

MACQUARIE BANK
RESULT ANNOUNCEMENT
HALF YEAR ENDED 30 SEPTEMBER 2004



All dollar amounts are quoted in Australian dollars unless otherwise stated. All financial information is for the half year ended 30 September 2004 unless otherwise stated. Macquarie Bank's financial year end is 31 March (half year 30 September).

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1. Financial Highlights

1.1 Profitability

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
<i>High level profit and loss</i>					
Total operating income ¹	1,377	1,204	1,176	14	17
Total operating expenses ¹	(972)	(855)	(840)	14	16
Profit from ordinary activities before income tax	405	349	336	16	21
Income tax expense	(105)	(83)	(78)	27	35
Profit from ordinary activities after income tax	300	266	258	13	16
Outside equity interest					
— Macquarie Income Preferred Securities	(1)	—	—	n/a	n/a
— Other equity holders	(1)	—	(3)	n/a	(67)
Distributions paid or provided on Macquarie Income Securities	(14)	(14)	(13)	—	8
Profit after income tax attributable to MBL ordinary equity holders	284	252	242	13	17
	%	%	%		
Expense/income ratio ¹	70.6	71.0	71.4		
	Cents per share				
Earnings Per Share					
Basic earnings per share	130.6	116.8	116.2	12	12
Diluted earnings per share	128.7	114.6	114.4	12	13
	%	%	%		
Return on equity	22.6	21.4	23.2		

¹ The results have been adjusted throughout this report to reclassify income and expenses related to businesses held for resale. These adjustments are explained in section 2.5.

The Bank's profit after income tax attributable to its ordinary equity holders for the half year ended 30 September 2004 was \$284 million, representing an increase of 17% on the prior corresponding period.

Total income¹ increased 17% on the prior corresponding period to \$1,377 million, with growth across all income categories. This growth exceeded the increase in total expenses, resulting in a reduction in the expense/income ratio¹ from 71.4% to 70.6%.

The strength of the Bank's earnings is reflected in a solid return on equity of 22.6% despite growth in the ordinary equity base, and growth in basic earnings per share, up 12% from 116.2 cents to 130.6 cents.

The contribution by operating Groups is discussed in the commentary on the following pages. A more detailed analysis of the results, including segment contributions, is contained in section 2.

1.2 Contribution by Operating Groups

	Half year to		
	Sep 04 %	Mar 04 %	Sep 03 %
Corporate Finance (including Infrastructure and Specialised Funds)	25	14	40
Financial Products	8	5	7
Other (including Macquarie Securities, Macquarie Capital)	13	12	11
Total Investment Banking	46	31	58
Treasury and Commodities	18	15	19
Banking and Property	16	14	11
Equity Markets	12	20	8
Financial Services	5	6	4
Funds Management	1	2	1
Macquarie Direct Investment	2	12	(1)
	100	100	100

The figures set out in this table are relative to the Bank's overall performance and are based on figures excluding earnings on capital, before staff profit sharing and before income tax. They are derived from management accounts and should be taken as a guide only to relative contributions.

All six major business Groups and the Macquarie Direct Investment Division made good contributions to the record result. Contributions are highlighted in the table above.

The *Investment Banking Group* continued to be the largest contributor to the Bank's overall result. However, its half year contribution was down on a strong prior corresponding period.

The contribution from Corporate Finance was down due to lower performance fees from specialist funds which were partially offset by increased contributions from other divisions. A leading equity capital markets position was maintained and Macquarie achieved the No. 1 ranking in Mergers and acquisitions deals announced and completed for the nine months to 30 September 2004 (Thomson Financial). Advisory roles during the period included:

- lead managing and arranging the \$258 million initial public offering (IPO) of the Diversified Utility and Energy Trusts (DUET)
- advising the independent directors of AXA Asia Pacific in relation to AXA SA's proposal to acquire the 48.3% minority interests in AXA Asia Pacific
- advising General Property Trust on the \$10.2 billion proposed merger with Lend Lease Corporation
- advising the consortium of Alinta, Alcoa and DUET on the \$1.86 billion acquisition of the Dampier-to-Bunbury natural gas pipeline in Western Australia
- advising Telstra Corporation on the successful \$333 million acquisition of KAZ Group.

Corporate Finance continued its global infrastructure strategy including:

- establishment of new funds, including the first pan-European fund (Macquarie European Infrastructure Fund), Macquarie's first listed fund in Canada (Macquarie Power Income Fund) and DUET, jointly managed by AMP Capital Investors Ltd and Macquarie
- filing a statement with the US Securities and Exchange Commission for a proposed listed infrastructure holding company (Macquarie Infrastructure Company Trust)
- growth in infrastructure equity under management (market capitalisation for listed funds, committed equity for unlisted funds) by 49% from \$12.4 billion at 31 March 2004, to approximately \$18.5 billion. Additional raisings were undertaken by Korean Road Infrastructure Fund, Macquarie Essential Assets Partnership, Global Infrastructure Fund II and African Infrastructure Investment Fund.

A number of assets were added to the portfolio during the period, including gas and electricity distribution networks and regional radio businesses in Australia, a district heating business and airport service companies in the US, a power generation plant in Canada and, subject to financial close, a UK gas distribution network.

Financial Products was up on the prior corresponding period due to continued growth in retail and wholesale products, including forestry and capital protected funds. In the US, the Four Corners debt management business secured new mandates. The cross-border leasing business is no longer active in this market. ■■■

1. Financial Highlights continued

Macquarie Securities, the institutional stockbroking business, recorded a strong result, up on the prior corresponding period, with Australian secondary market brokerage revenues up on increased market shares. The acquisition and integration of the ING Asian cash equities business was successfully completed in July 2004, and the integrated business, now known as Macquarie Securities Asia, is operating profitably.

Macquarie Capital continues to achieve growth in asset-based leasing volumes with a 10% increase from \$3.0 billion at 31 March 2004 to \$3.3 billion.

The Investment Banking Group will continue its international expansion in all major markets. The global infrastructure business will continue to grow via the establishment of new funds and additional raisings in existing funds. Overall, the Group expects the full-year profit to be up on the prior corresponding period, subject to no material change in market conditions.

The contribution from *Treasury and Commodities Group* was up on the strong prior corresponding period. The result reflects increased contributions across most operating divisions, including Energy Markets, which completed its first full year of operation.

The contribution from Metals and Mining, however, was down on the strong result of the prior corresponding period, which included the \$37.5 million profit on realisation of the East African Gold Mines investment.

Foreign Exchange continued to perform well as high volatility and volumes, particularly in the first four months, provided good opportunities for client deals and trading.

Debt Markets' result was slightly above the prior corresponding period with market conditions broadly similar to those of the previous six months. The contribution from Futures was up on the prior corresponding period due to increased turnover. Treasury's result was above the prior corresponding period.

Higher volatility in commodity markets, with increased client hedging and trading opportunities, resulted in a significantly stronger contribution from Agricultural Commodities.

Energy Markets performed well due to good customer business flows and a solid trading desk performance in its first full year of operation.

The outlook for the Treasury and Commodities Group is dependent on market conditions. High volatility in commodity market but declining volatility in financial markets is expected to continue, while volumes should

remain at a satisfactory level. The Group expects to maintain strong domestic market positions and will continue to expand its international operations.

Banking and Property Group's contribution was significantly up on the prior corresponding period.

A strong contribution was made by Property Investment Banking due to the timing of a number of large transactions. Property funds management fee income rose substantially with assets under management including associates increasing by 50% from \$10.9 billion at 31 March 2004 to \$16.3 billion. This growth was largely attributable to Macquarie Office Trust's takeover of the Principal America Office Trust, property acquisitions in the US by Macquarie DDR Trust, Macquarie ProLogis Trust and Macquarie CountryWide Trust and the investment in global property group, Ochtar Capital Partners, to form Macquarie Global Property Advisers, managing \$US1.6 billion of assets in Europe and Asia.

The Australian mortgage portfolio grew by 14% from \$11.6 billion to \$13.2 billion as a result of record new business settlements. The US mortgage business moved to profitability with an increase in settlements over the prior corresponding period.

Margin and capital protected loan portfolios continued to grow. The contribution from Banking was up on the prior corresponding period due to good client demand and growth in both deposit and loan volumes. Golf and Leisure continued to build through strategic investments in new and existing businesses.

While the Australian property market remains relatively strong, softening in some sectors is expected to continue in 2005. The Banking and Property Group will maintain its long-standing conservative credit policies and a well secured development portfolio. It anticipates continued growth in the US and other international mortgage businesses, the margin lending portfolio and global property businesses.

Equity Markets Group's contribution was significantly up on the prior corresponding period but was lower than in the six months to 31 March 2004, with all major businesses performing well.

Hong Kong was again the largest contributor to the Group's result, despite a decline in market volumes during the first half compared to the prior half. Sales of new products were strong, while leading market positions were maintained in both warrants and unlisted equity linked notes.

Australia performed strongly with a contribution up on the prior corresponding period. Leading warrant market shares were maintained and profits from unlisted and corporate sector product sales increased.

The business alliance with Woori Bank in Korea has been profitable in its first full year of operation. Results from South Africa, Brazil and Japan were down on the prior corresponding period, reflecting market conditions.

The contribution from trading in the US and European markets was higher on increased sales of equity risk products over these underlying markets to the Asian customer base. The contribution from international structuring transactions increased over the prior corresponding period with an increased number of deals.

During the period the Group's hedge fund business was launched.

The Equity Markets Group continues to be leveraged to global equity markets. The Group is working to expand in Korea, Taiwan and the US, it expects to commence its new business alliance in Brazil in the second half and is optimistic with respect to products in the German market.

Favourable equity markets and the progression of new business opportunities, particularly in administrative outsourcing, resulted in a contribution from *Financial Services Group* well up on the prior corresponding period. The result was revenue driven with controlled expenses.

Macquarie Adviser Services (MAS) successfully completed the outsourcing project to provide ING's platform business with back office administration and systems. This, together with a number of other significant inflows, saw Wrap funds under administration rise 34% from \$9.1 billion to \$12.2 billion since 31 March 2004. MAS was awarded both Best Master Trust/Wrap Provider and Best Fund Manager in the ASSIRT 2004 Service Level Awards for the second consecutive year, and was also named Investorweb Research Superannuation Manager of the Year for the third successive year. Macquarie Cash Management Trust funds under management rose 9%, from \$9.3 billion to \$10.1 billion since 31 March 2004.

The full-service stockbroking business consolidated its position as one of Australia's top retail brokers, increasing both its adviser and client numbers. Macquarie Wealth Management, Private Bank, Private Portfolio Management and Retail Treasury and Commodities businesses all continued to expand.

The Group now provides clients with access to many more products including structured high-income notes, leading international managed funds and selected small-cap placements.

The Financial Services Group will continue to pursue opportunities in alternative assets while expanding its distribution capability directly and through intermediaries, and will participate in the growth of the superannuation industry.

Funds Management Group's contribution was up on the prior corresponding period. Total funds under management increased by 13% from \$36.2 billion to \$40.8 billion. The Group enjoyed solid inflows into cash, currency and listed property.

In the alternative assets sector, the Group raised in excess of \$500 million in the Macquarie Australian Long Short Equitised Fund, Macquarie Alternative Investment Trust 3 and Macquarie Global Active Currency Fund.

The Group also began to build its own retail distribution team to target the platform market, thereby offering financial advisers and their clients a selected suite of innovative investment products previously only available to institutional investors.

The Group's operations in Asia were affected by the adverse market conditions for Taiwanese bond funds, resulting in the sale of the Group's 40% stake in United Securities Investment Trust Corporation. Notwithstanding this, the Group's share of Asian joint venture funds under management grew by 12%.

The Funds Management Group foresees favourable market conditions across most asset classes over the short to medium term. Expansion opportunities are currently being pursued through higher-margin retail and institutional product innovations in the Australian market and the search for joint venture opportunities in Asia.

Macquarie Direct Investment's contribution was up on the prior corresponding period but down on the prior half. The result was due principally to the partial realisation of CH4 and the IPO of The Reject Shop. The gains from these divestments were somewhat offset by the write-down in the carrying cost of Vignette Corporation shares received on the sale of Tower Technology in March.

Going forward, the Macquarie Direct Investment business will form part of the Investment Banking Group. ■■■

1. Financial Highlights continued

1.3 Ordinary Dividend

	Half year to Sep 04		Half year to Mar 04		Half year to Sep 03	
	Cents per share	Franking %	Cents per share	Franking %	Cents per share	Franking %
Interim ordinary dividend	61	90	—	—	52	90
Final ordinary dividend	—	—	70	90	—	—
	\$m		\$m		\$m	
Aggregate amount of interim/final ordinary dividend	134		151		113	
Payout ratio (excluding special dividend) (%)	47.2		59.9		46.7	

The interim ordinary dividend has increased by 9 cents over the prior corresponding period to 61 cents per share and will be franked at 90%. This represents an increase of 17%, in line with the increase in Macquarie's profitability.

Under the current dividend policy, which was announced in May 2003, the Bank targets a full-year payout ratio between 50% and 60%. Subject to the future composition of income, a franking rate of at least 80% is expected. This policy is designed to achieve the objective of more closely aligning dividends with movements in earnings. The Bank currently expects to achieve its target payout ratio for the full year to 31 March 2005.

1.4 Shareholder Calendar

The key dates relating to the result announcements and ordinary dividends over the next 12 months are as follows:

Date	Event
16 November 2004	Half-year result announcement
22 November 2004	Ordinary shares trade ex-dividend
26 November 2004	Record date for ordinary interim dividend
17 December 2004	Payment of ordinary interim dividend
31 March 2005	Full-year financial year end
17 May 2005	Full-year result announcement
23 May 2005	Ordinary shares trade ex-dividend
27 May 2005	Record date for ordinary final dividend
1 July 2005	Payment of ordinary final dividend

1.5 Balance Sheet

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Total Assets	42,114	43,771	36,802	(4)	14
Total Liabilities	38,172	40,938	33,461	(7)	14
Total Equity	3,942	2,833	3,341	39	18
	\$ per share				
Net tangible assets (NTA) per ordinary share*	8.86	10.72	10.44	(17)	(15)

* Excluding the intangibles (net of associated deferred tax liabilities) within the Bank's businesses held for resale, the NTA per ordinary share would have been \$11.78 at 30 September 2004.

Over the six months to 30 September 2004, fixed assets decreased by \$1.4 billion due to the disposal of businesses held for resale (South East Water and Arlanda) that were consolidated at 31 March 2004. Intangible assets increased by \$706 million following the acquisition of RG Capital Radio, DMG Regional Radio and District Energy. Loan assets increased by \$1.3 billion after securitisations, reflecting a favourable interest rate environment which resulted in loan book and lease receivables growth during the period. Market strategies resulted in a decrease in Securities borrowed by \$1.7 billion and a decrease in Securities purchased under resale agreements by \$1.2 billion. Other financial market assets decreased by \$1.0 billion along with a decrease in Other financial market liabilities of \$1.3 billion as a result of funding and liquidity requirements and trading volumes.

A high level summary of the decrease in total assets and risk-weighted assets is provided below:

Analysis of balance sheet growth over the half year

	Total Assets \$b	Risk-Weighted Assets \$b
Balance as at 31 March 2004	43.8	13.4
Organic growth in loan assets	3.2	2.8
Securitisation of loan assets	(1.9)	(0.9)
Revaluation of financial instruments	(1.0)	—
Decrease/increase in liquid assets	(0.1)	0.1
Increase in other securities	0.4	0.3
Decrease in trading assets	(1.7)	(0.1)
Other asset movements (includes businesses held for resale)	(0.6)	0.8
Balance as at 30 September 2004	42.1	16.4

Although total assets have decreased in the half year to 30 September 2004, risk-weighted assets have increased. This increase in the risk-weighted asset base is primarily a result of deconsolidated subsidiaries for Capital Adequacy purposes being disposed during the period, along with the change in the mix of total assets attracting a higher risk weighting.

More detailed information relating to the balance sheet is contained in section 3.6. 

1. Financial Highlights continued

1.6 Capital Management

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Tier 1 Capital before deductions	3,154	2,709	2,702	16	17
Tier 1 deductions	(1,086)	(548)	(475)	98	129
Tier 1 Capital after deductions	2,068	2,161	2,227	(4)	(7)
Tier 2 Capital	1,602	945	777	70	106
Total Capital deductions	(369)	(442)	(314)	(17)	18
Total Capital	3,301	2,664	2,690	24	23
Risk-Weighted Assets	16,390	13,361	12,043	23	36
% of Risk-Weighted Assets					
Tier 1 Capital	12.6	16.2	18.5		
Tier 2 Capital	9.8	7.0	6.4		
Total Capital Deductions	(2.3)	(3.3)	(2.6)		
Total Capital	20.1	19.9	22.3		

The Bank's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence.

Several capital management initiatives (such as the hybrid issue discussed below) were undertaken during the half year, although it should be noted that these initiatives represent fine-tuning of the Bank's capital management position, rather than a major shift in capital management strategy.

Hybrid Issue (Macquarie Income Preferred Securities)

Macquarie Capital Funding L.P., a Macquarie Group entity, issued £350 million of Tier 1 Capital-Eligible Securities on 22 September 2004. The securities are non-dilutive to ordinary shareholders.

The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter, at the Bank's discretion.

The securities rank ahead of ordinary shares but are subordinate to all depositors. The funds raised have initially been used to augment the Macquarie Bank Group's US activities and may later be re-deployed for general corporate purposes.

Due to APRA's hybrid capital limits (hybrid capital being capped at 25% of Qualifying Tier 1 capital), \$240 million has been classified as Tier 1 capital at September 2004 with the remaining \$644 million being classified as Upper Tier 2 regulatory capital. As Tier 1 capital (excluding hybrid capital) grows, a greater proportion will qualify as Tier 1 capital in future periods.

Capital Adequacy

The Tier 1 Capital ratio of 12.6% at 30 September 2004 remains very strong and, whilst down from the 31 March 2004 ratio of 16.2%, remains comfortably in excess of the Group's minimum ratios. Tier 1 Capital before deductions increased by \$445 million due to the hybrid securities issued during the period and organic growth through retained earnings and shares created through the exercise of employee options. Tier 1 deductions have increased from \$548 million to \$1,086 million over the half year to 30 September 2004 as the Bank continues to grow its specialist funds business. As a result, Total Tier 1 Capital after deductions fell by 4% over this period from \$2,161 million to \$2,068 million, and combined with the 23% growth in risk-weighted assets, resulted in a decrease in the Tier 1 ratio.

Over the half year to 30 September 2004, Tier 2 Capital has increased from 7.0% to 9.8% of Risk-Weighted Assets while the Total Capital ratio has marginally increased from 19.9% to 20.1%.

More detailed information concerning the Bank's capital adequacy position is contained in section 3.8, including an analysis of the growth in the capital base over the half year to 30 September 2004.

1.7 Asset Quality

	As at/Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Total loan assets	12,110	10,777	10,914	12	11
Net impaired assets	28	61	12	(54)	133
Net loan losses	21	24	12	(13)	75
	%	%	%		
Net impaired assets/loan assets	0.2	0.6	0.1		
Net loan losses/loan assets	0.2	0.2	0.1		

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Net loan losses (Profit and loss impact)					
– provided during the period	27	27	16	–	69
– recovery of loans previously provided for	(8)	(3)	(3)	167	167
– loan losses written off	3	1	–	200	n/a
– recovery of loans previously written off	(1)	(1)	(1)	–	–
Total net charge for loan losses	21	24	12	(13)	75

The strength of the Bank's risk management practices and policies is reflected in its asset quality. Net loan losses of just 0.2% continue a long-running trend of low loan losses. Net impaired assets as a percentage of loan assets are also low at 0.2%. Refer to section 3.6 for further details on impaired assets.

1.8 Credit Ratings

	Short-term	Long-term
Fitch Ratings	F1	A+
Moody's Investors Service	P1	A2
Standard & Poor's	A1	A

There has been no change to the Bank's credit ratings. ➡

1. Financial Highlights continued

1.9 Assets Under Management

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Listed	27,557	21,533	19,759	28	39
Unlisted					
— Retail	14,358	13,363	13,305	7	8
— Wholesale	32,497	27,693	23,652	17	37
Total assets under management	74,412	62,589	56,716	19	31
Specialist funds					
Infrastructure	20,198	17,064	16,061	18	26
Property	10,969	7,414	6,337	48	73
Other	2,071	1,521	785	36	164
Total specialist funds	33,238	25,999	23,183	28	43
Funds Management and Financial Services					
Retail	12,841	12,189	12,261	5	5
Wholesale	28,333	24,401	21,272	16	33
Total Funds Management and Financial Services	41,174	36,590	33,533	13	23
Total assets under management	74,412	62,589	56,716	19	31

Assets under management at 30 September 2004 was \$74.4 billion, an increase of 19% on the prior period and 31% on September 2003.

Infrastructure funds

Growth was principally due to:

- The joint venture with AMP to manage Diversified Utility and Energy Trusts (DUET), the IPO of Macquarie Power Income Fund (MPT) and the launch of Macquarie European Infrastructure Fund (MEIF).
- Strong growth in existing infrastructure funds, particularly Macquarie Infrastructure Group (MIG) and Macquarie Airports (MAp).

Property funds

Growth was principally due to:

- A significant increase in assets under management from the merger of Macquarie Office Trust (MOF) with Principal America Office Trust (PAO).
- Growth of existing listed property funds' assets including Macquarie DDR (MDT), Macquarie CountryWide (MCW) and Macquarie ProLogis (MPR), particularly in the US, and Macquarie Goodman Industrial Trust (MGI).

Growth in Funds Management and Financial Services funds over the prior corresponding period has been organic and is mainly due to inflows from institutions into cash (including the Cash Management Trust), property, fixed interest and currency.

More detailed information regarding assets under management is contained in section 3.9. ■

2. Review of Results

2.1 Summary Profit and Loss

	Ref	Half year to			Movement on	
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Net interest income	2.2	188	161	143	17	31
Net fee and commission income	2.3	740	613	705	21	5
Trading income	2.4	336	337	225	–	49
Net other income	2.5	113	93	103	22	10
Total operating income		1,377	1,204	1,176	14	17
Employment expense	2.6	(726)	(618)	(617)	17	18
Other expenses	2.6	(246)	(237)	(223)	4	10
Total operating expenses	2.6	(972)	(855)	(840)	14	16
Profit before income tax		405	349	336	16	21
Income tax expense	3.4	(105)	(83)	(78)	27	35
Profit after income tax		300	266	258	13	16
Outside equity interest						
– Macquarie Income Preferred Securities		(1)	–	–	n/a	n/a
– Other equity holders		(1)	–	(3)	n/a	(67)
Profit after income tax attributable to MBL equity holders		298	266	255	12	17
Distributions paid or provided on Macquarie Income Securities		(14)	(14)	(13)	–	8
Profit after income tax attributable to MBL ordinary equity holders		284	252	242	13	17

Total operating income has grown significantly to almost \$1.4 billion, an increase of 14% on the six months to March 2004, and 17% on the prior corresponding period. Growth has been experienced across all categories compared to the six months to September 2003, with notable increases in net interest income and trading income.

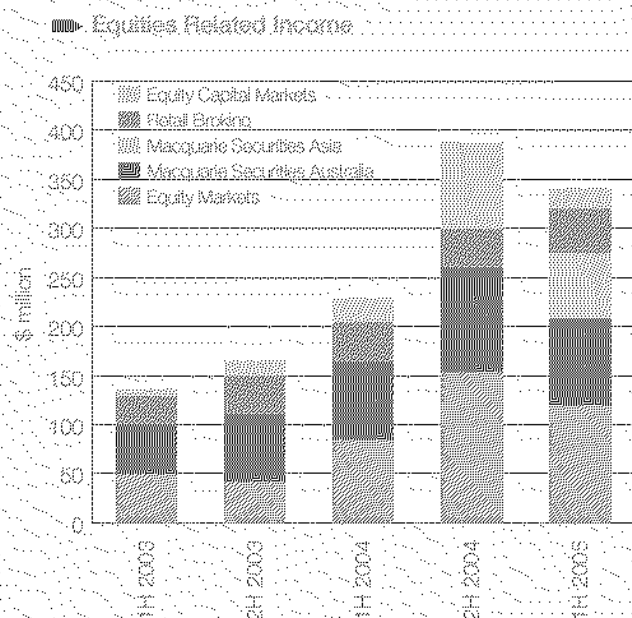
Net interest income increased \$45 million on the prior corresponding period due to a 45% increase in average interest bearing assets (refer to section 2.2 for further details).

Net fee and commission income increased \$35 million on the prior corresponding period, primarily due to increased brokerage and commission income (up \$65 million) driven by the acquisition of Macquarie Securities Asia. Fee income from mergers and acquisitions, advisory and underwriting was strong (up \$28 million) offset by a decrease in funds management fees (down \$98 million), particularly in funds management performance fees (refer to section 2.3 for further details).

Trading income increased \$111 million on the prior corresponding period, with strong contributions from equities driven by improved equity market conditions in Hong Kong (refer to section 2.4 for further details).

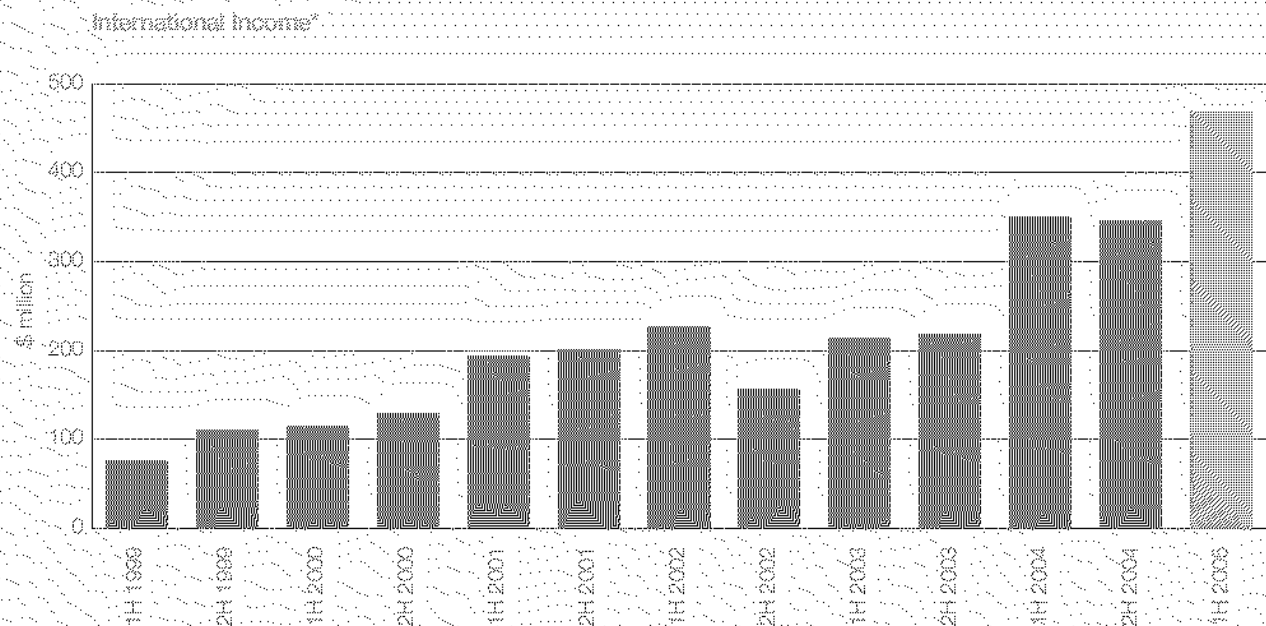
Net other income has increased \$10 million on the prior corresponding period, the main drivers being increased dividends and distributions from investments as well as income from property development activities (refer to section 2.5 for further details).

2. Review of Results continued



The Bank's exposure to equities related income is spread across a number of areas and income types, particularly trading income and fee and commission income from broking activities.

Equities related income for the six months to September 2004 is \$346 million or 25% of total income. The increase on the prior corresponding period was driven by equity markets, in particular Hong Kong, and the acquisition of Macquarie Securities Asia.



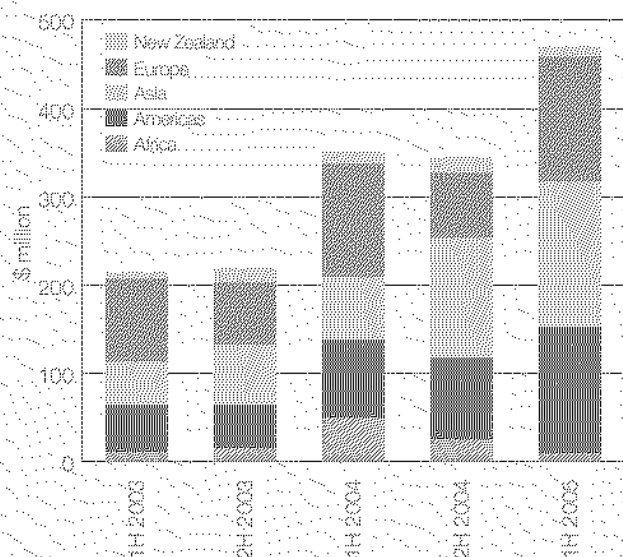
* Excluding earnings on capital

Total international income for the six months to September 2004 was \$470 million, an increase of 34% on the prior corresponding period. International income represents 33% of total operating income (excluding earnings on capital). This is up from 31% in the prior six months and 32% in the prior corresponding period.

As can be seen from the graph above, Macquarie's expansion offshore, driven by organic growth and acquisitions, is yielding strong results.

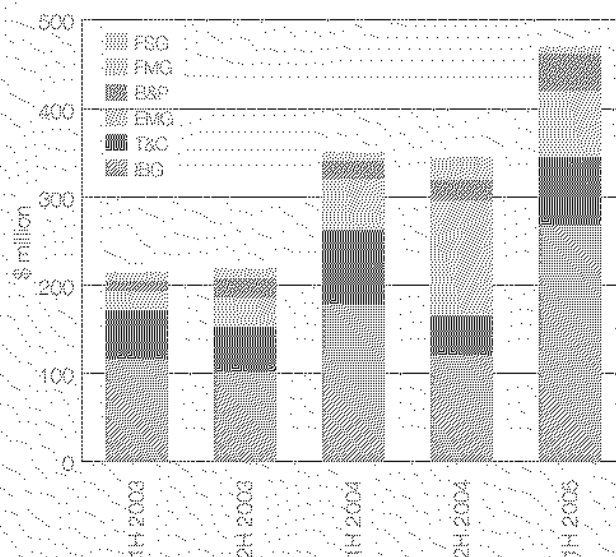
Good income growth was achieved in Europe, the Americas and Asia, and was experienced across a number of Groups including Banking and Property, Investment Banking, Equity Markets and Treasury and Commodities.

International Income by Region*



* Excluding earnings on capital

International Income by Group*



* Excluding earnings on capital

In Asia the main contributor to increased income has been the acquisition of Macquarie Securities Asia. Institutional stockbroking income from this Investment Banking Group business has significantly contributed to increased income compared to both the prior period and the six months to September 2003. Improved Asian equity market conditions, particularly in Hong Kong, have also contributed to strong growth in income in the region for the Equity Markets Group over the prior corresponding period.

The Banking and Property Group's US mortgages settlement volumes have increased over the six months to September 2004. This increase in volumes, coupled with a number of whole loan sales, has been one of the main drivers of the growth in income in the Americas. Favourable market conditions have also contributed to a significant increase in income for Treasury and Commodities in the Americas, particularly the agricultural commodities and metals and mining businesses.

Strong market conditions also benefited the Treasury and Commodities' metals & mining, energy markets and futures businesses in Europe, which were the main contributors to the growth in income in that region compared to the prior corresponding period.

In the six months to September 2003, Treasury and Commodities disposed of their interest in East African Gold Mines. This resulted in a decrease in international income from the African region in the first half of the current financial year.

2. Review of Results continued

2.2 Net Interest Income

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Interest income	803	684	551	17	46
Interest expense	(615)	(523)	(408)	18	51
Net interest income	188	161	143	17	31

	Half year to Sep 2004			Half year to Mar 2004			Half year to Sep 2003		
	Interest \$m	Volume \$m	Spread %	Interest \$m	Volume \$m	Spread %	Interest \$m	Volume \$m	Spread %
Loan assets	176	12,101	2.90	161	11,050	2.93	135	9,674	2.78
Interest bearing trading assets and other securities	44	15,164	0.58	29	11,201	0.51	25	9,176	0.54
Interest bearing assets	220	27,265	1.61	190	22,251	1.72	160	18,850	1.69
Non-interest bearing assets	(32)			(29)			(17)		
Total	188			161			143		

The 31% increase in net interest income on the prior corresponding period is mainly due to higher volumes. Average interest bearing assets are up 45% on the prior corresponding period, however the overall spread on average interest bearing assets is down 8 basis points over the same period to 161 basis points due to a shift in mix between loan assets and lower margin interest bearing trading assets and other securities. Interest bearing trading assets and other securities have increased from 49% of total average interest bearing assets in the prior corresponding period, to 56% in the six months to September 2004. The increase in net interest income on interest bearing assets is partially offset by an increased funding cost associated with non-interest bearing assets.

A summary of the key movements on the prior corresponding period is set out below. The average balance sheet is included in section 3.6.

Loan assets

The growth in net interest income for loan assets is mainly due to a 25% increase in average loan asset volumes on the prior corresponding period to \$12.1 billion. The average spread on loan assets compared to the prior corresponding period has improved by 12 basis points to 290 basis points due to an increase in the average rate earned on loan assets,

mainly attributable to a shift in the composition of loans and leases. This was partially offset by a slight increase in funding costs as interest rate rises from the prior corresponding period and the prior period have taken their full effect.

Interest bearing trading assets and other securities

The net interest income associated with interest bearing trading assets and other securities has increased by 76% to \$44 million. This is primarily due to an increase in average interest bearing trading assets of 65% from \$9,176 million to \$15,164 million. The growth has principally been in securities purchased under resale agreements which have increased 118% to \$8.8 billion. The spread on these securities has remained relatively stable between the periods. Trading securities have grown by 41% to \$4.2 billion along with a small increase in the spread on these assets.

Non-interest bearing assets

The funding expense associated with non-interest bearing assets has increased from \$17 million in the prior corresponding period to \$32 million. The significant increase in this funding cost relates to the funding of trading positions for which the corresponding income is recognised in the Trading Income category (this category is up 49% from \$225 million to \$336 million, as outlined in section 2.4).

2.3 Net Fee and Commission Income

	Note	Half year to			Movement on	
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Funds management fees	1	230	213	328	8	(30)
Mergers and acquisitions, advisory and underwriting	2	184	208	156	(12)	18
Brokerage and commissions	3	133	54	68	146	96
Financial products and cross-border leasing	4	60	42	55	43	9
Banking, lending and securitisation	5	79	63	55	25	44
Other fee and commission income	6	54	33	43	64	26
Net fee and commission income		740	613	705	21	5

1. Funds management fees

Funds management fees include base management fees, which are ongoing fees generated from funds management activities; and performance fees, which are only earned when funds managed by the Bank outperform a predetermined benchmark. Performance fees are recognised when the Bank becomes entitled to them.

Overall fee income from funds in the six months to September 2004 is down compared to the prior corresponding period. This is primarily due to the reduction in Macquarie Infrastructure Group performance fees compared to the prior corresponding period.

Base fees are well up on both the prior corresponding period and the prior period due primarily to strong growth in base fees from specialist funds, most notably:

- Higher base fee income from infrastructure funds compared to the prior corresponding period. This is mainly due to increased security prices and, consequently, fee income from Macquarie Airports, Macquarie Communications Infrastructure Group and Macquarie Infrastructure Group and the launch of Macquarie European Infrastructure Fund.

— Increased base fee income from property funds, mainly Macquarie CountryWide Trust, Macquarie Office Trust and Direct Property Syndications.

- Base fee income from Four Corners mandates and Fusion funds also increased compared to the prior corresponding period.

Performance fees are well down on the prior corresponding period, mainly due to the lower levels of fees received from Macquarie Infrastructure Group and Macquarie Communications Infrastructure Group. In the six months to September 2004 the most notable performance fees related to Macquarie Airports (\$25 million; pcp \$nil), Macquarie Communications Infrastructure Group (\$10 million; pcp \$22 million) and Macquarie Infrastructure Group (\$6 million; pcp \$141 million).

For a summary of base and performance fees refer to section 3.9. 

2. Review of Results continued

2. Mergers and acquisitions, advisory and underwriting

Fee income from mergers and acquisitions, advisory and underwriting activities has increased compared to the prior corresponding period, however it is below the six months to March 2004. While income in this category is influenced by the timing of transactions, the decrease in income compared to the second half of 2004 is also a result of the strong equity capital markets climate experienced in 2003 becoming less buoyant. However, Australian mergers and acquisitions activity remains robust, with Macquarie continuing to experience strong deal flow.

Notable mergers and acquisitions, advisory and underwriting roles this year included:

- lead managing and arranging the \$258 million initial public offering (IPO) of the Diversified Utility and Energy Trusts (DUET)
- advising the independent directors of AXA Asia Pacific in relation to AXA SA's proposal to acquire the 48.3% minority interests in AXA Asia Pacific (announced but not yet completed at 30 September 2004)
- advising General Property Trust on the \$10.2 billion proposed merger with Lend Lease Corporation (announced but not yet completed at 30 September 2004)
- advising the consortium of Alinta, Alcoa and DUET on the \$1.86 billion acquisition of the Dampier-to-Bunbury natural gas pipeline in Western Australia (announced but not yet completed at 30 September 2004)
- advising Telstra Corporation on the successful \$333 million acquisition of KAZ Group.

3. Brokerage and commissions

Brokerage and commissions income predominantly includes transaction related fees from stockbroking services provided to retail and institutional clients. This income is offset by brokerage and commissions costs paid to brokers, advisers and agents acting on the Bank's behalf.

Income has increased significantly on both the prior corresponding period and the six months to March 2004. The increased contribution from institutional stockbroking activities is a result of the acquisition of Macquarie Securities Asia, and increased Australian secondary market brokerage income from an increased market share.

The increase in brokerage and commissions income was partially offset by higher brokerage costs from increased Hong Kong equity market trading (income relating to these expenses is of a trading nature and therefore is required to be shown in the trading income line).

4. Financial products and cross-border leasing

Included in this category are all fees generated through arranging cross-border leases and other financial product transactions. Total fees have increased on the prior corresponding period as a result of continued growth in retail and wholesale products. The lower income in the six months to March 2004 is due to the cyclical nature of the business.

The US cross-border leasing market is no longer active, with focus shifting to other markets and products.

Therefore fee income from these transactions was down on both the prior corresponding period and the six months to March 2004.

5. Banking, lending and securitisation

Income from banking, lending and securitisation includes fee income from mortgage securitisation vehicles, fees from lending activities and transaction fees.

Fees have increased significantly on the prior corresponding period due to growth in both the Australian and US mortgages securitisation businesses. The Australian mortgage book has grown from \$11.6 billion at March 2004 to \$13.2 billion at September 2004. US mortgage settlement volumes have increased over the same period. Additionally the US mortgage business has undertaken a number of whole loan sales that has contributed to the increase in fee income.

6. Other fee and commission income

Other fee and commission income includes royalty income from joint ventures, and fees relating to assets under administration. The increase on the prior corresponding period is principally due to fees from increased assets under administration (Wrap assets under administration increased 58% from \$7.7 billion at 30 September 2003 to \$12.2 billion as at 30 September 2004) and royalty income from joint ventures in South Africa and Korea.

2.4 Trading Income

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Equities	156	206	108	(24)	44
Commodities	90	45	37	100	143
Foreign exchange	77	78	57	(1)	35
Interest rate products	13	8	23	63	(43)
Total trading income	336	337	225	—	49

The majority of the Bank's trading income is generated from client transactions and arbitrage activities, rather than outright proprietary trading.

In the six months to September 2004, trading income is well up on the prior corresponding period and is in line with the six months to March 2004.

The increase over the prior corresponding period is due to improved contributions from equities, commodities and foreign exchange, partially offset by a decline in the contribution from interest rate products.

The composition of trading income shown above excludes interest income and expense, and brokerage and commission expenses from trading activities. A more complete summary of the performance of the Bank's trading activities is provided by the Financial Markets segment disclosures in section 2.7, which includes the interest income and expense, and brokerage and commission expense associated with trading activities.

Equities

All major businesses contributed to the strong trading income result in the six months to September 2004.

The result is well up on the prior corresponding period but below that for the six months to March 2004, which benefited from very strong global equity market conditions.

The increase on the prior corresponding period is primarily the result of a strong contribution from Hong Kong, which is attributable to better market conditions compared to the six months to September 2003, and the successful launch of several new products.

Contribution from trading in the US and European markets was higher on increased sales of equity risk products over these underlying markets to the Asian customer base.

Commodities

Trading income from commodities was up 143% on the prior corresponding period and was double the income for the six months to March 2004, with increased contributions from agricultural commodities, metals and mining and energy markets trading.

The strong contribution from Agricultural Commodities was the result of increased market volatility along with increased client hedging and trading activity in the six months to September 2004.

Metals and Mining trading income benefited from increased market volatility and the new Energy Markets business showed good signs in its first full period of trading, with an increased contribution as a result of expansion of the client base, increased volumes and increased volatility in global energy markets.

Inherent in commodities trading income is income attributable to foreign exchange and interest rate movements.

Foreign exchange

Foreign exchange trading income is well up on the prior corresponding period and in line with the six months to March 2004. The solid performance is due to continuing strong market positions coupled with high volatility and volumes.

Inherent in foreign exchange trading income is income attributable to interest rate movements.

Interest rate products

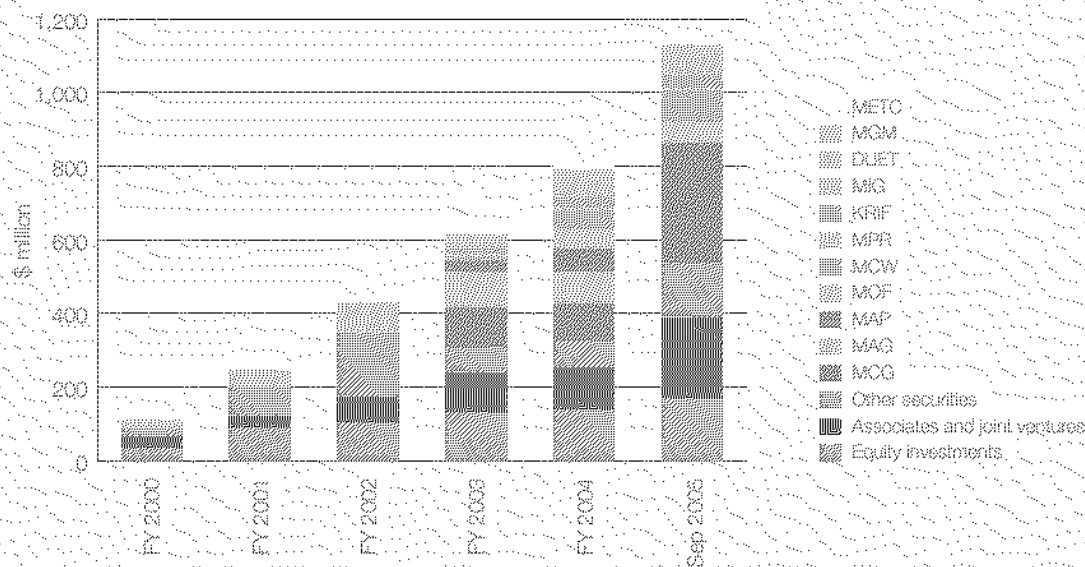
The trading income earned from interest rate products was down on the prior corresponding period due to a change in the income mix, with the decrease being offset by increased interest income (refer to section 2.2 for further information). This change in mix was the result of an increase in warehousing activity and general market conditions.

2. Review of Results continued

2.5 Net Other Income

	Note	Half year to			Movement on	
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Gain on disposal of other securities and equity investments	1	44	82	46	(46)	(4)
Gain on deconsolidation of controlled entities and sale of businesses	2	28	—	27	n/a	4
Equity accounted income	3	17	20	15	(15)	13
Dividends and distributions received/receivable from other securities and equity investments	4	38	29	20	31	90
Provision for diminution of equity investments – written back/(provided)	5	4	(15)	17	127	(76)
Net loan loss	6	(21)	(24)	(12)	(13)	75
General provision for credit losses	7	(15)	(6)	(11)	150	36
Net income from businesses held for resale	8	(4)	6	—	(167)	n/a
Other	9	22	1	1	large	large
Net other income		113	93	103	22	10

Net other income includes income from equity investments, associates and other securities (including equity accounted income, dividends, distributions and realisations), as well as provisions for credit losses. The level of equity investments for years ended 31 March and the current financial period is shown in the graph below.



These equity investments are carried at the lower of cost or net realisable value, with the exception of investments in associates and joint ventures, which are equity accounted.

The table below shows the market value and unrealised gains for some of the notable listed investments held by Macquarie.

	Book value at 30 Sep 04 \$m	Market value at 30 Sep 04 \$m	Unrealised gain at 30 Sep 04 \$m
Macquarie Infrastructure Group	10	34	24
Macquarie Goodman Management Limited	48	410	362
Sydney Futures Exchange	—	31	31
Macquarie Communications Infrastructure Group	110	249	139
Macquarie Airports	216	296	80
Total	384	1,020	636

A proposed merger of Macquarie Goodman Industrial Trust (MGI) and Macquarie Goodman Management Limited (MGM) was announced on 20 October 2004. The Bank will retain its entire stake in MGM, which will equate to 8.8% of the new entity to be known as the Macquarie Goodman Group.

Although MBL would be retaining its entire stake in MGM, under the requirements of Australian Accounting Standards, MBL would account for its interest in the merger as a deemed disposal of 77.5% of its investment in MGM in exchange for an 8.8% interest in MGI. MBL will bring to account a pre-tax accounting profit of approximately \$255 million if shareholders and unitholders approve the transaction in a vote to be taken in late January 2005. The net accounting profit (after provision for profit share and income tax) expected to be recognised is approximately \$80 million.

1. Gain on disposal of other securities and equity investments

Favourable equity market conditions in the second half of the prior financial year allowed Macquarie to realise a number of equity investments, particularly those held by Macquarie Direct Investment. In the six months to September 2004 the number of realisations has fallen, leading to a decline in income.

The first-half result includes gains on sale of the Bank's holding of Macquarie Airports Group (MAG) shares to Macquarie Airports (MAP), profit on disposal of the Bank's 45% interest in the ICA Group and profit on disposal of part of the Bank's holdings in the Diversified Utility and Energy Trusts (DUET) and Macquarie ProLogis Trust.

The result for the six months to March 2004 saw a number of realisations including the disposal of the Bank's 33% interest in Innofin (a joint venture with South Africa's Sanlam), JB Hi-Fi, Donaldson Coal, Kingscliffe/Salt Developments and Tower Technology.

The six months to September 2003 includes the profit on sale of East African Gold Mines Limited and the disposal of a part of the Bank's interest in Sydney Futures Exchange.

2. Gain on deconsolidation of controlled entities and sale of businesses

The result for the six months to September 2004 includes gains relating to the deconsolidation of certain controlled entities including South East Water, Arlanda, CH4 and Hills Motorway Management.

3. Equity accounted income

Equity accounted income reflects Macquarie's share of the profits or losses of entities in which Macquarie has an equity investment and exerts significant influence (but not control) over the entity.

Equity accounted income in the six months to September 2004 includes the recognition of income relating to equity investments in Macquarie Goodman Management, Macquarie ProLogis Management and Macquarie Capital Partners.

4. Dividends and distributions received/receivable from other securities and equity investments

The increase in dividends and distributions in the six months to September 2004 primarily relates to distributions received from DUET, Macquarie Communications Infrastructure Group and Macquarie DDR Management. ■

2. Review of Results continued

5. Provision for diminution of equity investments

The write-back in the provision for diminution of equity investments in the six months to September 2004 is primarily due to the improvement in the market price of Macquarie Airports. Provisions against the Bank's holdings in Macquarie Airports that were taken up in prior periods have now been released. This is partially offset by the write-down to net realisable value of some equity investments held by Macquarie Direct Investment.

Securities held as an investment are carried at the lower of cost and net realisable value; therefore the recorded value of securities held on the balance sheet will not exceed the purchase price. The value of these securities may be written down below the purchase price if, at balance date, it is considered that an amount less than the purchase price of the securities will be recovered if the securities were to be disposed. If the value of the security subsequently increases, the carrying value of the security will be written back, to a maximum value equivalent to the initial purchase price.

6. Net loan loss

Net loan loss represents the write-off or provisioning for specific loan balances that are considered to be unrecoverable, net of any recoveries of loan losses previously written off. The strength of Macquarie's credit risk management policy has historically resulted in a low percentage of gross loan assets being written off. This trend has continued in the six months to September 2004, with net loan losses at 0.2% of loan assets.

7. General provision for credit losses

The general provision for credit losses is intended to cover the inherent risk of loss that may arise from the non-recovery of amounts receivable or contingent exposures. The Bank's policy is that an amount equivalent to 0.55% of risk-weighted exposures be carried as a provision. The increased charge in the six months to September 2004 is due to growth in risk-weighted assets.

8. Net income from businesses held for resale

This report generally follows an alternative approach to disclosure from the statutory format, which treats Macquarie's overall holding gains on businesses held for resale as a single item of other income. This presentation has been derived from the statutory reporting format by reclassifying relevant income, external interest and fee expenses, employment expense and other expenses related to businesses held for resale out of the respective statutory income and expense lines, and transferring them into net other income. Management believes that this alternative approach more appropriately reflects the impact of the transaction on the Bank's performance.

This alternative presentation is not followed in the Summary Since Listing or the Average Balance Sheet in section 3.6. The adjustment required to reflect this alternative presentation is set out in the following tables.

Extract from Consolidated Profit & Loss – Half year ended 30 September 2004

	Statutory Format \$m	Reclassification of income and expenses for businesses held for resale \$m	Alternative Format \$m
Net interest income	175	13	188
Net fee and commission income	738	2	740
Trading income	336	–	336
Net other income	159	(46)	113
Total income	1,408	(31)	1,377
Employment expenses	(734)	8	(726)
Other expenses	(269)	23	(246)
Total expenses	(1,003)	31	(972)
Profit before income tax	405	–	405

Extract from Consolidated Profit & Loss – Half year ended 31 March 2004

	Statutory Format \$m	Reclassification of income and expenses for businesses held for resale \$m	Alternative Format \$m
Net interest income	127	34	161
Net fee and commission income	613	–	613
Trading income	337	–	337
Net other income	212	(119)	93
Total income	1,289	(85)	1,204
Employment expenses	(640)	22	(618)
Other expenses	(300)	63	(237)
Total expenses	(940)	85	(855)
Profit before income tax	349	–	349

During the six months to September 2004, Macquarie held the following businesses for resale:

- South East Water (SEW) (deconsolidated 30 April 2004)
- Arlanda (deconsolidated 8 April 2004)
- RG Capital Radio
- DMG Regional Radio
- Atlantic Aviation
- District Energy

Further details are contained in section 3.2.

The Macquarie European Infrastructure Fund (MEIF) acquired 50.1% of SEW and 100% of Arlanda from Macquarie while a further 25% of SEW was sold to MEIF co-investors during the period. Further details are contained in section 3.2.

In the prior period, Macquarie held the following businesses for resale:

- South East Water
- Arlanda

Macquarie did not hold any businesses for resale in the six months to September 2003.

9. Other

The increase in other income is mainly the result of higher property development income and profits from equipment sales by the leasing business. ➡

2. Review of Results continued

2.6 Operating Expenses

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Employment expenses	(726)	(618)	(617)	17	18
Occupancy expenses	(48)	(46)	(45)	4	7
Non-salary technology expenses	(45)	(60)	(45)	(25)	—
Professional fees, travel and communication expenses	(80)	(81)	(66)	(1)	21
Other operating expenses	(73)	(50)	(67)	46	9
Total operating expenses	(972)	(855)	(840)	14	16
	%	%	%		
Employment expenses/total income	52.7	51.3	52.4		
Other expenses/total income	17.9	19.7	19.0		
Total expenses/total income	70.6	71.0	71.4		

Total operating expenses are up 16% on the prior corresponding period. The largest contributor to total operating expenses is employment costs, which are driven by headcount, market conditions and performance-based profit share. The growth in employment costs over the prior corresponding period of 18% is in line with the growth in profit after income tax attributable to MBL ordinary equity holders (17%), income (17%) and headcount (21%).

Generally, operating expenses have increased as a result of the increase in activity, however the growth in income has been more substantial, and as a result the total expense/total income ratio has fallen to 70.6% compared to 71.4% in the prior corresponding period.

Headcount by Group

	As at			Movement on	
	Sep 04 Number	Mar 04 Number	Sep 03 Number	Mar 04 %	Sep 03 %
Operating Groups					
Investment Banking	1,675	1,590	1,151	5	46
Treasury and Commodities	385	358	352	8	9
Banking and Property	1,007	912	879	10	15
Equity Markets	248	210	196	18	27
Financial Services	1,050	1,045	1,037	—	1
Funds Management	159	160	150	(1)	6
Macquarie Direct Investment	12	13	13	(8)	(8)
Total headcount – operating Groups	4,536	4,288	3,778	6	20
Total headcount – service areas	1,539	1,428	1,245	8	24
Total headcount at end of period	6,075	5,716	5,023	6	21
Operating Groups/total headcount (%)	74.7	75.0	75.2		

Headcount includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees). Headcount excludes temporary staff and staff on leave without pay and parental leave. Headcount figures include employees of Macquarie Group controlled entities, except where the entity is acquired with the intention of disposal.

Growth in headcount over the prior corresponding period is mainly due to the acquisition of Macquarie Securities Asia, as well as organic growth across a number of businesses, including the US mortgages business.

2.7 Segment Contributions

Summary of Segments including Contributions to Total Income

Investment Banking 37%

Investment Banking comprises corporate finance, advisory, underwriting, facilitation, broking and real estate/property development.

Mergers and acquisitions,
advisory and underwriting

Institutional stockbroking

Financial products

Banking and securitised lending

Equipment and other leasing

Property lending

Other lending

Lending 17%

Lending comprises banking activities, mortgages, margin lending and leasing, as well as lending undertaken by trading areas.

Asset & Wealth Management 25%

Asset & Wealth Management comprises distribution and manufacture of funds management products.

Infrastructure, property and other specialist funds

Retail and wholesale
funds management
and private client broking

Commodities

Equity derivatives

FX, futures, treasury
and debt markets

Financial Markets 21%

Financial Markets comprises trading in fixed income, equities, currency, commodities and derivative products.

Basis of Preparation

For internal reporting and risk management purposes, Macquarie is divided into six operating Groups (the Groups). The Groups do not meet the definition of a reportable business segment for the purposes of reporting in accordance with AASB 1005 "Segment Reporting", because the Groups provide certain products to customers that have the same, or similar, risk and return characteristics.

Segment revenue, expenses and assets are those that are directly attributable to a segment or that have been allocated to the segment on a reasonable basis. Corporate expenses (including staff profit share) are allocated to segments based on profit before income tax and profit share. The carrying amount of certain assets used jointly by segments is allocated based on a reasonable estimate of usage. ■■■

2. Review of Results continued

Segment Results

	Asset & Wealth Management \$m	Financial Markets \$m	Investment Banking \$m	Lending \$m	Total \$m
<i>Half year ended 30 September 2004</i>					
Profit and Loss					
Total income	351	284	506	236	1,377
Total expenses	(253)	(187)	(366)	(166)	(972)
Profit before income tax	98	97	140	70	405
Income tax expense	(28)	(19)	(37)	(21)	(105)
Profit after income tax	70	78	103	49	300
Balance Sheet					
Total assets	3,943	19,926	6,433	11,812	42,114
Contribution					
Contribution to Group total income (%)	25	21	37	17	100
<i>Half year ended 31 March 2004</i>					
Profit and Loss					
Total income	328	301	411	164	1,204
Total expenses	(250)	(195)	(281)	(129)	(855)
Profit before income tax	78	106	130	35	349
Income tax expense	(22)	(16)	(36)	(9)	(83)
Profit after income tax	56	90	94	26	266
Balance Sheet					
Total assets	3,092	24,215	6,475	9,989	43,771
Contribution					
Contribution to Group total income (%)	27	25	34	14	100
<i>Half year ended 30 September 2003</i>					
Profit and Loss					
Total income	397	273	339	167	1,176
Total expenses	(275)	(185)	(252)	(128)	(840)
Profit before income tax	122	88	87	39	336
Income tax expense	(32)	(17)	(18)	(11)	(78)
Profit after income tax	90	71	69	28	258
Balance Sheet					
Total assets	3,552	20,008	3,693	9,549	36,802
Contribution					
Contribution to Group total income (%)	34	23	29	14	100



3. Financial Information

■ 3.1 International Financial Reporting Standards

Impact of adopting Australian equivalents to International Financial Reporting Standards

The economic entity will be required to prepare financial statements using Australian Standards that are equivalent to International Financial Reporting Standards and their related pronouncements (IFRS) from 1 April 2005. The first financial statements that the economic entity will prepare in accordance with IFRS will be for the half year ending 30 September 2005 and the financial year ending 31 March 2006.

In accordance with IFRS, the comparative financial statements for each of these periods will be restated using the new accounting standards from 1 April 2004, with the exception of AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132) and AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139). As permitted by the transitional provisions of IFRS, management has elected to defer the application of AASB 132 and AASB 139 for twelve months. Adjustments required on transition to IFRS will be made retrospectively, mostly against opening retained earnings, at the respective dates. Restated comparatives will not be reported in financial statements until 30 September 2005, being the first half year reported in accordance with IFRS.

Transition management

A formal IFRS conversion project has been established, with the project team being responsible for assessing the impact that IFRS will have on the accounting and reporting of the economic entity, and managing the transition to IFRS. The project team is also responsible for keeping abreast of developments in IFRS.

The project is divided into three distinct phases: impact assessment and evaluation, systems and process development, and implementation. Management have been working with external IFRS specialists to ensure that the quality of interpretation of the standards and application to the Bank and the economic entity is high. The first phase of the project is primarily complete, and the systems and process development and implementation phases are well progressed. These phases will be completed by 31 March 2005.

Key accounting issues

The key potential implications of the transition to IFRS on the economic entity's accounting policies are detailed below.

Regulatory capital

Many of the changes below will have an impact on the economic entity's assets and equity items which are included in the calculation of the economic entity's regulatory capital. The Australian Prudential Regulation Authority (APRA) has advised that it will not make any IFRS-related changes to the existing prudential framework until it has completed relevant consultations, and not before 1 July 2005 at the earliest. In the interim, APRA regulated institutions will need to continue to comply with, and report in terms of, current prudential standards. ■

3. Financial Information continued

Changes applicable in comparative period commencing 1 April 2004

The table below summarises the nature of the adjustments expected to be made to the economic entity's consolidated statement of financial position as at 1 April 2004 (excluding the tax effect) and reported in the half year results on 30 September 2005. This includes all material IFRS changes excluding those arising from AASB 132 and AASB 139. The amount of the adjustments arising on transition to IFRS have been estimated. As final policy decisions have not been made, estimates are indicative only and actual adjustments may vary.

Description	Expected impact	Estimated gross adjustment
Consolidation of certain Special Purpose Entities (SPEs)		
A different interpretation of the consolidation rules applicable to SPEs will result in most of the Bank's mortgage securitisations and some other SPEs being consolidated by the economic entity.	Mortgage SPEs	
	The underlying mortgage loans and liabilities to noteholders (along with derivatives) held by the SPEs will be reported on the Bank's consolidated statement of financial position. Derivatives will be carried at fair value from 1 April 2005.	On transition, mortgage loans and liabilities will increase by approximately \$12 billion. No retained earnings adjustments.
	Profit and loss will no longer reflect management fees and other fees earned from the SPEs. Instead, the profit and loss will show gross interest income earned on mortgage loans, interest expense accrued to noteholders, movements in the fair values of derivatives unless hedge accounting rules are met, with any remaining net margin reflected in profit and loss.	Adjustments to carry derivatives at fair value, apply the hedge accounting requirements within AASB 139 and to measure interest income/interest expense on an effective yield basis will be made in the following year (adjustment to statement of financial position as at 1 April 2005 and first reported 30 September 2005).
	Other SPEs	
	For the other SPEs that will be consolidated, the underlying SPE assets and liabilities will be recorded in the Bank's statement of financial position. There is not expected to be any profit impact arising from consolidation of these SPEs.	On transition, assets and liabilities are expected to increase by approximately \$3 billion. No retained earnings adjustments.
Share based payments		
The economic entity will be required to recognise an expense for options granted to employees. Options are measured at their grant dates, and once the number expected to vest is determined, the aggregate amount is allocated evenly over the vesting period. These rules apply only to options granted after 7 November 2002.	An options reserve (equity) and an employee expense will be recognised each period for the amount allocated to that period.	
	The transition adjustment to retained earnings will reflect the amount to be amortised for the period from 7 November 2002 to 31 March 2004.	On transition, an options reserve will be created for approximately \$10 million, with an offsetting adjustment to retained earnings.
	Subsequent to transition, the annual expense may increase as the number of unvested options granted since November 2002 increases. Assuming that the current Employee Option plan continues, the full impact of unvested options will be reflected from the financial year ending 31 March 2008.	After transition, the expense to be recognised in the comparative period for the year ending 31 March 2006 (i.e. year ending 31 March 2005) is estimated to be approximately \$30 million.

Description	Expected impact	Estimated gross adjustment
Taxation A "balance sheet" approach will be adopted, replacing the "Statement of Financial Performance" approach currently applied. The new method will recognise deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.	It is expected that there will be some increases in the levels of deferred tax assets and liabilities.	No material change in profit and loss or retained earnings.

Changes applicable from 1 April 2005

The table below summarises the nature of the adjustments expected to be made to the economic entity's statement of financial position as at 1 April 2005 (excluding the tax effect) and reported in the half-year results on 30 September 2005, in addition to the table above. This includes all material IFRS changes arising from AASB 132 and AASB 139. These adjustments have not been quantified, as they will depend on uncertain future information (for example, market conditions and positions held at 31 March 2005).

Description	Expected impact
Provisions for loan impairment IFRS requires an incurred loss model for general loan provisioning, rather than an expected loss model. The Bank's general provision for credit losses is currently maintained at 55 basis points on risk-weighted assets.	Provisions are to be recognised only in respect of those losses for which there is "objective evidence" of impairment at each balance date. The methodology to calculate this provision is still being developed. It is expected that there will be a reduction in the amount of the Bank's general provisioning for impaired loans.
Derivatives All derivatives, including those used for balance sheet hedging purposes, are required to be recognised on balance sheet and carried at fair value. Movements in the carrying amounts of derivatives are recognised in profit or loss, unless hedge accounting is applied. Where strict hedge criteria are met, IFRS permits cash flow hedging, fair value hedging and hedging a net investment in a foreign operation.	A hybrid approach is being adopted to the volatility arising from carrying all derivatives at fair value. This includes choosing to carry an offsetting exposure at fair value, applying fair value hedge accounting to some exposures, applying cash flow hedge accounting to other exposures, and accepting a level of volatility. It is expected that these new rules will introduce some volatility in profit and loss and equity reserves based on changes in interest rates. The overall impact is not expected to be material.
Loan revenue and expense recognition Under IFRS, certain upfront fees and associated transaction costs must be capitalised and included in the loan's effective interest rate and recognised over the expected life of the loan.	Certain fees and transaction costs will no longer be recognised upfront, but will be amortised over the life of the loan through the yield. This is not expected to have a material impact on net profit, however some reclassifications between fee income and interest income will occur.



3. Financial Information continued

Description	Expected impact
<i>Loans at fair value</i> As noted above, one of the solutions for dealing with the volatility arising from carrying all derivatives at fair value is to irrevocably choose to carry some financial instruments with a natural offsetting exposure at fair value through the profit or loss. Consequently, some of the loan assets are expected to be carried at fair value.	Loan assets will be reclassified to fair value through the profit and loss. Measuring the loan asset at fair value means that changes to interest rates and credit spreads will impact the profit or loss, but this will be largely offset by revaluing derivatives used to mitigate these risks.
<i>Available for sale financial instruments</i> Certain equity investments and investment securities currently carried at historical cost/amortised cost will be reclassified to Available for sale financial instruments.	Available for sale financial instruments will be carried at fair value with changes in fair value recognised in an equity reserve. This may result in volatility in the equity reserve.
<i>Debt vs Equity classification MIS securities</i>	No change in classification is expected. The MIS will continue to be classified as equity.
<i>Debt vs Equity classification MIPS securities</i> Hybrid capital was recently raised in a foreign currency (Macquarie Income Preferred Securities), which are classified as outside equity interest.	Hybrid capital will continue to be classified as equity and continue to be included within outside equity interest.
<i>Hedging of MIPS securities</i> Economically, the interest rate risk and foreign exchange risk will be hedged through the use of derivatives and existing foreign currency denominated assets, while for accounting purposes the Bank is unlikely to achieve hedge accounting for the movements in interest rates.	Derivatives (interest rate swaps and forward exchange contracts) will be carried at fair value. Changes in the fair value of foreign exchange contracts due to changes in the spot rate are expected to offset the changes from retranslating the foreign currency denominated assets. Changes in fair value of foreign exchange contracts due to time value will result in some volatility in the profit and loss. Changes in the fair value of the interest rate swaps will be recognised in the profit and loss, and create volatility as hedge accounting will not apply.

3.2 Acquisitions and Disposals of Controlled Entities

Entities acquired or consolidated during the period due to a change in control:

District Energy

On 30 June 2004, a controlled entity of the Bank acquired 100% of various Chicago energy companies which operate a number of cooling plants in the Chicago area, for a cost of \$197 million. On 29 September 2004, a controlled entity of the Bank acquired control of various Las Vegas energy companies for a cost of \$36 million. These two related acquisitions are collectively known as "District Energy".

Atlantic Aviation

On 29 July 2004, a controlled entity of the Bank acquired 100% of various companies (collectively "Atlantic Aviation") which provide services to a number of North American airports, for a cost of \$317 million.

RG Capital Radio

On 20 August 2004, a wholly-owned subsidiary of the Bank received Federal Court approval for its proposed Scheme of Arrangement for the acquisition of 100% of the issued shares and options of RG Capital Radio Pty Limited (RG Capital Radio) for a cost of \$178 million. Settlement of the transaction took place on 2 September 2004.

DMG Regional Radio

On 10 September 2004, a wholly-owned subsidiary of the Bank acquired 100% of DMG Regional Radio Pty Limited (DMG Regional Radio) for a cost of \$194 million.

Entities disposed of or deconsolidated during the period due to change in control:

Deconsolidation of South East Water

On 30 April 2004, a subsidiary of the Bank sold a 75.1% interest in South East Water plc (SEW) to Macquarie European Infrastructure Fund (MEIF) at cost. The Bank has retained a holding of 24.9% of SEW, which has not been equity accounted.

Deconsolidation of Arlanda

On 8 April 2004, the Bank's investment in MEIF was diluted from 100% to 16.1%. MEIF included a 100% investment in A-Train AB and A-Train Invest AG (collectively "Arlanda Express"). As a result of the sale, the Bank is no longer required to consolidate its interest in MEIF and its interest in Arlanda Express.

Deconsolidation of CH4 Gas Limited

On 7 April 2004, the Bank's investment in CH4 Gas Limited (CH4) was diluted from 66% to 41%. From that date, the Bank ceased to consolidate its interest in CH4. Due to the Bank's ongoing ownership interest, the investment in CH4 has been equity accounted from that date. ■

3. Financial Information continued

3.3 Detailed Profit and Loss Information

	Note	Half year to			Movement on	
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Interest income		803	684	551	17	46
Interest expense		(615)	(523)	(408)	18	51
Net interest income		188	161	143	17	31
Fee and commission income	1	952	805	844	18	13
Fee and commission expense		(212)	(192)	(139)	10	53
Net fee and commission income		740	613	705	21	5
Trading income		336	337	225	—	49
Other income		168	148	126	14	33
Other expenses		(55)	(55)	(23)	—	139
Net other income		113	93	103	22	10
Total income		1,377	1,204	1,176	14	17
Employment expenses	2	(726)	(618)	(617)	17	18
Occupancy expenses	3	(48)	(46)	(45)	4	7
Non-salary technology expenses	4	(45)	(60)	(45)	(25)	—
Professional fees, travel and communication expenses	5	(80)	(81)	(66)	(1)	21
Other operating expenses		(73)	(50)	(67)	46	9
Total expenses		(972)	(855)	(840)	14	16
Profit before income tax		405	349	336	16	21
Income tax expense	sec 3.4	(105)	(83)	(78)	27	35
Profit after income tax		300	266	258	13	16
Outside equity interest						
— Macquarie Income Preferred Securities		(1)	—	—	n/a	n/a
— Other equity holders		(1)	—	(3)	n/a	(67)
Profit after income tax attributable to MBL equity holders		298	266	255	12	17
Distributions paid or provided on Macquarie Income Securities		(14)	(14)	(13)	—	8
Profit after income tax attributable to MBL ordinary equity holders		284	252	242	13	17

The notes supporting this detailed Profit & Loss Statement follow.

The detailed Balance Sheet with supporting notes is set out in section 3.6.

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
1. Fee and commission income					
Fee and commission income	939	790	830	19	13
Net income from life insurance business	13	15	14	(13)	(7)
Total fee and commission income	952	805	844	18	13
2. Employment expenses					
Salary, salary-related costs, superannuation, performance-related profit share and staff training	(716)	(617)	(609)	16	18
Provision for annual leave	(7)	—	(5)	n/a	40
Provision for long service leave	(3)	(1)	(3)	200	—
Total employment expenses	(726)	(618)	(617)	17	18
3. Occupancy expenses					
Operating lease rental	(37)	(34)	(34)	9	9
Depreciation: furniture, fittings and leasehold improvements	(6)	(7)	(6)	(14)	—
Other occupancy expenses	(5)	(5)	(5)	—	—
Total occupancy expenses	(48)	(46)	(45)	4	7
4. Non-salary technology expenses					
Information services	(19)	(17)	(15)	12	27
Depreciation: computer equipment and software	(12)	(29)	(17)	(59)	(29)
Other non-salary technology expenses	(14)	(14)	(13)	—	8
Total non-salary technology expenses	(45)	(60)	(45)	(25)	—
5. Professional fees, travel and communication expenses					
Professional fees	(38)	(42)	(35)	(7)	11
Travel expenses	(26)	(23)	(17)	13	53
Communication expenses	(10)	(9)	(9)	11	11
Depreciation: communication equipment	(2)	(3)	(2)	(33)	—
Auditors' remuneration ¹	(4)	(4)	(3)	—	33
Total professional fees, travel and communication expenses	(80)	(81)	(66)	(1)	21

¹ Includes remuneration for audit and other services. ■■■■▶

3. Financial Information continued

3.4 Income Tax Expense

Prima facie income tax on profit before income tax is reconciled to the income tax expense charged in the Profit and Loss as follows:

	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Profit before income tax	405	349	336	16	21
Prima facie income tax expense (at 30%)	(121)	(104)	(101)	16	20
Add/(deduct) tax effect of permanent differences:					
Rate differential on offshore income	25	15	13	67	92
Deductible distribution paid/provided	1	4	4	(75)	(75)
Net effect of different tax rates for life insurance business	2	2	2	—	—
Rebateable dividend income	1	3	2	(67)	(50)
Dividend paid/provided on Converting Preference Shares	—	—	(2)	n/a	(100)
Other items	(13)	(3)	4	large	large
Total income tax expense	(105)	(83)	(78)	27	35
Effective tax rate (refer Glossary) (%)	26.9	24.8	24.1		

The economic entity has a tax year ending on 30 September.

The Australian Taxation Office (ATO) is currently reviewing the interests held by the economic entity in research and development syndicates, and has disputed the value of core technology in all syndicates. Amended assessments have been issued in relation to two syndicates, against which objections were lodged. In relation to one of these syndicates, the objection was upheld in the Administrative Appeals Tribunal (AAT). The ATO lodged an appeal against the AAT decision with the Federal Court, which remitted certain aspects of the matter to the AAT for further consideration. Prior to the rehearing by the AAT, the ATO decided not to pursue the case. In relation to the other assessed syndicate, no objection decision has yet been received. Details of the total amounts in dispute (including amended assessments) have not been disclosed because the Directors believe this would prejudice the economic entity's position.

In relation to the Macquarie Income Securities (MIS), the Bank has received independent legal advice confirming that deductions totalling \$129 million, giving rise to a tax receivable of \$42 million, are available in respect of all MIS interest payments paid before 30 June 2004. The Federal Court at first instance has held that the amounts are not deductible and an appeal has been lodged with the Full Federal Court.

3.5 Earnings Per Share

	Half year to			Movement on	
	Sep 04 cents	Mar 04 cents	Sep 03 cents	Mar 04 %	Sep 03 %
Basic earnings per share	130.6	116.8	116.2	12	12
Diluted earnings per share	128.7	114.6	114.4	12	13
Earnings	\$m	\$m	\$m	%	%
Profit after income tax attributable to MBL ordinary equity holders	284	252	242	13	17
Interest saving from conversion of Converting Preference Shares	—	—	5	n/a	(100)
Total earnings used in the calculation of diluted earnings per share	284	252	247	13	15

Earnings, for the purpose of the basic earnings per share calculation is the Bank's profit after income tax attributable to its ordinary equity holders.

The only sources of dilutive potential ordinary shares for the Bank are:

- share options issued to senior staff in accordance with the Employee Option Plan; and
- the Converting Preference Shares that were converted to ordinary shares on 25 September 2003.

The Macquarie Income Securities and Macquarie Income Preferred Securities are not convertible to ordinary shares and do not impact the calculation of diluted earnings per share.

The employee options are deemed to have no impact on diluted earnings, however they do have an impact on the weighted average number of shares used in the calculation of diluted earnings per share, as explained later in this section.

In calculating diluted earnings per share, two adjustments relating to Converting Preference Shares (CPS) were applied to the earnings amount used in the calculation of basic earnings per share for 30 September 2003:

- The reduction in interest expense that occurred when the CPS were converted to ordinary shares was added back (based on the fixed dividend rate of 7.38% for the proportion of the period for which the CPS were on issue). There is no income tax expense applicable to this adjustment as the interest expense is non-deductible.
- Any non-discretionary adjustments to earnings that arose when the CPS were converted to ordinary shares were also made, net of any applicable adjustments to the income tax expense.

Weighted Average Number of Shares

	Number of shares			Movement %	
Fully paid ordinary shares	217,402,861	215,713,144	208,287,427	1	4
Dilutive potential ordinary shares:					
— Converting Preference Shares	—	—	4,698,059	n/a	(100)
— Options	3,311,784	4,198,964	2,872,425	(21)	15
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	220,714,645	219,912,108	215,857,911	—	2

3. Financial Information continued

■ Fully Paid Ordinary Shares

Summary of movements in number of shares

The weighted average number of ordinary shares used in the calculation of basic earnings per share is determined by time-weighting individual movements in the number of fully paid shares on issue as summarised in the table below. There were no partly paid or contingently issuable shares on issue during the period.

	Half year to Sep 04		Half year to Mar 04		Half year to Sep 03	
	Total Number	Time-Weighted Number	Total Number	Time-Weighted Number	Total Number	Time-Weighted Number
Opening balance	215,916,285	215,916,285	217,567,485	217,567,485	204,498,144	204,498,144
Shares issued pursuant to:						
Exercise of options	3,002,108	1,067,578	1,793,708	855,269	4,659,498	1,692,840
Dividend Reinvestment Plan	842,601	418,998	1,020,072	579,714	3,908,671	1,943,656
Employee Share Plan	-	-	36,192	14,437	-	-
Conversion of CPS	-	-	-	-	4,857,315	159,256
Buyback of shares	-	-	(4,501,172)	(3,303,761)	(356,143)	(6,469)
Closing balance	219,760,994	217,402,861	215,916,285	215,713,144	217,567,485	208,287,427

Potential Ordinary Shares

Options

The Bank has an Employee Option Plan (the Plan), which was introduced in December 1995 as a replacement for the Bank's now closed partly paid share scheme.

For the purpose of calculating diluted earnings per share, options issued pursuant to this Plan are classified as either dilutive or non-dilutive (dilutive options are those which have an exercise price less than the average market price for the period). Only dilutive options have an impact on diluted earnings per share. Their impact on the weighted average number used in this calculation is determined by quantifying the dilutive component of each option and time-weighting this component for the proportion of the period for which the option was on issue. The dilutive component represents the difference between the number of shares that would be issued at the exercise price and the number of shares that would have been issued at the average market price based on the actual proceeds. Each dilutive option tranche is therefore split into two notional components:

- a component for which consideration is the full average market price (non-dilutive component – this is ignored in calculating diluted earnings per share); and
- a component for which no consideration is provided (dilutive component).

Only this dilutive component, appropriately time-weighted, is included in the weighted average number of shares used in the calculation of diluted earnings per share.

The table below breaks out the time-weighted number of options on issue for each period into dilutive and non-dilutive options. Dilutive options are further classified into a dilutive component and a non-dilutive component.

Summary of Dilutive Impact of Options (Time-Weighted)

	Half year to		
	Sep 04 Number	Mar 04 Number	Sep 03 Number
Dilutive options			
Dilutive component (no consideration)	3,311,784	4,198,964	2,872,425
Non-dilutive component (average market price)	17,743,041	16,979,478	8,613,341
Total number of dilutive options (time-weighted)	21,054,825	21,178,442	11,485,766
Non-dilutive options	5,861,761	5,693,070	13,000,821
Total number of options (time-weighted)	26,916,586	26,871,512	24,486,587
	\$	\$	\$
Average market price for period (used in assessing whether an option is dilutive)	33.88	34.10	28.89

A detailed reconciliation of movements in options on issue over the half year ended 30 September 2004 is available on the Macquarie Bank website (www.macquarie.com.au) or from Macquarie Bank's Investor Relations department. ■■■

3. Financial Information continued

3.6 Detailed Balance Sheet Information

		As at			Movement on	
	Note	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Assets						
Cash and liquid assets		690	647	691	7	—
Securities purchased under resale agreements		7,398	8,598	6,747	(14)	10
Trading assets	1	6,342	6,891	5,150	(8)	23
Other securities	2	2,288	1,847	2,583	24	(11)
Loan assets	3	12,110	10,777	10,914	12	11
Other financial market assets		5,677	6,694	5,434	(15)	4
Other financial assets		3,613	3,531	2,108	2	71
Intangible assets – businesses held for resale		706	—	—	n/a	n/a
Life insurance investment assets		2,184	2,350	2,693	(7)	(19)
Equity investments		169	138	114	22	48
Investments in associates and incorporated joint ventures		273	169	134	62	104
Fixed assets		503	1,945	117	(74)	large
Tax assets		161	184	117	(13)	38
Total assets		42,114	43,771	36,802	(4)	14
Liabilities						
Due to other financial institutions		1,118	1,935	700	(42)	60
Securities sold under repurchase agreements		2,715	2,597	3,941	5	(31)
Securities borrowed		4,076	5,750	3,275	(29)	24
Deposits		4,738	4,215	3,876	12	22
Notes payable	4	13,070	12,608	11,120	4	18
Other financial market liabilities		4,559	5,821	4,830	(22)	(6)
Tax liabilities		35	53	38	(34)	(8)
Other financial liabilities		4,477	4,215	2,292	6	95
Life insurance policy liabilities		2,124	2,291	2,483	(7)	(14)
Provisions for dividends and distributions		7	6	5	17	40
Deferred tax liabilities		258	413	28	(38)	large
Other provisions		80	74	68	8	18
Total liabilities excluding loan capital		37,257	39,978	32,656	(7)	14
Loan capital						
Subordinated debt		915	960	805	(5)	14
Total liabilities		38,172	40,938	33,461	(7)	14
Net assets		3,942	2,833	3,341	39	18
Equity						
Contributed equity						
— Ordinary share capital	5	1,474	1,382	1,465	7	1
— Macquarie Income Securities		391	391	391	—	—
Retained earnings	6	1,173	1,040	901	13	30
Total equity attributable to equity holders of Macquarie Bank Limited		3,038	2,813	2,757	8	10
Outside equity interest						
— Macquarie Income Preferred Securities	7	861	—	—	n/a	n/a
— Other equity holders	7	43	20	584	115	(93)
Total outside equity interests in controlled entities	7	904	20	584	large	55
Total equity		3,942	2,833	3,341	39	18

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
1. Trading Assets					
Trading securities					
Listed equity securities	2,667	3,987	2,513	(33)	6
Certificates of deposit	985	944	775	4	27
Debt securities	994	867	1,084	15	(8)
Other government securities	904	626	443	44	104
Commonwealth government bonds	373	84	34	large	large
Bank bills	332	251	191	32	74
Foreign OECD government securities	34	22	37	55	(8)
Other non-OECD government securities	24	38	12	(37)	100
Total trading securities	6,313	6,819	5,089	(7)	24
Other trading assets					
Bullion — allocated	17	37	25	(54)	(32)
Other commodities	12	35	36	(66)	(67)
Total other trading assets	29	72	61	(60)	(52)
Total trading assets	6,342	6,891	5,150	(8)	23
2. Other Securities					
Listed					
Shares and units in unit trusts at cost	63	182	261	(65)	(76)
Less provision for diminution	(3)	(17)	(27)	(82)	(89)
Shares and units in unit trusts at recoverable amount	60	165	234	(64)	(74)
Shares and units in unit trusts at cost requiring no provision for diminution	459	123	122	273	276
Total listed other securities	519	288	356	80	46
Unlisted					
Shares and units in unit trusts at cost	4	5	59	(20)	(93)
Less provision for diminution	(2)	(1)	(3)	100	(33)
Shares and units in unit trusts at recoverable amount	2	4	56	(50)	(96)
Shares and units in unit trusts at cost requiring no provision for diminution	166	225	142	(26)	17
Debt investment securities	1,601	1,330	2,029	20	(21)
Total unlisted other securities	1,769	1,559	2,227	13	(21)
Total other securities	2,288	1,847	2,583	24	(11)



3. Financial Information continued

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
3. Loan Assets					
Due from other financial institutions					
Loans and advances	1,450	1,810	2,581	(20)	(44)
Lease receivables	4	5	7	(20)	(43)
Total due from other financial institutions	1,454	1,815	2,588	(20)	(44)
Due from governments ¹					
Lease receivables	470	529	599	(11)	(22)
Loans and advances	59	44	66	34	(11)
Total due from governments	529	573	665	(8)	(20)
Due from other entities					
Other loans and advances	9,088	7,546	6,928	20	31
Less specific provisions	(53)	(36)	(29)	47	83
	9,035	7,510	6,899	20	31
Lease receivables	1,182	954	828	24	43
Total due from other entities	10,217	8,464	7,727	21	32
Total gross loan assets	12,200	10,852	10,980	12	11
Less general provision for credit losses	(90)	(75)	(66)	20	36
Total loan assets	12,110	10,777	10,914	12	11
Gross loan assets by division/category					
Corporate Finance	177	72	42	146	large
Financial Products	704	210	359	235	96
IBG Principal	—	—	21	n/a	(100)
Macquarie Capital	3,212	2,881	2,726	11	-18
Macquarie Securities	183	187	—	(2)	n/a
Total Investment Banking	4,276	3,350	3,148	28	36
Overnight Cash	244	776	1,659	(69)	(85)
Agricultural Commodities	46	—	—	n/a	n/a
Metals & Mining	405	321	376	26	8
Foreign Exchange	105	118	125	(11)	(16)
Debt Markets	886	797	831	11	7
Total Treasury and Commodities	1,686	2,012	2,991	(16)	(44)
Macquarie Securitisation & Mortgages	1,164	1,168	799	—	46
Banking	1,479	1,258	1,133	18	31
Margin Lending	1,993	1,740	1,591	15	25
Property	1,194	1,148	1,098	4	9
Total Banking and Property	5,830	5,314	4,621	10	26
Equity Markets	408	176	220	132	85
Total	12,200	10,852	10,980	12	11

¹ Governments include Federal, State and Local governments and related enterprises in Australia.

	As at/half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
3. Loan Assets continued					
Specific provisions for loan assets					
Balance at the beginning of the period	36	29	14	24	157
Provided during the period	27	27	16	—	69
Loan assets written off, previously provided for	(2)	(17)	(2)	(88)	—
Recovery of loans previously provided for	(8)	(3)	(3)	167	167
Transfer from other provisions and other items	—	—	4	n/a	(100)
Total specific provisions	53	36	29	47	83
Specific provision as a percentage of loan assets (%)	0.43	0.33	0.26		

The specific provisions relate to doubtful loan assets that have been identified and provided for.

General provision for credit losses					
Balance at the beginning of the period	75	66	55	14	36
Provided during the period	15	6	11	150	36
Businesses acquired	—	3	—	(100)	n/a
Total general provision for credit losses	90	75	66	20	36
General provision as a percentage of risk-weighted exposures (%)	0.55	0.55	0.55		

The general provision for credit losses is intended to cover expected losses inherent in the existing overall credit portfolio which are not yet identifiable.

Impaired assets

Impaired assets includes loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments, which are classified as:

Non-accrual loans without specific provisions for impairment	5	5	—	—	n/a
Non-accrual loans with specific provisions for impairment	76	92	41	(17)	85
Less specific provisions	(53)	(36)	(29)	47	83
Total non-accrual loans with specific provisions for impairment	23	56	12	(59)	92
Impaired derivative financial instruments with specific provisions for impairment	1	1	1	—	—
Less specific provisions	(1)	(1)	(1)	—	—
Total impaired derivative financial instruments with specific provisions for impairment	—	—	—	n/a	n/a
Total net impaired assets	28	61	12	(54)	133
Revenue forgone on impaired assets					
Interest	—	2	1	(100)	(100)
Total revenue forgone on impaired assets	—	2	1	(100)	(100)

3. Financial Information continued

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
4. Notes Payable					
Euro commercial paper	3,808	3,421	3,755	11	1
Euro floating rate notes	3,418	3,475	2,347	(2)	46
Negotiable certificates of deposit	3,094	2,299	2,518	35	23
Equity linked notes	1,308	1,542	915	(15)	43
US commercial paper	424	854	1,212	(50)	(65)
Domestic issued paper	43	290	275	(85)	(84)
Other notes	975	727	98	34	large
Total notes payable	13,070	12,608	11,120	4	18
Reconciliation of notes payable by major currency					
Australian dollars	3,683	2,874	3,271	28	13
United States dollars	3,208	4,733	4,285	(32)	(25)
Euro	2,293	1,649	690	39	232
Great British pounds	1,852	1,366	1,346	36	38
Hong Kong dollars	1,421	1,490	1,010	(5)	41
Japanese yen	512	398	470	29	9
Other currencies	101	98	48	3	110
Total notes payable by currency	13,070	12,608	11,120	4	18

The Bank's primary tool for domestic and international debt issuance is its multi-currency, multi-jurisdictional Debt Instrument Programme. Securities can be issued for terms varying from one day to 30 years.

	As at/half year to		
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m
5. Contributed Ordinary Share Capital			
Opening balance of fully paid ordinary shares	1,382	1,465	1,137
— Issue of shares on exercise of options	64	36	84
— Issue of 842,601 shares on 2 July 2004 pursuant to the DRP at \$33.46 per share	28	—	—
— Issue of 36,192 shares on 16 January 2004 pursuant to the Employee Share Plan at \$33.87 per share ¹	—	1	—
— Issue of 1,020,072 shares on 19 December 2003 pursuant to the DRP at \$34.04 per share	—	35	—
— Issue of 3,908,671 shares on 2 July 2003 pursuant to the DRP at \$27.02 per share	—	—	106
— Issue of 4,857,315 shares on 25 September 2003 at \$30.88 per share pursuant to conversion of Converting Preference Shares ²	—	—	150
Balance of 219,760,994 fully paid ordinary shares before the on-market buy-back and cancellation of shares	1,474	1,537	1,477
On-market buy-back and cancellation of shares ²	—	(155)	(12)
Closing balance of 219,760,994 fully paid ordinary shares	1,474	1,382	1,465

¹ The value of these shares was expensed.

² On 25 September 2003, the Bank exercised its option under the Terms of Issue of the CPS and converted all 1.5 million CPS on issue to fully paid ordinary shares. The CPS were converted to ordinary shares at the rate of 3.24 ordinary shares for 1 CPS, resulting in the issue of 4,857,315 fully paid ordinary shares.

From September to December 2003, the Bank purchased on-market and subsequently cancelled all 4,857,315 fully paid ordinary shares that arose from the conversion of the CPS. The buy-back and cancellation was approved by the Australian Prudential Regulation Authority. The shares were acquired at an average price of \$34.42 per share.

A reconciliation of the movement in the number of shares is contained in section 3.5. ■■■■

3. Financial Information continued

	As at/half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
6. Retained earnings					
Balance at the beginning of the period	1,040	901	659	15	58
Change in accounting policy for provision for dividends at 1 April 2003	—	—	208	n/a	(100)
Dividends paid or provided on ordinary share capital	(151)	(113)	(208)	34	(27)
Profit after income tax attributable to MBL ordinary equity holders	284	252	242	13	17
Total retained earnings	1,173	1,040	901	13	30
7. Outside equity interests in controlled entities					
Macquarie Income Preferred Securities ¹					
— Proceeds on issue of Macquarie Income Preferred Securities	894	—	—	n/a	n/a
— Issue costs	(10)	—	—	n/a	n/a
	884	—	—	n/a	n/a
— Retained earnings	1	—	—	n/a	n/a
— Distribution provided	(1)	—	—	n/a	n/a
— Foreign currency translation reserve	(23)	—	—	n/a	n/a
	861	—	—	n/a	n/a
Other equity holders in controlled entities					
— Ordinary share capital	22	22	12	—	83
— Partnership capital	—	—	393	n/a	(100)
— Units in unit trusts	24	—	181	n/a	(87)
— Accumulated losses	(3)	(2)	(2)	50	50
	43	20	584	115	(93)
Total outside equity interests in controlled entities	904	20	584	large	55

¹ On 22 September 2004, Macquarie Capital Funding L.P., a Macquarie Group entity established to facilitate capital raising, issued £350 million of Tier 1 Capital-Eligible Securities (Macquarie Income Preferred Securities). The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The first coupon will be paid on 15 April 2005.

The issue is reflected in the Bank's financial statements as an outside equity interest of the economic entity, with distribution entitlements being included with the outside equity interest share of profit after tax.

	Half year to Sep 04			Half year to Mar 04			Half year to Sep 03		
	Av. balance \$m	Inc./ (exp.) \$m	Av. rate %	Av. balance \$m	Inc./ (exp.) \$m	Av. rate %	Av. balance \$m	Inc./ (exp.) \$m	Av. rate %
Average balance sheet									
Assets									
Interest bearing assets									
Cash and liquid assets	427	4	1.6	117	2	3.1	53	1	4.5
Securities purchased under resale agreement	8,833	201	4.5	6,196	139	4.5	4,057	92	4.5
Trading assets	4,173	113	5.4	3,715	98	5.3	2,950	75	5.1
Other securities	1,526	36	4.7	1,168	28	4.9	2,092	35	3.3
Loan assets	12,101	421	6.9	11,050	389	7.1	9,674	318	6.6
Other financial assets	205	4	4.0	5	—	5.3	24	1	4.8
Total interest bearing assets	27,265	779		22,251	656		18,850	522	
Total non-interest bearing assets	17,534			18,587			15,379		
Total assets	44,799			40,838			34,229		
Liabilities									
Interest bearing liabilities									
Due to other financial institutions	1,156	(19)	3.4	696	(9)	2.5	932	(12)	2.6
Securities sold under repurchase agreements	4,547	(99)	4.3	3,036	(68)	4.5	2,598	(62)	4.7
Securities borrowed	3,801	(102)	5.3	2,829	(76)	5.4	872	(23)	5.2
Deposits	4,527	(92)	4.1	4,903	(111)	4.5	3,818	(74)	3.9
Notes payable	12,904	(260)	4.0	11,646	(238)	4.1	9,960	(183)	3.7
Other liabilities	789	(18)	4.7	626	(14)	4.3	668	(12)	3.7
Loan capital									
Subordinated debt	915	(22)	4.9	844	(19)	4.6	594	(12)	4.1
Converting Preference Shares	—	—	—	—	—	—	145	(5)	7.4
Total interest bearing liabilities	28,639	(612)		24,580	(535)		19,587	(383)	
Total non-interest bearing liabilities	13,092			13,434			11,765		
Total liabilities	41,731			38,014			31,352		
Net assets	3,068			2,824			2,877		
Equity									
Contributed equity									
Ordinary share capital	1,424			1,378			1,251		
Macquarie Income Securities	391			391			391		
Retained earnings	1,093			976			833		
Total equity attributable to equity holders of the Bank	2,908			2,745			2,475		
Outside equity interests in controlled entities	160			79			402		
Total equity	3,068			2,824			2,877		

Average interest income and expense in relation to assets and liabilities set off in the Balance Sheet in accordance with Accounting Standards are not included in the above analysis. ■■■■

3. Financial Information continued

3.7 Contingent Liabilities

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Contingent liabilities exist in respect of:					
— Guarantees ^{1,2}	203	182	132	12	54
— Credit derivatives — purchased ³	62	60	1,070	3	(94)
— Underwriting facilities	451	476	602	(5)	(25)
— Indemnities	52	53	219	(2)	(76)
— Undrawn credit facilities	2,838	2,345	2,326	21	22
— Undrawn credit facilities — revocable at any time	1,439	1,563	1,588	(8)	(9)
— Other contingent liabilities ⁴	427	327	39	31	large
Total contingent liabilities	5,472	5,006	5,976	9	(8)

¹ All external guarantees, other than those noted for Macquarie Investment Management Limited (MIML) in 2 below, and letters of credit are provided by the Bank. Included in external guarantees are guarantees backed by cash of \$26 million (Sep 2003: \$13 million).

² MIML covenants that while it acts as the Responsible Entity of the Macquarie Cash Management Trust, unit holders in that trust will be paid upon redemption or repurchase of a unit issued prior to 28 April 1985, where the unit holder has continuously held units from 28 April 1985, not less than the sum of \$1.00: at 30 September 2004, this amounted to \$45 million (Mar 2004: \$44 million). At 31 March 2004 the audited financial report of the Macquarie Cash Management Trust discloses the value of units on issue and the income entitlement thereon aggregating to \$9.5 billion (Mar 2003: \$8.9 billion) and assets aggregating to \$9.6 billion (Mar 2003: \$9.0 billion).

³ The bank purchases credit derivatives to mitigate credit risks arising from client exposures.

⁴ Other contingent liabilities includes letters of credit, written put options, performance related contingents and forward purchases.

Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary, appropriate provisions have been made in the financial statements. The economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position.

3.8 Capital Adequacy

		As at			Movement on		
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %	
Capital Base							
Tier 1 Capital							
Ordinary share capital		1,474	1,382	1,465	7	1	
Retained earnings	1	1,064	936	845	14	26	
Macquarie Income Securities	2	391	391	391	—	—	
Macquarie Income Preferred Securities	2	240	—	—	n/a	n/a	
Outside equity interests	3	(15)	—	1	n/a	large	
Total Tier 1 Capital before							
Tier 1 Capital deductions		3,154	2,709	2,702	16	17	
Tier 1 Capital deductions:							
Retained earnings in deconsolidated controlled entities	4	(90)	(113)	(98)	(20)	(8)	
Equity investments in entities not in the field of finance	5	(608)	(350)	(305)	74	99	
Intangibles	6	(360)	(5)	(6)	large	large	
Net future income tax benefit	7	(28)	(80)	(66)	(65)	(58)	
Total Tier 1 Capital		2,068	2,161	2,227	(4)	(7)	
Tier 2 Capital							
Macquarie Income Preferred Securities		644	—	—	n/a	n/a	
General provision for credit losses	8	64	52	46	21	37	
Term subordinated debt	9	894	893	731	—	22	
Total Tier 2 Capital		1,602	945	777	70	106	
Total Capital deductions		10	(369)	(442)	(314)	(17)	18
Total Capital		3,301	2,664	2,690	24	23	
Risk-Weighted Assets		16,390	13,361	12,043	23	36	
Tier 1 Capital Ratio (%)		12.6	16.2	18.5			
Total Capital Ratio (%)		20.1	19.9	22.3			

An analysis of the reduction in Total Tier 1 Capital and growth in Total Capital for the half year ended 30 September 2004 is included on the following page.

A high level analysis of the growth in Risk-Weighted Assets for the half year ended 30 September 2004 is included in section 1.5 above, and a detailed analysis of the composition of Risk-Weighted Assets is included later in this section. ■■■

3. Financial Information continued

► Analysis of Capital Growth – half year ended 30 September 2004

	Note/ Ref	Tier 1 Capital \$m	Total Capital \$m
Balance as at 31 March 2004		2,161	2,664
<i>Movements in Ordinary Equity</i>			
Profit after income tax attributable to MBL ordinary equity holders		284	284
Interim 2005 dividend (net of DRP participation)	1	(109)	(109)
DRP relating to 2004 final dividend (net of estimated participation)	1	(19)	(19)
Shares created through the exercise of options	Sec 3.6	64	64
<i>Movements in Other Sources of Capital</i>			
Macquarie Income Preferred Securities eligible for inclusion as Tier 1 Capital	2	240	884
Decrease in outside equity interest	3	(15)	(15)
Increase in general provision for credit losses (net of applicable tax)	8	–	12
Increase in subordinated debt	9	–	1
<i>Movements in deductions</i>			
Decrease in retained earnings in deconsolidated controlled entities	4	23	23
Increase in equity investments not in the field of finance	5	(258)	(258)
Decrease in net future income tax benefit	7	52	52
Increase in intangibles	6	(355)	(355)
Decrease in total capital deductions	10	–	73
Balance as at 30 September 2004		2,068	3,301

Explanatory Notes Concerning Composition of Capital Base

1. Retained earnings included above in Tier 1 Capital can be reconciled to the Balance Sheet as follows:

	As at			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Retained earnings per Balance Sheet	1,173	1,040	901	13	30
Interim/final dividend not provided in Balance Sheet	(134)	(151)	(112)	(11)	20
Estimated DRP participation	25	47	56	(47)	(55)
Retained earnings included in Tier 1 Capital	1,064	936	845	14	26

In relation to the \$151 million ordinary dividends payable in July 2004, \$66 million was reinvested through the Dividend Reinvestment Plan. The \$19 million excess over the \$47 million reinvestment estimated at 31 March 2004 has been treated as an increase in capital in the half year ended 30 September 2004.

2. The Macquarie Income Preferred Securities balance is allocated between Eligible Tier 1 Capital and Eligible Tier 2 Capital based on APRA Prudential Standard APS 111, which restricts the proportion of eligible hybrids that can be included in Tier 1 Capital to 25% of the Bank's ordinary equity and outside equity interests, with any excess over this limit treated as Upper Tier 2 Capital.

3. The outside equity interests included in Eligible Tier 1 Capital may differ from the outside equity interests in the Equity category of the Balance Sheet, for example due to the exclusion of amounts relating to entities that are required to be deconsolidated.

4. Certain controlled entities of the Bank are required to be deconsolidated for Capital Adequacy purposes, for example those conducting insurance, funds management or non-financial (commercial) operations. Any portion of the consolidated retained earnings included in Tier 1 Capital that relates to these entities must be deducted from Tier 1 Capital. The increase in this amount during the half year ended 30 September 2004 is primarily due to base management and performance fees earned by funds management controlled entities that have not yet been repatriated to the parent entity. Equity investments in these entities are deducted from Total Capital.

5. APRA Prudential Standard APS 111 requires that equity investments in non-controlled entities that are not operating in the field of finance are deducted from Tier 1 Capital, unless certain criteria are met. These criteria allow the Bank to hold a portfolio of equity investments without incurring a Tier 1 Capital deduction where each individual investment does not exceed 0.25% of Tier 1 Capital and the total portfolio does not exceed 5% of Tier 1 Capital. Equity investments that do not meet these criteria must be deducted from Tier 1 Capital.

Equity investments that attract a Tier 1 Capital deduction as at 30 September 2004 include holdings in MAP, MCG, MCW, MEIF, SEW, MOF, KRIF, DUET and certain

investments in the trusts managed by Macquarie Direct Investment. The increase in this deduction compared to 31 March 2004 is due to additional stakes in entities not in the field of finance.

6. APRA requires that intangible assets are deducted from Tier 1 Capital. Intangibles deducted from Tier 1 Capital may differ to intangible assets in the Consolidated Balance Sheet for several reasons, for example the intangible assets relating to deconsolidated controlled entities. From 1 July 2004, APRA required predefined capitalised expenses to be deducted from Tier 1 Capital.

7. APRA also requires that the Future Income Tax Benefit (FITB) is deducted from Tier 1 Capital, net of any Deferred Tax Liability. This net FITB may differ from the FITB in the Consolidated Balance Sheet for several reasons, for example the FITB relating to deconsolidated controlled entities and FITB relating to the general provision for credit losses.

8. The Bank's general provision for credit losses qualifies as Upper Tier 2 Capital. The amount eligible for inclusion is calculated net of the related FITB. A reconciliation of the movement in the general provision for credit losses is set out in section 3.6.

9. The Bank's subordinated debt qualifies as Lower Tier 2 Capital; however APRA requires that the amount eligible for inclusion as Capital amortises by 20% per annum once the security is four years from maturity. Movements in subordinated debt are summarised in the table below.

10. Total Capital deductions include investments in non-consolidated subsidiaries, guarantees in relation to non-consolidated subsidiaries, first-loss guarantees and, from time to time, holdings of the capital instruments of other ADIs. The assets of non-consolidated controlled entities are excluded from the capital adequacy calculations.

Subordinated debt

	Balance at 31 Mar 04 \$m	Issued \$m	Matured \$m	Redeemed \$m	FX translation \$m	Amortisation \$m	Balance at 30 Sep 04 \$m
Balance Sheet amount	960	—	(65)	—	19	—	914
Amortisation	(67)	—	52	—	—	(5)	(20)
Tier 2 Capital amount	893	—	(13)	—	19	(5)	894



3. Financial Information continued

■ Risk-Weighted Assets

	Amount \$m	Risk weight %	Risk adjusted asset Sep 04 \$m	Risk adjusted asset Mar 04 \$m	Risk adjusted asset Sep 03 \$m
Balance sheet risk-weighted assets					
Cash, bullion, Commonwealth and State Governments	856	—	—	—	—
Local Governments, Non-Corporate Public Sector					
Entities, banks	2,269	20	454	529	636
Mortgage loans, stockbroking debtors	2,964	50	1,482	1,434	701
Other assets – 100% risk weighting	11,317	100	11,317	10,028	7,666
Trading book assets ¹	20,276	—	—	—	—
Other assets ²	4,432	—	—	—	—
Total assets	42,114		13,253	11,991	9,003
Less: attributable to APS 120 subsidiaries			(403)	(1,906)	(184)
Total balance sheet risk-weighted assets			12,850	10,085	8,819

¹ These items are included in the calculation of market risk risk-weighted assets

² Includes life insurance investment assets and assets generating capital deductions

	Nominal amount \$m	Credit conversion factor \$m	Credit equivalent amount \$m	Risk weight %	Risk adjusted asset Sep 04 \$m	Risk adjusted asset Mar 04 \$m	Risk adjusted asset Sep 03 \$m
Off-balance sheet risk-weighted assets							
Guarantees, letters of credit and endorsements	403	50-100	301	0-100	261	177	223
Forward purchases and undrawn commitments	3,083	0-100	1,078	0-100	930	723	509
Foreign exchange, interest rate and other market related transactions	220,633	n/a	5,437	0-50	1,849	1,767	1,526
Total off-balance sheet risk-weighted assets					3,040	2,667	2,258

	99% 10 day VAR \$m	Multiplier	Capital charge \$m	Conversion factor	Risk adjusted asset Sep 04 \$m	Risk adjusted asset Mar 04 \$m	Risk adjusted asset Sep 03 \$m
Market risk risk-weighted assets							
Interest rates – general market risk	8						
Equities – general market risk	6						
Equities – specific risk	—						
Foreign exchange and bullion	2						
Commodities	4						
Aggregate	8	3	24	12.5	295	383	664
Surcharge for equities event and default risk			—	12.5	—	31	82
Debt securities specific risk (standard method)			16	12.5	205	195	220
Total market risk risk-weighted assets					500	609	966
Total risk-weighted exposure					16,390	13,361	12,043

3.9 Funds Information

3.9 Funds information

	Ownership of management company ¹ %	Listing date	ASX Code	MBL Group holding ² %	Assets under management ³ As at		
					Sep 04 \$m	Mar 04 \$m	Sep 03 \$m
<i>Analysis of Assets Under Management</i>							
Specialist Funds							
Infrastructure							
Diversified Utility and Energy Trusts	50	Aug 04	DUE	5	1,653	—	—
Macquarie Airports ⁴	100	Apr 02	MAP	9	3,608	2,026	1,648
Macquarie Communications Infrastructure Group	100	Aug 02	MCG	31	997	990	1,005
Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund ⁵	100	Mar 04	Listed on NYSE	—	304	233	—
Macquarie Infrastructure Group	100	Dec 96	MIG	<1	11,451	10,401	10,365
Macquarie Power Income Fund	100	Apr 04	Listed on TSX	—	255	—	—
Southern Cross FLIERS	100	Aug 02	SCF	—	611	611	610
Hills Motorway ⁶	100	Dec 94	HLY	—	—	963	959
Horizon ⁷	100	Jan 00	HRZ	—	—	32	38
Total Listed Infrastructure					18,879	15,256	14,625
Global Infrastructure Funds (A-D)	100	Unlisted		—	304	254	270
Korean Road Infrastructure Fund	50	Unlisted		5	337	203	41
Macquarie Airports Group ⁴	100	Unlisted		—	—	1,025	860
Macquarie Essential Assets Partnership	100	Unlisted		7	131	71	28
Macquarie European Infrastructure Fund	100	Unlisted		12	257	—	—
Other Unlisted Infrastructure Funds					290	255	237
Total Unlisted Infrastructure					1,319	1,808	1,436
Total Infrastructure					20,198	17,064	16,061

¹ Ownership of the management company represents Macquarie's direct and indirect interest in the fund manager or, where more appropriate, its entitlement to profit of the manager.

Where Macquarie's ownership of the fund manager is less than 100%, the assets under management, net assets/equity under management and undrawn commitments shown in the table reflect Macquarie's proportional ownership of the fund manager. For example, where Macquarie owns 50% of the fund manager, the assets under management, net assets/equity under management and undrawn commitments shown above will be equivalent to 50% of the total assets, equity and commitments of the fund.

² MBL Group holding shows the percentage of Macquarie's equity investment in the fund, as at 30 September 2004.

³ Assets under management are the closing consolidated total assets of the fund, adjusted for cross holdings between Macquarie managed funds. Where the fund is listed, the assets under management are the total assets as per the latest publicly released financial statements of the fund, adjusted for any publicly announced acquisitions/divestments since the fund's reporting date.

⁴ Since May 2004, Macquarie Airports Group (MAG) has been consolidated into Macquarie Airports (MAP) with MAP having a controlling interest (61.6%) in MAG.

⁵ Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund is advised by First Trust Advisors LP, and is sub-advised by Macquarie Infrastructure Fund Advisor, LLC (MIFA) and Four Corners Capital Management LLC (Four Corners). MIFA and Four Corners are both members of the Macquarie Group.

⁶ Funds management rights of Hills Motorway Trust were sold in July 2004.

⁷ Horizon Energy Investment Group sold its only investment (a 25% interest in Loy Yang Power) on 8 April 2004, and was delisted on 29 April 2004.

3. Financial Information continued

	Ownership of management company ¹ %	Listing date	ASX Code	MBL Group holding ² %	Assets under management ³ As at		
					Sep 04 \$m	Mar 04 \$m	Sep 03 \$m
Property							
Macquarie CountryWide	100	Nov 95	MCW	8	1,638	1,380	1,295
Macquarie DDR	50	Nov 03	MDT	—	861	506	—
Macquarie Goodman	40	Jan 94	MGI	—	1,682	1,553	1,372
Macquarie Leisure	100	Jul 98	MLE	10	221	191	175
Macquarie Office	100	Nov 93	MOF	5	3,325	1,896	1,605
Macquarie ProLogis	50	Jun 02	MPR	—	760	568	687
			Listed on				
MCO CR-REIT	100	Jan 04	KSE	22	191	183	—
Total Listed Property					8,678	6,277	5,134
Total Unlisted Property					2,291	1,137	1,203
Total Property					10,969	7,414	6,337
Other					2,071	1,521	785
Total Specialist Funds					33,238	25,999	23,183
Funds Management and Financial Services							
Macquarie Funds Management	100				36,945	32,770	29,883
AmlInvestment Services Bhd/							
AmlInvestment Management Sdn Bhd	30				610	540	549
Macquarie-IMM Investment Mgt Co. Ltd	65				3,181	2,187	2,013
Other					438	1,093	1,088
Total Funds Management and Financial Services					41,174	36,590	33,533
Total Assets Under Management					74,412	62,589	56,716

¹ Ownership of the management company represents Macquarie's direct and indirect interest in the fund manager or, where more appropriate, its entitlement to profit of the manager.

Where Macquarie's ownership of the fund manager is less than 100%, the assets under management, net assets/equity under management and undrawn commitments shown in the table reflect Macquarie's proportional ownership of the fund manager. For example, where Macquarie owns 50% of the fund manager, the assets under management, net assets/equity under management and undrawn commitments shown above will be equivalent to 50% of the total assets, equity and commitments of the fund.

² MBL Group holding shows the percentage of Macquarie's equity investment in the fund, as at 30 September 2004.

³ Assets under management are the closing consolidated total assets of the fund, adjusted for cross holdings between Macquarie managed funds. Where the fund is listed, the assets under management are the total assets as per the latest publicly released financial statements of the fund, adjusted for any publicly announced acquisitions/divestments since the fund's reporting date.

	Net assets/equity under management ¹			Undrawn Commitments ²			Market Capitalisation ³		
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m
Specialist Funds									
Infrastructure									
Diversified Utility and Energy Trusts	251	—	—	—	—	—	622	—	—
Hills Motorway	—	418	436	—	—	—	—	1,221	1,173
Horizon	—	32	38	—	—	—	—	29	27
Macquarie Airports	3,313	1,666	1,358	—	—	—	3,169	1,809	1,638
Macquarie Communications Infrastructure Group	167	195	194	—	—	—	802	582	484
Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund	237	233	—	—	—	—	238	222	—
Macquarie Infrastructure Group	6,682	5,889	6,093	—	—	—	7,244	5,753	6,192
Macquarie Power Income Fund	209	—	—	—	—	—	239	—	—
Southern Cross FLIERS	611	611	610	—	—	—	681	682	657
Total Listed Infrastructure	11,470	9,044	8,729	—	—	—	12,995	10,298	10,171
Global Infrastructure Funds (A-D)	302	252	266	—	—	—	—	—	—
Korean Road Infrastructure Fund	325	193	41	430	337	388	—	—	—
Macquarie Airports Group	—	847	855	—	—	—	—	—	—
Macquarie Essential Assets Partnership	129	71	28	369	283	—	—	—	—
Macquarie European Infrastructure Fund	254	—	—	498	—	—	—	—	—
Other Unlisted Infrastructure Funds	271	247	229	244	104	28	—	—	—
Total Unlisted Infrastructure	1,281	1,610	1,419	1,541	724	416	—	—	—
Total Infrastructure	12,751	10,654	10,148	1,541	724	416	12,995	10,298	10,171
Property									
Macquarie CountryWide	1,049	817	721	—	—	—	1,220	961	838
Macquarie DDR	385	203	—	—	—	—	808	481	—
Macquarie Goodman	939	809	600	—	—	—	2,932	2,660	2,031
Macquarie Leisure	158	132	111	—	—	—	210	167	133
Macquarie Office Trust	1,095	1,058	1,004	—	—	—	1,158	1,133	986
Macquarie ProLogis	343	251	246	—	—	—	793	671	602
MCO CR-REIT	91	87	—	—	—	—	99	92	—
Total Listed Property	4,060	3,357	2,682	—	—	—	7,220	6,165	4,590
Total Unlisted Property	1,578	793	798	67	49	70	—	—	—
Total Property	5,638	4,150	3,480	67	49	70	7,220	6,165	4,590

¹ Net assets/equity under management is the closing total net assets attributable to ordinary shareholders of the fund, adjusted for cross holdings between Macquarie managed funds. Where the fund is listed, the net assets/equity under management are the total net assets as per the latest publicly released financial statements of the fund, adjusted for any publicly announced acquisitions/divestments since the fund's reporting date.

² Undrawn commitments are funds investors have committed to invest in the fund, which have yet to be drawn (also known as uncalled commitments).

³ Market capitalisation of listed funds is the closing market capitalisation of the fund at the end of the period. This is not adjusted for Macquarie's share of the fund manager. ■■■▶

3. Financial Information continued

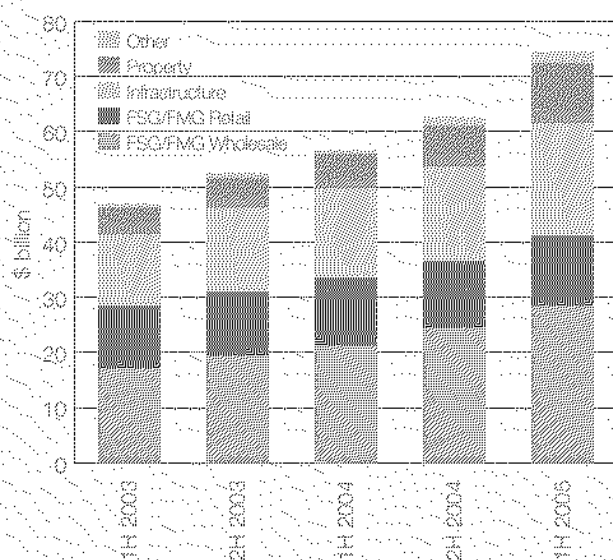
	Net assets/equity under management ¹			Undrawn Commitments ²			Market Capitalisation ³		
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m
Other	2,048	993	769	78	87	107			
Total Specialist Funds	20,437	15,797	14,397	1,686	860	593	20,215	16,463	14,761
Funds Management and Financial Services									
Macquarie Funds Management	36,945	32,770	29,883	598	491	—			
AmlInvestment Services Bhd/ AmlInvestment Management									
Sdn Bhd	610	540	549	—	—	—			
Macquarie-IMM Investment Mgt Co. Ltd	3,181	2,187	2,013	—	—	—			
Other	438	1,093	1,088	—	—	—			
Total Funds Management and Financial Services	41,174	36,590	33,533	598	491	—			
Total	61,611	52,387	47,930	2,284	1,351	593	20,215	16,463	14,761

¹ Net assets/equity under management is the closing total net assets attributable to ordinary shareholders of the fund, adjusted for cross holdings between Macquarie managed funds. Where the fund is listed, the net assets/equity under management are the total net assets as per the latest publicly released financial statements of the fund, adjusted for any publicly announced acquisitions/divestments since the fund's reporting date.

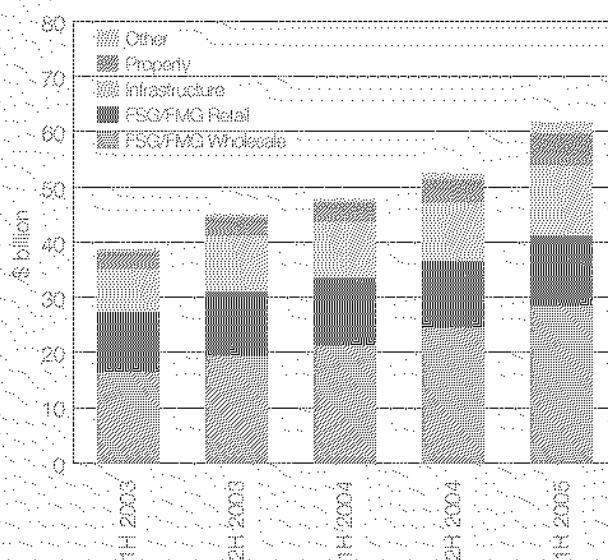
² Undrawn commitments are funds investors have committed to invest in the fund, which have yet to be drawn (also known as uncalled commitments).

³ Market capitalisation of listed funds is the closing market capitalisation of the fund at the end of the period. This is not adjusted for Macquarie's share of the fund manager.

Assets Under Management
by Specialist Fund Type



Net Assets/Equity Under Management
by Specialist Fund Type



	Half year to			Movement on	
	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Base fees					
Specialist Funds	95	77	75	23	27
Funds Management and Financial Services	84	83	82	1	2
	179	160	157	12	14
Performance fees					
Specialist Funds	48	51	167	(6)	(71)
Funds Management and Financial Services	3	2	4	50	(25)
	51	53	171	(4)	(70)
Total management fees	230	213	328	8	(30)
Share of fees from funds management joint ventures[†]					
Base fees	12	9	7	33	71
Performance fees	–	7	3	(100)	(100)
Total	242	229	338	6	(28)

Listed Funds Fees

The table below shows the fees earned by each listed fund and the total fees from unlisted funds for each period.

	ASX Code	Half year to			Movement on	
		Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Base Fee Income from Funds						
Listed Funds						
Infrastructure						
Hills Motorway	HLY	0.2	0.2	0.2	—	—
Horizon	HRZ	—	0.1	—	(100)	n/a
Macquarie Airports	MAP	12.4	9.0	7.2	38	72
Macquarie Communications Infrastructure Group	MCG	4.8	3.8	3.6	26	33
Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund	Listed on NYSE	0.8	—	—	n/a	n/a
Macquarie Infrastructure Group	MIG	39.4	36.1	38.8	9	2
Macquarie Power Income Fund	Listed on TSX	0.4	—	—	n/a	n/a
Southern Cross FLIERS	SCF	0.2	0.2	0.2	—	—
Property						
Macquarie CountryWide	MCW	2.9	2.4	2.1	21	38
Macquarie Leisure	MLE	0.7	0.6	0.4	17	75
Macquarie Office Trust	MOF	4.3	3.6	3.5	19	23
MCO CR-REIT	Listed on KSE	0.5	—	—	n/a	n/a
Unlisted Funds		112.7	104.0	101.2	8	11
Total base fee income		179.3	160.0	157.2	12	14

[†] These JVs are equity accounted and their results are included as equity accounted income (in "Net other Income" in section 2.5). The base management fees and performance fees included in this equity accounted income have been included in this table to provide a more complete view of the Bank's income from funds management activities.

3. Financial Information continued

		Half year			Movement on	
	ASX Code	Sep 04 \$m	Mar 04 \$m	Sep 03 \$m	Mar 04 %	Sep 03 %
Base Fee Income from Funds continued						
Listed Funds continued						
Listed JV Funds ¹						
Diversified Utility and Energy Trusts	DUE	0.2	—	—	n/a	n/a
Macquarie DDR	MDT	1.6	—	—	n/a	n/a
Macquarie Goodman	MGI	4.1	3.1	2.1	32	95
Macquarie ProLogis	MPR	1.3	1.1	1.2	18	8
Unlisted JV Funds ¹		4.4	4.7	3.9	(6)	13
Total base fee income including JV funds ¹						
		190.9	168.9	164.4	13	16
Performance Fee Income from Funds						
Listed Funds						
Infrastructure						
Macquarie Airports	MAP	25.2	0.7	—	large	n/a
Macquarie Communications Infrastructure Group	MCG	10.4	1.5	22.2	large	(53)
Macquarie Infrastructure Group	MIG	6.1	—	141.0	n/a	(96)
Property						
Macquarie CountryWide	MCW	—	1.9	3.0	(100)	(100)
Unlisted Funds		8.9	49.0	4.6	(82)	93
Total performance fee income						
		50.6	53.1	170.8	(5)	(70)
Listed JV Funds ¹						
Macquarie Goodman Industrial	MGI	—	6.9	—	(100)	n/a
Macquarie ProLogis	MPR	—	—	2.4	n/a	(100)
Unlisted JV Funds ¹		—	0.3	0.3	(100)	(100)
Total performance fee income including JV funds ¹						
		50.6	60.3	173.5	(16)	(71)

¹ These JVs are equity accounted and their results are included as equity accounted income (in "Net other income" in section 2.5). The base management fees and performance fees included in this equity accounted income have been included in this table to provide a more complete view of the Bank's income from fund management activities. ■■

4. Since Balance Date

- On 20 October 2004 Macquarie Bank Limited (MBL) announced its support for the merger of Macquarie Goodman Industrial Trust (MGI) and Macquarie Goodman Management Limited (MGM).

MBL has a 39.1% holding in MGM. The Bank will retain its entire stake in MGM, which will equate to 8.8% of the new entity to be known as the Macquarie Goodman Group. The merged group will remain an external manager of listed and unlisted third party funds.

Under the requirements of Australian Accounting Standards, MBL will account for its interest in the merger as a deemed disposal of 77.5% of its investment in MGM in exchange for the 8.8% interest in MGI. MBL will bring to account a pre-tax accounting profit of approximately \$255 million if shareholders and unitholders approve the transaction in a vote to be taken in late January 2005. The net accounting profit (after tax and provision for profit share) expected to be recognised is approximately \$80 million. ■

5. Summary Since Listing

■ The Bank's ordinary shares were listed on the Australian Stock Exchange on 29 July 1996.

	Years ended 31 March										First half
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Financial performance (\$ million)											
Total income from ordinary activities ¹	435	530	665	815	1,186	1,472	1,600	1,890	2,465	1,408	
Total expenses from ordinary activities ¹	336	392	498	597	885	1,147	1,245	1,430	1,780	1,003	
Profit from ordinary activities before income tax	99	138	167	218	301	325	355	460	685	405	
Income tax expense	6	21	26	53	79	53	76	96	161	105	
Profit from ordinary activities	93	117	141	165	222	272	279	364	524	300	
Macquarie Income Preferred Securities	—	—	—	—	—	—	—	—	—	1	
Outside equity interest	—	—	—	—	—	(1)	—	3	3	1	
Macquarie Income Securities distributions	—	—	—	—	12	31	29	28	27	14	
Profit from ordinary activities after income tax attributable to ordinary equity holders	93	117	141	165	210	242	250	333	494	284	
Financial position (\$ million)											
Total assets	5,174	6,142	7,929	9,456	23,389	27,848	30,234	32,462	43,771	42,114	
Total liabilities	4,746	5,642	7,348	8,805	22,154	26,510	27,817	29,877	40,938	38,172	
Net assets	428	500	581	651	1,235	1,338	2,417	2,585	2,833	3,942	
Risk weighted assets	4,030	4,686	4,967	4,987	8,511	9,860	10,651	10,030	13,361	16,390	
Total loan assets	2,688	2,682	3,158	4,002	6,518	7,785	9,209	9,839	10,777	12,110	
Impaired assets (net of provisions)	57	46	12	44	23	31	49	16	61	28	
Share information											
Cash dividends per share (cents per share)											
— Interim	—	18	21	30	34	41	41	41	52	61	
— Final	34.7 ²	25	30	38	52	52	52	52	70	n/a	
— Special	—	—	—	—	—	—	—	50	—	n/a	
— Total	34.7 ²	43	51	68	86	93	93	143	122	61	
Basic earnings per share (cents per share)	61.0 ²	74.9	88.1	101.3	124.3	138.9	132.8	164.8	233.0	130.6	
Share price at end of period (\$)	5.78 ²	8.50	14.35	19.10	26.40	27.63	33.26	24.70	35.80	36.32	
Ordinary share capital (million shares) ³	138.7	151.4	157.6	161.1	171.2	175.9	198.5	204.5	215.9	219.8	
Market capitalisation at end of period (fully paid ordinary shares) (\$ million)	832 ⁴	1,287	2,262	3,077	4,520	4,860	6,602	5,051	7,729	7,983	

¹ Statutory income and expenses. Not adjusted for businesses held for resale in the manner used throughout the rest of this report (as explained in section 2.5).

² Adjusted for June 1998 bonus issue.

³ Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.

⁴ Based on unadjusted share price of \$6.00.

	Years ended 31 March									First half
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Ratios										
Return on average ordinary shareholders' funds (%)	23.1	25.2	26.1	26.8	28.1	27.1	18.7	18.0	22.3	22.6
Payout ratio (excluding special dividend) (%)	61.0	60.5	57.9	67.2	70.0	67.5	73.6	56.8	53.2	47.2
Tier 1 ratio (%)	11.8	12.9	11.7	13.0	14.5	12.9	17.8	19.0	16.2	12.6
Capital adequacy ratio (%)	15.4	13.2	16.4	17.3	18.4	16.0	19.4	21.4	19.9	20.1
Impaired assets as % of loan assets (%)	2.3	1.7	0.4	1.1	0.3	0.4	0.5	0.2	0.6	0.2
Net loan losses as % of loan assets (%)	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.0	0.3	0.2
Assets under management (\$ billion)										
Listed	0.6	1.1	1.6	3.0	4.2	6.9	11.8	18.0	21.5	27.6
Unlisted										
— Retail	5.6	7.2	9.0	9.8	9.6	10.6	11.7	12.4	13.4	14.3
— Wholesale	7.6	8.6	10.8	10.0	12.5	13.4	17.8	21.9	27.7	32.5
Total assets under management	13.8	16.9	21.4	22.8	26.3	30.9	41.3	52.3	62.6	74.4
Staff numbers⁶	1,732	1,965	2,474	3,119	4,070	4,467	4,726	4,839	5,716	6,075

⁶ Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees). ■■■

6. Glossary

ADl	Authorised deposit-taking institution
Assets Under Administration	Assets/funds administered (as opposed to managed) by Macquarie
Assets Under Management	Gross assets of funds that Macquarie actively manages for the purpose of wealth creation, adjusted to: — exclude cross-holdings in funds — reflect the percentage ownership of the fund manager (e.g. 50% of Macquarie ProLogis assets and 40% of Macquarie Goodman assets are reported as AUM). The assets under management balances exclude undrawn commitments
APRA	Australian Prudential Regulation Authority
ATO	Australian Taxation Office
AUA	Refer Assets Under Administration
AUM	Refer Assets Under Management
Bank	Macquarie Bank Group
BPG	Banking and Property Group
Contingent Liabilities	Defined in paragraph 16.1 of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"
Converting Preference Shares	The Converting Preference Shares (CPS) were 1.5 million \$100 securities, which were converted to ordinary shares on 25 September 2003. While on issue they qualified as Tier 1 Capital and were treated as liabilities in the balance sheet, with related distributions charged to the Profit and Loss Statement as an interest expense.
CPS	Refer Converting Preference Shares
Dilutive Option	An option which has an exercise price that is less than the average share price for the period. Only dilutive options have an impact on the calculation of diluted earnings per share.
Dividend Reinvestment Plan	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in the company, with no transaction costs
DRP	Refer Dividend Reinvestment Plan
DUET	Diversified Utility and Energy Trusts
Earnings Per Share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 1027 "Earnings Per Share"
Effective Tax Rate	The income tax expense as a percentage of the profit before income tax adjusted for MIS distributions paid or provided
EMG	Equity Markets Group
Equities Related Income	Income that is derived from businesses that depend directly on equity markets e.g. stockbroking, equity capital markets and equity derivatives trading
Expense/Income Ratio	Total expenses expressed as a percentage of total income
FMG	Funds Management Group
FSG	Financial Services Group
Future Income Tax Benefit (FITB)	Defined in AASB 1020 "Accounting for Income Tax (Tax-Effect Accounting)"

General Provision for Credit Losses	The provision relating to loan losses inherent in a loan portfolio that have not been specifically identified
IBG	Investment Banking Group
Impaired Assets	An asset for which the ultimate collectibility of principal and interest is compromised
International Income	The location of revenue (i.e. international or domestic) is determined by reference to where the work is performed (for work performed by offshore offices) or the location of the client/assets (for work performed in Australia for overseas clients/counterparties). The international income % of total income is based on total income excluding earnings on capital.
IPO	Initial Public Offering
KRIF	The Korean Road Infrastructure Fund, an unlisted fund investing predominantly in South Korean toll roads, tunnels and bridges
KSE	Korean Stock Exchange
Lower Tier 2 Capital	Refer Tier 2 Capital
M&A	Mergers and acquisitions
Macquarie	Macquarie Bank Group
Macquarie Income Preferred Securities	On 22 September 2004, Macquarie Capital Funding L.P., a Macquarie Group entity established to facilitate capital raising, issued £350 million of Tier 1 Capital-Eligible Securities (Macquarie Income Preferred Securities). The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The first coupon will be paid on 15 April 2005. The issue is reflected in the Bank's financial statements as an outside equity interest of the economic entity, with distributions being recorded to the outside equity interest.
Macquarie Income Securities	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 4 million \$100 face value MIS on issue.
Macquarie Securities Asia	Previously ING International Holdings Limited
MAG	Macquarie Airports Group, a private equity airport investment fund
MAp, MAP	Macquarie Airports, a listed Australian fund focused on investment in airports
MBL	Macquarie Bank Limited
MCG	Macquarie Communications Infrastructure Group, a listed Australian fund with investment in communications infrastructure
MCW	Macquarie CountryWide Trust
MCO CR-REIT	Macquarie Central Office Corporate Restructuring REIT
MDT	Macquarie DDR Trust

6. Glossary continued

MEIF	Macquarie European Infrastructure Fund
METC	Michigan Electric Transmission Company
MGI	Macquarie Goodman Industrial Trust
MGM	Macquarie Goodman Management Limited
MIG	Macquarie Infrastructure Group
MIPS	Refer Macquarie Income Preferred Securities
MLE	Macquarie Leisure Trust Group
MOF	Macquarie Office Trust
MPR	Macquarie ProLogis Trust
MIS	Refer Macquarie Income Securities
Net fee and commission income	Fee and commission income less fee and commission expenses
Net interest income	Interest income less interest expense
Net loan losses	The impact on the Profit & Loss 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 Profit & Loss statement
Net other income	Other income less other expenses. This captures income that does not fit into one of the other statutory categories, i.e. net interest income, net fee and commission income or trading income.
Net Tangible Assets per Ordinary Share	(Total equity less Macquarie Income Securities less Outside equity interests less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets of businesses held for resale) divided by the number of ordinary shares on issue at the end of the period
Payout ratio	The interim/final dividend relating to the period expressed as a percentage of the profit after income tax attributable to the Bank's ordinary shareholders. The dividend does not necessarily need to be paid or provided as at the balance date. Special dividends are excluded.
pop	Prior corresponding period
REIT	Real Estate Investment Trust
Return on equity	The profit after income tax attributable to the Bank's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period
Risk-Weighted Assets	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy, as outlined in AGN 110.4 (referred to in this Guidance Note as risk-weighted exposures)
SEW	South East Water
SPE	Special Purpose Entity
Subordinated debt	Debt issued by the Bank for which agreements between the Bank 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 the Bank. They are classified as liabilities in the Balance Sheet and may be included in Tier 2 capital as explained in note 9 in section 3.8.
T&C	Treasury and Commodities Group

Tier 1 Capital	A capital measure defined by APRA in paragraphs 4 and 5 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.1, net of any applicable Tier 1 Capital deductions.
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4.
Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of Risk-Weighted Assets.
Tier 2 Capital	A capital measure defined by APRA in paragraphs 6 (Upper Tier 2) and 7 (Lower Tier 2) of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.2.
Total Capital	Tier 1 Capital <i>plus</i> Tier 2 Capital <i>less</i> Total Capital Deductions.
Total Capital Deductions	An amount deducted in determining Total Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4.
Total Capital Ratio	Total Capital expressed as a percentage of Risk-Weighted Assets.
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.
TSX	Toronto Stock Exchange
Upper Tier 2 Capital	Refer Tier 2 Capital ■■

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