MACQUARIE
BANK

Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2012

Dated: November 9, 2012

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2012 ("2013 Interim U.S. Disclosure Report" or this "Report"), unless otherwise specified or the context otherwise requires:

- *"2012 Annual U.S. Disclosure Report"* means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2012 and the documents incorporated by reference therein;

- *"2012 Interim Directors' Report and Financial Report"* means our 2012 Interim Directors' Report and Financial Report;

- *"2013 interim financial statements"* means our unaudited financial statements for the half year ended September 30, 2012 contained in our 2013 Interim Directors' Report and Financial Report; and

- *"2013 Interim Directors' Report and Financial Report"* means our 2013 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain definitions" beginning on page ii of our 2012 Annual U.S. Disclosure Report, which is posted on MBL's U.S. investors' website at www.macquarie.com/mgl/com/us/usinvestors/mbl ("*MBL's U.S. Investors' Website*").

Our fiscal year ends on March 31, so references to years such as "2013" or "fiscal year" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operation and financial condition, references such as "half year" and like references are to the six months ending on September 30 of the preceding year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). Examples of these forward-looking statements include, but are not limited to (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “probability”, “risk”, and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

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

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

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

- the ability of MBL to attract and retain employees;

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

- adverse impact on our reputation; and

- various other factors beyond our control.

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

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

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

Significant risk factors applicable to MBL Group are described under “Risk factors” beginning on page 10 of our 2012 Annual U.S. Disclosure Report. Other factors are discussed under “Management’s discussion and analysis of interim results of operation and financial condition” in this Report and in the “Management’s discussion and analysis of results of operation and financial condition” in the 2012 Annual U.S. Disclosure Report.

EXCHANGE RATES

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

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. The noon buying rate on November 2, 2012, was US$1.0367 per A$1.00.

Fiscal year	Period End	Average Rate[1]	High	Low
2008	0.9132	0.8683	0.9463	0.7860
2009	0.6925	0.7948	0.9797	0.6073
2010	0.9169	0.8507	0.9369	0.6941
2011	1.0358	0.9450	1.0358	0.8172
2012	1.0367	1.0546	1.0803	1.0326
Month	**Period End**		**High**	**Low**
June 2012	1.0236		1.0236	0.9688
July 2012	1.0522		1.0522	1.0131
August 2012	1.0334		1.0591	1.0301
September 2012	1.0388		1.0561	1.0195
October 2012	1.0370		1.0397	1.0188
November 2012 (through November 2)	1.0367		1.0402	1.0367

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

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under "Financial information presentation" beginning on page x of our 2012 Annual U.S. Disclosure Report.

Recent changes to operating groups and reporting segments

During the half year ended September 30, 2012, there were a number of business and asset transfers between operating segments. These transfers were undertaken to better align the relevant assets with the expertise in each operating group. As part of this realignment, the Real Estate Banking division is now reported as part of the Corporate segment. Comparative information presented in this document has been restated to reflect the current operating structure.

Investors should note that while the unaudited financial information for the half year ended September 30, 2012 presents our current operating segments in accordance with AASB 8 "Operating Segments" following internal asset transfers, and while in our 2013 interim financial statements we restated the comparative information for the half year ended September 30, 2011 to reflect these internal asset transfers, we were not required to restate the operating segment presentation in the financial statements for earlier fiscal years or interim periods. As a result, the operating segment presentation reported in our 2012 annual financial statements and our financial statements for prior fiscal years or interim periods have not been restated to reflect our current reportable operating segments as at September 30, 2012. Further, the audit and review reports on those historical financial statements report on historical financial statements that have not been re presented on the same basis that our 2013 interim financial statements have been prepared.

For further detail on our segment reporting, see Note 3 to our 2013 interim financial statements.

Certain differences between AGAAP and US GAAP

For further information on certain differences between AGAAP and US GAAP, see "Financial information presentation — Certain differences between AGAAP and US GAAP" beginning on page xi of our 2012 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments

For further information on our critical accounting policies and significant judgments, see "Management's discussion and analysis of results of operation and financial condition — Critical accounting policies and significant judgments" beginning on page 60 of our 2012 Annual U.S. Disclosure Report.

Non-GAAP financial measures

We report our financial results in accordance with AGAAP. However, we include certain financial measures and ratios that are not prepared in accordance with AGAAP that we believe provide useful information to users in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by AGAAP and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AGAAP. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report. For further information on our non-GAAP financial measures, see "Financial information presentation — Non-GAAP financial measures" beginning on page xii of our 2012 Annual U.S. Disclosure Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 41 to our 2012 annual financial statements.

The significant risk factors applicable to MBL Group are described under “Risk factors” beginning on page 10 of our 2012 Annual U.S. Disclosure Report.

CAPITALIZATION, INDEBTEDNESS AND CAPITAL ADEQUACY

The following table sets forth our capitalization as at September 30, 2012.

The information relating to MBL Group in the following table is based on our 2013 interim financial statements, which were prepared in accordance with AGAAP, and should be read in conjunction therewith.

	As at	
	Sep 12	**Sep 12**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	20,119	19,368
Subordinated debt — due greater than 12 months	2,053	1,976
Total borrowings[2]	22,172	21,344
Equity		
Ordinary share capital	7,872	7,578
Equity contribution from ultimate parent entity	118	113
Macquarie Income Securities	406	391
Reserves	(659)	(634)
Retained earnings	1,196	1,151
Macquarie Income Preferred Securities	66	64
Other non-controlling interests	5	5
Total equity	**9,004**	**8,668**
TOTAL CAPITALIZATION	**31,176**	**30,012**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At September 30, 2012, we had A$7.2 billion of secured indebtedness due in greater than 12 months compared to A$8.5 billion at March 31, 2012.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$10.0 billion as at September 30, 2012 and securitizations totaled A$12.0 billion as at September 30, 2012 compared to A$11.4 billion and A$13.0 billion, respectively, as at March 31, 2012.

For details on our short-term debt position as at September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Liquidity — Funding profile for the Banking Group" in this Report.

Capital adequacy

The following table sets forth our capital adequacy and risk-weighted assets as at September 30, 2012 and has been prepared on an APRA Basel II basis.

	As at			Movement
	Sep 12 US$m[1]	Sep 12 A$m	Sep 11 A$m	%
Tier 1 capital				
Paid-up ordinary share capital	7,988	7,690	7,689	<1
Reserves	(615)	(592)	(185)	220
Retained earnings	968	932	1,260	(26)
Innovative Tier 1 capital	719	692	457	51
Gross Tier 1 capital	**9,060**	**8,722**	**9,221**	(5)
Deductions from Tier 1 capital				
Goodwill	138	133	143	(7)
Deferred tax assets	127	122	123	(1)
Changes in the ADI's own creditworthiness on banking book liabilities	33	32	82	(61)
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	585	563	631	(11)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	84	81	97	(16)
Other Tier 1 capital deductions	246	237	279	(15)
Deductions from Tier 1 capital only	**1,213**	**1,168**	**1,355**	(14)
Other 50/50 deductions from Tier 1 capital				
Non-subsidiary entities exceeding prescribed limits (50%)	253	244	295	(17)
Non-consolidated subsidiaries (50%)	232	223	217	3
All other deductions relating to securitization (50%)	29	28	260	(89)
Shortfall in provisions for credit losses (50%)	71	68	58	17
Other 50/50 deductions from Tier 1 capital (50%)	29	28	69	(59)
50/50 deductions from Tier 1 capital	**614**	**591**	**899**	(34)
Total Tier 1 capital only deductions	**1,827**	**1,759**	**2,254**	(22)
Net Tier 1 capital	**7,233**	**6,963**	**6,967**	<1
Tier 2 capital				
Upper Tier 2 capital:				
Other upper Tier 2 capital instruments	64	62	136	(54)
Lower Tier 2 capital:				
Term subordinated debt	1,766	1,700	2,557	(34)
Gross Tier 2 capital	**1,830**	**1,762**	**2,693**	(35)
Deductions from Tier 2 capital				
Total 50/50 deductions from Tier 2 capital	**614**	**591**	**899**	(34)
Total Tier 2 capital deductions	**614**	**591**	**899**	(34)
Net Tier 2 capital	**1,216**	**1,171**	**1,794**	(35)
Total capital base	**8,450**	**8,134**	**8,761**	(7)

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

	As at			Movement[3]
	Sep 12	Sep 12	Sep 11	
	US$m[1]	A$m	A$m	%
Credit risk – Risk-Weighted Assets (RWA)				
Subject to FIRB approach:				
Corporate	6,381	15,769	20,229	(22)
SME Corporate[2]	1,438	1,384	-	100
Sovereign	799	769	899	(14)
Bank	1,641	1,580	3,279	(52)
Residential mortgage	2,126	2,047	1,539	33
Other retail	3,905	3,759	2,340	61
Total RWA subject to FIRB approach	**26,290**	**25,308**	**28,286**	(11)
Specialized lending exposures subject to slotting criteria	**4,762**	**4,584**	**3,713**	23
Subject to standardized approach:				
Corporate	687	661	2,998	(78)
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential mortgage	655	631	608	4
Other retail	1,347	1,297	2,065	(37)
Total RWA subject to standardized approach	**2,689**	**2,589**	**5,671**	(54)
Credit risk RWA for securitization exposures	577	555	1,228	(55)
RWA for other assets	5,304	5,106	4,477	14
Total credit risk RWA	**39,622**	**38,142**	**43,375**	(12)
Equity risk exposures RWA	1,998	1,924	2,173	(11)
Market risk RWA	4,446	4,280	3,889	10
Operational risk RWA	6,689	6,439	6,467	*
Interest rate risk in banking book RWA	-	-	-	-
APRA scaling factor (6%) applied to IRB exposures	1,578	1,519	1,697	(10)
Total MBL Group RWA	**54,333**	**52,304**	**57,601**	(9)
Capital ratios				
MBL Group Tier 1 capital ratio (%)	13.3	13.3	12.1	
MBL Group Total capital ratio (%)	15.6	15.6	15.2	

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 During the half year ended September 30, 2012, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to Small and Medium sized Enterprise (SME) Corporate's risk-weighted assets was previously captured under the standardized approach.

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

SELECTED FINANCIAL INFORMATION

Half years ended September 30, 2012 and 2011

The summary consolidated statement of financial position data as at September 30, 2012 and 2011 and income statement data for the half years ended September 30, 2012 and 2011 presented in this Report have been derived from our 2013 interim financial statements, which PricewaterhouseCoopers has reviewed but not audited and which, in the opinion of our management, have been prepared on the same basis as our audited consolidated historical financial statements and include all adjustments necessary for a fair statement of our operating results and financial position for those periods and as of those dates. See "Financial information presentation" in this Report for further information. In addition, investors should read the following selected financial information together with the discussion under "Selected financial information" beginning on page 23 of our 2012 Annual U.S. Disclosure Report, "Management's discussion and analysis of interim results of operation and financial condition" in this Report and "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2012 Annual U.S. Disclosure Report. The summary unaudited financial data for the half year ended September 30, 2012 is not necessarily indicative of our results for the fiscal year ending March 31, 2013 and our historical results are not necessarily indicative of our results for any future period.

The historical interim financial information in the following tables has been extracted from our 2013 interim financial statements.

Income statements

	Half year ended		
	Sep 12	**Sep 12**	**Sep 11**
	US$m[1]	**A$m**	**A$m**
Interest and similar income	2,284	2,199	2,701
Interest expense and similar charges	(1,571)	(1,513)	(1,872)
Net interest income	**713**	**686**	**829**
Fee and commission income	797	767	625
Net trading income	601	579	408
Share of net profits of associates and joint ventures accounted for using the equity method	28	27	15
Other operating income and charges	210	202	260
Net operating income	**2,349**	**2,261**	**2,137**
Employment expenses	(712)	(686)	(732)
Brokerage and commission expenses	(321)	(309)	(318)
Occupancy expenses	(74)	(71)	(72)
Non-salary technology expenses	(42)	(40)	(49)
Other operating expenses	(647)	(623)	(683)
Total operating expenses	**(1,796)**	**(1,729)**	**(1,854)**
Operating profit before income tax	**553**	**532**	**283**
Income tax expense	(162)	(156)	(58)
Profit after income tax	**391**	**376**	**225**
Profit attributable to non-controlling interests:			
Macquarie Income Preferred Securitites	(2)	(2)	(2)
Other non-controlling interests	-	-	(1)
Profit/(loss) attributable to non-controlling interests	**(2)**	**(2)**	**(3)**
Profit attributable to equity holders of Macquarie Bank Limited	**389**	**374**	**222**
Distributions paid or provided for on Macquarie Income Securities	(12)	(11)	(13)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**377**	**363**	**209**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

Statement of financial position

	As at		
	Sep 12	Sep 12	Sep 11
	US$m[1]	A$m	A$m
ASSETS			
Receivables from financial institutions	8,758	8,431	9,024
Cash collateral on securities borrowed and reverse repurchase agreements	7,694	7,407	5,894
Trading portfolio assets	15,018	14,457	14,375
Derivative assets	22,416	21,579	34,064
Investment securities available-for-sale	18,976	18,267	19,409
Other assets	6,857	6,601	9,173
Loan assets held at amortized cost	48,343	46,537	44,934
Other financial assets at fair value through profit or loss	5,099	4,909	9,097
Life investment contracts and other unit holder investment assets	6,298	6,063	4,760
Due from related body corporate entities	796	766	1,313
Property, plant and equipment	4,962	4,776	4,648
Interests in associates and joint ventures accounted for using the equity method	615	592	771
Intangible assets	862	830	934
Deferred tax assets	122	117	108
Total assets	**146,816**	**141,332**	**158,504**
LIABILITIES			
Cash collateral on securities lent and repurchase agreements	8,892	8,560	8,571
Trading portfolio liabilities	3,515	3,384	4,346
Derivative liabilities	21,732	20,920	32,171
Deposits	41,345	39,801	37,833
Current tax liabilities	38	37	27
Other liabilities	6,677	6,428	9,059
Payables to financial institutions	4,540	4,370	4,995
Other financial liabilities at fair value through profit or loss	1,032	993	2,103
Life investment contracts and other unit holder liabilities	6,282	6,047	4,759
Due to related body corporate entities	3,631	3,495	4,856
Debt issued at amortized cost	37,358	35,963	37,365
Provisions	98	94	87
Deferred tax liabilities	619	596	296
Total liabilities excluding loan capital	**135,759**	**130,688**	**146,468**
Loan capital			
Subordinated debt at amortized cost	2,053	1,976	2,447
Subordinated debt at fair value through profit or loss	-	-	149
Total liabilities	**137,812**	**132,664**	**149,064**

[1] Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2012, which was US$1.0388 per A$1.00. See "Exchange rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

Net assets	**9,004**	**8,668**	**9,440**
EQUITY			
Contributed equity	8,396	8,082	8,080
Reserves	(659)	(634)	(326)
Retained earnings	1,196	1,151	1,613
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**8,933**	**8,599**	**9,367**
Non-controlling interests			
Macquarie Income Preferred Securities	66	64	66
Other non-controlling interests	5	5	7
Total equity	**9,004**	**8,668**	**9,440**

Other financial data

	As at	
	Sep 12	**Sep 11**
Ratios		
Net loan losses as a percentage of loan assets (annualized %)[1]	0.5	0.3
Ratio of earnings to fixed charges[2]	1.4x	1.2x
Expense/income ratio (%)[3]	76.5	86.8
Tier 1 regulatory capital ratio (%)[4]	13.3	12.1
Total regulatory capital ratio (%)[4]	**15.6x**	**15.2**

[1] Net loan losses as a percentage of loan assets excludes amounts relating to mortgage securitization special purpose entities. MBL's exposure in relation to these entities is largely mitigated by credit insurance. As a result, any loan losses in these vehicles do not have a material effect on our results.

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

[3] Total operating expenses expressed as a percentage of net operating income.

[4] Prepared on an APRA Basel II basis.

RECENT DEVELOPMENTS

The following are significant recent developments for MBL Group that have occurred since the release of our 2012 Annual U.S. Disclosure Report on May 11, 2012. Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under "Risk factors" beginning on page 10 and under "Macquarie Bank Limited" beginning on page 26 of our 2012 Annual U.S. Disclosure Report and other information posted on MBL's U.S. Investors' Website.

Recent Board and management changes

In addition to the board and management changes described under "Macquarie Bank Limited — Recent Board and management changes during the 2012 fiscal year" on page 26 of our 2012 Annual U.S. Disclosure Report, MBL Group appointed David Bennett to the role of Group Treasurer, effective October 8, 2012. Mr. Bennett joined MGL in 1999 following the acquisition of Bankers Trust and was appointed an Executive Director in 2001. He holds a Bachelor of Commerce and has over 30 years of experience in debt markets.

On November 9, 2012, MGL Group announced that Michael Coleman had been appointed to the MGL and MBL Boards, effective November 9, 2012. Mr. Coleman is currently Deputy Chairman of the Financial Reporting Council, a member of the Audit Committee of the Reserve Bank of Australia, Chairman of the Reporting Committee of the Australian Institute of Company Directors and a member of the Advisory Board of Norton Rose Australia. He is also Chairman of Planet Ark Environmental Foundation, Chair of the Advisory Board of the Centre for Accounting and Assurance Services Research at the University of New South Wales and a Director of Osteoporosis Australia, and was previously Chairman of ING Management Limited. Previously, he was an audit partner at KPMG for 30 years. Mr. Coleman holds a Master of Commerce from the University of New South Wales.

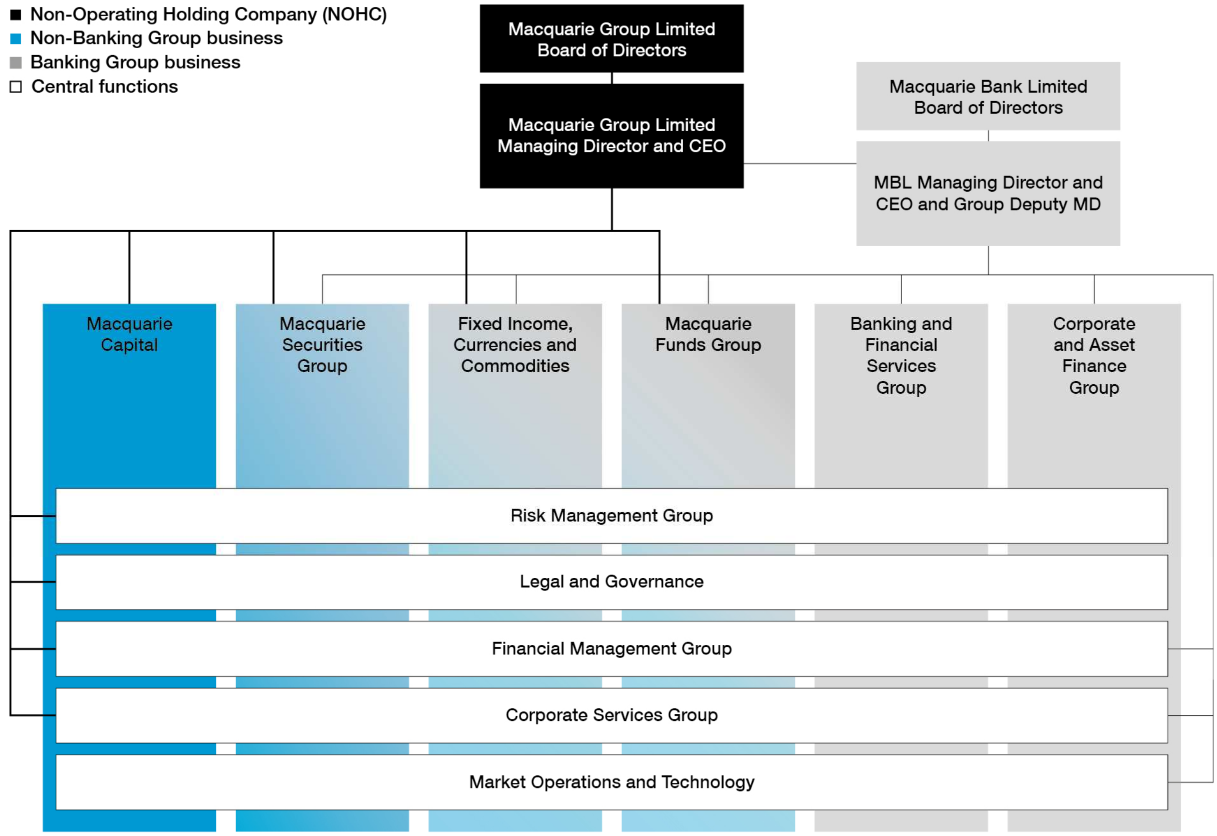
Organizational structure

MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises five operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division); Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities) and Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions).

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and currently comprises five central functions: Risk Management, Legal and Governance, Financial Management, Corporate Services, and Market Operations and Technology. From January 1, 2013, the Corporate Services and Market Operations and Technology divisions will combine to form the Corporate Operations Group. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Media Relations, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

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

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



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

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

Our key strengths

For a description of our key strengths, see "Macquarie Bank Limited — Our key strengths" on page 29 of our 2012 Annual U.S. Disclosure Report.

At September 30, 2012, MBL had a Tier 1 Capital ratio of 13.3% and a total capital ratio of 15.6%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on our regulatory capital position as at September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Capital analysis" in this Report.

Our strategy

Our strategy is set out under "Macquarie Bank Limited — Our strategy" on page 31 of our 2012 Annual U.S. Disclosure Report. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MBL Group in the medium term.

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

Overview of MBL Group

At September 30, 2012, MBL had total assets of A$141.3 billion and total equity of A$8.7 billion. For the half year ended September 30, 2012, our net operating income was A$2.3 billion and profit after tax attributable to ordinary equity holders was A$363 million, with 40% of MBL Group's revenues from external customers derived from regions outside Australia.

The tables below show the relative revenues from external customers and profit contribution of each of our operating groups in the half years ended September 30, 2012 and 2011.

Revenues from external customers of MBL Group by operating group for the half years ended September 30, 2012 and 2011[1]

	Half year ended		
	Sep 12	**Sep 11**	**Movement**
	A$m	**A$m**	**%**
Macquarie Funds[2]	750	578	30
Corporate & Asset Finance	918	940	(2)
Banking & Financial Services	1,065	1,058	1
Macquarie Securities[3]	145	156	(7)
Fixed Income, Currencies & Commodities[4]	834	745	12
Total revenues from external customers by operating group	**3,712**	**3,477**	7
Corporate[5]	523	594	(12)
Total revenues from external customers	**4,235**	**4,071**	4

[1] For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment overview" and Note 3 to our 2013 interim financial statements.

[2] Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division that remains part of the Non-Banking Group.

[3] Macquarie Securities as reported for MBL Group excludes the Cash division and certain activities of the Derivatives division in certain jurisdictions that remains part of the Non-Banking Group.

[4] Fixed Income, Currencies & Commodities as reported for MBL Group excludes certain assets of the Credit Trading business and some other less financially significant activities that remains part of the Non-Banking Group.

[5] The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. During the half year ended September 30, 2012, the legacy assets of the former Real Estate Banking division were also transferred to the Corporate segment. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

Profit contribution of MBL Group by operating group for the half years ended September 30, 2012 and 2011[1]

	Half year ended		
	Sep 12	Sep 11	Movement[6]
	A$m	A$m	%
Macquarie Funds[2]	144	182	(21)
Corporate & Asset Finance	330	359	(8)
Banking & Financial Services	185	147	26
Macquarie Securities[3]	(46)	(70)	(34)
Fixed Income, Currencies & Commodities [4]	170	8	*
Total contribution to profit by operating group	**783**	**626**	25
Corporate[5]	(420)	(417)	1
Net profit after tax	**363**	**209**	74

1 For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment overview" and Note 3 to our 2013 interim financial statements.

2 Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

3 Macquarie Securities as reported for MBL Group excludes the Cash division and certain activities of the Derivatives division in certain jurisdictions that remains part of the Non-Banking Group.

4 Fixed Income, Currencies & Commodities as reported for MBL Group excludes certain assets of the Credit Trading business and some other less financially significant activities that remains part of the Non-Banking Group.

5 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. During the half year ended September 30, 2012, the legacy assets of the former Real Estate Banking division were also transferred to the Corporate segment. Profit contribution reflected above for the Corporate segment represent net interest income on deposits held with external banks.

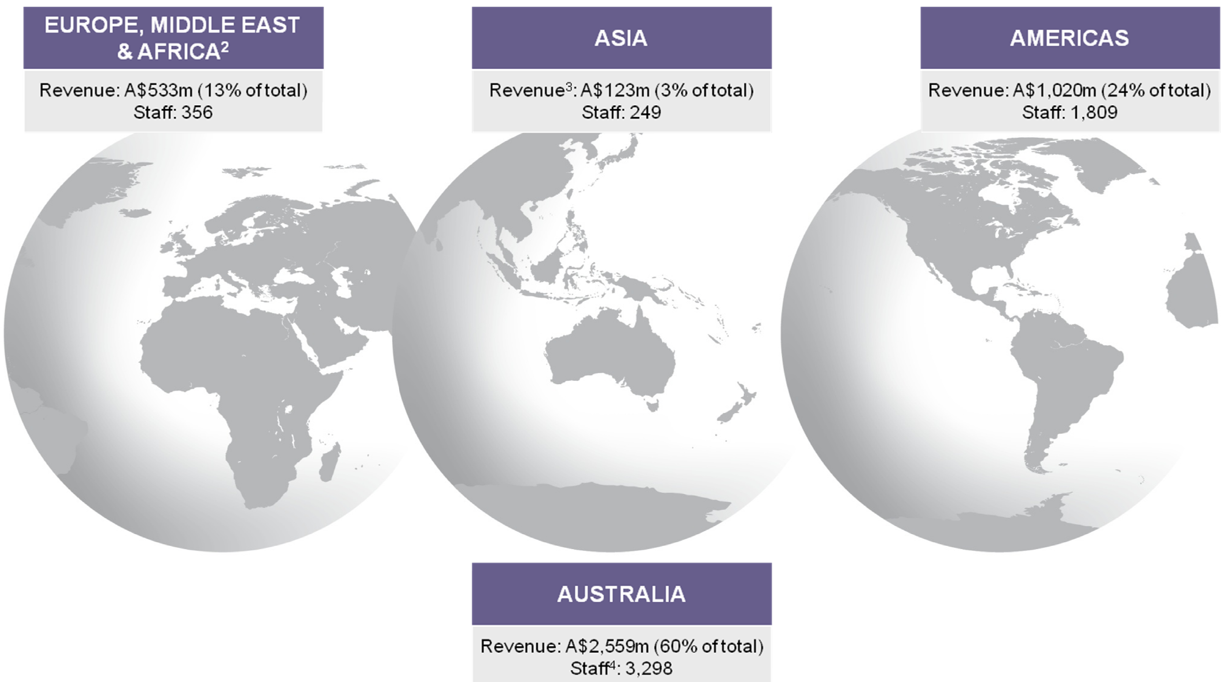
6 "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Regional activity

At September 30, 2012, MBL Group employed 5,712 staff globally and conducted its operations in 21 countries.

The chart below shows MBL Group's revenues from external customers by region in the half year ended September 30, 2012.

Revenues from external customers of MBL Group[1] by region for the half year ended September 30, 2012



1 For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to the half year ended September 30, 2011 — Segment overview" and Note 3 to our 2013 interim financial statements.

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

3 Revenue relating to New Zealand included in Asia.

4 Headcount relating to New Zealand included in Australia.

Australia. MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at September 30, 2012, MBL Group employed over 3,200 staff across Australia and New Zealand. In the half year ended September 30, 2012, Australia contributed A$2.6 billion (60%) of our revenues from external customers as compared to A$2.5 billion (61%) in the half year ended September 30, 2011.

Americas. MBL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994, and has grown rapidly over the last three years, principally through acquisitions of Delaware Investments, Blackmont and Constellation Energy, and the growth of our Energy Trading and Credit Trading businesses. As at September 30, 2012, MBL Group employed over 1,800 staff across the United States, Canada and Brazil. In the half year ended September 30, 2012, the Americas contributed A$1.0 billion (24%) of our revenues from external customers as compared to A$1.0 billion (25%) in the half year ended September 30, 2011.

Asia. MBL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at September 30, 2012, MBL Group employed over 200 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Phillipines, Singapore and Taiwan. MBL expanded the regional investment and product platforms of Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division), Corporate & Asset Finance as well as Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities), which established an Asian regional "hub" in Singapore in the 2011 fiscal year. In the half year ended September 30, 2012, Asia contributed A$123 million (3%) of our revenues from external customers as compared to A$117 million (3%) in the half year ended September 30, 2011.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2012, MBL Group employed over 300 staff across the United Kingdom, Germany, Austria, Switzerland and Dubai. In the half year ended September 30, 2012, Europe, Middle East & Africa contributed A$533 million (13%) of our revenues from external customers as compared to A$443 million (11%) in the half year ended September 30, 2011.

For further information on our segment reporting, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment overview" and Note 3 to our 2013 interim financial statements.

Recent developments within MBL Group

Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)

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

Fixed Income, Currencies & Commodities contributed A$170 million to MBL Group's profit for the half year ended September 30, 2012 and as at September 30, 2012, had over 700 staff operating across 13 countries, with locations in Australia, Asia, the Middle East, North and South America, and the United Kingdom and Europe. For further information on Fixed Income, Currencies & Commodities' results of operation and financial condition for the half year ended September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Fixed Income, Currencies & Commodities" in this Report.

During the half year ended September 30, 2012, the Metals & Agriculture Sales and Trading division of Fixed Income, Currencies & Commodities commenced the establishment of a commodity investor products business that will offer commodity index products to institutional clients globally. In addition, Fixed Income, Currencies & Commodities increased coverage of Latin American commodity products and integrated its Latin American, Asian and G-10 currencies and foreign exchange and interest rate activities into a single platform within the Fixed Income & Currencies division.

For further information and a description of the divisions within Fixed Income, Currencies & Commodities and their respective activities, see "Macquarie Bank Limited — Operating groups — Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)" beginning on page 37 of our 2012 Annual U.S. Disclosure Report.

Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions)

Macquarie Securities operates businesses both in the Banking Group and Non-Banking Group. The Cash division's activities, which include cash equities broking and equity capital markets services, are in the Non-Banking Group. Generally, the Derivatives division's activities, which include sales of retail derivatives, arbitrage trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation. Effective October 1, 2012, Macquarie Securities transferred its Asian derivatives sales and cash equities sales activities from the Non-Banking Group to the Banking Group.

Macquarie Securities contributed a net loss of A$46 million to MBL Group's profit for the half year ended September 30, 2012 and as at September 30, 2012, had over 50 staff operating across five countries including Australia, Hong Kong, Singapore, the United Kingdom and the United States. For further information on Macquarie Securities' results of operation and financial condition for the half year ended September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions)" in this Report.

During the half year ended September 30, 2012, Macquarie Securities ceased systematic trading activities in North America and announced the closure of its structured products and exotics business in Germany. The remaining positions will be managed through to expiry in order to meet obligations to clients and regulators.

For further information and a description of the divisions within Macquarie Securities and their respective activities, see "Macquarie Bank Limited — Operating groups — Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions)" beginning on page 39 of our 2012 Annual U.S. Disclosure Report.

Banking & Financial Services

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

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

Banking & Financial Services contributed A$185 million to MBL Group's profit for the half year ended September 30, 2012 and, as at September 30, 2012, had over 2,900 staff operating across eight countries, including Australia, Canada, the United Kingdom, New Zealand and India. For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Banking & Financial Services" in this Report.

Cash deposits continued to be a major focus of Banking & Financial Services, with retail cash deposits growing from A$28.6 billion at September 30, 2011 to A$30.8 billion at September 30, 2012. This was primarily due to increased investor appetite for lower risk cash deposits, driven by continuing volatility in equity markets.

The division also offers the Macquarie Australian Wrap platform, which had A$116.7 billion in funds under administration at September 30, 2012. See "— Funds management business."

During the period from April 1, 2012 to October 1, 2012, the Macquarie Agricultural Funds Management and the Macquarie Professional Series businesses were migrated from Banking & Financial Services to Macquarie Funds as further consolidation of the funds businesses within MBL.

In addition, Banking & Financial Services sold 100% of its share capital in the Coin Financial Planning Software business to financial software company Rubik and also sold its Macquarie Premium Funding Canada business to WinTrust Financial Corporation. Both sales were made because those businesses were no longer considered core to Banking & Financial Services' offering.

For further information and a description of the divisions within Banking & Financial Services and their respective activities, see “Macquarie Bank Limited — Operating groups — Banking & Financial Services” beginning on page 40 of our 2012 Annual U.S. Disclosure Report.

Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)

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

Macquarie Funds contributed A$144 million to MBL Group’s profit for the half year ended September 30, 2012 and, as at September 30, 2012, had over 900 staff operating across eight countries, including Australia, the United States, the United Kingdom and Hong Kong. As at September 30, 2012, Macquarie Funds had Assets under Management of A$236.7 billion. For further information on Macquarie Funds’ results of operation and financial condition for the half year ended September 30, 2012, see “Management’s discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Macquarie Funds” in this Report. For further information on Macquarie Funds’ Assets under Management, see “— Funds management business — Assets under Management” in this Report.

In the Banking Group, Macquarie Funds established an infrastructure debt management business and continued to expand its global distribution platform, particularly in Asia and the United States.

During the period from April 1, 2012 to October 1, 2012, the Macquarie Agricultural Funds Management and the Macquarie Professional Series businesses were migrated from Banking & Financial Services to Macquarie Funds as further consolidation of the funds businesses within MBL.

For further information and a description of the divisions within Macquarie Funds, see “Macquarie Bank Limited — Operating groups — Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)” beginning on page 42 of our 2012 Annual U.S. Disclosure Report.

Corporate & Asset Finance

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

Corporate & Asset Finance contributed A$330 million to MBL Group’s profit for the half year ended September 30, 2012 and as at September 30, 2012, had over 900 staff operating across 12 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance’s results of operation and financial condition for the half year ended September 30, 2012, see “Management’s discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Corporate & Asset Finance” in this Report.

At September 30, 2012, Corporate & Asset Finance managed lease and loan assets of A$21.2 billion, which represents an increase of 4% from A$20.4 billion at March 31, 2012. The asset finance portfolio of A$13.1 billion increased 5% from A$12.5 billion at March 31, 2012, which was driven by ongoing growth in the motor vehicle and equipment finance programs. The loan portfolio of A$8.1 billion at September 30, 2012 was broadly in line with the prior period.

During the half year ended September 30, 2012, Corporate & Asset Finance finalized the sale of five leased aircraft engines to Engine Lease Finance Corporation. In addition, Corporate & Asset Finance sold selected assets within its aircraft and rail portfolios.

During the half year ended September 30, 2012, the meters portfolio and the mining equipment finance business continued to expand. Securitization activity was maintained during the half year ended September 30, 2012, with A$0.8 billion of motor vehicle and equipment leases and loans securitized during the period.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Bank Limited — Operating groups — Corporate & Asset Finance" beginning on page 42 of our 2012 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of MBL Group

Corporate

The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, share based payments expense, income tax expense, amounts attributable to non-controlling interests and internal management accounting adjustments and charges. In addition, during the half year ended September 30, 2012, the legacy assets of the former Real Estate Banking division were transferred to the Corporate segment.

Corporate contributed a net loss of A$420 million to MBL Group's profit attributable to ordinary equity holders for the half year ended September 30, 2012.

For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Corporate" in this Report.

Funds management business

For a description of MBL Group's funds management businesses, see "Macquarie Bank Limited — Funds management business" beginning on page 46 of our 2012 Annual U.S. Disclosure Report.

Assets under Management

MBL Group had an aggregate of A$240.4 billion of Assets under Management as at September 30, 2012, from which it derived an aggregate of A$313 million of funds management base fees for the half year ended September 30, 2012.

The table below illustrates MBL Group's aggregate Assets under Management by operating group, region and industry sector as at September 30, 2012, March 31, 2012 and September 30, 2011.

Assets under Management by operating group, region and type as at September 30, 2012, March 31, 2012 and September 30, 2011

	As at			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Assets under Management					
Macquarie Investment Management	**229.1**	222.2	220.4	*3*	*4*
Macquarie Specialised Investment Solutions	**2.0**	2.4	2.3	*(17)*	*(13)*
Other Macquarie Funds	**5.6**	6.2	6.5	*(10)*	*(14)*
Total Macquarie Funds[1]	**236.7**	230.8	229.2	*3*	*3*
Other operating groups	**3.7**	2.1	2.3	*76*	*61*
Total Assets under Management	**240.4**	232.9	231.5	*3*	*4*
Assets under Management by region					
Americas	**174.5**	167.5	166.2	*4*	*5*
Europe, Middle East and Africa	**10.1**	9.9	10.6	*2*	*(5)*
Australia	**49.7**	48.7	47.8	*2*	*4*
Asia	**6.1**	6.8	6.9	*(10)*	*(12)*
Total Assets under Management	**240.4**	232.9	231.5	*3*	*4*
Assets under Management by type					
Fixed income	**138.6**	132.8	140.3	*4*	*(1)*
Direct infrastructure	**-**	-	-	-	-
Equities	**64.4**	64.3	54.7	*<1*	*18*
Cash	**17.6**	16.9	16.7	*4*	*5*
Direct real estate	**5.6**	5.5	5.8	*2*	*(3)*
Currency	**4.5**	4.4	4.6	*2*	*(2)*
Alternatives	**1.9**	2.5	2.4	*(24)*	*(21)*
Specialist investments	**3.6**	2.4	2.3	*50*	*57*
Multi-asset allocation solutions	**4.2**	4.1	4.7	*2*	*(11)*
Total Assets under Management	**240.4**	232.9	231.5	*3*	*4*

[1] Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

Assets under Management of A$240.4 billion at September 30, 2012 increased 3% from A$232.9 billion at March 31, 2012. The increase in Assets under Management was primarily within the Macquarie Investment Management division and mainly due to positive market and valuation movements, with broadly flat net flows in securities investment management.

Macquarie Funds. Macquarie Funds' Assets under Management increased 3% to A$236.7 billion at September 30, 2012 from A$230.8 billion at March 31, 2012. This was largely due to positive market and valuation movements, with broadly flat net flows in securities investment management.

For further information on Macquarie Funds' results of operation and financial condition for the half year ended September 30, 2012, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment analysis — Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)" in this Report.

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

During the half year ended September 30, 2012 performance fees of A$2 million for MBL Group decreased 82% from A$11 million in the prior corresponding period. Macquarie Funds' Investment Management business generated lower performance fees mainly due to a change in the timing of some fee calculations.

For further detail on MBL Group's income from funds management, see "Management's discussion and analysis of interim results of operation and financial condition — Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Results analysis — Fee and commission income — Base and performance fees" in this Report.

Legal proceedings and other provisions

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

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

As at the date of this Report, the hearing of ASIC's allegation that there was an unregistered managed investment scheme and the representative legal action had commenced and was scheduled to run for the rest of the 2012 calendar year. The business day before commencement of the hearing, the Commonwealth Bank of Australia ("*CBA*") and ASIC reached a settlement regarding its involvement in the case relating to the allegations of an unregistered management investment scheme. The proceeding against CBA was dismissed with no admission of liability by CBA. CBA agreed to contribute a further A$136 million to its customers who were advised by Storm alongside its existing compensation scheme (under which CBA has announced publicly that it has already paid out A$132 million).

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case by case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 17 to our 2013 interim financial statements. Having regard to the details which we have in relation to any of those claims and proceedings, we do not believe that the outcome of any of them, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

For a description of the competition MBL Group faces in the markets in which it operates, see "Macquarie Bank Limited — Competition" beginning on page 48 of our 2012 Annual U.S. Disclosure Report.

Regulatory and supervision developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group, its businesses and the funds it manages in, and outside of, Australia, are subject to is set out under "Regulation and supervision" beginning on page 50 of our 2012 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in the markets in which we operate", "Risk factors — We may incur losses as a result of ineffective risk management processes and strategies" and "Risk factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events" on pages 11, 16 and 17, respectively, of our 2012 Annual U.S. Disclosure Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia and the United States for MBL Group that have occurred since the release of our 2012 Annual U.S. Disclosure Report on May 11, 2012.

Australia

APRA

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Measurement of capital adequacy and our economic capital model are more fully described in Section 4 of the MBL Pillar 3 Disclosure Document dated June 30, 2012 posted on MBL's U.S. Investors' Website. APRA has advised that it will monitor the overall MGL Group and may increase the prudential requirements it applies to MBL if the activities of MGL Group place financial strain on MBL.

MGL models twelve month liquidity scenarios for MGL Group, MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business. See "Management's discussion and analysis of interim results of operation and financial condition — Liquidity" for further information on our liquidity policies and principles.

Crisis management

On September 28, 2012, the Australian Government released a consultation paper titled "Strengthening APRA's Crisis Management Powers" seeking comments on a range of options to enhance Australia's financial sector, particularly prudential regulation. The options canvassed in the paper aim to strengthen APRA's crisis management powers in relation to NOHCs, ADIs, superannuation entities and general and life insurers. Implementation of these options is intended to bring Australia's regulatory framework more closely into line with the new G20 endorsed international standard for crisis management arrangements published by the Financial Stability Board ("*FSB*") in its "Key Attributes of Effective Resolution Regimes for Financial Institutions". If implemented, the key implications for MBL are likely to be an increase in APRA's powers to intervene in the affairs of MBL during periods of stress.

APRA's approach to capital frameworks – release of final prudential standards

On September 28, 2012, APRA released four final prudential standards implementing the Basel III capital reforms in Australia. This follows APRA's release of five draft discussion papers for industry consultation in March 2012 and a further two in June 2012. These new standards come into effect on January 1, 2013. The final standards are consistent with the draft standards.

APRA has also announced that other prudential and reporting standards incorporating new counterparty credit risk requirements (see below) and other elements of the Basel III capital reforms, including a discussion paper on the regulation of conglomerates, will be released in November 2012. For more information, see "Regulation and supervision — Australia — APRA — APRA's approach to the Basel III liquidity framework" beginning on page 52 of our 2012 Annual U.S. Disclosure Report.

APRA's approach to Basel III capital requirements for counterparty credit risk

In August 2012, APRA released a consultation paper and draft prudential standards on its implementation of the Basel III reforms to the capital framework for counterparty credit risk and other credit exposures. In its discussion paper, APRA indicated that it proposes to extend its existing capital framework for counterparty credit risk in bilateral transactions to be the sum of the existing counterparty credit default component that applies under its existing prudential standards and a risk capital Credit Value Adjustment ("*CVA*") risk capital charge introduced as part of the Basel III reforms. The CVA risk capital charge is intended to cover the risk of mark-to-market losses on the expected counterparty credit risk arising from bilateral OTC derivatives. APRA also proposed to adopt Basel III reforms on capital charges for exposure to central counterparties arising from over the counter derivatives, exchange traded derivatives and securities financing transactions. APRA has indicated that it intends to release final prudential standards by the end of the 2012 calendar year to take effect from January 1, 2013. These proposals are expected to require MBL to hold more capital for its counterparty credit risk exposures and other credit exposures.

Central clearing of OTC derivatives

On July 25, 2012, the Australian Government released draft legislation to introduce the framework required by the Australian Government to meet its G20 obligations on derivatives regulation. Its release follows consultation papers published by the Australian Treasury in April 2012. The legislation allows the Australian Government and its regulators to prescribe, when it determines that it becomes appropriate, one or more of the following as mandatory obligations: (1) the reporting of OTC derivatives to trade repositories, (2) the clearing of standardized OTC derivatives through central counterparties, and (3) the execution of standardized OTC derivatives on exchanges or electronic platforms. On September 12, 2012, the Corporations Legislation Amendment (Derivative Transactions) Bill 2012 was introduced into Parliament. The legislation is not intended to impose any of these obligations itself but rather introduces a framework under which they can be prescribed. As a result, the extent, timing and implications of these reforms on MBL and its businesses are unclear.

United States

Over the past year, the Commodity Futures Trading Commodity ("*CFTC*") issued final rules to implement Title VII of the Dodd-Frank Act (i) defining such terms as "swap", "swap dealer", and "major swap participant", (ii) requiring the registration of swap dealers and major swap participants, and (iii) implementing certain recordkeeping and reporting requirements and rules on internal and external business conduct standards for swap dealers and major swap participants. Subject to possible phase-in provisions, certain of these requirements are scheduled to become effective by the end of 2012.

On July 12, 2012, the CFTC published proposed interpretive guidance regarding the cross-border application of certain entity-level and transaction-level requirements which would apply to non-U.S. swap dealers and major swap participants and to swap transactions with "U.S. persons". If adopted as proposed, such requirements will be applicable to MBL.

The Foreign Account Tax Compliance Act ("*FATCA*") was enacted in 2010 as part of the Hiring Incentives to Restore Employment Act (the "*Hire Act*"). FATCA is intended to assist U.S. efforts to improve compliance with U.S. tax laws, and requires foreign financial institutions ("*FFIs*"), such as MBL, to enter into an agreement with the U.S. Internal Revenue Service (the "*IRS*") and agree to provide the IRS with certain information on accounts held by U.S. persons and U.S.-owned foreign entities, or otherwise face a 30% withholding tax on certain payments made to the FFI from U.S. sources. The term FFI is broadly defined and includes such entities as banks, brokers, hedge funds, private equity funds and foreign investment entities. FATCA generally requires substantial investment in a compliance and reporting framework in order to meet the HIRE Act standards.

In response to the impact of the FATCA obligations of the HIRE Act, the Australian Government has been exploring the feasibility of an intergovernmental agreement with the United States as an alternative means for financial institutions such as MBL to comply with FATCA while reducing compliance burdens. On July 26, 2012, the U.S. Department of the Treasury published a model form for such an intergovernmental agreement.

Other regulators

During the 2012 fiscal year, MBL was granted a banking license by the Hong Kong Monetary Authority and in March 2012, the Hong Kong Monetary Authority confirmed MBL Hong Kong Branch's "Registered Institution" status. The branch became operational on October 1, 2012 and is regulated by the Hong Kong Monetary Authority.

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

Investors should be aware that the discussion set forth in this Report is not complete and should be read in conjunction with the discussion under "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2012 Annual U.S. Disclosure Report.

For further information on the preparation of our 2013 interim financial statements, see "Financial information presentation" in this Report and the discussion in this Report under "— Half year ended September 30, 2012 compared to half year ended September 30, 2011 — Segment overview — Basis of preparation".

Critical accounting policies and significant judgments

Note 1 to our 2012 annual financial statements provides a list of our significant accounting policies. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, further information on policies we have identified as particularly involving critical accounting estimates and requiring management's exercise of judgment is set out in detail under "Management's discussion and analysis of results of operation and financial condition" beginning on page 60 of our 2012 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments for the half year ended September 30, 2012 are consistent with those referred to above. These critical accounting policies should be read in conjunction with the discussion set out in our 2012 Annual U.S. Disclosure Report and Note 1 to our 2012 annual financial statements.

Trading conditions and market update

The half year ended September 30, 2012 was characterized by global economic uncertainty, which impacted upon the capital markets facing businesses of MBL. Macquarie Securities continued to be affected by a challenging market environment and weak investor confidence, primarily due to European sovereign debt and China growth concerns. Low client volumes continued across all equity derivative products. Fixed Income, Currencies & Commodities experienced improved trading income from credit, interest rate and foreign exchange activities and stronger customer flow and trading opportunities across the commodities platform in energy, metals and agriculture were recorded. In resource equity markets, weak investor sentiment and confidence impacted the timing of asset realizations and resulted in impairments on certain equity holdings.

MBL Group's annuity-style businesses, which comprise Macquarie Funds, Corporate & Asset Finance and Banking & Financial Services, continued to perform well despite the challenging environment. The performance of these annuity-style businesses further highlighted the benefits of MBL Group's diversified global platform, which provided a buffer during a period of market uncertainty and volatility.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the half year ended September 30, 2012, see "— Half year ended September 30, 2012 compared to half year ended September 30, 2011" below for further information.

Half year ended September 30, 2012 compared to half year ended September 30, 2011

Results overview

	Half year ended			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Financial performance summary					
Net interest income	**686**	774	829	*(11)*	*(17)*
Fee and commission income	**767**	719	625	*7*	*23*
Net trading income	**579**	591	408	*(2)*	*42*
Share of net profits of associates and joint ventures accounted for using the equity method	**27**	22	15	*23*	*80*
Other operating income and charges	**202**	468	260	*(57)*	*(22)*
Net operating income	**2,261**	2,574	2,137	*(12)*	*6*
Employment expenses	**(686)**	(775)	(732)	*(11)*	*(6)*
Brokerage, commission and trading-related expenses	**(309)**	(293)	(318)	*5*	*(3)*
Occupancy expenses	**(71)**	(77)	(72)	*(8)*	*(1)*
Non-salary technology expenses	**(40)**	(47)	(49)	*(15)*	*(18)*
Other operating expenses	**(623)**	(782)	(683)	*(20)*	*(9)*
Total operating expenses	**(1,729)**	(1,974)	(1,854)	*(12)*	*(7)*
Operating profit before income tax	**532**	600	283	*(11)*	*88*
Income tax expense	**(156)**	(185)	(58)	*(16)*	*169*
Profit after income tax	**376**	415	225	*(9)*	*67*
Profit attributable to non-controlling interests	**(2)**	(2)	(3)	-	*(33)*
Profit attributable to equity holders of Macquarie Bank Limited	**374**	413	222	*(9)*	*68*
Distributions paid or provided for on Macquarie Income Securities	**(11)**	(13)	(13)	*(15)*	*(15)*
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**363**	400	209	*(9)*	*74*

Profit attributable to ordinary equity holders of A$363 million for the half year ended September 30, 2012 increased 74% from A$209 million in the prior corresponding period and decreased 9% from A$400 million in the prior period.

MBL's annuity style businesses, Macquarie Funds, Corporate & Asset Finance and Banking & Financial Services had combined results for the half year ended September 30, 2012 broadly in line with a strong prior corresponding period and up on the prior period.

MBL's capital markets-facing businesses, Macquarie Securities and Fixed Income, Currencies & Commodities, although continuing to face subdued market conditions, delivered a combined result that was up on the prior corresponding period due to improved conditions for Fixed Income, Currencies & Commodities. Macquarie Securities continued to be impacted by low activity levels across Equity Capital Markets and Mergers & Acquisitions. Macquarie Securities was impacted by low levels of client activity combined with run-off costs in its legacy businesses, partially offset by ongoing cost efficiencies.

Net operating income of A$2,261 million for the half year ended September 30, 2012 increased 6% from A$2,137 million in the prior corresponding period.

Operating expenses were down 7% from A$1,854 million in the prior corresponding period to A$1,729 million for the half year ended September 30, 2012, as a result of continued operating efficiencies.

Key movements in MBL's results from the prior corresponding period and the prior period, as appropriate, were:

– a 17% decrease in net interest income and charges to A$686 million for the half year ended September 30, 2012 from A$829 million in the prior corresponding period, primarily due to lower early loan repayments in Corporate & Asset Finance and substantially reduced income from the provision of financing facilities to external funds and their investors;

– a 42% increase in net trading income to A$579 million for the half year ended September 30, 2012 from A$408 million in the prior corresponding period primarily in Fixed Income, Currencies & Commodities. The prior corresponding period was adversely impacted by extreme volatility and uncertainty, particularly in fixed income markets;

– a 23% increase in fee and commission income to A$767 million for the half year ended September 30, 2012 from A$625 million in the prior corresponding period. The increase was predominantly due to a reduction in internal transfer pricing charges paid as compensation for services provided to MBL Group by MGL Group service entities in other fee and commission income, as well as increased base fees due to an increase in Assets under Management.

– a 22% decrease in other operating income and charges to A$202 million for the half year ended September 30, 2012 from A$260 million in the prior corresponding period partly due to increased levels of impairment charges on equity investments in the Fixed Income, Currencies & Commodities business, reflecting weaker investor sentiment in resource equity investments, and a 57% decrease from A$468 million in the prior period principally due to gains on the sale of a Net Profit Interest in a substantial North American oil asset during the prior period; and

– a 7% reduction in total operating expenses achieved through ongoing cost management initiatives including the centralization of support functions to generate scale benefits through improved operational efficiencies. These initiatives and business rationalization activities were primarily responsible for a 4% reduction in headcount from 5,959 at September 30, 2011 to 5,712 at September 30, 2012.

The effective tax rate for the half year ended September 30, 2012 was 29.4%, up from 20.7% in the prior corresponding period, largely due to changes in the mix and location of income.

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

Our results for the half year ended September 30, 2012 continued to be affected by trading and market conditions. See "Trading conditions and market update" above for further information.

Results analysis

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

Net interest and trading income

	Half year ended			Movement	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest income	**686**	774	829	*(11)*	*(17)*
Net trading income	**579**	591	408	*(2)*	*42*
Net interest and trading income	**1,265**	1,365	1,237	*(7)*	*2*

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards with net interest income brought to account using the effective interest method and net trading income predominantly comprising gains and losses relating to trading assets and liabilities, realized and unrealized fair value changes and foreign exchange movements.

For businesses that predominantly earn income from trading activities (Macquarie Securities; Fixed Income, Currencies & Commodities), the relative contribution of net interest income and trading income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

For businesses that predominantly earn income from lending activities (Corporate & Asset Finance; Banking & Financial Services), derivatives that economically hedge interest rate risk are required to be carried at fair value through trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognized at a total consolidated level, however for segment reporting derivatives are accrual accounted in the Operating Segments and changes in fair value are recognized on consolidation.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, in Corporate & Asset Finance, interest rate swaps are entered into to hedge the interest rate risk associated with finance leases. The finance lease interest income and associated funding costs are recognized in net interest income but the related swap is recognized in trading. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Segment which presents a more consistent overview of business performance and drivers.

See "– Segment analysis- Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group)" and "– Segment analysis – Fixed Income, Currencies & Commodities" for further discussion of MBL's trading activities.

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Macquarie Funds	**35**	40	107	*(13)*	*(67)*
Corporate & Asset Finance	**246**	288	294	*(15)*	*(16)*
Banking & Financial Services	**371**	345	359	*8*	*3*
Macquarie Securities	**74**	66	147	*12*	*(50)*
Fixed Income, Currencies & Commodities					
Commodities	**322**	239	298	*35*	*8*
Credit, interest rates and foreign exchange	**169**	289	14	*(42)*	*
Fair value adjustments relating to leasing contracts[2]	**9**	15	(19)	*(40)*	*
Corporate	**39**	83	37	*(53)*	*5*
Net interest and trading income	**1,265**	1,365	1,237	*(7)*	*2*

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

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

Net interest and trading income of A$1,265 million increased 2% from A$1,237 million in the prior corresponding period. Increases from improved trading conditions in Fixed Income, Currencies & Commodities were partially offset by lower early loan repayments in Corporate & Asset Finance, reduced income from the provision of financing facilities to external funds and their investors, and lower trading income in Macquarie Securities due to subdued market conditions.

Macquarie Funds

Net interest and trading income in Macquarie Funds includes income on specialized retail products, interest income from the provision of financing facilities to external funds and their investors and the funding cost of principal investments.

Net interest and trading income of A$35 million for the half year ended September 30, 2012 decreased 67% from A$107 million in the prior corresponding period. The reduction in net interest and trading income was mainly due to lower demand for financing facilities from external funds and their investors. The decline also reflected higher funding costs and further maturities in the retail loan book.

Corporate & Asset Finance

Net interest and trading income in Corporate & Asset Finance predominantly relates to income from the corporate lending and asset financing portfolios in addition to the funding costs associated with assets subject to operating leases.

Net interest and trading income of A$246 million for the half year ended September 30, 2012 decreased 16% from A$294 million in the prior corresponding period. The decrease was mainly due to lower early loan repayments received in the period in addition to the funding costs associated with the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets. The decrease was partially offset by growth in the asset finance portfolio.

Banking & Financial Services

Net interest and trading income in Banking & Financial Services relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, Canada and the United States; as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards. Banking & Financial Services also generates income from deposits by way of a deposit premium paid to Banking & Financial Services by Group Treasury, which uses the deposits as a source of funding for the Group.

Net interest and trading income of A$371 million for the half year ended September 30, 2012 increased 3% from A$359 million in the prior corresponding period. Increased net interest income reflected a larger retail deposits base during the period, partially offset by a lower loan portfolio.

Retail deposits increased 8% to A$30.8 billion at September 30, 2012 from A$28.6 billion at September 30, 2011.

The total loan portfolio of A$23.2 billion at September 30, 2012 decreased 3% from A$23.9 billion at September 30, 2011, primarily due to a reduction in the Canadian loan portfolio. The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at A$7.9 billion at September 30, 2012, down 10% from A$8.8 billion at September 30, 2011. This was mainly due to a decrease in mortgage volumes and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

The Australian mortgage portfolio increased 1% to A$11.1 billion[1] at September 30, 2012 from A$11.0 billion at September 30, 2011. The Australian mortgage portfolio experienced a small decrease in net interest margins mainly due to increased funding costs.

Macquarie Securities

Net interest and trading income in Macquarie Securities relates to trading income from institutional and retail equity derivative products and stock borrow and lending activities.

Net interest and trading income of A$74 million for the half year ended September 30, 2012 decreased 50% from A$147 million in the prior corresponding period, but increased 12% from A$66 million in the prior period.

Derivatives revenues were adversely impacted by changes in the regulatory environment, continued weak product demand for products globally as most markets remained subdued and run off costs from legacy businesses.

Fixed Income, Currencies & Commodities

Net interest and trading income in Fixed Income, Currencies & Commodities is earned from a broad range of financial markets activities including trading, financing and the provision of risk management solutions to clients.

Commodities trading income

Commodities trading income of A$322 million for the half year ended September 30, 2012 increased 8% from A$298 million in the prior corresponding period.

Energy markets experienced solid revenues across its global platform due to strong customer flow and improved trading opportunities, particularly in the U.S. power and oil businesses.

Agricultural markets experienced increased client activity in grains mainly due to increased volatility over the period.

[1] At September 30, 2012, A$5.9 billion (March 31, 2012: A$7.0 billion; September 30, 2011: A$8.1 billion) of the Australian mortgage portfolio was funded by third parties through external securitizations.

In metals markets, subdued client activity due to low volatility in base metals was partially offset by continued growth in physical base metals. Sustained higher precious metals prices dampened client appetite for hedging during the period.

Credit, interest rates and foreign exchange trading income

Trading income from credit, interest rates and foreign exchange products of A$169 million for the half year ended September 30, 2012 increased significantly from A$14 million in the prior corresponding period, but decreased 42% from A$289 million in the prior period.

The result represents a significant improvement on the prior corresponding period which was adversely impacted by extreme volatility and concerns over global growth, but is down compared to a strong prior period.

The prior period's strong result was largely due to significantly improved market conditions compared to the prior corresponding period, particularly in fixed income markets.

Corporate

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing liquidity for MBL, earnings on capital, non-trading derivative volatility and the funding costs associated with legacy investments held centrally in MBL. Net interest and trading income of A$39 million for the half year ended September 30, 2012 increased 5% from A$37 million in the prior corresponding period. There was no individually significant driver of this increase.

Fee and commission income

	Half year ended			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Base fees	**313**	302	292	*4*	*7*
Performance fees	**2**	19	11	*(89)*	*(82)*
Mergers and acquisitions, advisory and underwriting fees	**20**	20	23	-	*(13)*
Brokerage and commissions	**144**	143	165	*1*	*(13)*
Other fee and commission income	**248**	195	103	*27*	*141*
Income from life investment contracts and other unitholder investment assets	**40**	40	31	-	*29*
Total fee and commission income	**767**	719	625	*7*	*23*

Base and performance fees

Base fees of A$313 million for the half year ended September 30, 2012 increased 7% from A$292 million in the prior corresponding period. In Macquarie Funds, base fees increased from A$276 million to A$294 million due to an increase in Assets under Management as a result of market and valuation movements. See "Recent Developments – Funds management business – Assets under Management" for further discussion on the movements in Assets under Management during the period.

Performance fees of A$2 million for the half year ended September 30, 2012 decreased 82% from A$11 million in the prior corresponding period. Macquarie Funds' Investment Management business generated lower performance fees mainly due to a change in the timing of some fee calculations.

Brokerage and commission

Brokerage and commission income of A$144 million for the half year ended September 30, 2012 decreased 13% from A$165 million in the prior corresponding period mainly driven by lower market volumes and weaker levels of client activity in cash equities across all regions. Brokerage and commissions income was also impacted by the deterioration in retail equity market volumes compared to the prior corresponding period.

Other fee and commission income

Other fee and commission income of A$248 million for the half year ended September 30, 2012 increased 141% from A$103 million in the prior corresponding period. The increase was primarily due to a reduction in internal transfer pricing charges paid as compensation for services provided to MBL Group by MGL Group service entities.

Share of net profits of associates and joint ventures

	Half year ended			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Share of net profits of associates and joint ventures accounted for using the equity method	**27**	22	15	*23*	*80*

Share of net equity accounted profits of associates and joint ventures increased 80% to A$27 million for the half year ended September 30, 2012 from A$15 million in the prior corresponding period. The prior corresponding period included losses in certain unlisted funds that were not repeated in the half year ended September 30, 2012.

Other operating income and charges

	Half year ended			Movement[1]	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Net gains on sale of investment securities available for sale	**18**	124	56	*(85)*	*(68)*
Impairment charge on investment securities available for sale	**(89)**	(26)	(27)	*242*	*230*
Net gains on sale of associates and joint ventures	**51**	3	5	*	*
Impairment charge on interest in associates and joint ventures	**(9)**	(38)	(12)	*(76)*	*(25)*
Gain on change of ownership interests	**-**	37	-	*(100)*	-
Impairment charge on non-financial assets	**(1)**	(33)	(7)	*(97)*	*(86)*
Gain on sale of non-financial assets	**-**	104	-	*(100)*	-
Net operating lease income	**203**	198	183	*3*	*11*
Dividends/distributions received/receivable:					
Investment securities available for sale	**7**	11	10	*(36)*	*(30)*
Management fees, group service charges and cost recoveries	**-**	(1)	-	*(100)*	-
Collective allowance for credit losses written back/(provided for) during the period	**5**	3	(6)	*67*	*
Specific provisions	**(83)**	(77)	(48)	*8*	*73*
Other income	**100**	163	106	*(39)*	*(6)*
Total other operating income and charges	**202**	468	260	*(57)*	*(22)*

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

Total other operating income and charges of A$202 million for the half year ended September 30, 2012 decreased 22% from A$260 million in the prior corresponding period mainly due to increased impairment charges. The 57% decrease from A$468 million in the prior period was mainly due to the combined impact of the sale of a Net Profit Interest in a substantial North American oil asset, opportunistic asset realizations and the sale of a partial stake in Energy Assets Limited on an initial public offering during the prior period.

Net gains on sale of equity investments (including available for sale, associates and joint venture investments) totaled A$69 million for the half year ended September 30, 2012, an increase of 13% from A$61 million in the prior corresponding period. The current period's result was driven by realizations of resources sector equity investments by Fixed Income, Currencies & Commodities.

Impairment charges on investment securities available for sale, associates and non-financial assets totaled A$99 million for the half year ended September 30, 2012, an increase of 115% from A$46 million in the prior corresponding period. Weak investor sentiment and confidence in resource equity markets resulted in lower security prices and consequently the impairment of a number of available for sale equity positions held by Fixed Income, Currencies & Commodities. Additionally there were impairments recognized on legacy investments, which are held within the Corporate segment as they are no longer aligned with the operations of the operating groups.

Net operating lease income of A$203 million increased 11% from A$183 million in the prior corresponding period largely due to the acquisition of the OnStream UK meters business in October 2011 and the Rail portfolio acquired in November 2011, partially offset by lower lease income from the aircraft leasing portfolio following the sale of aircraft.

Net charges for specific and collective provisions of A$78 million for the year ended September 30, 2012 increased 44% from A$54 million in the prior corresponding period, primarily due to an increase in impairment charges on loan assets in the resources sector in Fixed Income, Currencies & Commodities. The net collective allowance for credit allowances written back of A$5 million arose due to the release of collective allowance relating to items that were specifically provided for during the period, offset by changes in loan portfolios.

A summary of our critical accounting policies relating to impairment charges and provisions is set forth under "Management's discussion and analysis of results of operation and financial condition — Critical accounting policies and significant judgments" beginning on page 60 of our 2012 Annual U.S. Disclosure Report.

Operating expenses

	Half year ended			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Employment expenses:					
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(632)**	(712)	(679)	*(11)*	*(7)*
Share based payments	**(51)**	(60)	(46)	*(15)*	*11*
Provision for annual leave	**(3)**	(4)	(5)	*(25)*	*(40)*
Provision for long service leave	**-**	1	(2)	*(100)*	*(100)*
Total employment expenses	**(686)**	(775)	(732)	*(11)*	*(6)*
Brokerage, commission and trading-related expenses	**(309)**	(293)	(318)	*5*	*(3)*
Occupancy expenses	**(71)**	(77)	(72)	*(8)*	*(1)*
Non-salary technology expenses	**(40)**	(47)	(49)	*(15)*	*(18)*
Professional fees	**(70)**	(87)	(64)	*(20)*	*9*
Travel and entertainment expenses	**(29)**	(33)	(32)	*(12)*	*(9)*
Advertising and communication expenses	**(33)**	(37)	(33)	*(11)*	-
Other expenses	**(491)**	(625)	(554)	*(21)*	*(11)*
Total operating expenses	**(1,729)**	(1,974)	(1,854)	(12)	(7)

Total operating expenses of A$1,729 million for the half year ended September 30, 2012 decreased 7% from A$1,854 million in the prior corresponding period. Cost management initiatives including selective business rationalization, and the centralization of support functions to generate scale efficiencies were a key driver of the overall reduction in operating expenses. These cost reductions were partially offset by targeted growth in certain businesses, including Corporate & Asset Finance with the acquisition of the OnStream UK meters business in October 2011, and costs associated with scaling back or exiting certain businesses.

Employment expenses of A$686 million for the half year ended September 30, 2012 decreased 6% from A$732 million in the prior corresponding period mainly due to reduced headcount as a result of selective business rationalization activities and reduced recruitment activity. Headcount decreased 4% from 5,959 at September 30, 2011 to 5,712 at September 30, 2012.

Brokerage, commission and trading-related expenses of A$309 million for the half year ended September 30, 2012 decreased 3% from A$318 million in the prior corresponding period reflecting the impact of recent trading conditions especially in Macquarie Securities, which saw a decline in brokerage and commission expenses as a result of weaker demand for retail products and reduced stock borrow and lending activity.

Other operating expenses including non-salary technology expenses, travel and entertainment, and advertising and communication expenses decreased compared to the prior corresponding period, mainly due to cost management initiatives, partially offset by increased costs associated with targeted growth and the cost of investing in compliance related activities in response to global regulatory change.

Headcount

	Half year ended			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
				%	**%**
Headcount by group					
Macquarie Funds	**965**	1,015	1,002	*(5)*	*(4)*
Corporate & Asset Finance	**908**	925	907	*(2)*	*<1*
Banking & Financial Services	**2,922**	3,112	3,033	*(6)*	*(4)*
Macquarie Securities	**50**	75	84	*(33)*	*(40)*
Fixed Income, Currencies & Commodities	**788**	806	801	*(2)*	*(2)*
Total headcount — operating groups	**5,633**	5,933	5,827	*(5)*	*(3)*
Total headcount — Corporate	**79**	100	132	*(21)*	*(40)*
Total headcount	**5,712**	6,033	5,959	*(5)*	*(4)*
Headcount by region					
Australia	**3,298**	3,540	3,470	*(7)*	*(5)*
International:					
Americas	**1,809**	1,869	1,861	*(3)*	*(3)*
Asia	**249**	268	279	*(7)*	*(11)*
Europe, Middle East and Africa	**356**	356	349	-	*2*
Total headcount — International	**2,414**	2,493	2,489	*(3)*	*(3)*
Total headcount	**5,712**	6,033	5,959	*(5)*	*(4)*
International headcount ratio (%)	**42**	41	42		

Total headcount of 5,712 at September 30, 2012 decreased 4% from 5,959 at September 30, 2011. Most operating groups and service areas reported a reduction in headcount resulting from continued focus on cost management initiatives and selective business rationalization.

Income tax expense

	Half year ended		
	Sep 12	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**
Operating profit before income tax	**532**	600	283
Prima facie tax @ 30%	**159**	180	85
Income tax permanent differences	**(3)**	5	(27)
Income tax expense	**156**	185	58
Effective tax rate (%)[1]	**29.4%**	30.9%	20.7%

[1] The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduced net profit before tax by A$2 million for the half year ended September 30, 2012 (half year ended March 31, 2012: A$2 million; half year ended September 30, 2011: A$3 million). The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.

The effective tax rate for the half year ended September 30, 2012 was 29.4%, up from 20.7% in the prior corresponding period largely due to changes in the mix and location of income.

Segment overview

Basis of preparation

MBL Group segments

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

For internal reporting and risk management purposes, MBL Group is divided into five operating groups:

- Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities);
- Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions);
- Banking & Financial Services;
- Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division); and
- Corporate & Asset Finance.

In addition, there is a Corporate segment which includes Group Treasury, head office and central support functions. The Corporate segment also holds certain legacy assets and businesses in which MBL no longer operates for strategic reasons, or investments that are no longer core. Items of income and expense within the Corporate segment include the net impact of managing liquidity for MBL, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and distributions to holders of MIS and MIPS.

Business and asset transfers

Since March 31, 2012 there have been a number of business and asset transfers between Operating Segments. These transfers were undertaken to better align the relevant assets with the expertise in each operating group. As part of this realignment, the Real Estate Banking division is now reported as part of the Corporate segment. Comparative information presented in this document has been restated to reflect the current operating structure.

Internal transactions

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

Internal funding arrangements

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

Generally operating groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to MBL.

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

Transactions between operating groups

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

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

Costs recovery of central support functions

Central support functions recover their costs to operating groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Financial Management, Market Operations and Technology, Corporate Services, Risk Management, Group Legal and Central Executive.

Internal management revenue/charges

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

Presentation of segment income statements

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

Summary of segment results

	Macquarie Funds	Corporate & Asset Finance	Banking & Financial Services	Macquarie Securities	Fixed Income, Currencies & Commodities	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2012							
Net interest and trading income	35	246	371	74	500	39	1,265
Fee and commission income	362	16	336	(11)	60	4	767
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	6	1	2	-	15	3	27
Other operating income and charges	14	234	6	-	(58)	6	202
Internal management revenue/(charge)	7	3	1	-	5	(16)	-
Net operating income	424	500	716	63	522	36	2,261
Total operating expenses	(281)	(170)	(531)	(109)	(352)	(286)	(1,729)
Profit before tax	143	330	185	(46)	170	(250)	532
Tax expense	-	-	-	-	-	(156)	(156)
Profit/(loss) attributable to non-controlling interests	1	-	-	-	-	(3)	(2)
Profit attributable to equity holders	144	330	185	(46)	170	(409)	374
Distributions paid or provided for on MIS	-	-	-	-	-	(11)	(11)
Net profit/(loss) contribution	144	330	185	(46)	170	(420)	363
Half year ended March 31, 2012							
Net interest and trading income	40	288	345	66	543	83	1,365
Fee and commission income	367	17	333	(62)	29	35	719
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(2)	3	1	-	9	11	22
Other operating income and charges	64	218	(13)	-	266	(67)	468
Internal management revenue/(charge)	3	20	-	2	10	(35)	-
Net operating income	472	546	666	6	857	27	2,574
Total operating expenses	(292)	(206)	(536)	(141)	(385)	(414)	(1,974)
Profit before tax	180	340	130	(135)	472	(387)	600
Tax expense	-	-	-	-	-	(185)	(185)
Profit/(loss) attributable to non-controlling interests	1	-	-	-	-	(3)	(2)
Profit attributable to equity holders	181	340	130	(135)	472	(575)	413
Distributions paid or provided for on MIS	-	-	-	-	-	(13)	(13)
Net profit/(loss) contribution	181	340	130	(135)	472	(588)	400

	Macquarie Funds	Corporate & Asset Finance	Banking & Financial Services	Macquarie Securities	Fixed Income, Currencies & Commodities	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Half year ended September 30, 2011							
Net interest and trading income	107	294	359	147	293	37	1,237
Fee and commission income	351	14	354	(59)	53	(88)	625
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	-	2	-	-	8	5	15
Other operating income and charges	9	211	(9)	-	31	18	260
Internal management revenue/(charge)	7	4	1	1	7	(20)	-
Net operating income	474	525	705	89	392	(48)	2,137
Total operating expenses	(294)	(163)	(558)	(159)	(384)	(296)	(1,854)
Profit before tax	180	362	147	(70)	8	(344)	283
Tax expense	-	-	-	-	-	(58)	(58)
Profit/(loss) attributable to non-controlling interests	2	(3)	-	-	-	(2)	(3)
Profit attributable to equity holders	182	359	147	(70)	8	(404)	222
Distributions paid or provided for on MIS	-	-	-	-	-	(13)	(13)
Net profit/(loss) contribution	182	359	147	(70)	8	(417)	209

Segment analysis

Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division)

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest and trading income	35	40	107	*(13)*	*(67)*
Fee and commission income					
Base fees	294	285	276	*3*	*7*
Performance fees	2	15	10	*(87)*	*(80)*
Mergers and acquisitions, advisory and underwriting fees	-	1	1	*(100)*	*(100)*
Brokerage and commissions	3	2	3	*50*	-
Other fee and commission income	63	64	61	*(2)*	*3*
Total fee and commission income	362	367	351	*(1)*	*3*
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	6	(2)	-	*	*
Other operating income and charges					
Impairment (charge)/reversal on equity investments and non-financial assets	(1)	(24)	(1)	*(96)*	-
Net gains/(losses) on sale of equity investments	10	51	-	*(80)*	*
(Loss)/gain on change of ownership interest	-	-	-	-	-
Specific provisions and collective allowance for credit losses	(2)	(1)	1	*100*	*
Other income	7	38	9	*(82)*	*(22)*
Total other operating income and charges	14	64	9	*(78)*	*56*
Internal management revenue[2]	7	3	7	*133*	-
Net operating income	424	472	474	*(10)*	*(11)*
Operating expenses					
Employment expenses	(88)	(94)	(92)	*(6)*	*(4)*
Brokerage and commission expenses	(63)	(58)	(62)	*9*	*2*
Other operating expenses	(130)	(140)	(140)	*(7)*	*(7)*
Total operating expenses	(281)	(292)	(294)	*(4)*	*(4)*
Non-controlling interests[3]	1	1	2	-	*(50)*
Net profit contribution	144	181	182	*(20)*	*(21)*
Other metrics					
Macquarie Funds Assets under Management (A$ billion)	236.7	230.8	229.2	*3*	*3*
Headcount	965	1,015	1,002	*(5)*	*(4)*

1 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

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

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

Macquarie Funds' net profit contribution of A$144 million for the half year ended September 30, 2012 decreased 21% from A$182 million in the prior corresponding period. The current period result was underpinned by strong annuity style base fee income, as well as lower operating expenses. The decrease from the prior corresponding period was mainly due to lower demand for financing facilities from external funds and their investors reflected in lower net interest and trading income in the table above which was partially offset by continued growth in base fees.

Net interest and trading income

Net interest and trading income of A$35 million for the half year ended September 30, 2012 decreased 67% from A$107 million in the prior corresponding period. The decrease in net interest and trading income was predominantly due to lower demand for financing facilities from external funds and their investors. The decline also reflected further maturities in the retail loan book.

Fee and commission income

Base fees

Base fee income of A$294 million for the half year ended September 30, 2012 increased 7% from A$276 million in the prior corresponding period. This was primarily driven by an increase in Assets under Management as a result of market and valuation movements. See "Recent Developments – Funds management business – Assets under Management" for further discussion on the movements in Assets under Management during the period.

Performance fees

Performance fee income of A$2 million for the half year ended September 30, 2012 decreased 80% from A$10 million in the prior corresponding period mainly due to a change in the timing of some fee calculations within Macquarie Funds' Investment Management business.

The prior corresponding period included performance fees earned as a result of the Quant Hedge Funds outperforming their respective benchmarks.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and income from True Index products. Distribution service fees are offset with associated expenses that, for accounting purposes, are recognized in brokerage and commissions expense. Other fee and commission income of A$63 million for the half year ended September 30, 2012 increased 3% from A$61 million in the prior corresponding period primarily due to higher distribution fee income. This was offset by a corresponding increase in brokerage and commissions expense.

Other operating income and charges

Net gains/(losses) on sale of equity investments

Income of A$10 million for the half year ended September 30, 2012 primarily related to the gain on sale of a single co-investment.

Operating expenses

Total operating expenses of A$281 million for the half year ended September 30, 2012 decreased 4% from A$294 million in the prior corresponding period. The decline was driven primarily by lower technology and occupancy costs particularly due to the completion of IT projects and the realization of operational efficiencies and the impact of cost management initiatives.

Corporate & Asset Finance

	Half year ended			Movement	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest and trading income	246	288	294	*(15)*	*(16)*
Fee and commission income	16	17	14	*(6)*	*14*
Share of net profits of associates and joint ventures accounted for using the equity method	1	3	2	*(67)*	*(50)*
Other operating income and charges					
Impairment charge on equity investments and non-financial assets	(1)	(12)	(1)	*(92)*	-
Net operating lease income	203	198	183	*3*	*11*
Specific provisions and collective allowance for credit losses	(19)	(32)	(18)	*(41)*	*6*
Other income	51	64	47	*(20)*	*9*
Total other operating income and charges	234	218	211	*7*	*11*
Internal management revenue[1]	3	20	4	*(85)*	*(25)*
Net operating income	500	546	525	*(8)*	*(5)*
Operating expenses					
Employment expenses	(76)	(94)	(67)	*(19)*	*13*
Brokerage and commission expenses	(4)	(5)	(11)	*(20)*	*(64)*
Other operating expenses	(90)	(107)	(85)	*(16)*	*6*
Total operating expenses	(170)	(206)	(163)	*(17)*	*4*
Non-controlling interests[2]	-	-	(3)	-	*(100)*
Net profit contribution	330	340	359	*(3)*	*(8)*
Other metrics					
Headcount	908	925	907	*(2)*	*<1*

1 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

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

Corporate & Asset Finance's net profit contribution of A$330 million for the half year ended September 30, 2012 decreased by 8% from A$359 million in the prior corresponding period. The decrease is predominantly due to lower early loan repayments in the Lending business compared to the prior corresponding period, offset by the contribution from the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets.

Net interest and trading income

Net interest and trading income of A$246 million for the half year ended September 30, 2012 decreased 16% from A$294 million in the prior corresponding period. The decrease is mainly due to lower early loan repayments received in the period in addition to the funding costs associated with the acquisition of the OnStream UK meters business in October 2011, a portfolio of operating lease assets. The decrease was partially offset by growth in the asset finance portfolio.

Other operating income and charges

Net operating lease income

Net operating lease income of A$203 million for the half year ended September 30, 2012 increased 11% from A$183 million in the prior corresponding period. This was largely driven by the acquisition of the OnStream UK meters business in October 2011, the rail portfolio acquired in November 2011 and growth in the Mining business, partially offset by lower lease income from the aircraft leasing portfolio following the sale of aircraft.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses totaled A$19 million for the half year ended September 30, 2012, in line with the prior corresponding period. The charge in the current period includes additional provisions made on the remaining real estate portfolio and provisions on the motor vehicle leasing portfolio in line with an increase in the lease book.

Other income

Other income of A$51 million for the half year ended September 30, 2012 increased 9% from A$47 million in the prior corresponding period. Both the current and prior corresponding periods included the sale of aircraft, as well as income from the sale of off-lease manufacturing equipment.

Operating expenses

Total operating expenses of A$170 million for the half year ended September 30, 2012 increased 4% from A$163 million in the prior corresponding period, reflecting higher operating expenses primarily as a result of the OnStream UK meters business acquisition in October 2011 and the growth in the Mining business, partially offset by cost savings resulting from exiting the aircraft engine leasing business.

Banking & Financial Services

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest and trading income	371	345	359	*8*	*3*
Fee and commission income					
Base fees	19	17	16	*12*	*19*
Brokerage and commissions	103	99	118	*4*	*(13)*
Other fee and commission income	184	189	190	*(3)*	*(3)*
Income from life insurance business and other unitholder businesses	30	28	30	*7*	*-*
Total fee and commission income	336	333	354	*1*	*(5)*
Share of net profits of associates and joint ventures accounted for using the equity method	2	1	-	*100*	***
Other operating income and charges					
Net gains on sale of equity investments	4	-	1	***	*300*
Impairment charge on equity investments and disposal groups held for sale	(4)	(4)	(1)	*-*	*300*
Specific provisions and collective allowance for credit losses	(22)	(14)	(19)	*57*	*16*
Other income	28	5	10	***	*180*
Total other operating income and charges	6	(13)	(9)	***	***
Internal management revenue[2]	1	-	1	***	*-*
Net operating income	716	666	705	*8*	*2*
Operating expenses					
Employment expenses	(221)	(216)	(237)	*2*	*(7)*
Brokerage and commission expenses	(90)	(85)	(79)	*6*	*14*
Other operating expenses	(220)	(235)	(242)	*(6)*	*(9)*
Total operating expenses	(531)	(536)	(558)	*(1)*	*(5)*
Non-controlling interests[3]	-	-	-	*-*	*-*
Net profit contribution	185	130	147	*42*	*26*
Other metrics					
Funds under management/advice/administration[4] (A$ billion)	116.7	116.9	112.7	*(<1)*	*4*
Loan portfolio[5] (A$ billion)	23.2	23.5	23.9	*(1)*	*(3)*
Retail deposits (A$ billion)	30.8	29.0	28.6	*6*	*8*
Headcount	2,922	3,112	3,033	*(6)*	*(4)*

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

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

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

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

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

Banking & Financial Services' net profit contribution of A$185 million for the half year ended September 30, 2012 increased 26% from A$147 million in the prior corresponding period.

Net interest and trading income

Net interest and trading income of A$371 million for the half year ended September 30, 2012 increased 3% from A$359 million in the prior corresponding period. Increased net interest income reflected a larger retail deposits base, partially offset by a lower loan portfolio. Retail deposits increased 8% to A$30.8 billion at September 30, 2012 from A$28.6 billion at September 30, 2011.

The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products and credit cards. The total loan portfolio of A$23.2 billion at September 30, 2012 decreased 3% from A$23.9 billion at September 30, 2011, primarily due to a reduction in the Canadian loan portfolio. The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at A$7.9 billion at September 30, 2012, down 10% from A$8.8 billion at September 30, 2011. This was mainly due to a decrease in Canadian mortgages and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

The Australian mortgage portfolio increased 1% to A$11.1 billion[3] at September 30, 2012 from A$11.0 billion at September 30, 2011. The Australian mortgage portfolio experienced a small decrease in net interest margins mainly due to increased funding costs.

Fee and commission income

Base fees

Base fee income of A$19 million for the half year ended September 30, 2012 increased 19% from A$16 million in the prior corresponding period largely due to asset growth in Macquarie Private Wealth Canada managed accounts.

Brokerage and commissions

Brokerage and commission income of A$103 million for the half year ended September 30, 2012 decreased 13% from A$118 million in the prior corresponding period due to deterioration in equities market conditions globally resulting in lower traded volumes.

Other fee and commission income

Other fee and commission income of A$184 million for the half year ended September 30, 2012 decreased 3% from A$190 million in the prior corresponding period. Other fee and commission income relates to fees earned on a range of Banking & Financial Services' products including but not limited to the Australian Wrap Platform, the Macquarie Professional Series and financial planning software. The decrease from the prior corresponding period was impacted by the sale of the COIN institutional business in August 2012.

Funds under Administration on the Australian Wrap platform closed at A$22.6 billion on September 30, 2012, an increase of 10% from A$20.6 billion at September 30, 2011.

Income from life insurance business and other unitholder businesses

Income from life insurance business and other unitholder businesses of A$30 million for the half year ended September 30, 2012 was in line with the prior corresponding period. A decrease in retail superannuation funds under management was partially offset by an increase in income from the insurance inforce book, which grew to A$140 million at September 30, 2012 from A$108 million at September 30, 2011. The inforce book is the aggregate annualized life insurance premium payable for policies issued by the life company at the balance date.

[3] At September 30, 2012, A$5.9 billion (March 31, 2012: A$7.0 billion; September 30, 2011: A$8.1 billion) of the Australian mortgage portfolio was funded by third parties through external securitizations.

Other operating income and charges

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$22 million for the half year ended September 30, 2012 increased 16% from A$19 million the prior corresponding period. The increase was mostly due to movements in Macquarie Relationship Banking, which includes loans to businesses and insurance premium funding.

Other income

Other income of A$28 million for the half year ended September 30, 2012 increased 180% from A$10 million in the prior corresponding period. Income recognized in the current period was mostly due to the sale of the Canadian Macquarie Premium Funding business in May 2012 and the COIN institutional business in August 2012.

Operating expenses

Total operating expenses of A$531 million for the half year ended September 30, 2012 decreased 5% from A$558 million in the prior corresponding period.

Employment expenses

Employment expenses of A$221 million for the half year ended September 30, 2012 were down 7% from A$237 million in the prior corresponding period. This was largely due to reduced headcount resulting from business divestments and internal restructures, as well as lower sales commissions paid to Macquarie Private Wealth's advisers resulting from subdued equity market conditions.

Brokerage and commission expenses

Brokerage and commission expenses, which are largely paid to external advisers for product distribution, of A$90 million for the half year ended September 30, 2012 increased 14% from A$79 million in the prior corresponding period due to continued growth across a range of products including the Professional Series and Cash products.

Other operating expenses

Other operating expenses of A$220 million for the half year ended September 30, 2012 decreased 9% from A$242 million in the prior corresponding period due to cost management initiatives and business divestments, including the Canadian Macquarie Premium Funding business and the COIN institutional business.

Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions)

	Half year ended			Movement[1]	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Net interest and trading income	74	66	147	*12*	*(50)*
Fee and commission income					
Brokerage and commissions	(4)	(6)	(7)	*(33)*	*(43)*
Other fee and commission income	(7)	(56)	(52)	*(88)*	*(87)*
Total fee and commission income	(11)	(62)	(59)	*(82)*	*(81)*
Share of net profits of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Other operating income and charges	-	-	-	-	-
Internal management revenue[2]	-	2	1	*(100)*	*(100)*
Net operating income	63	6	89	*	*(29)*
Operating expenses					
Employment expenses	(7)	(13)	(12)	*(46)*	*(42)*
Brokerage and commission expenses	(59)	(68)	(91)	*(13)*	*(35)*
Other operating expenses	(43)	(60)	(56)	*(28)*	*(23)*
Total operating expenses	(109)	(141)	(159)	*(23)*	*(31)*
Net loss contribution	(46)	(135)	(70)	*(66)*	*(34)*
Other metrics					
Headcount	50	75	84	*(33)*	*(40)*

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

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

Macquarie Securities' net loss of A$46 million for the half year ended September 30, 2012 decreased 34% from a loss of A$70 million in the prior corresponding period.

Operating income of A$63 million for the half year ended September 30, 2012 decreased 29% from A$89 million in the prior corresponding period as global equity market conditions were adversely impacted by weak investor confidence resulting from an uncertain economic outlook, sovereign debt levels in Europe and concerns of a slowdown in China.

Net interest and trading income

Net interest and trading income of A$74 million for the half year ended September 30, 2012 decreased 50% from A$147 million in the prior corresponding period. Derivatives revenues were adversely impacted by changes in the regulatory environment, continued weak product demand for products globally as most markets remained subdued and run off costs from legacy businesses.

Fee and commission income

Fee and commission income was a loss of A$11 million for the half year ended September 30, 2012, a decrease of 81% from a loss of A$59 million in the prior corresponding period, largely driven by a reduction in internal transfer pricing charges paid as compensation for services provided to MBL Group by MGL Group service entities, especially in Europe as a result of the wind down of legacy businesses.

Operating expenses

Total operating expenses of A$109 million for the half year ended September 30, 2012 decreased 31% from A$159 million in the prior corresponding period. A key driver has been a number of cost reduction initiatives undertaken by Macquarie Securities over the past 18 months combined with the selective rationalization of businesses.

Employment expenses

Employment expenses of A$7 million for the half year ended September 30, 2012 decreased 42% from A$12 million in the prior corresponding period largely driven by a 40% reduction in headcount.

Brokerage and commission expenses

Brokerage and commission expenses of A$59 million for the half year ended September 30, 2012 decreased 35% from A$91 million in the prior corresponding period reflecting the reduction in trading activity as a result of changes in the regulatory environment and weaker demand for retail products.

Other operating expenses

Other operating expenses of A$43 million for the half year ended September 30, 2012 have decreased 23% from A$56 million in the prior corresponding period. The decrease was driven by lower headcount and cost savings arising from significant cost reduction initiatives across all businesses including the closure of various businesses.

Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities)

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest and trading income					
Commodities[2]	322	239	298	*35*	*8*
Credit, interest rates and foreign exchange	169	289	14	*(42)*	*
Fair value adjustments relating to leasing contracts[2]	9	15	(19)	*(40)*	*
Net interest and trading income	500	543	293	*(8)*	*71*
Fee and commission income					
Brokerage and commissions	43	49	50	*(12)*	*(14)*
Other fee and commission income	17	(20)	3	*	*
Total fee and commission income	60	29	53	*107*	*13*
Share of net profits of associates and joint ventures accounted for using the equity method	15	9	8	*67*	*88*
Other operating income and charges					
Net gains on sale of equity investments	50	113	32	*(56)*	*56*
Impairment charge on equity investments	(90)	(29)	(23)	*210*	*291*
Gain on change of ownership interest	-	36	-	*(100)*	-
(Loss)/gain on sale of non-financial assets	(1)	104	-	*	*
Specific provisions and collective allowance for credit losses	(32)	(14)	(15)	*129*	*113*
Other income	15	56	37	*(73)*	*(59)*
Total other operating income and charges	(58)	266	31	*	*
Internal management revenue[3]	5	10	7	*(50)*	*(29)*
Net operating income	522	857	392	*(39)*	*33*
Operating expenses					
Employment expenses	(95)	(117)	(105)	*(19)*	*(10)*
Brokerage and commission expenses	(92)	(74)	(74)	*24*	*24*
Amortization of intangibles	(4)	(19)	(15)	*(79)*	*(73)*
Other operating expenses	(161)	(175)	(190)	*(8)*	*(15)*
Total operating expenses	(352)	(385)	(384)	*(9)*	*(8)*
Net profit contribution	170	472	8	*(64)*	*
Other metrics					
Headcount	788	806	801	*(2)*	*(2)*

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

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

3 See "— Basis of preparation — Internal transactions — Internal management revenue/(charge)".

Fixed Income, Currencies & Commodities' net profit contribution for the half year ended September 30, 2012 was A$170 million, a significant increase from A$8 million in the prior corresponding period but a 64% decrease on the prior period. Net operating income of A$522 million increased 33% from A$392 million in the prior corresponding period, but decreased 39% from A$857 million in the prior period, which included significant income from asset sales.

The result for Fixed Income, Currencies & Commodities reflected a general improvement in market conditions across most of its businesses compared to the prior corresponding period. However, market conditions continued to be uncertain, particularly in Europe. In resource equity markets, weak investor sentiment and confidence impacted the timing of asset realizations and resulted in impairments on some listed equity holdings for the half year ended September 30, 2012.

Net interest and trading income

Commodities

Commodities trading income of A$322 million for the half year ended September 30, 2012 increased 8% from A$298 million in the prior corresponding period. Energy markets experienced solid revenues across its global platform due to strong customer flow and improved trading opportunities, particularly in the U.S. power and oil businesses. Agricultural markets experienced increased client activity in grains mainly due to increased volatility over the period. In metals markets, subdued client activity due to low volatility in base metals was partially offset by continued growth in physical base metals. Sustained higher precious metals prices dampened client appetite for hedging during the period.

Credit, interest rates and foreign exchange

Trading income from credit, interest rates and foreign exchange products of A$169 million for the half year ended September 30, 2012 increased significantly from A$14 million in the prior corresponding period, but decreased 42% from A$289 million in the prior period. The result represents an improvement on the prior corresponding period, which was adversely impacted by extreme volatility and concerns over global growth, however is down compared to a strong prior period. The prior period's strong result was largely due to significantly improved market conditions compared to the prior corresponding period, particularly in fixed income markets.

Fair value adjustments relating to leasing contracts

The fair value adjustments relate to various capacity contracts, including gas transportation, and tolling agreements which are managed on an economic value basis but accounted for on an accrual basis in accordance with IFRS.

Fee and commission income

Total fee and commission income of A$60 million for the half year ended September 30, 2012 increased 13% from A$53 million in the prior corresponding period due to increased deal flows across global markets for the securitization and origination parts of the business.

Other operating income and charges

Net gains on sale of equity investments

Net gains on sale of equity investments of A$50 million for the half year ended September 30, 2012 increased 56% from A$32 million in the prior corresponding period but decreased 56% from A$113 million in the prior period. Depressed resource equity markets impacted the timing of asset realizations.

Impairment charge on equity investments

Impairment charges on equity investments of A$90 million for the half year ended September 30, 2012 increased 291% from A$23 million in the prior corresponding period. Weak investor sentiment and confidence in resource equity markets resulted in lower security prices and, consequently, the impairment of a large number of equity holdings.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of A$32 million for the half year ended September 30, 2012 increased 113% from A$15 million in the prior corresponding period. The charges in the current period predominantly related to loan assets in the resources sector and are isolated credit events.

Other income

Other income of A$15 million for the half year ended September 30, 2012 decreased 59% from A$37 million in the prior corresponding period, driven largely by reduced income from Net Profit Interests and investments in commercial subsidiaries.

Operating expenses

Total operating expenses of A$352 million for the half year ended September 30, 2012 decreased 8% from A$384 million in the prior corresponding period, and decreased 9% from A$385 million in the prior period.

Employment expenses

Employment expenses of A$95 million for the half year ended September 30, 2012 decreased 10% from A$105 million in the prior corresponding period, and decreased 19% from A$117 million in the prior period, largely due to non-recurring costs relating to the build out of the global platform in previous periods.

Brokerage and commission expenses

Brokerage and commission expenses of A$92 million for the half year ended September 30, 2012 increased 24% from A$74 million in the prior corresponding period largely due to growth in physical trading activities.

Other operating expenses

Other operating expenses decreased 15% from A$190 million in the prior corresponding period to A$161 million for the half year ended September 30, 2012 mainly due to the impact of lower cost recoveries from central support functions.

Corporate

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Net interest and trading income	39	83	37	*(53)*	*5*
Fee and commission income/(expense)	4	35	(88)	*(89)*	*
Share of net profits of associates and joint ventures accounted for using the equity method	3	11	5	*(73)*	*(40)*
Other operating income and charges					
Net gains/(losses) on sale of debt and equity securities	5	(21)	29	*	*(83)*
Impairment charge on debt and equity securities	(3)	(25)	(13)	*(88)*	*(77)*
Dividends and distributions received	-	1	2	*(100)*	*(100)*
Specific provisions and collective allowance for credit losses	(3)	(14)	(1)	*(79)*	*200*
Other income	7	(8)	1	*	*
Total other operating income and charges	6	(67)	18	*	*(67)*
Internal management charge[2]	(16)	(35)	(20)	*(54)*	*(20)*
Net operating income	36	27	(48)	*33*	*
Operating expenses					
Employment expenses	(199)	(241)	(219)	*(17)*	*(9)*
Brokerage and commission expenses	1	(2)	(1)	*	*
Other operating expenses	(88)	(171)	(76)	*(49)*	*16*
Total operating expenses	(286)	(414)	(296)	*(31)*	*(3)*
Tax expense	(156)	(185)	(58)	*(16)*	*169*
Macquarie Income Preferred Securities	(2)	(2)	(2)	-	-
Macquarie Income Securities	(11)	(13)	(13)	*(15)*	*(15)*
Non-controlling interests[3]	(1)	(1)	-	-	*
Net loss contribution	(420)	(588)	(417)	*(29)*	*1*
Other metrics					
Headcount	79	100	132	*(21)*	*(40)*

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

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

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

The Corporate segment's net loss for the half year ended September 30, 2012 of A$420 million increased 1% from A$417 million in the prior corresponding period.

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity for MBL, earnings on capital, non-trading derivative volatility and the funding costs associated with legacy investments held centrally in MBL. Net interest and trading income of A$39 million for the half year ended September 30, 2012 increased 5% from A$37 million in the prior corresponding period. There was no individually significant driver of this increase.

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

There was no significant equity accounted income in the half year ended September 30, 2012. The income in the prior period primarily related to investments in the real estate sector which have been transferred to the Corporate segment.

Other operating income and charges

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

Net gains on sale of debt and equity securities of A$5 million for the half year ended September 30, 2012 decreased 83% from A$29 million in the prior corresponding period. Gains in the prior corresponding period related to gains from the sale of debt securities by Group Treasury. Losses in the prior period related to the sale of a legacy portfolio of mortgage-backed securities.

Impairment charge on debt and equity securities

Impairment charge on debt and equity securities of A$3 million for the half year ended September 30, 2012 decreased 77% from A$13 million in the prior corresponding period. The impairment charges related to a number of legacy investments that are no longer aligned with the operations of any of the operating groups and have been transferred to the Corporate segment.

Operating expenses

Employment expenses

Employment expenses in the Corporate segment predominantly relate to staff profit share, share based payments expense, and the employment costs of staff in the Corporate segment.

For the half year ended September 30, 2012, employment expenses were A$199 million, down 9% from A$219 million in the prior corresponding period. This decrease is mainly attributable to a decrease in headcount.

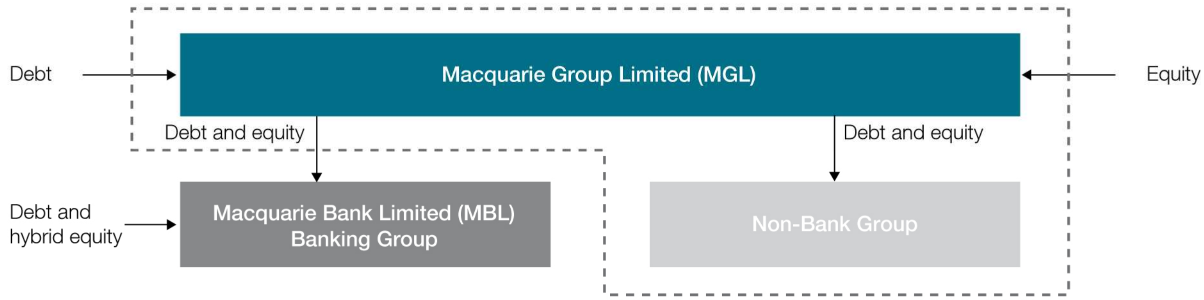
Other operating expenses

The other operating expenses category in the Corporate segment relates to the recovery of support function costs from the operating groups. Other operating expenses of A$88 million for the half year ended September 30, 2012 increased 16% from A$76 million in the prior corresponding period primarily due to increased levels of internal cost recoveries charged to MBL.

Liquidity

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

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



Liquidity management

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

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

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

Liquidity policy and principles

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

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

Liquidity and funding management

- All liquidity requirements are managed centrally by Group Treasury
- Liquidity risk is managed through setting limits on the maturity profile of assets and liabilities
- A liquidity contingency plan is approved by the Board and reviewed periodically
- A funding strategy is prepared annually and the funding position is monitored throughout the year

- Internal pricing incorporates liquidity costs, benefits and risks to align risk-taking activities with liquidity risk exposures

- Diversity and stability of funding sources is a key priority and strong relationships are maintained.

Liquidity limits

- Term assets must be funded by term liabilities

- Cash and liquid assets are sufficient to cover a 12-month stress scenario

- Cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash

- Short-term assets exceed short-term wholesale liabilities.

Scenario analysis

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

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

Liquid asset holdings

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

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

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank. The remainder must be approved by Group Treasury and Risk Management before inclusion in the liquid asset portfolio. As at September 30, 2012, 98% of the liquid asset portfolio was eligible for repurchase with central banks.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible government, semi-government, supranational, government guaranteed and unguaranteed bank securities, and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper. The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in U.S. dollars or other currencies where appropriate.

MBL Group had A$20.8 billion cash and liquid assets at September 30, 2012 (September 30, 2011: A$25.8 billion).

Liquidity contingency plan

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

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

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

Funding transfer pricing

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

Credit ratings

As at September 30, 2012, the credit ratings for MBL Group were as follows:

	Macquarie Bank Limited		
Rating agency[1]	**Short-term**	**Long-term**	**Long-term rating outlook**
Fitch Ratings	F-1	A	Stable
Moody's Investors Service....	P-1	A2	Stable
Standard & Poor's................	A-1	A	Stable

1 A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

Term funding transactions

The table below sets out MBL Group's term funding transactions since March 31, 2012:

Funding source	Banking Group
	A$bn
Securitized assets	
Term secured finance[4]	1.9
Issued paper	
Senior debt	3.7
Total	**5.6**

In the half year ended September 30, 2012, MBL Group raised A$5.6 billion of term funding, including A$3.7 billion of term wholesale funding and A$1.9 billion of term secured finance.

Under its Rule 144A/Regulation S Medium Term Note Program, MBL issued US$700 million and US$750 million of senior debt on July 18, 2012 and July 27, 2012, respectively.

Wholesale term issuance of A$3.7 billion includes A$1.9 billion in private placements and structured notes, A$1.4 billion in USD senior unsecured debt issuance and A$0.4 billion senior unsecured issuance in the Swiss market. Securitization term issuance of A$1.9 billion was predominantly SMART auto & equipment ABS which comprised A$1.4 billion. The balance of securitization issuance was A$0.3 billion of PUMA RMBS and A$0.2 billion securitization of MEF US equipment leases.

On October 29, 2012, MBL established a syndicated loan facility with 17 Taiwanese banks providing commitments totaling US$250 million for a tenor of 3 years. The facility was drawn down and funded in full on November 8, 2012. Details of the syndicated loan facility are not included in the table set out above.

On November 1, 2012, MBL launched and priced a dual tranche 6 year and 10 year Swiss Franc senior unsecured bond transaction totaling CHF 575 million, consisting of CHF 350 million Fixed Rate Bonds due November 2018 and CHF 225 million Fixed Rate Bonds due November 2022. These debt offerings are expected to settle on or about November 29, 2012. Details of these debt offerings are not included in the table set out above.

[4] Includes A$1.0 billion term securitization completed in October 2012.

Explanation of funded statement of financial position

MBL's statutory statement of financial position is prepared based on AGAAP and includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of MBL.

The table below reconciles the reported assets of the consolidated MBL Group to net funded assets at September 30, 2012.

MBL Group	**As at**
	Sep 12
	A$b
Total assets per MBL statutory statement of financial position	141.3
Accounting deductions:	
Self funded trading assets[1]	(13.4)
Derivative revaluation accounting gross-ups[2]	(20.2)
Life investment contracts and other segregated assets[3]	(9.8)
Broker settlement balances[4]	(3.0)
Short-term working capital assets[5]	(3.3)
Intercompany gross ups	(3.3)
Non-recourse funded assets:	
Securitized assets and non-recourse warehouses[6]	(12.0)
Net funded assets	76.3

1. *Self funded trading assets.* There are a number of entries on the statement of financial position that arise from the normal course of trading activity MBL Group conducts with its clients and counterparties. They typically represent both sides of a transaction. The entries offset each other as both the asset and liability positions are recorded separately. Where these entries are matched, they do not require funding.

2 *Derivative re-valuation accounting gross-ups.* MBL Group's derivative activities are mostly client driven with client positions hedged by offsetting positions. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

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

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

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

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

Funding profile for the Banking Group

The funded statement of financial position of the Banking Group as at September 30, 2012:

	As at Sep 12 A$b
Banking Group	
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	1.3
Commercial paper	4.4
Net trade creditors	0.4
Structured notes[2]	1.4
Secured funding[3]	9.9
Bonds[4]	11.8
Other loans	0.2
Deposits:[5]	
Retail deposits	30.8
Corporate and wholesale deposits	5.4
Loan capital[6]	2.0
Equity and hybrid[7]	8.7
Total	**76.3**
Funded assets	
Cash and liquid assets[8]	20.8
Net trading assets[9]	15.0
Loan assets less than one year[10]	8.9
Loan assets greater than one year[10]	29.6
Debt investment securities[11]	2.2
Non-Banking Group deposit with MBL	(2.5)
Co-investment in Macquarie-managed funds and other equity investments[12]	1.2
Property, plant and equipment and intangibles	1.1
Total	**76.3**

1 *Wholesale issued paper.* Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

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

3 *Secured funding.* Certain funding arrangements that have been secured against an asset (or pool of assets).

4 *Bonds.* Unsecured long-term wholesale funding.

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

6 *Loan capital.* Long-term subordinated debt and Convertible Preference Securities.

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

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

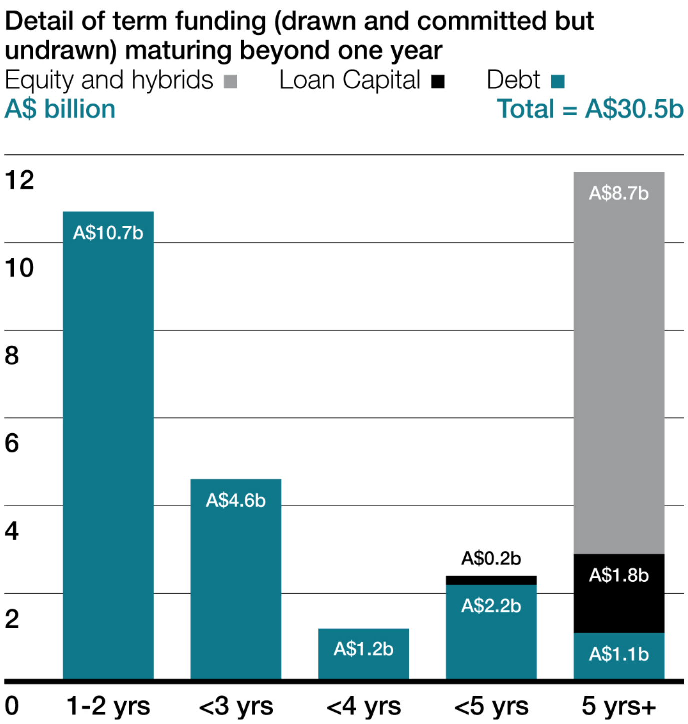
9 *Net trading assets.* The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

10 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital analysis — Loan assets" in this Report for further information.

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

12 *Co-investment in Macquarie-managed funds and other equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in Macquarie-managed funds.

The following chart and table provides details of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2012:



	As at					
	Sep 12					
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+	Total
Banking Group	A$b	A$b	A$b	A$b	A$b	A$b
Structured notes	0.3	0.3	—	0.2	0.3	**1.1**
Secured funding	2.7	3.1	1.1	—	0.3	**7.2**
Bonds	7.5	1.1	0.1	2.0	0.4	**11.1**
Total debt	**10.5**	**4.5**	**1.2**	**2.2**	**1.0**	**19.4**
Loan capital	—	—	—	0.2	1.8	**2.0**
Equity and hybrid	—	—	—	—	8.7	**8.7**
Total funding sources drawn	**10.5**	**4.5**	**1.2**	**2.4**	**11.5**	**30.1**
Undrawn	0.2	0.1	—	—	0.1	**0.4**
Total funding sources drawn and undrawn	**10.7**	**4.6**	**1.2**	**2.4**	**11.6**	**30.5**

The Banking Group has diversity of funding by both source and maturity. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.1 years.

As at September 30, 2012, deposits represented A$36.2 billion, or 47% of total funding, short-term wholesale funding represented A$5.7 billion, or 7% of total funding, and other debt funding maturing within 12 months represented A$4.0 billion, or 5% of total funding.The key tools used for accessing wholesale debt funding markets for MBL, which primarily funds the Banking Group, are as follows:

- US$25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government guaranteed and unguaranteed securities including Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had US$9.5 billion of debt securities outstanding at September 30, 2012;

- US$10 billion Commercial Paper Program incorporating both Government guaranteed and unguaranteed securities under which US$1.4 billion of debt securities were outstanding at September 30, 2012; and

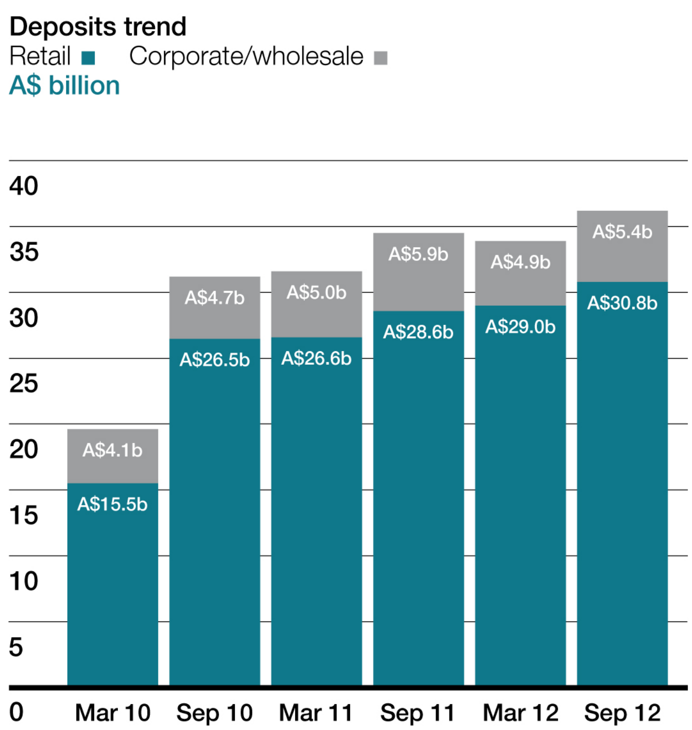
- US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government guaranteed and unguaranteed securities. At September 30, 2012, US$7.4 billion had been issued under the Rule 144A/Regulation S Medium Term Note Program.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At September 30, 2012, MBL Group had A$1.3 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the RBA's daily market operations. At September 30, 2012, MBL Group had internally securitized A$4.6 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Deposit strategy

The chart below illustrates MBL Group's strong retail deposit growth since March 2010.



[1] On July 31, 2010, unitholders in the CMT converted their units into at-call deposits in the CMA. This resulted in an increase of A$9.6 billion of MBL retail deposits.

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

In particular, MBL has focused on improving the quality and composition of the retail deposit base by targeting transactional and relationship based deposits such as the CMA.

The majority of MBL's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at A$250,000, which was reduced from A$1 million in February 2012.

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

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

As at September 30, 2012, MBL Group had A$3.5 billion of contingent liabilities and commitments, including A$1.0 billion of contingent liabilities and A$2.3 billion of commitments under undrawn credit facilities. See Note 17 "Contingent liabilities and commitments" to our 2013 interim financial statements which shows MBL Group's contingent liabilities and commitments at September 30, 2012.

Quantitative and qualitative disclosures about market risk

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

Capital analysis

Overview

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

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

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards); and

- The Non-Banking Group capital requirement, calculated using MGL's ECAM.

Transactions internal to MGL Group are eliminated.

Banking Group capital

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

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

Given the introduction of Basel III on January 1, 2013, MBL's internal capital management is now aligned with Basel III. Accordingly, the capital disclosures in this section include Basel III and APRA Basel II figures. For Basel III, both Harmonized Basel III and APRA Basel III capital disclosures are provided. The former is relevant for comparisons with banks regulated by regulators other than APRA, whereas the latter reflects MBL's expected regulatory requirements under Basel III from January 1, 2013. Harmonized Basel III relates to the Basel III rules defined by the Basel Committee on Banking Supervision, documented in "Basel III: a global regulatory framework for more resilient banks and banking systems" published December 2010 (revised June 2011) by the Bank for International Settlements (BIS). APRA Basel III relates to the Prudential Standards released by APRA in September 2012 relating to implementing Basel III capital reforms in Australia and draft Prudential Standards released by APRA in August 2012 relating to Counterparty Credit Risk and Other measures that will become effective January 1, 2013. The APRA Basel III estimates disclosed are derived from these Prudential Standards except that Basel III central counterparty (CCP) capital changes are not included in the estimates.

Prior to January 1, 2013, MBL continues to be supervised on a Basel II basis by APRA. Basel II includes the enhancements to the Basel II framework relating to Stressed VaR and the treatment of securitization exposures (commonly referred to as Basel 2.5) that became effective January 1, 2012 for APRA supervised ADIs. The Basel III disclosures provided in this section are not required for regulatory compliance by APRA but are provided for information purposes only and are not subject to audit.

Common Equity Tier 1 capital

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

Tier 1 capital

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

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

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

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

Pillar 3

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

These disclosures are required to be published by MBL Group within 40 business days of the reporting date and are posted on MBL's U.S. Investors' Website.

Banking Group Basel III Tier 1 capital

	As at Sep 12	
	Harmonized Basel III	APRA Basel III
	A$m	A$m
Common equity Tier 1 capital		
Paid-up ordinary share capital	7,690	7,690
Reserves	(566)	(566)
Retained earnings	1,239	1,239
Gross common equity Tier 1 capital	**8,363**	**8,363**
Deductions from common equity Tier 1 capital:		
Goodwill	133	133
Deferred tax assets	131	122
Changes in the ADI's own creditworthiness on banking book liabilities	32	32
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	563	563
Loan and lease origination fees and commissions paid to mortgage originators and brokers	—	81
Shortfall in provisions for credit losses	202	202
Equity investments and non-consolidated subsidiaries	—	1,518
Other common equity Tier 1 capital deductions	162	203
Deductions from common equity Tier 1 capital	**1,223**	**2,854**
Net common equity Tier 1 capital	**7,140**	**5,509**
Additional Tier 1		
Additional Tier 1 capital	647	647
Gross additional Tier 1 capital	647	647
Deduction from additional Tier 1 capital:		
Holdings of Additional Tier 1 capital instruments in financial institutions	—	—
Net additional Tier 1 capital	647	647
Net Tier 1 capital	**7,787**	**6,156**

Banking Group Basel III Risk-Weighted Assets

	As at Sep 12	
	Harmonized Basel III	**APRA Basel III**
	A$m	**A$m**
Credit risk RWA		
Subject to IRB approach:		
Corporate	16,455	16,455
SME Corporate[1]	1,384	1,384
Sovereign	987	987
Bank	2,134	2,134
Residential mortgage	1,578	2,048
Other retail	3,759	3,759
Total RWA subject to IRB approach	**26,297**	**26,767**
Specialized lending exposures subject to slotting criteria	**4,584**	**4,584**
Subject to Standardized approach:		
Corporate	661	661
Sovereign	—	—
Bank	—	—
Residential mortgage	631	631
Other retail	1,297	1,297
Total RWA subject to Standardized approach	**2,589**	**2,589**
Credit risk RWA for Securitization exposures	555	555
RWA for other assets	5,225	5,106
Total credit risk RWA	**39,250**	**39,601**
Equity risk exposures RWA	4,990	—
Other items subject to RWA under Basel III	4,084	4,084
Market risk RWA	4,280	4,280
Operational risk RWA	6,439	6,439
Interest rate risk in banking book RWA	—	—
Scaling factor (6%) applied to IRB exposures	1,578	1,606
Total Banking Group RWA	**60,621**	**56,010**
Capital ratios		
Macquarie Bank Group Common equity Tier 1 capital ratio (%)	11.8	9.8
Macquarie Bank Group Tier 1 capital ratio (%)	12.8	11.0

[1] Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardized approach.

Banking Group Basel II capital base

	As at			Movement	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$m	A$m	A$m	%	%
Tier 1 capital					
Paid-up ordinary share capital	7,690	7,685	7,689	<1	<1
Reserves	(592)	(654)	(185)	(9)	220
Retained earnings	932	1,338	1,260	(30)	(26)
Innovative Tier 1 capital	692	692	457	—	51
Gross Tier 1 capital	**8,722**	**9,061**	**9,221**	(4)	(5)
Deductions from Tier 1 capital:					
Goodwill	133	138	143	(4)	(7)
Deferred tax assets	122	104	123	17	(1)
Changes in the ADI's own creditworthiness on banking book liabilities	32	38	82	(16)	(61)
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	563	608	631	(7)	(11)
Loan and lease origination fees and commissions paid to mortgage originators and brokers	81	85	97	(5)	(16)
Other Tier 1 capital deductions	237	256	279	(7)	(15)
Deductions from Tier 1 capital only	**1,168**	**1,229**	**1,355**	(5)	(14)
Other 50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	244	283	295	(14)	(17)
Non-consolidated subsidiaries (50%)	223	214	217	4	3
All other deductions relating to securitization (50%)	28	31	260	(10)	(89)
Shortfall in provisions for credit losses (50%)	68	86	58	(21)	17
Other 50/50 deductions from Tier 1 capital (50%)	28	45	69	(38)	(59)
Total 50/50 deductions from Tier 1 capital	**591**	**659**	**899**	(10)	(34)
Total Tier 1 capital deductions	**1,759**	**1,888**	**2,254**	(7)	(22)
Net Tier 1 capital	**6,963**	**7,173**	**6,967**	(3)	(<1)
Tier 2 capital					
Upper Tier 2 capital:					
Other Upper Tier 2 capital	62	77	136	(19)	(54)
Lower Tier 2 capital:					
Term subordinated debt	1,700	2,030	2,557	(16)	(34)
Gross Tier 2 capital	**1,762**	**2,107**	**2,693**	(16)	(35)
Deductions from Tier 2 capital:					
50/50 deductions from Tier 2 capital	591	659	899	(10)	(34)
Total Tier 2 capital deductions	**591**	**659**	**899**	(10)	(34)
Net Tier 2 capital	**1,171**	**1,448**	**1,794**	(19)	(35)
Total capital base	**8,134**	**8,621**	**8,761**	(6)	(7)

Banking Group Basel II Risk-Weighted Assets

	As at			Movement[1]	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Credit risk – Risk-Weighted Assets (RWA)					
Subject to FIRB approach:					
Corporate	15,769	15,423	20,229	2	(22)
SME Corporate[2]	1,384	—	—	*	*
Sovereign	769	722	899	7	(14)
Bank	1,580	1,747	3,279	(10)	(52)
Residential mortgage	2,047	1,534	1,539	33	33
Other retail	3,759	2,745	2,340	37	61
Total RWA subject to FIRB approach	**25,308**	**22,171**	**28,286**	14	(11)
Specialized lending exposures subject to slotting criteria[3]	**4,584**	**4,507**	**3,713**	2	23
Subject to standardized approach:					
Corporate	661	2,158	2,998	(69)	(78)
Sovereign	—	—	—	—	—
Bank	—	—	—	—	—
Residential mortgage	631	526	608	20	4
Other retail	1,297	1,818	2,065	(29)	(37)
Total RWA subject to standardized approach	**2,589**	**4,502**	**5,671**	(42)	(54)
Credit risk RWA for securitization exposures	555	517	1,228	7	(55)
RWA for other assets	5,106	5,838	4,477	(13)	14
Total credit risk RWA	**38,142**	**37,535**	**43,375**	2	(12)
Equity risk exposures RWA	1,924	2,028	2,173	(5)	(11)
Market risk RWA	4,280	4,666	3,889	(8)	10
Operational risk RWA	6,439	6,312	6,467	2	(<1)
Interest rate risk in banking book RWA	—	—	—	*	*
APRA scaling factor (6%) applied to IRB exposures	1,519	1,330	1,697	14	(10)
Total Banking Group RWA	**52,304**	**51,871**	**57,601**	1	(9)
Capital ratios					
MBL Group Tier 1 capital ratio (%)	13.3	13.8	12.1		
MBL Group Total capital ratio (%)	15.6	16.6	15.2		

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

2 Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardized approach.

3 Specialized lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

Statutory consolidated statement of financial position

	As at			Movement	
	Sep 12	**Mar 12**	**Sep 11**	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**	**%**	**%**
Assets					
Receivables from financial institutions	**8,431**	8,316	9,024	*1*	*(7)*
Cash collateral on securities borrowed and reverse repurchase agreements	**7,407**	7,024	5,894	*5*	*26*
Trading portfolio assets	**14,457**	11,545	14,375	*25*	*1*
Derivative assets	**21,579**	21,951	34,064	*(2)*	*(37)*
Investment securities available for sale	**18,267**	16,285	19,409	*12*	*(6)*
Other assets	**6,601**	7,444	9,173	*(11)*	*(28)*
Loan assets held at amortized cost	**46,537**	44,095	44,934	*6*	*4*
Other financial assets at fair value through profit or loss	**4,909**	5,962	9,097	*(18)*	*(46)*
Life investment contracts and other unitholder investment assets	**6,063**	5,908	4,760	*3*	*27*
Due from related body corporate entities	**766**	1,118	1,313	*(31)*	*(42)*
Property, plant and equipment	**4,776**	4,835	4,648	*(1)*	*3*
Interests in associates and joint ventures accounted for using the equity method	**592**	707	771	*(16)*	*(23)*
Intangible assets	**830**	874	934	*(5)*	*(11)*
Deferred tax assets	**117**	105	108	*11*	*8*
Total assets	**141,332**	136,169	158,504	*4*	*(11)*
Liabilities					
Cash collateral on securities lent and repurchase agreements	**8,560**	4,779	8,571	*79*	*(<1)*
Trading portfolio liabilities	**3,384**	3,507	4,346	*(4)*	*(22)*
Derivative liabilities	**20,920**	20,897	32,171	*<1*	*(35)*
Deposits	**39,801**	37,014	37,833	*8*	*5*
Current tax liabilities	**37**	46	27	*(20)*	*37*
Other liabilities	**6,428**	7,720	9,059	*(17)*	*(29)*
Payables to financial institutions	**4,370**	4,299	4,995	*2*	*(13)*
Other financial liabilities at fair value through profit or loss	**993**	1,688	2,103	*(41)*	*(53)*
Life investment contracts and other unitholder liabilities	**6,047**	5,897	4,759	*3*	*27*
Due to related body corporate entities	**3,495**	3,022	4,856	*16*	*(28)*
Debt issued at amortized cost	**35,963**	35,068	37,365	*3*	*(4)*
Provisions	**94**	99	87	*(5)*	*8*
Deferred tax liabilities	**596**	536	296	*11*	*101*
Total liabilities excluding loan capital	**130,688**	124,572	146,468	*5*	*(11)*
Loan capital					
Subordinated debt at amortized cost	**1,976**	2,176	2,447	*(9)*	*(19)*
Subordinated debt at fair value through profit or loss	**-**	150	149	*(100)*	*(100)*
Total loan capital	**1,976**	2,326	2,596	*(15)*	*(24)*
Total liabilities	**132,664**	126,898	149,064	*5*	*(11)*
Net assets	**8,668**	9,271	9,440	*(7)*	*(8)*
Equity					
Contributed equity	**8,082**	8,077	8,080	*<1*	*<1*
Reserves	**(634)**	(617)	(326)	*3*	*94*
Retained earnings	**1,151**	1,743	1,613	*(34)*	*(29)*
Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited	**8,599**	9,203	9,367	*(7)*	*(8)*
Non-controlling interests					
Macquarie Income Preferred Securities	**64**	63	66	*2*	*(3)*
Other non-controlling interests	**5**	5	7	*-*	*(29)*
Total equity	**8,668**	9,271	9,440	*(7)*	*(8)*

Total assets of A$141.3 billion at September 30, 2012 increased 4% from A$136.2 billion at March 31, 2012, an increase of A$5.1 billion as a result of the items below.

Trading portfolio assets increased 25% from A$11.5 billion at March 31, 2012 to A$14.5 billion at September 30, 2012 primarily as a result of increased trading activities in Fixed Income, Currencies & Commodities.

Investment securities available for sale increased 12% from A$16.3 billion at March 31, 2012 to A$18.3 billion at September 30, 2012 and Other financial assets at fair value through profit or loss decreased 18% from A$6.0 billion at March 31, 2012 to A$4.9 billion at September 30, 2012 mainly due to liquidity management activities within Group Treasury.

Other assets decreased 11% from A$7.4 billion at March 31, 2012 to A$6.6 billion at September 30, 2012 and other liabilities decreased 17% due to lower unsettled trade receivables and payables at the end of the period within Macquarie Funds and Macquarie Securities.

Loan assets increased 6% from A$44.1 billion at March 31, 2012 to A$46.5 billion at September 30, 2012 due primarily to organic growth in the leasing books in Corporate & Asset Finance.

Total liabilities (excluding loan capital) increased 5% from A$124.6 billion at March 31, 2012 to A$130.7 billion at September 30, 2012, an increase of A$6.1 billion as a result of items below.

Cash collateral on securities lent and repurchase agreements increased 79% from A$4.8 billion at March 31, 2012 to A$8.6 billion at September 30, 2012 due to liquidity management activities within Group Treasury.

Deposits increased 8% from A$37.0 billion at March 31, 2012 to A$39.8 billion at September 30, 2012 primarily due to continuing growth in CMA account balances and corporate banking deposits.

Total equity decreased A$603 million from A$9.3 billion at March 31, 2012 to A$8.7 billion at September 30, 2012. The decrease since March 31, 2012 is predominantly due to the payment of a special dividend on June 6, 2012 (A$500 million) and a final dividend on July 2, 2012 (A$455 million).

This description of our funded loan assets is based on the funded balance sheet of MBL Group and not the statutory balance sheet classification.

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$b	A$b	A$b	%	%
Loan assets at amortized cost per statutory balance sheet	**46.5**	44.1	44.9	*5*	*4*
Other loans held at fair value[2]	**1.4**	1.8	1.9	*(22)*	*(26)*
Operating lease assets	**4.5**	4.7	4.5	*(4)*	-
Other reclassifications[3]	**0.3**	0.2	(0.1)	*50*	*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers	**(12.2)**	(12.9)	(12.9)	*(5)*	*(5)*
Less: segregated funds[4]	**(0.8)**	(0.6)	(1.2)	*33*	*(33)*
Less: margin balances (reclassed to trading)[5]	**(1.2)**	(1.6)	(1.4)	*(25)*	*(14)*
Total per funded balance sheet	**38.5**	35.7	35.7	*8*	*8*

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

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

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

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

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

For the half years ended September 30, 2012, March 31, 2012 and September 30, 2011, funded loan assets of MBL Group consisted of:

	Half year ended			Movement[1]	
	Sep 12	Mar 12	Sep 11	Mar 12	Sep 11
	A$b	A$b	A$b	%	%
Mortgages:					
Australia	**4.2**	2.6	2.3	*62*	*83*
United States	**0.7**	0.7	0.8	-	*(13)*
Canada	**7.8**	8.2	8.5	*(5)*	*(8)*
Structured investments	**3.1**	2.5	2.7	*24*	*15*
Banking	**3.8**	4.0	3.9	*(5)*	*(3)*
Real estate	**0.3**	0.4	0.1	*(25)*	*200*
Resources and commodities	**2.4**	1.7	1.9	*41*	*26*
Leasing (financing and operating)	**7.9**	7.8	8.0	*1*	*(1)*
Corporate & Asset Finance lending	**7.3**	7.0	7.0	*4*	*4*
Other lending	**1.0**	0.8	0.5	*25*	*100*
Total	**38.5**	35.7	35.7	*8*	*8*

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

Our funded loan asset portfolio comprises diverse, secured assets:

Loan category	Asset security
Mortgages	Secured by residential mortgages and supported by mortgage insurance. • Australia: most loans are fully mortgage insured. • United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured. • Canada: most loans are fully insured with underlying government support.
Structured investments	Retail loans to invest in various investment funds. Secured by investments with value protected by capital guarantees at maturity. Underlying assets primarily include direct and indirect equities and cash.
Banking	Secured relationship managed portfolio to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. Portfolio also includes other consumer lending including credit cards.
Real estate	Loans secured against real estate assets, generally subject to regular independent valuations.
Resources and commodities	Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets. Secured by gold, base metals and oil resources and supported by price hedging.
Leasing (finance and operating)	Secured by underlying leased assets (motor vehicles and specialized equipment), diversified portfolio by geography and security asset class.
Corporate & Asset Finance lending	Diversified secured corporate lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.
Other lending	Deposits with financial institutions as collateral for trading positions.

Equity investments

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

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

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

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

The tables below set out the composition of these categories of equity investments for the half years ended September 30, 2012, March 31, 2012 and September 30, 2011.

Equity investments reconciliation

	As at		
	Sep 12	**Mar 12**	**Sep 11**
	A$m	**A$m**	**A$m**
Equity investments			
Statutory balance sheet			
Equity investments within other financial assets at fair value through profit or loss	**2,279**	2,131	2,731
Equity investments within investment securities available for sale	**558**	636	850
Interests in associates and joint ventures accounted for using the equity method	**592**	707	771
Other assets	**-**	-	-
Total equity investments per statutory balance sheet	**3,429**	3,474	4,352
Adjustment for funded balance sheet			
Equity hedge positions[1]	**(2,192)**	(2,070)	(2,622)
Total funded equity investments	**1,237**	1,404	1,730
Adjustments for equity investments analysis			
Available for sale reserves[2]	**(100)**	(124)	(203)
Associates reserves[3]	**(1)**	(2)	(3)
Total adjusted equity investments[4]	**1,136**	1,278	1,524

1 These relate to assets held for the purposes of economically hedging MBL's fair valued liabilities to external parties arising from various equity linked instruments. Consequently, these have been excluded from the analysis of equity investment exposures.

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

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

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

Euro-zone exposures

This table includes MBL Group's exposures to Euro-zone countries that are currently experiencing significant economic, fiscal and/or political strains, due to which the likelihood of default by sovereign governments and non-sovereign entities based in those countries is higher than would be anticipated in the absence of such factors. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures. The total exposure to these countries is predominantly fully funded with minimal unfunded committed exposures.

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

	As at Sep 30, 2012			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure**
	A$m	**A$m**	**A$m**	**A$m**
Italy				
Loans, receivables & commitments[1]	-	0.4	8.9	9.3
Derivative assets[2]	-	-	2.1	2.1
Italy totals	**-**	**0.4**	**11.0**	**11.4**
Spain				
Loans, receivables & commitments and leases[1]	-	19.6	79.8	99.4
Derivative assets[2]	-	1.1	5.3	6.4
Spain totals	**-**	**20.7**	**85.1**	**105.8**
Portugal				
Loans, receivables & commitments[1]	-	0.3	93.7	94.0
Derivative assets[2]	-	-	8.0	8.0
Portugal totals	**-**	**0.3**	**101.7**	**102.0**
Ireland				
Loans, receivables & commitments[1]	-	14.5	193.1	207.6
Derivative assets[2]	-	1.4	1.3	2.7
Traded debt securities	-	7.9	-	7.9
Ireland totals	**-**	**23.8**	**194.4**	**218.2**
Greece				
Loans, receivables & commitments[1]	-	-	-	-
Derivative assets[2]	-	-	-	-
Greece totals	**-**	**-**	**-**	**-**
Total exposure	**-**	**45.2**	**392.2**	**437.4**

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

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

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