrid	10	11.7	11.9
Total		86.2	87.6
Funded assets			
Cash and liquid assets	11	23.2	26.0
Net trading assets	12	15.9	15.0
Loan assets less than one year	13	7.7	7.6
Loan assets greater than one year	13	29.3	28.6
Assets held for sale	14	0.1	0.1
Debt investment securities	15	2.9	2.8
Co-investment in Macquarie-managed funds and other equity investments	16	5.3	5.5
Property, plant and equipment and intangibles		1.8	2.0
Total		86.2	87.6

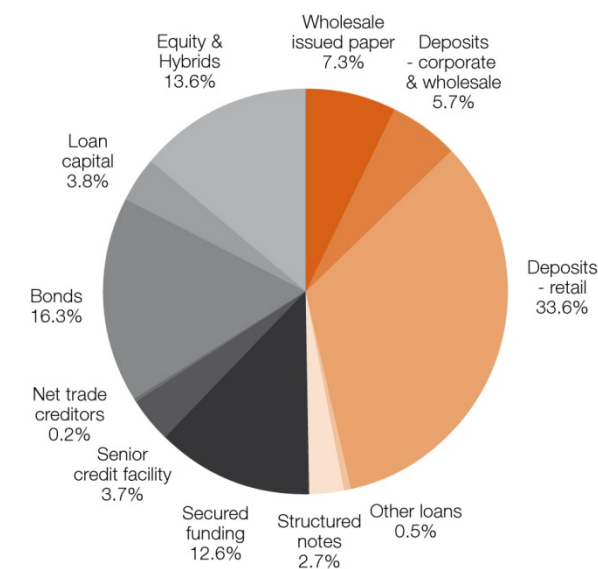
See Section 5.6 for notes 1-16.

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

Equity and hybrids ■ Loan Capital ■ Debt ■
\$A billion **Total = \$A40.0b**



Diversity of Funding Sources



As at Mar 12

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes	0.5	0.5	0.1	—	0.1	1.2
Secured funding	3.0	2.4	2.7	—	0.4	8.5
Bonds	5.0	3.8	—	0.8	3.2	12.8
Other loans	—	—	0.1	—	0.1	0.2
Senior credit facility	—	1.3	—	1.1	—	2.4
Total debt	8.5	8.0	2.9	1.9	3.8	25.1
Loan capital	0.6	—	0.4	—	2.0	3.0
Equity and hybrid	—	—	—	—	11.7	11.7
Total funding sources drawn	9.1	8.0	3.3	1.9	17.5	39.8
Undrawn	—	—	0.1	—	0.1	0.2
Total funding sources drawn and undrawn	9.1	8.0	3.4	1.9	17.6	40.0

Macquarie has a stable funding base, with minimal reliance on short-term wholesale funding markets. At 31 March 2012, MGL Group's term assets were covered by term funding maturing beyond one year (including undrawn facilities), stable deposits and equity.

Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short-term funding) decreased from 4.1 years at 31 March 2011 to 3.8 years at 31 March 2012.

5.0 Funding and liquidity

continued

Term funding initiatives

Macquarie has a liability driven balance sheet approach where funding is put in place before assets are taken to the balance sheet. Since March 2011, MGL and MBL have continued to raise term wholesale funding.

Details of term funding raised since 31 March 2011¹:

		Banking Group \$Ab	Non- Banking Group \$Ab	Total \$Ab
Securitised assets	– Term secured finance	3.2	–	3.2
Issued paper	– Subordinated	1.0	–	1.0
	– Senior	1.0	0.4	1.4
Senior Credit Facility	– Term facility refinancing	–	2.4	2.4
Loan Capital	– Exchangeable Capital Securities (ECS)	0.2	–	0.2
Total		5.4	2.8	8.2

In the year ended 31 March 2012, MGL Group raised \$A8.2 billion of term funding, including \$A3.2 billion of term secured finance, of which \$A2.3 billion was auto lease securitisation, and \$A5.0 billion of term wholesale funding, of which \$A2.4 billion was refinancing of the MGL Senior Credit Facility.

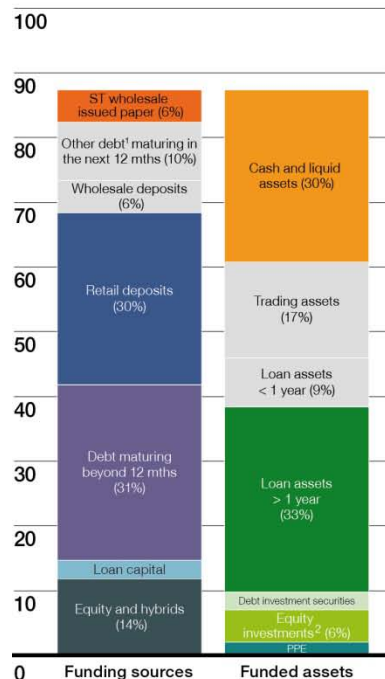
In August 2011, Macquarie completed the first stage in refinancing MGL's Senior Credit Facility with commitments of \$US2 billion. An additional \$US480 million was committed during October 2011. The refinancing partially extended existing 2011 and 2012 maturities for 3.5 and 5 years.

In March 2012, MBL issued \$US250 million of Exchangeable Capital Securities (ECS). ECS were issued by MBL acting through its London Branch (Issuer) and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time.

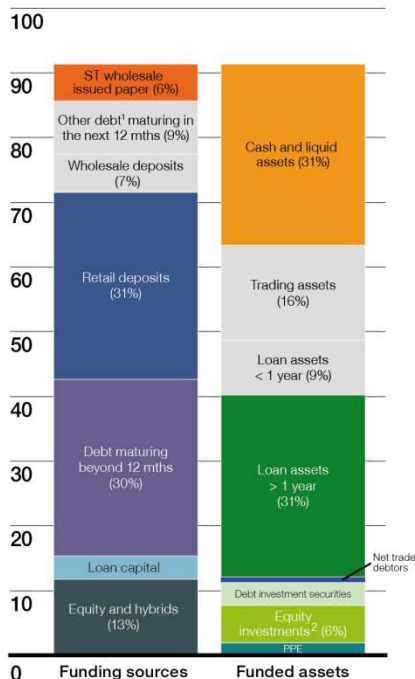
¹ Includes \$A0.2 billion term securitisation completed in April 2012.

The change in composition of the funded balance sheet is illustrated in the chart below.

31 March 2011 \$Ab



30 September 2011 \$Ab



31 March 2012 \$Ab



¹ Includes Structured Notes, Secured Funding, Bonds, Other Bank Loans maturing within the next 12 months and Net Trade Creditors.

² This represents the Group's co-investment in Macquarie-managed funds and equity investments.

5.0 Funding and liquidity

continued

5.4 Funding profile for Banking Group

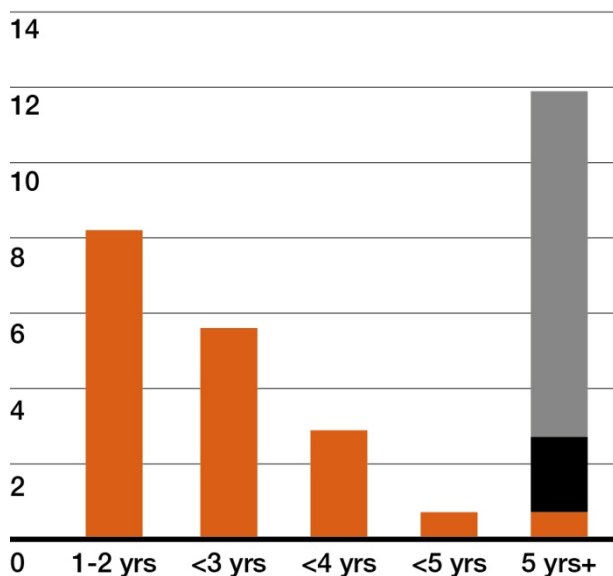
Funded balance sheet

		As at	
	Notes	Mar 12 \$Ab	Mar 11 \$Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.7	1.7
Commercial paper		4.6	3.5
Net trade creditors	2	0.7	—
Structured notes	3	1.7	2.9
Secured funding	4	10.7	8.9
Bonds	5	9.5	12.5
Other loans	6	0.1	—
Deposits:	8		
Retail deposits		29.0	26.6
Corporate and wholesale deposits		4.9	5.0
Loan capital	9	2.3	1.9
Equity and hybrid	10	9.2	9.1
Total		74.4	72.1
Funded assets			
Cash and liquid assets	11	20.9	23.8
Net trading assets	12	14.5	13.4
Loan assets less than one year	13	7.3	7.2
Loan assets greater than one year	13	28.4	26.2
Debt investment securities	15	2.7	2.6
MBL intra-group loan to MGL		—	0.7
Non-Banking Group deposit with MBL		(1.7)	(4.6)
Co-investment in Macquarie-managed funds and other equity investments	16	1.4	1.8
Property, plant and equipment and intangibles		0.9	1.0
Total		74.4	72.1

See Section 5.6 for notes 1-16.

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

Debt ■ Loan Capital ■ Equity and hybrid ■
\$A billion **Total = \$A29.3b**



	As at Mar 12					Total \$Ab
	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	
Structured notes	0.3	0.4	0.1	—	0.1	0.9
Secured funding	3.0	2.4	2.7	—	0.4	8.5
Bonds	4.9	2.8	—	0.7	0.1	8.5
Total debt	8.2	5.6	2.8	0.7	0.6	17.9
Loan capital	—	—	—	—	2.0	2.0
Equity and hybrid	—	—	—	—	9.2	9.2
Total funding sources drawn	8.2	5.6	2.8	0.7	11.8	29.1
Undrawn	—	—	0.1	—	0.1	0.2
Total funding sources drawn and undrawn	8.2	5.6	2.9	0.7	11.9	29.3

The Banking Group has diversity of funding by both source and maturity. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.3 years.

5.0 Funding and liquidity continued

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

- \$US25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities including Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US6.8 billion debt securities outstanding at 31 March 2012
- \$US10 billion Commercial Paper Program incorporating Government Guaranteed and unguaranteed securities under which \$US3.3 billion of debt securities were outstanding at 31 March 2012
- \$US20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 31 March 2012 issuance amounted to \$US6.5 billion under the Rule 144A/Regulation S Medium Term Note Program.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 31 March 2012, MBL Group had \$A1.7 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations. At 31 March 2012, MBL Group had internally securitised \$A3.1 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Deposit strategy

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

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

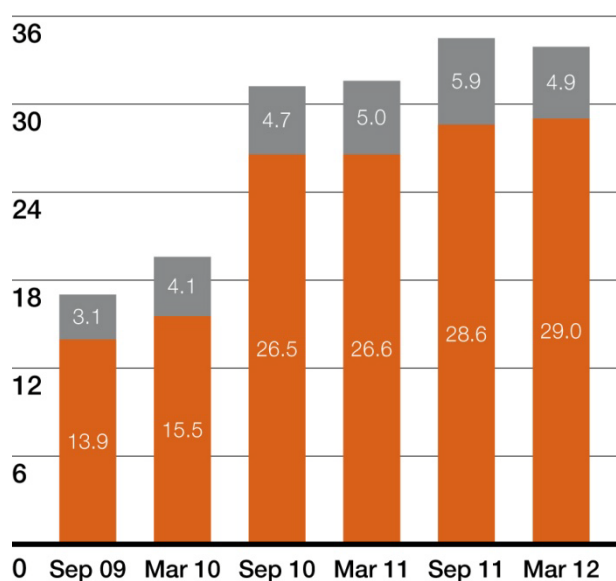
On 11 September 2011, the Australian Government announced a number of changes to the Financial Claims Scheme. Effective 1 February 2012, the value of the cap on deposits reduced from \$A1 million to \$A250,000. The majority of Macquarie's deposits continue to be covered by the Financial Claims Scheme.

The chart below illustrates the strong retail deposit growth since September 2009.

Deposits trend

Retail ■ Corporate/wholesale ■

\$A billion



5.0 Funding and liquidity continued

5.5 Funding profile for Non-Banking Group

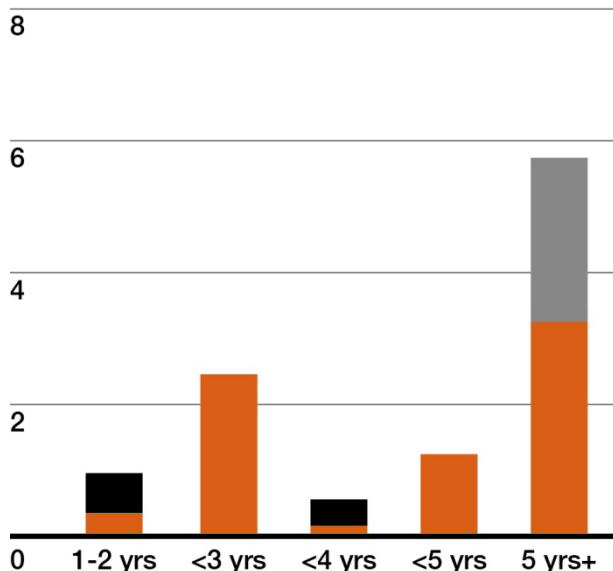
Funded balance sheet

		As at	
	Notes	Mar 12 \$Ab	Mar 11 \$Ab
Funding sources			
MBL intra-group loan to MGL		—	0.7
Net trade creditors	2	—	0.5
Structured notes	3	0.6	0.6
Secured funding	4	0.2	1.7
Bonds	5	4.5	4.1
Other loans	6	0.3	0.3
Senior credit facility	7	3.2	4.5
Loan capital	9	1.0	1.0
Equity	10	2.5	2.8
Total		12.3	16.2
Funded assets			
Cash and liquid assets	11	2.3	2.2
Non-Banking Group deposit with MBL		1.7	4.6
Net trading assets	12	1.4	1.6
Loan assets less than one year	13	0.4	0.4
Loan assets greater than one year	13	0.9	2.4
Assets held for sale	14	0.1	0.1
Debt investment securities	15	0.2	0.2
Co-investment in Macquarie-managed funds and other equity investments	16	3.9	3.7
Property, plant and equipment and intangibles		0.9	1.0
Net trade debtors	17	0.5	—
Total		12.3	16.2

See Section 5.6 for notes 2-17.

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

Debt (drawn & undrawn) ■ Loan Capital ■ Equity ■
\$A billion **Total = \$A10.7b**



	As at Mar 12					Total \$Ab
	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	
Structured notes	0.2	0.1	—	—	—	0.3
Bonds	0.1	1.0	—	0.1	3.1	4.3
Other loans	—	—	0.1	—	0.1	0.2
Senior credit facility	—	1.3	—	1.1	—	2.4
Total debt	0.3	2.4	0.1	1.2	3.2	7.2
Loan capital	0.6	—	0.4	—	—	1.0
Equity	—	—	—	—	2.5	2.5
Total funding sources drawn	0.9	2.4	0.5	1.2	5.7	10.7
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	0.9	2.4	0.5	1.2	5.7	10.7

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 4.9 years.

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

- Senior Credit Facility, which was \$A3.2 billion drawn and \$A0.3 billion undrawn at 31 March 2012
- \$US10 billion Rule 144A/Regulation S Medium Term Note Program. \$US3.8 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at 31 March 2012
- \$US10 billion multi-instrument Regulation S Debt Instrument Program, under which securities that may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, Transferable Deposits and MGL Wholesale Notes. The Debt Instrument Program had \$US0.9 billion debt securities outstanding at 31 March 2012.

5.0 Funding and liquidity continued

5.6 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

2. Net trade creditors

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

3. Structured notes

These are debt instruments on which the return is linked to commodities, equities, currencies or other assets. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

4. Secured funding

Certain funding arrangements secured against an asset (or pool of assets).

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Senior Credit Facility

MGL's Senior Credit Facility provided by a syndicate of wholesale lenders.

8. Deposits

Unsecured funding from retail, corporate and wholesale depositors. The Australian Government guarantee is made available on eligible deposits in MBL.

9. Loan capital

Long-term subordinated debt, Convertible Preference Securities, Preferred Membership Interests and Exchangeable Capital Securities.

10. Equity and hybrids

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

11. Cash and liquid assets

Cash and liquid assets generally consist of amounts due from banks and short-term debt investment securities available for sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

12. Net trading assets

The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

13. Loan assets

This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See section 4.2 for further information.

14. Assets held for sale

These are the net assets/liabilities of the held for sale categories on the balance sheet.

15. Debt investment securities

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

16. Co-investment in Macquarie-managed funds and other equity investments

These equity securities include co-investments in Macquarie managed funds.

17. Net trade debtors

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

6.0 Capital

6.1 Overview

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Adequacy Model (ECAM) and APRA's capital standards for ADIs.

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

- The Banking Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards); and
- The Non-Banking Group capital requirement, calculated using Macquarie's ECAM.

Transactions internal to the Macquarie Group are eliminated.

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

Given the introduction of Basel III on 1 January 2013, Macquarie's internal capital management is now aligned with Basel III. Accordingly, the capital disclosures in this section include Basel III and APRA Basel II figures. For Basel III, both Harmonised Basel III¹ and APRA Basel III² capital disclosures are provided. The former is relevant for comparisons with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's expected regulatory requirements under Basel III from 1 January 2013.

Prior to 1 January 2013, Macquarie continues to be supervised on a Basel II³ basis by APRA. The Basel III disclosures provided in this section are not required for regulatory compliance by APRA but are provided for information purposes only and are not subject to audit. At the reporting date APRA had not released its interpretation of Basel III risk coverage. Therefore, it has been assumed that the Harmonised Basel III changes to counterparty credit risk will be implemented by APRA.

Pillar 3

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

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

¹ Harmonised Basel III relates to the Basel III rules defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).

² APRA Basel III relates to the draft Prudential Standards released by APRA on 30 March 2012 relating to the implementation of the Basel III capital reforms in Australia.

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

6.0 Capital

continued

Macquarie Group Basel III regulatory capital surplus calculation

	As at Mar 12	
	Harmonised Basel III \$Am	APRA Basel III \$Am
Macquarie Group eligible capital:		
Bank Gross Tier 1 capital	9,545	9,545
Non-Bank eligible capital	3,304	3,304
Eligible capital	12,849	12,849
Macquarie Group capital requirement:		
Banking Group		
Risk-Weighted Assets	61,542	56,099
Capital required to cover Risk-Weighted Assets (RWA) at 7% ¹	4,308	3,927
Tier 1 deductions ²	1,338	3,164
Total Banking Group capital requirement	5,646	7,091
Total Non-Banking Group capital requirement³	2,774	2,774
Total capital requirement	8,420	9,865
Macquarie Group regulatory capital surplus (at 7%¹ Banking Group RWAs)	4,429	2,984
Additional capital requirement required to maintain 8.5%⁴ Tier 1 ratio in Bank	923	841
Macquarie Group regulatory capital surplus (at 8.5%⁴ Banking Group RWAs)	3,506	2,143

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

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

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

⁴ Calculated at 8.5% of the Banking Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB).

6.2 Banking Group capital

Macquarie Banking Group is accredited by APRA under the Foundation Internal Ratings Based approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

Common Equity Tier 1 capital

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

Tier 1 capital

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

MIS are a perpetual instrument with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. APRA has indicated that MIS are likely to be eligible for transitional arrangements under its Basel III rules.

MIPS were issued when the London branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% per annum until April 2020. As at 31 March 2012, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie. MIPS are eligible for transitional arrangements under Basel III.

ECS were issued by MBL acting through its London Branch (Issuer) in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer. APRA has confirmed that, at a minimum, ECS will be eligible for transitional arrangements from 1 January 2013 under the new Basel III standards. On the information available as at 31 March 2012, MBL expects that ECS will fully qualify as Additional Tier 1 capital under the new Basel III standards.

6.0 Capital

continued

Banking Group Basel III Tier 1 Capital

	As at Mar 12	
	Harmonised Basel III \$Am	APRA Basel III \$Am
Common equity Tier 1 capital		
Paid-up ordinary share capital	7,685	7,685
Reserves	(580)	(580)
Retained earnings	1,793	1,793
Gross common equity capital Tier 1 capital	8,898	8,898
Deductions from common equity Tier 1 capital:		
Goodwill	138	138
Deferred tax assets	95	104
Changes in the ADI's own creditworthiness on banking book liabilities	38	38
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	608	608
Loan and lease origination fees and commissions paid to mortgage originators and brokers	—	124
Shortfall in provisions for credit losses	230	230
Equity investments and non-consolidated subsidiaries	—	1,641
Other common equity Tier 1 capital deductions	278	330
Deductions from common equity Tier 1 capital	1,387	3,213
Net common equity tier 1 capital	7,511	5,685
Additional Tier 1		
Additional Tier 1 capital	647	647
Gross additional Tier 1 capital	647	647
Deduction from additional Tier 1 capital		
Holdings of Additional Tier 1 capital instruments in financial institutions	11	11
Net additional Tier 1 capital	636	636
Net Tier 1 capital	8,147	6,321

Banking Group Basel III Risk-Weighted Assets (RWA)

	As at Mar 12	
	Harmonised Basel III \$Am	APRA Basel III \$Am
Credit risk RWA		
Subject to IRB approach:		
Corporate	19,428	19,428
Sovereign	1,054	1,054
Bank	2,924	2,812
Residential mortgage	1,035	1,534
Other retail	2,746	2,746
Total RWA subject to IRB approach	27,187	27,574
Specialised lending exposures subject to slotting criteria	4,507	4,507
Subject to Standardised approach:		
Corporate	2,158	2,158
Sovereign	—	—
Bank	—	—
Residential mortgage	526	526
Other retail	1,818	1,818
Total RWA subject to Standardised approach	4,502	4,502
Credit risk RWA for Securitisation exposures	517	517
RWA for other assets	5,838	5,838
Total credit risk RWA	42,551	42,938
Equity risk exposures RWA	5,682	—
Other items subject to RWA under Basel III	911	763
Market risk RWA	4,666	4,666
Operational risk RWA	6,312	6,312
Interest rate risk in banking book RWA	—	—
Scaling factor (6%) applied to IRB exposures	1,420	1,420
Total Banking Group RWA	61,542	56,099
Capital ratios		
Macquarie Banking Group Common Equity Tier 1 capital ratio (%)	12.2	10.1
Macquarie Banking Group Tier 1 capital ratio (%)	13.2	11.3

6.0 Capital

continued

6.3 Non-Banking Group capital

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

Risk ¹	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of some parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment ² Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 39% and 79% of face value; average 53%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

¹ The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

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

6.4 Basel II

The capital information in this section is on an APRA Basel II¹ basis, which is the prevailing APRA prudential regulatory framework until 31 December 2012.

	As at		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Macquarie Group eligible capital:					
Bank Gross Tier 1 capital	9,061	9,221	8,519	(2)	6
Non-Bank eligible capital	3,495	3,145	3,570	11	(2)
Eligible capital	12,556	12,366	12,089	2	4
Macquarie Group capital requirement:					
Banking Group					
Risk-Weighted Assets ¹	51,871	57,601	55,222	(10)	(6)
Capital required to cover Risk-Weighted Assets ²	3,631	4,032	3,866	(10)	(6)
Tier 1 deductions ³	1,828	2,194	2,527	(17)	(28)
Total Banking Group capital requirement	5,459	6,226	6,393	(12)	(15)
Total Non-Banking Group capital requirement	2,764	2,608	2,745	6	1
Total capital requirement	8,223	8,834	9,138	(7)	(10)
Macquarie Group regulatory capital surplus	4,333	3,532	2,951	23	47

¹ In calculating the Banking Group's contribution to MGL's capital requirement, RWA associated with exposures to the Non-Bank are eliminated (31 March 2012: \$nil; 30 September 2011: \$nil; 31 March 2011: \$A178 million).

² At the internal minimum Tier 1 ratio of the Banking Group, which is 7%.

³ In calculating the Banking Group's contribution to MGL's capital requirement, Tier 1 deductions arising from transactions with the Non-Bank are eliminated (31 March 2012: \$A60 million; 30 September 2011: \$A60 million; 31 March 2011: \$A60 million).

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

6.0 Capital

continued

Banking Group Basel II capital base

	As at			Movement	
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Tier 1 capital					
Paid-up ordinary share capital	7,685	7,689	7,379	<1	4
Reserves	(654)	(185)	(457)	254	43
Retained earnings	1,338	1,260	1,142	6	17
Innovative Tier 1 capital	692	457	455	51	52
Gross Tier 1 capital	9,061	9,221	8,519	(2)	6
Deductions from Tier 1 capital:					
Goodwill	138	143	181	(3)	(24)
Deferred tax assets	104	123	291	(15)	(64)
Changes in the ADI's own creditworthiness on banking book liabilities	38	82	51	(54)	(25)
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	608	631	583	(4)	4
Loan and lease origination fees and commissions paid to mortgage originators and brokers	85	97	97	(12)	(12)
Other Tier 1 capital deductions	256	279	231	(8)	11
Deductions from Tier 1 capital only	1,229	1,355	1,434	(9)	(14)
50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	283	295	347	(4)	(18)
Non-consolidated subsidiaries (50%)	214	217	276	(1)	(22)
All other deductions relating to securitisation (50%)	31	260	277	(88)	(89)
Shortfall in provisions for credit losses (50%)	86	58	141	48	(39)
Other 50/50 deductions from Tier 1 capital (50%)	45	69	112	(35)	(60)
Total 50/50 deductions from Tier 1 capital	659	899	1,153	(27)	(43)
Total Tier 1 capital deductions	1,888	2,254	2,587	(16)	(27)
Net Tier 1 capital	7,173	6,967	5,932	3	21
Tier 2 capital					
Upper Tier 2 capital:					
Other Upper Tier 2 capital instruments	77	136	212	(43)	(64)
Lower Tier 2 capital:					
Term subordinated debt	2,030	2,557	1,871	(21)	8
Gross Tier 2 capital	2,107	2,693	2,083	(22)	1
Deductions from Tier 2 capital:					
50/50 deductions from Tier 2 capital	659	899	1,153	(27)	(43)
Total Tier 2 capital deductions	659	899	1,153	(27)	(43)
Net Tier 2 capital	1,448	1,794	930	(19)	56
Total capital base	8,621	8,761	6,862	(2)	26

Banking Group Basel II Risk-Weighted Assets (RWA)

	As at			Movement	
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Credit risk – RWA					
Subject to FIRB approach:					
Corporate ¹	15,423	20,229	20,468	(24)	(25)
Sovereign	722	899	826	(20)	(13)
Bank	1,747	3,279	2,713	(47)	(36)
Residential mortgage	1,534	1,539	1,691	(<1)	(9)
Other retail	2,745	2,340	1,544	17	78
Total RWA subject to IRB approach	22,171	28,286	27,242	(22)	(19)
Specialised lending exposures subject to slotting criteria ²	4,507	3,713	3,020	21	49
Subject to Standardised approach:					
Corporate	2,158	2,998	3,067	(28)	(30)
Sovereign	—	—	—	—	—
Bank	—	—	3	—	*
Residential mortgage	526	608	524	(13)	<1
Other retail	1,818	2,065	3,326	(12)	(45)
Total RWA subject to Standardised approach	4,502	5,671	6,920	(21)	(35)
Credit risk RWA for Securitisation exposures	517	1,228	1,117	(58)	(54)
RWA for other assets	5,838	4,477	2,684	30	118
Total credit risk RWA	37,535	43,375	40,983	(13)	(8)
Equity risk exposures RWA	2,028	2,173	1,912	(7)	6
Market risk RWA	4,666	3,889	3,834	20	22
Operational risk RWA	6,312	6,467	7,037	(2)	(10)
Interest rate risk in banking book RWA	—	—	—	—	—
APRA scaling factor (6%) applied to IRB exposures	1,330	1,697	1,634	(22)	(19)
Total Banking Group RWA	51,871	57,601	55,400	(10)	(6)
Capital ratios					
Macquarie Banking Group Tier 1 capital ratio (%)	13.8	12.1	10.7		
Macquarie Banking Group Total capital ratio (%)	16.6	15.2	12.4		

¹ Includes exposures to the Non-Banking Group (31 March 2012: \$nil; 30 September 2011: \$nil; 31 March 2011: \$A178 million).

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

6.0 Capital

continued

Non-Banking Group capital requirement

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

	As at Mar 12		
	Asset \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	2.3	16	9%
Loan assets ¹	1.3	115	109%
Assets held for sale	0.1	72	655%
Debt investment securities	0.2	5	40%
Co-investments in Macquarie-managed funds and equity investments	3.8	1,854	607%
Co-investments in Macquarie-managed funds and equity investments (relating to investments that hedge DPS plan liabilities)	0.1		
Property, plant and equipment and intangibles ²	0.9	292	426%
Non Banking Group deposit with MBL	1.7		
Net trading assets	1.4		
Net trade debtors	0.5		
Total funded assets	12.3	2,354	
Self-funded and non-recourse assets			
Self funded trading assets	—		
Broker settlement balances	5.8		
Derivative revaluation accounting gross-ups	0.1		
Working capital assets	3.4		
Total self-funded and non-recourse assets	9.3		
Total Non-Banking Group assets	21.6		
Off balance sheets exposures, operational, market and other risk and diversification offset ³		410	
Non-Banking Group capital requirement		2,764	

¹ Includes leases.

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

³ Capital associated with net trading assets (e.g. market risk capital) and net trade debtors has been included here.

7.0 Funds management

7.1 Assets under Management

	As at			Movement	
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Assets under Management					
Macquarie Investment Management	222,247	220,412	205,546	<1	8
Macquarie Infrastructure and Real Assets	99,443	101,586	97,328	(2)	2
Macquarie Specialised Investment Solutions	2,135	2,091	2,529	2	(16)
Total Macquarie Funds	323,825	324,089	305,403	(<1)	6
Other Operating Groups	3,088	3,208	4,408	(4)	(30)
Total Assets under Management	326,913	327,297	309,811	(<1)	6
Assets under Management by region					
Americas	196,162	198,188	179,266	(1)	9
Europe, Middle East and Africa	64,415	66,073	63,589	(3)	1
Australia	54,354	51,073	54,466	6	(<1)
Asia	11,982	11,963	12,490	<1	(4)
Total Assets under Management	326,913	327,297	309,811	(<1)	6
Assets under Management by type					
Fixed income	132,593	140,101	122,257	(5)	8
Direct infrastructure	90,752	91,944	88,993	(1)	2
Equities	64,328	54,661	54,689	18	18
Cash	17,099	16,828	20,076	2	(15)
Direct real estate	7,184	7,605	7,870	(6)	(9)
Currency	4,407	4,585	5,330	(4)	(17)
Alternatives	3,293	3,792	3,653	(13)	(10)
Specialist investments	2,871	3,023	2,262	(5)	27
Multi-asset allocation solutions	4,386	4,758	4,681	(8)	(6)
Total Assets under Management	326,913	327,297	309,811	(<1)	6

AUM of \$A326.9 billion at 31 March 2012 increased 6% from \$A309.8 billion at 31 March 2011. The increase in AUM is mainly due to net inflows into the securities investment management business and investments in the infrastructure and real assets business. These growth factors were partially offset by asset disposals in the infrastructure and real assets business including Macquarie Essential Assets Partnership's assets, the internalisation of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation) and the sale of Macquarie Funds' 50% interest in the manager of Retirement Villages Group. AUM was also adversely impacted by the strengthening of the Australian Dollar against the Euro compared to the prior year.

7.0 Funds management

continued

7.2 Equity under Management

The MIRA division of Macquarie Funds tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is more closely aligned with EUM. EUM differs from the AUM measure which other Macquarie-managed funds use to determine base fee income. EUM is determined as follows:

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

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

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

Equity under Management by type and region

	As at ^{1,2}		Movement		
	Mar 12 \$Am	Sep 11 \$Am	Mar 11 \$Am	Sep 11 %	Mar 11 %
Equity under Management by type					
Listed equity	5,377	3,767	4,485	43	20
Unlisted equity	31,703	33,461	31,908	(5)	(<1)
Total EUM	37,080	37,228	36,393	(<1)	2
Equity under Management by region³					
Australia	4,382	4,780	4,754	(8)	(8)
Europe, Middle East and Africa	15,756	15,960	15,658	(1)	<1
Americas	10,962	11,204	11,396	(2)	(4)
Asia	5,980	5,284	4,585	13	30
Total EUM	37,080	37,228	36,393	(<1)	2

¹ Excludes equity invested by Macquarie Group in businesses managed by MIRA.

² Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian Dollars at the exchange rate prevailing at the measurement date.

³ By location of fund management team.

EUM of \$A37.1 billion at 31 March 2012 increased 2% from \$A36.4 billion at 31 March 2011. The increase was primarily driven by equity raisings and increases in listed equity prices, partially offset by adverse foreign exchange rate movements.

8.0 Glossary

AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Asset under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as HFS associates. HFS investments are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially recognised at cost and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is sold or impaired, the cumulative unrealised gain or loss will be recognised in the income statement.
BBSW	Bank Bill Swap Rate.
CMA	Cash Management Account.
CMT	Cash Management Trust.
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not yet been specifically identified.
Contingent liabilities	Defined in AASB 137 ' <i>Provisions, Contingent Liabilities and Contingent Assets</i> ' as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
CPS	Convertible Preference Securities.
CEA	Credit Equivalent Amount. The on balance sheet equivalent value of an off balance sheet transaction.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV) that are not consolidated for the APRA regulatory reporting group.
Directors' Profit Share (DPS)	The pre-2009 remuneration agreement in which 20 per cent of each Executive Director's annual gross profit share allocation is withheld and is subject to restrictions through the DPS Plan. The DPS Plan is a tool in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements. The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after ten years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or at the end of a ten year period.
Dividend reinvestment plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in Macquarie, with no transaction costs.
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
Earnings on capital and certain corporate income items	Total operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is total operating income less the operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 ' <i>Earnings Per Share</i> '.

8.0 Glossary

continued

ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.
ECS	Exchangeable Capital Securities
Effective tax rate	The income tax expense as a percentage of the profit before income tax adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
EL	Expected Loss, which is a function of PD and LGD.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI (Level 1) for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.
Equity under management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of total operating income.
Fair value through profit or loss	Other financial assets at fair value through profit or loss include those financial assets that contain embedded derivatives which must be otherwise separated and carried at fair value if it is part of a group of financial assets managed and evaluated on a fair value basis.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
FX	Foreign exchange.
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation.
Headcount	Headcount includes both permanent staff (full time, part time and fixed term hires), casual staff and contractors (including consultants and secondees). It excludes staff on leave without pay and staff on parental leave.
ICAAP	Internal Capital Adequacy Assessment Process.
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia and New Zealand. Operating income is classified as 'international' with reference to the geographic location from which the operating income is generated. This may not be the same geographic location where the operating income is recognised. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes would be classified as 'international' income. Income from funds management activities is allocated by reference to the location of the fund's assets.
IPO	Initial public offering.
Level 2 MBL Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie Income Preferred Securities (MIPS)	MIPS were issued when the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% until April 2020. As at 30 September 2010, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie.
Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital. They are treated as equity in the balance sheet. There are four million \$A100 face value MIS on issue.
MBI	Macquarie Bank International Limited.
MBL	Macquarie Bank Limited.
MGL	Macquarie Group Limited.

Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for out of the income statement.
Net profit interests	A share of production or proceeds from production derived from rights to various commodity assets (without the obligation to pay any of the costs of explorations and development).
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
PCE	Potential Credit Exposure. Potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
PMI	Preferred Membership Interests. On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued \$US400 million of US Dollar denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The PMI bears fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.
REIT	Real Estate Investment Trust.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: - provide a permanent and unrestricted commitment of funds; - are freely available to absorb losses; - do not impose any unavoidable servicing charge against earnings; and - rank behind the claims of depositors and other creditors in the event of winding up.
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. Tier 1 deductions are divided into deductions from Tier 1 capital only (paragraph 44) and other 50/50 deductions from Tier 1 capital (paragraph 46).
Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in determining Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. Tier 2 deductions are divided into deductions from Tier 2 capital only (paragraph 45) and other 50/50 deductions from Tier 2 capital (paragraph 46).
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.
Trading Income	Income that represents realised or unrealised gains and losses that relate to financial markets products. This income does not necessarily relate to 'trading' in such products and may arise through the manufacturing of new financial products by bringing together existing financial instruments.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
Upper Tier 2 Capital	Refer Tier 2 Capital.

9.0 Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the accounting standards adopted at each reporting date. The financial information for the periods ended 31 March 2005 and later are based on results reported under International Financial Reporting Standards and their related pronouncements.

	2003	2004	2005
Financial performance (\$A million)			
Net operating income	2,155	2,823	4,197
Total operating expenses	(1,695)	(2,138)	(3,039)
Operating profit before income tax	460	685	1,158
Income tax expense	(96)	(161)	(288)
Profit after income tax	364	524	870
Profit attributable to non-controlling interests	(31)	(30)	(58)
Profit after income tax attributable to ordinary equity holders	333	494	812
Financial position (\$A million)			
Total assets	32,462	43,771	67,980
Total liabilities	(29,877)	(40,938)	(63,555)
Net assets	2,585	2,833	4,425
Total loan assets	9,839	10,777	28,425
Impaired assets (net of provisions)	16	61	42
Share information^(a)			
Cash dividends per share (cents per share)			
Interim	41	52	61
Final	52	70	100
Special	50	—	40
Total	143	122	201
Basic earnings per share (cents per share)	164.8	233.0	369.6
Share price at end of period (\$A)	24.70	35.80	48.03
Ordinary share capital (million shares) ^(b)	204.5	215.9	223.7
Market capitalisation at end of period (fully paid ordinary shares) (\$A million)	5,051	7,729	10,744
Net tangible assets per ordinary share (\$A) ^(c)	8.80	9.66	14.02
Ratios			
Return on average ordinary shareholders' funds (%)	18.0	22.3	29.8
Dividend payout ratio (%)	87.4 ^(d)	53.2	53.2
Expense/income ratio (%)	78.7	75.7	72.4
Net loan losses/loan assets (excluding securitisation SPVs and segregated future funds) (%)	0.0	0.3	0.2
Assets under management (\$A billion)^(e)	52.3	62.6	96.7
Staff numbers	4,839	5,716	6,556

^{a)} Macquarie's ordinary shares were listed on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

^{b)} Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.

^{c)} Net tangible assets include intangible assets within disposal groups and assets held for sale. Net tangible assets per ordinary share has been restated to include net deferred tax assets, in accordance with industry practice.

^{d)} The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the Dividend payout ratio would have been 56.8%

^{e)} The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.

Year ended 31 March						
2006	2007	2008	2009	2010	2011	2012
4,832	7,181	8,248	5,526	6,638	7,665	6,963
(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,394)	(5,914)
1,287	1,928	2,205	989	1,294	1,271	1,049
(290)	(377)	(317)	(15)	(201)	(282)	(287)
997	1,551	1,888	974	1,093	989	762
(81)	(88)	(85)	(103)	(43)	(33)	(32)
916	1,463	1,803	871	1,050	956	730
106,211	136,389	167,250	149,144	145,940	157,568	153,626
(100,874)	(128,870)	(157,189)	(139,584)	(134,171)	(145,636)	(141,894)
5,337	7,519	10,061	9,560	11,769	11,932	11,732
34,999	45,796	52,407	44,751	44,267	46,016	45,218
85	88	165	952	647	377	405
90	125	145	145	86	86	65
125	190	200	40	100	100	75
—	—	—	—	—	—	—
215	315	345	185	186	186	140
400.3	591.6	670.6	309.6	320.2	282.5	210.1
64.68	82.75	52.82	27.05	47.25	36.60	29.08
232.4	253.9	274.6	283.4	344.2	346.8	348.6
15,032	21,010	14,504	7,666	16,266	12,693	10,137
16.99	24.35	30.35	27.89	28.40	28.91	28.12
26.0	28.1	23.7	9.9	10.1	8.8	6.8
54.4	54.3	52.2	60.2	60.4	67.3	66.4
73.4	73.2	73.3	82.1	80.5	83.4	84.9
0.2	0.1	0.3	1.9	0.8	0.4	0.5
140.3	197.2	232.0	243.1	325.7	309.8	326.9
8,183	10,023	13,107	12,716	14,657	15,556	14,202

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