Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the Fiscal Year ended March 31, 2010

Dated: May 18, 2010

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the Fiscal Year ended March 31, 2010 (this "Report"), unless otherwise specified or the context otherwise requires:

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

- *"Banking Holdco"* means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;

- *"Commonwealth"* and *"Australia"* each means the Commonwealth of Australia;

- *"Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme"* means the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding adopted in November 2008 by the Commonwealth and which was closed to new issuances and deposits on March 31, 2010;

- *"controlled entities"* means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objectives;

- *"ELE"* means Extended Licensed Entity (as defined in APRA prudential regulation) which is an ADI, such as the Bank, and any subsidiaries considered by APRA to be operating as a division of the ADI itself. In order to be part of the ELE, a subsidiary must, among other things: (i) not have liabilities to entities outside the ELE, including to third parties, where those liabilities exceed 5% of the subsidiary's assets; (ii) not undertake business that is not permitted by ADIs; (iii) be wholly-owned by the ADI itself or another ELE subsidiary; (iv) be entirely funded by the ADI; (v) face no regulatory or legal barriers to transferring assets back to the ADI; and (vi) have only the ADI's directors or senior managers on its board of directors;

- *"Exchange Act"* means the US Securities Exchange Act of 1934, as amended;

- *"Executive Committee"* means the committee established and chaired by the managing director of MGL focusing on a variety of business issues, including key risks faced across the organization;

- *"Financial Claims Scheme"* means the financial claims scheme established by Division 2AA of Part II of the Australian Banking Act;

- *"financial statements"* means our historical financial statements;

- *"F-IRB"* means the foundation internal ratings-based approach under Basel II;

- *"FSA"* means the United Kingdom Financial Services Authority;

- *"GAAP"* means generally accepted accounting principles;

- *"Guarantee"* means the guarantee contained in the Deed of Guarantee dated November 20, 2008 executed on behalf of the Commonwealth and which took effect from November 28, 2008, as amended from time to time;

- *"historical financial statements"* means our 2010 annual financial statements, our 2009 annual financial statements and our 2008 annual financial statements;

- *"IASB"* means the International Accounting Standards Board;

- *"IFRS"* means International Financial Reporting Standards;

- *"Intra Group Loan"* means the lending facility more fully described under "Macquarie Bank Limited — Relationship between MBL and MGL — Intra Group Loan";

- *"Macquarie Capital"* means, following the reorganization of operating groups within MGL Group described below under "Financial Information Presentation — Reorganization of operating groups and reporting segments within MBL Group during the 2009 fiscal year", the Macquarie Capital Advisers division which includes Macquarie Capital Funds and certain activities of Fixed Income, Currencies & Commodities that transferred to the Non-Banking Group as part of the Restructure;

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

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

- *"MBLSB"* means Macquarie Bank Limited Seoul Branch;

- *"MBL UK"* means the United Kingdom branch of MBL;

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

- *"MCFEL"* means Macquarie Capital Funds (Europe) Limited;

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

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

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

- *"MIS"* means Macquarie Income Securities;

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

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

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

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

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

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

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

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

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

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

- *"Scheme Rules"* means the Commonwealth Guarantee Scheme for Large Deposits and Wholesale Funding Rules, that commenced on November 20, 2008 and as amended and in force from time to time;

- *"Schemes"* means the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme and the Financial Claims Scheme;

- *"Senior Credit Facility"* means the A$7.6 billion senior credit facilities provided to MGL comprising A$2.4 billion revolving credit facilities and A$5.2 billion term facilities;

- *"Services Agreements"* means the Outsourcing Master Services Agreements between MBL and MGL dated November 15, 2007, and the Non-Banking Holdco and MGL dated December 10, 2007, and any supplements or amendments thereto, as more fully described under "Macquarie Bank Limited — Shared Services";

- *"SFE"* means Sydney Futures Exchange as operated by ASX Limited and its successors;

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

- *"Umbrella Deed"* means the Umbrella Deed: Backstop Arrangement between MBL and Macquarie Capital Group Limited dated on or about November 13, 2007, which sets out some of the arrangements for assets and businesses that could not totally be assumed by the Non-Banking Group, through Macquarie Capital Group Limited or its subsidiaries following the Restructure;

- "*2008 annual financial statements*" means our audited consolidated financial statements contained in our 2008 Annual Report;

- "*2009 annual financial statements*" means our audited consolidated financial statements contained in our 2009 Annual Report; and

- "*2010 annual financial statements*" means our audited consolidated financial statements contained in our 2010 Annual Report.

Our fiscal year ends on March 31, so references to years such as 2010 and like references in the discussion of our financial statements, results of operation and financial condition are to the twelve months ending on March 31 of each such year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- macroeconomic conditions in the global debt and equity markets;
- our ability to complete, integrate or process acquisitions and dispositions;
- our ability to effectively manage our growth;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- changes in market liquidity and investor confidence;
- 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 operate or 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 enter in the future;
- the effects of competition in the geographic and business areas in which we conduct operations or enter in the future;
- our ability to adequately fund the operations of MGL and the Non-Banking Group;
- our ability to return capital or borrow from our subsidiaries;
- the impact of asset sales on our long-term business prospects;
- our ability to increase market share and control expenses;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- technological changes; and

- various other factors beyond our control.

Significant risk factors applicable to MBL Group are described under "Risk Factors" and other factors are discussed under "Management's Discussion and Analysis of Results of Operation and Financial Condition" and elsewhere in this Report.

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.

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 US dollars per A$1.00.

In providing these translations, we are not representing that the Australian dollar amounts actually represent these US dollar amounts or that we could have converted those Australian dollars into US dollars. Since March 31, 2009, when the noon buying rate for Australian dollars into US dollars was A$1.00 per US$0.6925, there have been significant movements and volatility in the Australian and US dollar exchange rate. From March 31, 2009 to March 31, 2010, the Australian dollar has appreciated by approximately 32% against the US dollar. Unless otherwise indicated, conversions of Australian dollars to US dollars in this Report have been made at the noon buying rate at the close of business on March 31, 2010, which was US$0.9169 per A$1.00. The noon buying rate at the close of business on May 7, 2010, was US$0.8890 per A$1.00.

Fiscal Year	Period End	Average Rate[1]	High	Low
2006	0.7165	0.7515	0.7834	0.7056
2007	0.8104	0.7652	0.8104	0.7177
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
Month	**Period End**		**High**	**Low**
November 2009	0.9131		0.9396	0.8958
December 2009	0.8979		0.9265	0.8777
January 2010	0.8873		0.9306	0.8873
February 2010	0.8961		0.8994	0.8617
March 2010	0.9169		0.9225	0.8997
April 2010	0.9306		0.9359	0.9170
May 2010 (through May 7, 2010)	0.8890		0.9255	0.8890

[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 US dollars at freely floating rates. However, the Banking (Foreign Exchange) Regulations promulgated under the Australian Banking Act, the AML-CTF Act 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

FINANCIAL INFORMATION PRESENTATION

Our historical financial statements

Our 2010 annual financial statements include our audited financial statements as at and for the years ended March 31, 2010 and 2009. Our operating segments, as reported in accordance with AGAAP, reflect our current operating groups and divisions. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009” for further information.

For financial reporting purposes, MBL Group is divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities (excluding the Cash division), Fixed Income, Currencies & Commodities, Macquarie Funds and Banking & Financial Services. The Real Estate Banking and Corporate & Asset Finance divisions also reported separately for internal reporting and risk management purposes. Transfers between segments are determined on an arm’s length basis and are eliminated on consolidation.

We report certain items in the Corporate segment, which includes the Group Treasury division, the Head Office and central support functions. The Corporate segment includes unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and profits attributable to minority interests. The Corporate segment also includes the impact of changes in credit spreads on non-trading financial instruments that are classified as fair value through profit or loss. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equates to our total profit after tax.

Impact of acquisitions on the 2010 fiscal year

During the 2010 fiscal year, MGL Group acquired a number of entities and businesses, including:

- *Tristone Capital Global Inc.* On August 31, 2009, MBL Group acquired Tristone Capital Global Inc. (“*Tristone*”), a global energy advisory and securities firm; and

- *Fox-Pitt Kelton Group.* On November 30, 2009, MBL Group acquired Fox-Pitt Kelton Cochran Caronia Waller LLC (“*FPK*”), a United States based-specialist equities sales and trading, and corporate advisory firm focused on financial services.

Certain businesses of Tristone and FPK were integrated into MBL Group.

During the 2010 fiscal year, MBL Group acquired a number of entities and businesses, including:

- *Blackmont Capital Inc.* On December 31, 2009, MBL Group acquired Blackmont Capital Inc. (“*Blackmont*”), a full service Canadian wealth management and investment dealer business; and

- *Delaware Investments.* On January 5, 2010, MBL Group acquired Delaware Investments, a leading United States-based diversified asset management firm.

In accordance with AASB 3 “Business Combinations”, provisional amounts for the initial accounting of acquisitions made during the 2010 fiscal year were reported in MBL Group’s 2010 annual financial statements. The operating results of these acquisitions did not have a material impact on the results of operation of MBL Group for the 2010 fiscal year.

For further information on how these businesses have been integrated into MBL Group, see “Macquarie Bank Limited — Operating Groups” below, and for information on their impact on our results of operation and financial condition for the 2010 fiscal year, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment analysis”.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2010 fiscal year, see Note 44 "Acquisitions and disposals of subsidiaries and businesses" to our 2010 annual financial statements.

Reorganization of operating groups and reporting segments within MBL Group during the 2009 fiscal year

Effective September 2009, Treasury & Commodities was renamed Fixed Income, Currencies & Commodities to more accurately reflect the services provided by the operating group since the relocation of Group Treasury to Corporate Affairs in October 2007. This change had no impact on the presentation or reporting of our operating groups for the 2010 fiscal year.

The internal reorganizations during the 2009 fiscal year consisted of the following:

- In April 2008, MBL Group combined the activities of Equity Markets (which was part of the Banking Group) and the Macquarie Capital Securities division of Macquarie Capital (which was part of the Non-Banking Group) to form a new operating group called Macquarie Securities. The newly formed Macquarie Securities operating group is part of MBL Group, however, the Cash division remains part of the Non-Banking Group.

- In August 2008, MBL Group combined the activities of Funds Management with the funds and funds-based structured products of Macquarie Securities and the Macquarie Capital Products division of Macquarie Capital to form a new operating group called Macquarie Funds. In connection with this reorganization, the funds and funds-based products businesses of Macquarie Capital Products division of Macquarie Capital were transferred from the Non-Banking Group to MBL Group. The newly formed Macquarie Funds operating group is part of MBL Group.

- In September 2008, the Corporate & Asset Finance division was formed from the separation of the Macquarie Capital Finance division from Macquarie Capital. In connection with this reorganization, the Macquarie Capital Finance division was transferred from the Non-Banking Group to MBL Group. The newly formed Corporate & Asset Finance division is part of MBL Group.

- In January 2009, the Real Estate operating group was reorganized and the majority of Real Estate staff and several of its responsible entities transferred from MBL Group to Macquarie Capital, forming part of the Non-Banking Group. The remaining staff and assets in the Banking Group were amalgamated to form the Real Estate Banking division, which is part of MBL Group.

Other than as described above, the Banking Group's businesses remained the same. A reconciliation of our segment results for the 2008 fiscal year illustrating the impact of these internal reorganizations is presented in "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2009 compared to year ended March 31, 2008 — Segment Overview — Basis of Presentation — Internal Reorganization of Operating Groups".

In our 2009 annual financial statements, the financial results of Macquarie Securities (excluding the Cash division) and Macquarie Funds are presented within MBL Group effective April 1, 2008, with the comparative information for MBL Group for the year ended March 31, 2008 re-presented to now include the aggregated results of the businesses that comprise these new operating groups. The inclusion of the funds and funds-based structured products of the Macquarie Capital Products division in Macquarie Funds since their merger in August 2008 was not material to MBL Group's financial results for the year ended March 31, 2009.

Corporate & Asset Finance was effectively formed at September 30, 2008. The Corporate & Asset Finance division incorporates the financial results of Macquarie Capital Finance division (which were previously reported in MBL Group under the Macquarie Capital segment), effective from April 1, 2008.

The contribution of the Real Estate Banking divisions to MBL Group's financial results for the year ended March 31, 2009 excludes the contribution from the activities of our Real Estate operating group that were transferred from the Banking Group to the Non-Banking Group from January 1, 2009 and now form part of

Macquarie Capital. The contribution from the activities of our Real Estate operating group that was transferred from the Banking Group to the Non-Banking Group from January 1, 2009 were not material to MBL Group's presentation of segment financial results for the year ended March 31, 2009. The comparative segment financial information for MBL Group for the year ended March 31, 2008 has been presented on a consistent basis.

For further detail on our segment reporting, see Note 3 to our 2010 annual financial statements.

Impact of the Restructure in the 2008 fiscal year

On September 13, 2007, MBL publicly announced its proposal to restructure itself into a Banking Group and a Non-Banking Group, under a newly listed holding company named Macquarie Group Limited, or "MGL". Until November 13, 2007, MBL was a widely held, ASX-listed public company and the historical financial statements for the years prior to 2008 reflect the historical results of operation and financial condition of MBL Group on a pre-Restructure basis.

The Restructure was completed on November 19, 2007, during the 2008 fiscal year. In connection with the Restructure, MGL became our ultimate holding company, Banking Holdco became our immediate holding company, and we transferred (i) businesses, subsidiaries and other assets, primarily comprising the Macquarie Capital operating group, to the Non-Banking Group, (ii) returned A$3 billion of capital to MGL and (iii) entered into the Intra Group Loan in favor of MGL, all as more fully described herein and in Note 1 to our 2009 annual financial statements.

Due to the Restructure, our consolidated income statement for 2008 and 2007 presents separately the results of our continuing businesses (following the Restructure) from the results attributed to the business that we transferred to the Non-Banking Group as part of the Restructure, which are classified as "discontinued operations". Although our cash flow statement and balance sheet for 2008 and 2007 do not present separately "discontinued operations", Note 7 to our 2008 annual financial statements includes income statement, cash flow and balance sheet information relating to the discontinued operations that were transferred by MBL Group to the Non-Banking Group as part of the Restructure. In 2008, our profit from discontinued operations after income tax includes the profit of the businesses transferred by MBL Group to the Non-Banking Group as part of the Restructure. The gain on disposal of the Non-Banking Group was recognized in the income statement. As required under AGAAP, our 2007 consolidated income statement included in our 2008 annual financial statements has been re-presented on a comparable basis. Our financial statements prior to 2007 reflect the businesses of MBL prior the Restructure and, accordingly, include businesses transferred to the Non-Banking Group. As these financial results do not reflect MBL's current businesses, we have not presented in this report any financial information for any period prior to 2007.

Certain differences between AGAAP and US GAAP

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

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, which we call "non-GAAP financial measures", but that we believe provide useful information to users in measuring the financial performance and condition of our business for the reasons set out below. 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.

These measures include:

Assets under Management

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

Assets under Management is reported by Macquarie Funds and Banking & Financial Services.

Earnings on capital and other corporate income items

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

SUMMARY

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

Overview

MBL is headquartered in Sydney, Australia and is an APRA-regulated ADI that, directly and through subsidiaries, engages in Australian and international financial services businesses through four operating groups and two divisions: the Fixed Income, Currencies & Commodities, Macquarie Securities (excluding the Cash division), Banking & Financial Services and Macquarie Funds operating groups and the Corporate & Asset Finance and Real Estate Banking divisions.

At March 31, 2010, MBL employed over 5,970 staff, had total assets of A$130.1 billion and total equity of A$8.4 billion. For the 2010 fiscal year, our net operating income was A$3.7 billion and profit attributable to ordinary equity holders of MBL was A$663 million.

As at March 31, 2010, MBL conducted its operations directly and through approximately 780 subsidiaries in 19 countries, with 37% of MBL Group's revenues from external customers derived from regions outside of Australia. See "Macquarie Bank Limited — Our Business — Regional Activity" for further information.

MBL's ordinary shares were listed on ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect subsidiary of MGL, a new ASX-listed company, and MBL Group transferred to the Non-Banking Group most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Macquarie Securities) and Treasury & Commodities (now part of Fixed Income, Currencies & Commodities). Although MBL's ordinary shares are no longer listed on ASX, MBL's Macquarie Income Securities continue to be listed on ASX and, accordingly, MBL remains subject to the disclosure and other requirements of ASX as they apply to ASX Debt Listings.

MBL's registered office is 25 National Circuit, Forrest, Australian Capital Territory, ACT, Australia. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

Trading Conditions and Market Update

Operating conditions continued to improve during the 2010 fiscal year, which led to greater activity across many of our businesses. Equity market trading conditions improved across Australia and Asia, which contributed favorably to our Asia-Pacific equities and funds management businesses, including our growing retail franchise, while such conditions in the United States and Europe remained subdued.

Energy and commodity market conditions generally improved in the 2010 fiscal year, as metal prices continued to rise, while foreign exchange volumes remained depressed. United States credit trading markets rallied alongside equity markets while dislocation of global credit markets, together with the scale back of lending activities by financial institutions, provided opportunities for our corporate and asset finance business to acquire discounted portfolios.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the 2010 fiscal year, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Results overview” below for further information.

Recent Developments

On April 14, 2010, MGL Group announced that it had entered into an agreement to acquire a US$1,671 million aircraft operating lease portfolio from International Lease Finance Corporation (“*ILFC*”), a subsidiary of American International Group, Inc. (“*AIG*”). The portfolio will be managed by Macquarie Leasing, a division of Corporate & Asset Finance in MBL Group. The acquisition is expected to be completed over the remainder of calendar 2010, subject to customary closing conditions.

On April 22, 2010, unitholders of investments in the Macquarie Cash Management Trust (“*CMT*”) approved the conversion of the CMT to an at call Cash Management Account (“*CMA*”) with MBL. The conversion is scheduled to take place on July 31, 2010. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions — Recent funding developments” below for further information.

On April 30, 2010, MGL Group announced that it had acquired a portfolio of retail auto leases and loans from GMAC Australia, the Australian auto finance subsidiary of GMAC Inc. The portfolio, comprised of loans and leases for approximately 60,000 cars, has a value of approximately A$1 billion and will be managed by Macquarie Leasing, a division of Corporate & Asset Finance.

Our Key Strengths

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

- *Leading Australian and strong international franchise*. We are a leading Australian financial services firm that provides diverse financial services in Australia, with particular strengths in funds management, infrastructure, project advisory work and securities, foreign exchange, energy and commodities trading. This has created a strong base for our domestic and international growth and diversification. Over the last five years, we have increased the amount of business we conduct outside of Australia and have transformed from a leading Australian financial services firm growing internationally into a global provider of diversified financial services with its headquarters in Australia. See “Macquarie Bank Limited— Our History and Evolution” below for further information.

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

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

  - *Fee and commission income*, including:

    - Brokerage fee income from Banking & Financial Services;

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

    - Macquarie Wrap and other administration fee income from Banking & Financial Services; and
    - Structuring fee income from Macquarie Funds' structured financial products;
  - *Trading income* generated predominately through client trading activities and products issued by Macquarie Securities and Fixed Income, Currencies & Commodities;
  - *Interest income* earned on the loan books and margin and equities lending assets of Banking & Financial Services, interest income on trading assets from Fixed Income, Currencies & Commodities and Macquarie Securities, and leasing and asset financing activities of Corporate & Asset Finance;
  - *Equity accounted income* from principal investments in assets and businesses where significant influence is present; and
  - *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities and operating lease income.
- *Geographic diversity*. As at March 31, 2010, we employed over 5,970 people in 19 countries. Of those staff, 41% were located in offshore markets. As MBL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.
- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions, seeking to take advantage of new opportunities as they arise. As a result of the market disruption experienced in late calendar 2008 and through calendar 2009, we have taken advantage of several acquisition opportunities which we believe will strengthen our product offering and global presence. We believe that these acquisitions complement our existing expertise in areas such as energy, financial institutions and funds management. For further details of significant acquisitions see, "Macquarie Bank Limited — Our History and Evolution" below.
- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.
- *Experience managing growth and diversity*. The experience of our management team in managing our growth and diversification have been important to our success in realizing the benefits and controlling the risks associated with undertaking varying businesses, developing scale and growing in new and existing geographic regions.
- *Business focus on fee income.* Our main business consists of providing services to our clients rather than engaging in principal activities.
- *Strong Capital Position.* MBL is regulated as an ADI by APRA and, as a result, is subject to APRA's capital adequacy requirements. At March 31, 2010, MBL had a Tier 1 capital ratio of 11.5% and a total capital ratio of 13.3%.
- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 41 to our 2010 annual financial statements and in the "Risk Management Report" in the extracts from the 2010

Annual Report of MGL incorporated by reference herein. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:

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

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

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

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

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

Our Strategy

Our strategy is to focus on the medium term and is built on providing services to clients, the alignment of interests with shareholders, investors and staff and what we believe is a conservative approach to risk management, growth and evolution, operations that are diversified by business and geography and an ability to adapt to change. The approach allows us to be flexible in entering into new business sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by MGL through the Services Agreements with the Banking Group and the Non-Banking Group. It is the responsibility of our centralized Risk Management group to implement appropriate assessment and management policies in respect of these risks throughout MBL Group.

Historically, our growth has been principally organic and not driven by significant acquisitions, although from time to time, we have made strategic acquisitions and continually examine investment opportunities. Organic growth has continued throughout the 2010 fiscal year with director level hires made across several businesses and regions. We also completed a number of strategic acquisitions during the 2010 fiscal year in response to changing market conditions and opportunities that arose, as described below under "Macquarie Bank Limited — Our History and Evolution". We expect to continue to assess strategic acquisition opportunities as they arise and explore these as an avenue of growth and diversification for MBL Group in the medium term.

Our Business

Overview of MBL Group

For the 2010 fiscal year, our net operating income was A$3.7 billion. Our profit after tax attributable to ordinary equity holders for the 2010 fiscal year was A$663 million.

The tables below show the relative revenues from external customers and profit contribution of each of our current operating groups in 2010 and 2009:

Revenues from external customers of MBL Group[1] by operating group for the years ended March 31, 2010 and 2009

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Fixed Income, Currencies & Commodities[2]	1,790	1,877	(5)
Macquarie Securities (excluding the Cash division)	489	675	(28)
Banking & Financial Services	2,242	3,439	(35)
Macquarie Funds	1,132	718	58
Macquarie Capital	6	97	(94)
Corporate & Asset Finance[3]	955	397	141
Real Estate Banking[4]	144	279	(48)
Total revenues from external customers by operating group	**6,758**	**7,482**	(10)
Corporate[5]	985	2,110	(53)
Total revenue from external customers	**7,743**	**9,592**	(19)

Profit contribution of MBL Group by operating group for the years ended March 31, 2010 and 2009[1]

	Year ended		
	Mar 10	**Mar 09**	**Movement[6]**
	A$m	**A$m**	**%**
Fixed Income, Currencies & Commodities [2]	736	553	33
Macquarie Securities (excluding the Cash division)	116	78	49
Banking & Financial Services	268	(104)	large
Macquarie Funds	84	93	(10)
Macquarie Capital	(49)	133	(137)
Corporate & Asset Finance[3]	259	84	208
Real Estate Banking[4]	(151)	(355)	(57)
Total contribution to profit by operating group	**1,263**	**482**	162
Corporate[5]	(600)	94	large
Net profit after tax	**663**	**576**	15

1 For further information on our segment reporting, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment Overview" and Note 3 to our 2010 annual financial statements.

2 In September 2009, Treasury & Commodities was renamed Fixed Income, Currencies & Commodities.

3 In September 2008, the Corporate & Asset Finance division was formed from the separation of Macquarie Capital Finance division from Macquarie Capital.

4 In January 2009, the majority of staff from our Real Estate operating group and several of our responsible entities were transferred to Macquarie Capital and became part of the Non-Banking Group. The Real Estate staff and assets remaining in MBL Group on January 1, 2009 were amalgamated to form the Real Estate Banking division on March 31, 2010.

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 minority interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

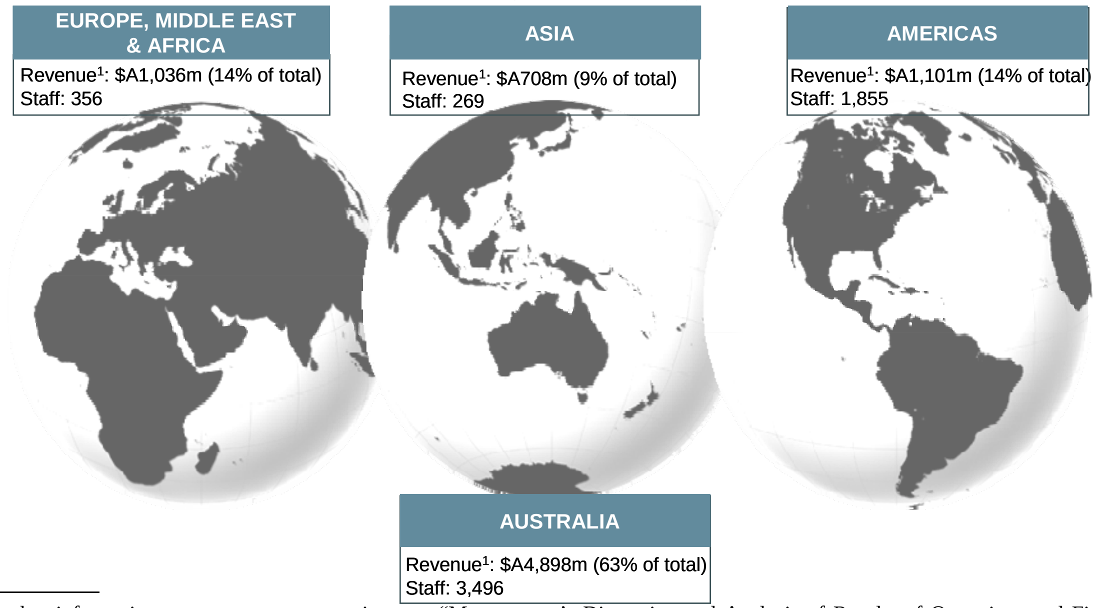
6 "large" indicates that actual movement was greater than 300%.

Regional Activity

At March 31, 2010, MBL Group employed over 5,970 staff globally and conducted its operations in 19 countries.

In the 2010 fiscal year, MBL Group continued to increase diversity by geography. The chart below shows MBL Group's revenues from external customers by region in the 2010 and 2009 fiscal years.

Revenues from external customers of MBL Group[1] by region for the years ended March 31, 2010 and 2009



[1] For further information on our segment reporting, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment Overview" and Note 3 to our 2010 annual financial statements.

Australia. MBL Group, the predecessor of MGL Group, was founded in Australia in 1969 and began operations in Sydney in January 1970 with only 3 staff. As at March 31, 2010, MBL Group employed over 3,400 staff across Australia. In the 2010 fiscal year, Australia contributed A$4.9 billion (63%) of our revenues from external customers as compared to A$6.9 billion (72%) for the 2009 fiscal year.

The Americas. MBL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994. As at March 31, 2010, MBL Group employed over 1,800 staff across the United States, Canada, Mexico, Brazil and Argentina. In the 2010 fiscal year, the Americas contributed A$1.1 billion (14%) of our revenues from external customers as compared to A$864 million (9%) for the 2009 fiscal year.

Asia. MBL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2010, MBL Group employed over 250 staff in 14 locations across China, Hong Kong, New Zealand, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan and Thailand. In the 2010 fiscal year, Asia contributed A$700 million (9%) of our revenues from external customers as compared to A$547 million (6%) for the 2009 fiscal year.

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 March 31, 2010, MBL Group employed over 350 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2010 fiscal year, Europe, Middle East & Africa contributed A$1.0 billion (14%) of our revenues from external customers in line with A$1.3 billion (14%) for the 2009 fiscal year.

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 2010 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, results of operation or financial condition.

Our business and financial condition may be negatively impacted by adverse credit and equity market conditions, which may negatively affect our businesses in certain industry sectors, impair our ability to meet our liquidity needs, adversely affect our access to international capital markets and increase our cost of funding.

Global credit and equity markets, particularly in the United States and Europe, experienced extreme volatility, disruption and decreased liquidity during 2008 and 2009. These challenging market conditions resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency in markets generally. Our businesses operate in, or depend on the operation of these markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty in global credit markets, increased funding costs, constrained access to funding and the decline in equity and capital market activity impacted transaction flow in a range of industry sectors, all of which adversely impacted our financial performance. Notwithstanding some improvement in global economic conditions in late 2009 and early 2010, there can be no assurance that the relief measures implemented by governments and central banks around the globe to restore confidence in financial systems and bolster economic growth will result in a sustained long-term stabilization of financial markets, or what impact the withdrawal of such relief measures will have on global economic conditions or MBL's financial condition.

We may be impacted in a number of ways by a deteriorating economic climate. Transaction flow in our client facilitation businesses may be affected, impacting our trading and fee income. Our funds management fee income, including base and performance fees, may be impacted by volatility in equity values and returns from our managed funds. We may consider the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales are also subject to the current economic climate.

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

On March 31, 2010, the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme was closed to new issuances and deposits. Although wholesale markets began to be accessible without the support of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme during the second half of the 2010 fiscal year, the effect of the withdrawal of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme is uncertain, and may affect the general level of liquidity in the international capital markets in the future and MBL Group's cost of funding.

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

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

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

Many of our businesses are highly regulated in most jurisdictions in which we do business. We have businesses in multiple sectors, including as licensed brokers, investment advisers or other regulated financial services providers. We operate similar kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of MBL Group own or manage assets and businesses that are regulated. Our businesses include regulated banks (in Australia and the United Kingdom) that operate branches in the United Kingdom, Italy and Korea and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MBL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation in most jurisdictions in which we operate, including in the United States in respect of our funds management businesses. Some of the key regulators of our businesses are described below under "Regulation and Supervision".

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

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

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

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

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

From time to time we may evaluate strategic opportunities and undertake acquisitions of businesses, some of which may be material. Certain acquisition opportunities may arise, for example, as competitors choose to exit what they consider non-core activities. For example, in the 2010 fiscal year, we acquired Delaware Investments and Blackmont, among others. In addition, we expanded our credit trading business, started a physical oil trading business in Asia and more recently, have entered into an agreement to acquire a US$1,671 million aircraft operating lease portfolio. See "Macquarie Bank Limited — Our History and Evolution" for further information on strategic initiatives and acquisitions. These and any future acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

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

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

Our business is substantially dependent on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MBL and MGL use the Macquarie name. We do not control those entities that are not in MBL Group but their actions may reflect directly on our reputation. Our reputation and, as a result, our business and business prospects could be adversely affected if any of the entities using the Macquarie name take actions that bring negative publicity on MBL Group.

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

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

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

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

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

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

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of a third party to satisfy its financial obligations to us on a timely basis. The resulting credit exposure will depend on a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 41.1 to our 2010 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances.

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

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

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

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

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

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

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

For a further discussion of our risk management policies and procedures, see our “Risk Management” report in the extracts from the 2010 Annual Report of MGL and Note 41 to our 2010 annual financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MBL Group recorded A$528 million of one-off items and provisions for the year ended March 31, 2010, including A$186 million of impairment and equity accounted losses on funds management assets and other co-investments and A$230 million of loan and trading asset impairment provisions. Further writedowns and provisions may be required in future periods if the market value of assets similar to those held were to decline.

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

MBL Group relies on services provided by MGL.

Under the Services Agreements, MGL provides shared services to MBL Group. These shared services include risk management, finance, information technology, treasury, settlement services, equity markets operation services, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, central executive services, other group-wide services and business shared services. Other than exercising its rights under the Services Agreements, MBL Group has no direct control over the provision of those services, MGL's continued provision of those services or the cost at which such services are provided.

Apart from its rights under the Services Agreements, MBL has no control over the management, operations or business of entities in MGL Group that are not part of MBL Group.

Entities in MGL Group that are not part of MBL Group may compete and establish businesses that compete with the businesses of MBL Group and those other entities are not obligated to support the businesses of MBL Group. Other than APRA prudential standards and capital adequacy requirements described in "Regulation and Supervision", there are no regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including MBL Group.

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

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

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

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

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

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

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

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

From March 31, 2009 to March 31, 2010, the Australian dollar (as measured by the noon buying rate) appreciated by approximately 32% against the US dollar.

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to risks in using custodians.

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

CAPITALIZATION, INDEBTEDNESS AND CAPITAL ADEQUACY

The following table sets forth our capitalization as at March 31, 2010.

The information relating to MBL Group in the following table is based on our 2010 annual financial statements, which were prepared in accordance with AGAAP, and should be read in conjunction therewith.

	As at	
	Mar 10	**Mar 10**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings		
Debt issued[2] — due greater than 12 months	19,530	21,300
Subordinated debt — due greater than 12 months	1,297	1,415
Total borrowings[3]	**20,827**	**22,715**
Equity		
Contributed equity		
Ordinary share capital	5,967	6,508
Equity contribution from ultimate parent entity	80	87
Macquarie Income Securities	359	391
Reserves	(156)	(170)
Retained earnings	1,406	1,533
Minority interests	78	85
Total equity	**7,734**	**8,434**
TOTAL CAPITALIZATION	**28,561**	**31,149**

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2010, which was US$0.9169 per A$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

2 At March 31, 2010, we had A$7.1 billion of secured indebtedness due in greater than 12 months compared to A$5.3 billion at March 31, 2009.

3 Total borrowings does not include our short term debt securities, including the current portion of long-term debt, or securitizations. Short term debt totaled A$8.4 billion as at March 31, 2010 and securitizations totaled A$14.8 billion as at March 31, 2010 compared to A$14.0 billion and A$20.4 billion, respectively, as at March 31, 2009.

For details on our short-term debt position as at March 31, 2010, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Profile for Banking Group” in this Report.

Capital Adequacy

The following table sets forth our capital adequacy and risk weighted assets as at March 31, 2010.

	As at	
	Mar 2010	**Mar 2010**
	US$m[1]	**A$m**
Tier 1 capital		
Paid-up ordinary share capital	6,047	6,595
Reserves	(79)	(86)
Retained earnings	882	962
Innovative Tier 1 capital	421	459
Gross Tier 1 capital	**7,271**	**7,930**
Deductions from Tier 1 capital		
Goodwill	177	193
Deferred tax assets	398	434
Net unrealized fair value gains (losses) from changes in the ADI's own creditworthiness	45	49
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	569	621
Loan and lease origination fees and commissions paid to mortgage originators and brokers	121	132
Capitalized costs associated with debt raisings	-	-
Other Tier 1 capital deductions	259	283
Deductions from Tier 1 capital only	**1,569**	**1,712**
Other 50/50 deductions from Tier 1 capital		
Non-subsidiary entities exceeding prescribed limited (50%)	138	151
Non-consolidated subsidiaries (50%)	234	255
All other deductions relating to securitization (50%)	39	43
Shortfall in provisions for credit losses (50%)	157	171
Other 50/50 deductions from Tier 1 capital (50%)	123	134
50/50 deductions from Tier 1 capital	**691**	**754**
Total Tier 1 capital only deductions	**2,260**	**2,466**
Net Tier 1 capital	**5,011**	**5,464**
Tier 2 capital		
Upper Tier 2 capital:		
Excess Tier 1 capital instruments	-	-
Other upper Tier 2 capital	154	168
Lower Tier 2 capital:		
Term subordinated debt	1,287	1,404
Gross Tier 2 capital	1,441	1,572
Deductions from Tier 2 capital		
Holdings of own Tier 2 capital instruments agreed with APRA	-	-
Total 50/50 deductions from Tier 2 capital	**691**	**754**
Total Tier 2 capital deductions	**691**	**754**
Net Tier 2 capital	**750**	**818**
Total capital base	**5,761**	**6,282**

[1] Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2010, which is US$0.9169 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the US dollar.

	As at	
	Mar 2010	Mar 2010
	US$m[1]	A$m
Credit risk — Risk weighted assets (RWA)		
Subject to FIRB approach:		
Corporate[2]	13,986	15,254
Sovereign	669	730
Bank	2,131	2,324
Residential mortgage	1,739	1,897
Other retail	922	1,006
Total RWA subject to FIRB[3] approach	**19,447**	**21,211**
Specialized lending exposures subject to slotting criteria[3]	2,753	3,002
Subject to Standardized approach:		
Corporate	2,998	3,270
Bank	45	49
Residential mortgage	424	462
Other retail	3,095	3,376
Other	2,501	2,728
Total RWA subject to Standardized approach	**9,063**	**9,885**
Credit risk RWA for Securitization exposures	934	1,019
Total Credit risk RWA	**32,197**	**35,117**
Equity exposures RWA	1,572	1,715
Market risk RWA	2,274	2,480
Operational risk RWA	6,187	6,748
Interest rate risk in the banking book RWA	-	-
APRA scaling factor (6%) applied to IRB exposures	1,167	1,273
Total RWA	**43,397**	**47,333**
Capital ratios		
MBL Group Tier 1 capital ratio (%)		11.5
MBL Group Total capital ratio (%)		13.3

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2010, which is US$0.9169 per A$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

2 Corporate includes A$393 million for exposures to the Non-Banking Group (March 31, 2009: A$710 million).

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

SELECTED FINANCIAL INFORMATION

The summary consolidated balance sheet data as at March 31, 2010, 2009, 2008 and 2007 and income statement data for the fiscal years ended March 31, 2010, 2009, 2008 and 2007 presented below have been derived from our audited financial statements for 2010, 2009, 2008 and 2007. These financial statements have been prepared in accordance with AGAAP, which also complied with International Financial Reporting Standards as issued by the International Accounting Standards Board. See "Financial Information Presentation" in this Report for further information.

Due to the Restructure, our consolidated income statement for 2008 and 2007 presents separately the results of our continuing businesses (following the Restructure) from the results attributed to the business that we transferred to the Non-Banking Group as part of the Restructure, which are classified as "discontinued operations". Although our cash flow statement and balance sheet for 2008 and 2007 do not present separately "discontinued operations", Note 7 to our 2008 annual financial statements includes income statement, cash flow and balance sheet information relating to the discontinued operations that were transferred by MBL Group to the Non-Banking Group as part of the Restructure. In 2008, our profit from discontinued operations after income tax includes the profit of the businesses transferred by MBL Group to the Non-Banking Group as part of the Restructure. The gain on disposal of the Non-Banking Group was recognized in the income statement. As required under AGAAP, our 2007 consolidated income statement included in our 2008 annual financial statements has been re-presented on a comparable basis. Our financial statements prior to 2007 reflect the businesses of MBL prior to the Restructure and, accordingly, include businesses transferred to the Non-Banking Group. As theses financial results do not reflect MBL's current businesses, we have not presented in this report any financial information for any period prior to 2007.

Income Statements

	Year ended				
	Mar 2010	**Mar 2010**	**Mar 2009**	**Mar 2008**	**Mar 2007**
	US$m[1]	**A$m**	**A$m**	**A$m**	**A$m**
Net interest income	1,215	1,325	965	853	611
Fee and commission income	950	1,036	995	1,092	855
Net trading income	1,134	1,237	1,545	2,023	929
Share of net profits of associates and joint ventures using the equity method	6	7	98	160	198
Other operating income	43	47	(534)	17	682
Net operating income	**3,349**	**3,652**	**3,069**	**4,145**	**3,275**
Employment expenses	(999)	(1,089)	(887)	(2,028)	(1,709)
Brokerage and commission expenses	(502)	(548)	(509)	(570)	(335)
Occupancy expenses	(112)	(122)	(101)	(67)	(69)
Non-salary technology expenses	(81)	(88)	(75)	(64)	(55)
Other operating expenses	(956)	(1,043)	(872)	(606)	(387)
Total operating expenses	**(2,650)**	**(2,890)**	**(2,444)**	**(3,335)**	**(2,555)**
Operating profit before income tax	**699**	**762**	**625**	**810**	**720**
Income tax (expense)/benefit	(60)	(65)	32	(60)	(63)
Profit from ordinary activities after income tax	**639**	**697**	**657**	**750**	**657**
Profit from discontinued operations after income tax	–	–	–	15,030	894
Profit from ordinary activities and discontinued operations after income tax	**639**	**697**	**657**	**15,780**	**1,551**
Profit attributable to minority interest	(12)	(13)	(48)	(50)	(57)
Profit attributable to equity holders of Macquarie Bank Limited	**627**	**684**	**609**	**15,730**	**1,494**
Distributions paid or provided on Macquarie Income Securities	(19)	(21)	(33)	(34)	(31)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**608**	**663**	**576**	**15,696**	**1,463**

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2010, which is US$0.9169 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the US dollar.

Balance Sheets

	As at				
	Mar 2010	Mar 2010	Mar 2009[3]	Mar 2008[3]	Mar 2007[3]
	US$m[1]	A$m	A$m	A$m	A$m
ASSETS					
Cash and balances with central banks	–	–	141	7	3
Due from banks	5,951	6,490	10,169	7,169	6,120
Cash collateral on securities borrowed and reverse repurchase agreements	5,578	6,084	4,534	21,278	25,909
Trading portfolio assets	10,383	11,324	8,772	15,225	15,518
Loan assets held at amortized cost	40,155	43,794	43,922	46,848	45,796
Other financial assets at fair value through profit or loss	6,533	7,125	5,541	3,635	2,779
Derivative financial instruments — positive values	19,750	21,540	27,335	20,952	11,913
Other assets	6,713	7,321	4,341	3,925	10,444
Investment securities available for sale	15,368	16,761	14,544	14,736	6,060
Intangible assets	869	948	337	133	100
Life investment contracts and other unit holder assets	4,451	4,854	4,314	5,705	5,847
Due from related MGL entities	2,192	2,391	4,647	10,568	–
Interest in associates and joint ventures using the equity method	839	915	1,571	1,956	4,071
Property, plant and equipment	127	139	88	44	378
Deferred income tax assets	342	373	93	78	457
Assets and disposal groups classified as held for sale	47	51	56	35	994
Total assets	**119,298**	**130,110**	**130,405**	**152,294**	**136,389**
LIABILITIES					
Due to banks	1,987	2,167	3,264	3,749	4,127
Cash collateral on securities lent and repurchase agreements	6,603	7,201	3,881	13,469	7,489
Trading portfolio liabilities	4,512	4,921	1,980	10,716	15,922
Derivative financial instruments — negative values	19,836	21,634	27,273	21,154	11,069
Deposits	20,436	22,288	21,603	15,565	12,403
Debt issued at amortized cost	36,133	39,408	48,270	54,763	51,365
Other financial liabilities at fair value through profit or loss 6,1	2,407	2,625	3,878	6,271	5,552
Other liabilities	6,168	6,727	4,001	4,120	11,958
Current tax liabilities	70	76	111	27	132
Life investment contracts and other unit holder liabilities	4,460	4,864	4,312	5,689	5,781
Due to related MGL entities	7,343	8,008	3,332	7,769	–
Provisions	65	71	76	87	153
Deferred income tax liabilities	250	273	72	193	78
Liabilities of disposal groups classified as held for sale	8	9	–	–	170
Total liabilities excluding loan capital	**110,278**	**120,272**	**122,053**	**143,572**	**126,199**
Loan capital					
Subordinated debt at amortized cost	830	905	1,491	1,691	1,783
Subordinated debt at fair value through profit and loss	458	499	451	646	888
Total liabilities	**111,566**	**121,676**	**123,995**	**145,909**	**128,870**
Net assets	**7,734**	**8,434**	**6,410**	**6,385**	**7,519**

EQUITY					
Contributed equity					
Ordinary share capital	6,047	6,595	4,560	3,604	3,103
Treasury shares	–	–	–	–	(7)
Macquarie Income Securities	359	391	391	391	391
Reserves	(156)	(170)	(201)	182	380
Retained earnings	1,406	1,533	1,250	1,374	2,795
Total capital and reserves attributable to equity holders of MBL	7,655	8,349	6,000	5,551	6,662
Minority interest	78	85	410	834	857
Total equity	**7,734**	**8,434**	**6,410**	**6,385**	**7,519**

Other Financial Data

	As at			
	Mar 2010	**Mar 2009**	**Mar 2008**	**Mar 2007**
Ratios				
Net loan losses as a percentage of loan assets(%)[2]	0.8	1.7	0.6	0.4
Ratio of earnings to fixed charges[3]	1.7x	1.1x	1.1x	1.2x
Expense/income ratio(%)[4]	79.1	79.6	80.5	78.0
Tier 1 regulatory capital adequacy ratio(%)	11.5	11.4	12.4	—
Total regulatory capital adequacy ratio(%)	13.3	14.4	17.7	—

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on March 31, 2010, which is US$0.9169 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the US dollar.

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

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

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

MACQUARIE BANK LIMITED

Overview

MBL is headquartered in Sydney, Australia and is an APRA-regulated ADI that, directly and through subsidiaries, engages in Australian and international financial services businesses through four operating groups and two divisions: the Fixed Income, Currencies & Commodities, Macquarie Securities (excluding the Cash division), Banking & Financial Services and Macquarie Funds operating groups and the Corporate & Asset Finance and Real Estate Banking divisions.

At March 31, 2010, MBL employed over 5,970 staff, had total assets of A$130.1 billion and total equity of A$8.4 billion. For the 2010 fiscal year, our net operating income was A$3.7 billion and profit attributable to ordinary equity holders of MBL was A$663 million.

As at March 31, 2010, MBL conducted its operations directly and through approximately 780 subsidiaries in 19 countries, with 37% of MBL Group's revenues from external customers derived from regions outside of Australia. See "— Our Business — Regional Activity" for further information.

MBL's ordinary shares were listed on ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect subsidiary of MGL, a new ASX-listed company, and MBL Group transferred to the Non-Banking Group most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Macquarie Securities) and Treasury & Commodities (now part of Fixed Income, Currencies & Commodities). Although MBL's ordinary shares are no longer listed on ASX, MBL's Macquarie Income Securities continue to be listed on ASX and, accordingly, MBL remains subject to the disclosure and other requirements of ASX as they apply to ASX Debt Listings.

MBL's registered office is 25 National Circuit, Forrest, Australian Capital Territory, ACT, Australia. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

Trading Conditions and Market Update

Operating conditions continued to improve during the 2010 fiscal year, which led to greater activity across many of our businesses. Equity market trading conditions improved across Australia and Asia, which contributed favorably to our Asia-Pacific equities and funds management businesses, including our growing retail franchise, while such conditions in the United States and Europe remained subdued.

Energy and commodity market conditions generally improved in the 2010 fiscal year, as metal prices continued to rise, while foreign exchange volumes remained depressed. United States credit trading markets rallied alongside equity markets while dislocation of global credit markets, together with the scale back of lending activities by financial institutions, provided opportunities for our corporate and asset finance business to acquire discounted portfolios.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the 2010 fiscal year, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Results overview" below for further information.

Recent Developments

On April 14, 2010, MGL Group announced that it had entered into an agreement to acquire a US$1,671 million aircraft operating lease portfolio from International Lease Finance Corporation ("*ILFC*"), a subsidiary of American International Group, Inc. ("*AIG*"). The portfolio will be managed by Macquarie Leasing, a division of Corporate &

Asset Finance in MBL Group. The acquisition is expected to be completed over the remainder of calendar 2010, subject to customary closing conditions.

On April 22, 2010, unitholders of investments in the Macquarie Cash Management Trust ("*CMT*") approved the conversion of the CMT to an at call Cash Management Account ("*CMA*") with MBL. The conversion is scheduled to take place on July 31, 2010. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions — Recent funding developments" below for further information.

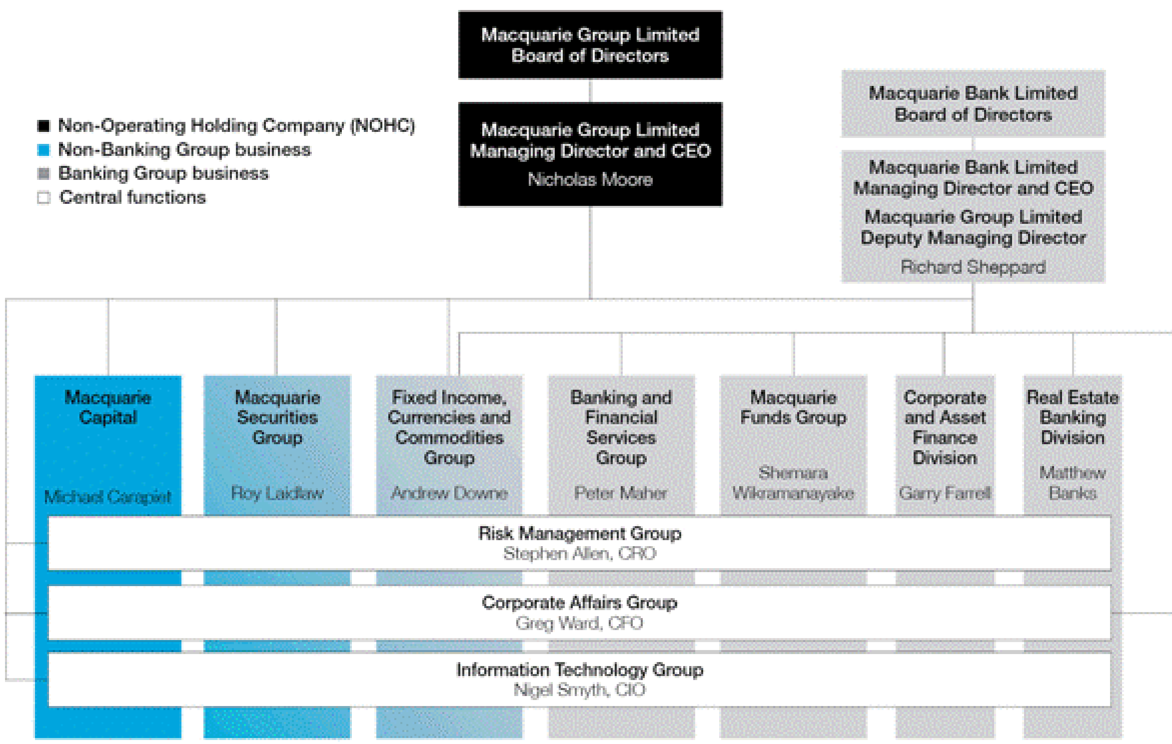
On April 30, 2010, MGL Group announced that it had acquired a portfolio of retail auto leases and loans from GMAC Australia, the Australian auto finance subsidiary of GMAC Inc. The portfolio, comprised of loans and leases for approximately 60,000 cars, has a value of approximately A$1 billion and will be managed by Macquarie Leasing, a division of Corporate & Asset Finance.

Organizational Structure

MBL is an indirect subsidiary of MGL and forms part of the Banking Group. MBL comprises four operating groups: Fixed Income, Currencies & Commodities, Macquarie Securities (excluding the Cash division), Banking & Financial Services and Macquarie Funds. MBL Group also has two divisions: Corporate & Asset Finance and Real Estate Banking.

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment which provides infrastructure, head office and central services support functions. The Corporate segment is not considered an operating group and comprises three central functions: Corporate Affairs, Risk Management and Information Technology.

The following diagram shows the organizational structure of MGL Group, and reflects the composition of the Banking and Non-Banking Groups as at March 31, 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 our businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group may be adjusted and we may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

Our Key Strengths

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

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

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

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

  - *Fee and commission income*, including:

    - Brokerage fee income from Banking & Financial Services;

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

    - Macquarie Wrap and other administration fee income from Banking & Financial Services; and

    - Structuring fee income from Macquarie Funds' structured financial products;

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

  - *Interest income* earned on the loan books and margin and equities lending assets of Banking & Financial Services, interest income on trading assets from Fixed Income, Currencies & Commodities and Macquarie Securities, and leasing and asset financing activities of Corporate & Asset Finance;

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

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

- *Geographic diversity*. As at March 31, 2010, we employed over 5,970 people in 19 countries. Of those staff, 41% were located in offshore markets. As MBL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions, seeking to take advantage of new opportunities as they arise. As a result of the market disruption experienced in late calendar 2008 and through calendar 2009, we have taken advantage of several acquisition opportunities which we believe will strengthen our product offering and global presence. We believe that these acquisitions complement our existing expertise in areas such as energy, financial institutions and funds management. For further details of significant acquisitions see, "— Our History and Evolution" below.

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

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

- *Business focus on fee income.* Our main business consists of providing services to our clients rather than engaging in principal activities.

- *Strong Capital Position.* MBL is regulated as an ADI by APRA and, as a result, is subject to APRA's capital adequacy requirements. At March 31, 2010, MBL had a Tier 1 capital ratio of 11.5% and a total capital ratio of 13.3%.

- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 41 to our 2010 annual financial statements and in the "Risk Management Report" in the extracts from the 2010 Annual Report of MGL. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:

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

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

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

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

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

Our Strategy

Our strategy is to focus on the medium term and is built on providing services to clients, the alignment of interests with shareholders, investors and staff and what we believe is a conservative approach to risk management, growth and evolution, operations that are diversified by business and geography and an ability to adapt to change. The approach allows us to be flexible in entering into new business sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by MGL through the Services Agreements with the Banking Group and the Non-Banking Group. It is the responsibility of our centralized Risk Management group to implement appropriate assessment and management policies in respect of these risks throughout MBL Group.

Historically, our growth has been principally organic and not driven by significant acquisitions, although from time to time, we have made strategic acquisitions and continually examine investment opportunities. Organic growth has continued throughout the 2010 fiscal year with director level hires made across several businesses and regions. We also completed a number of strategic acquisitions during the 2010 fiscal year in response to changing market conditions and opportunities that arose, as described below under "— Our History and Evolution". We expect to continue to assess strategic acquisition opportunities as they arise and explore these as an avenue of growth and diversification for MBL Group in the medium term.

Our History and Evolution

MBL Group was founded in 1969 as Hill Samuel Australia Limited, a wholly-owned subsidiary of UK merchant bank Hill Samuel & Co Ltd. We obtained an Australian banking license as MBL in 1985 and in 1996, MBL was publicly listed on the ASX.

On November 13, 2007, following the Restructure, MGL became the holding company of MBL Group and MGL Group succeeded to all of MBL Group's businesses. As MGL is the successor to MBL Group's businesses, the historical financial statements of MBL Group reflect the historical results of operation and financial condition of MGL Group's businesses. For further information on the Restructure see "— Relationship between MBL and MGL" below.

Since listing, a number of strategic acquisitions have contributed to MBL Group's growth and development. These include but are not limited to:

- the acquisition of the cash equities business of ING Group (Asia) in the 2004 fiscal year;

- the acquisition of CIT Systems Leasing in the United States in the 2008 fiscal year;

- the acquisition of Constellation Energy's downstream natural gas trading operations in North America in the 2009 fiscal year; and

- the acquisitions of Delaware Investments in the United States, Blackmont in Canada and Sal. Oppenheim's equity derivatives and structured products business in Europe in the 2010 fiscal year.

In addition to these strategic acquisitions, organic growth was achieved in the 2010 fiscal year through the hiring of individuals and teams with extensive experience in targeted industries, adding greater regional depth to key businesses. This allowed many of our businesses to expand their product offerings internationally.

For further information on the integration of these businesses into our existing operating groups, see the discussion below under "— Operating Groups" and for further information on the impact of these acquisitions on our results of operation and financial performance in the 2010 fiscal year, see "Financial Information Presentation — Impact of acquisitions on the 2010 fiscal year" above.

For further information on regional growth during the 2010 fiscal year, see "— Our Business — Regional Activity" below for further information.

Our Business

Overview of MBL Group

For the 2010 fiscal year, our net operating income was A$3.7 billion. Our profit after tax attributable to ordinary equity holders for the 2010 fiscal year was A$663 million.

The tables below show the relative revenues from external customers and profit contribution of each of our current operating groups in 2010 and 2009:

Revenues from external customers of MBL Group[1] by operating group for the years ended March 31, 2010 and 2009

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Fixed Income, Currencies & Commodities[2]	1,790	1,877	(5)
Macquarie Securities (excluding the Cash division)	489	675	(28)
Banking & Financial Services	2,242	3,439	(35)
Macquarie Funds	1,132	718	58
Macquarie Capital	6	97	(94)
Corporate & Asset Finance[3]	955	397	141
Real Estate Banking[4]	144	279	(48)
Total revenues from external customers by operating group	**6,758**	**7,482**	(10)
Corporate[5]	985	2,110	(53)
Total revenue from external customers	**7,743**	**9,592**	(19)

Profit contribution of MBL Group by operating group for the years ended March 31, 2010 and 2009[1]

	Year ended		
	Mar 10	**Mar 09**	**Movement[6]**
	A$m	**A$m**	**%**
Fixed Income, Currencies & Commodities [2]	736	553	33
Macquarie Securities (excluding the Cash division)	116	78	49
Banking & Financial Services	268	(104)	large
Macquarie Funds	84	93	(10)
Macquarie Capital	(49)	133	(137)

	Year ended		
	Mar 10	Mar 09	Movement[6]
	A$m	A$m	%
Corporate & Asset Finance[3]	259	84	208
Real Estate Banking[4]	(151)	(355)	57
Total contribution to profit by operating group	**1,263**	**482**	162
Corporate[5]	(600)	94	large
Net profit after tax	**663**	**576**	15

1 For further information on our segment reporting, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment Overview" and Note 3 to our 2010 annual financial statements.

2 In September 2009, Treasury & Commodities was renamed Fixed Income, Currencies & Commodities.

3 In September 2008, the Corporate & Asset Finance division was formed from the separation of Macquarie Capital Finance division from Macquarie Capital.

4 In January 2009, the majority of staff from our Real Estate operating group and several of our responsible entities were transferred to Macquarie Capital and became part of the Non-Banking Group. The Real Estate staff and assets remaining in MBL Group on January 1, 2009 were amalgamated to form the Real Estate Banking division on March 31, 2010.

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 minority interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

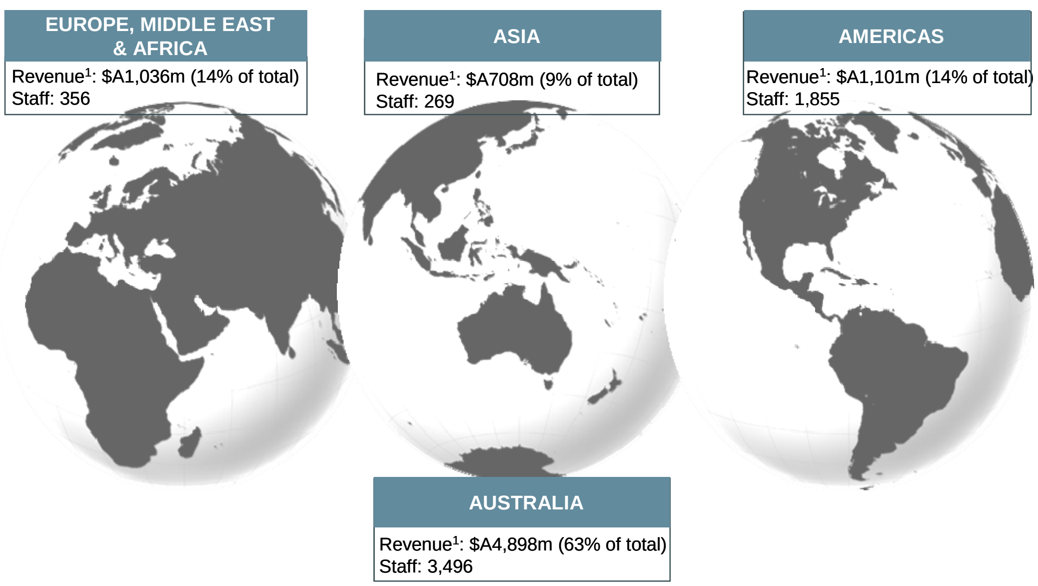
6 "large" indicates that actual movement was greater than 300%.

Regional Activity

At March 31, 2010, MBL Group employed over 5,970 staff globally and conducted its operations in 19 countries.

In the 2010 fiscal year, MBL Group continued to increase diversity by geography. The chart below shows MBL Group's revenues from external customers by region in the 2010 and 2009 fiscal years.

Revenues from external customers of MBL Group[1] by region for the years ended March 31, 2010 and 2009



1 For further information on our segment reporting, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment Overview" and Note 3 to our 2010 annual financial statements.

Australia. MBL Group, the predecessor of MGL Group, was founded in Australia in 1969 and began operations in Sydney in January 1970 with only 3 staff. As at March 31, 2010, MBL Group employed over 3,400 staff across Australia. In the 2010 fiscal year, Australia contributed A$4.9 billion (63%) of our revenues from external customers as compared to A$6.9 billion (72%) for the 2009 fiscal year.

The Americas. MBL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994. As at March 31, 2010, MBL Group employed over 1,800 staff across the United States, Canada, Mexico, Brazil and Argentina. In the 2010 fiscal year, the Americas contributed A$1.1 billion (14%) of our revenues from external customers as compared to A$864 million (9%) for the 2009 fiscal year.

Asia. MBL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2010, MBL Group employed over 250 staff in 14 locations across China, Hong Kong, New Zealand, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan and Thailand. In the 2010 fiscal year, Asia contributed A$700 million (9%) of our revenues from external customers as compared to A$547 million (6%) for the 2009 fiscal year.

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 March 31, 2010, MBL Group employed over 350 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2010 fiscal year, Europe, Middle East & Africa contributed A$1.0 billion (14%) of our revenues from external customers in line with A$1.3 billion (14%) for the 2009 fiscal year.

Operating Groups

Fixed Income, Currencies & Commodities

Fixed Income, Currencies & Commodities is primarily in the Banking Group, however, it still has certain less financially significant assets and businesses in the Non-Banking Group.

Fixed Income, Currencies & Commodities is primarily a client and counterparty driven business, with market making activities undertaken to support customer transactions. To the extent Fixed Income, Currencies & Commodities acts as principal, it does so in accordance with predetermined limits. Fixed Income, Currencies & Commodities provides clients globally with over the counter and structured hedging and financing solutions across a number of markets. Fixed Income, Currencies & Commodities' activities include trading and related activities in a broad range of financial and commodity markets. Fixed Income, Currencies & Commodities focuses on selective geographic expansion and continued product innovation in its chosen markets.

In the 2010 fiscal year, Fixed Income, Currencies & Commodities contributed A$736 million to MBL Group's profit and as at March 31, 2010, had 696 MBL staff operating across 12 countries, including Australia, the United States, Canada, the United Kingdom, Japan, Singapore and Brazil.

Fixed Income, Currencies & Commodities comprises the following divisions:

Energy Markets. Energy Markets operates in London, Sydney, Melbourne, Houston, Calgary, Denver, New York, Singapore, Seoul and Tokyo providing risk management, trading and financing solutions to a broad customer base which includes producers, refiners, airlines, shipping companies and other large energy consumers. Traded energy products include crude oil, fuel oil, heating oil, gasoline, distillates (gas oil and jet fuel), naphtha, coal and natural gas. Energy Markets is also active in physical and financial gas and electricity trading in North America through subsidiary Macquarie Energy (formerly Macquarie Cook Energy, and Macquarie Cook Power), a top 5 participant in the North American wholesale gas market and has recently started a physical oil trading business in Asia. Energy Markets provides power and gas services in select European markets through the Utility Services business.

Metals and Energy Capital. Metals and Energy Capital operates in Sydney, Perth, London, New York, Houston, Tokyo, Calgary, Toronto and Vancouver providing principal equity and debt finance to the global metals and energy sectors, financing advanced exploration, feasibility studies, project development and operations, working capital, inventory/stockpiles, acquisitions and bonded warehousing. In addition, Metals and Energy Capital provides spot, forward and option price making and structured hedging facilities in precious metals, base metals and other select commodities and, in conjunction with Energy Markets, in gas, oil and coal. Operating on a 24-hour basis, the division is a price-maker to the professional market in base and precious metals and is a principal provider of liquidity in the Asian time zone. Metals and Energy Capital is an associate broker clearing member of the London Metal Exchange and a full member of the London Bullion Market Association.

Credit Trading. Credit Trading operates in New York and London and facilitates client transactions with institutional investors and makes markets in corporate debt securities, credit default swaps, syndicated bank loans, collateralised debt obligations, asset-backed/mortgage-based securities and derivatives of these products. Credit Trading services hedge funds, mutual funds, insurance companies, banks and financial companies across a range of industry specialties including healthcare, consumer/retail, energy/utilities, gaming/leisure, commodities/metals, infrastructure/transport, real estate and telecoms.

Foreign Exchange. Foreign Exchange provides 24-hour interbank price-making services in all currency pairs from one central dealing room in Sydney. Foreign Exchange also provides risk management services across all of these currencies and tailor-made products to corporates and institutions in Australia and globally. Foreign Exchange also provides wholesale and retail currencies delivery and technology platforms in Australia, New Zealand, Japan and North America.

Debt Markets. Debt Markets operates in Sydney, Melbourne, London and New York, arranging and placing primary market debt for clients, and providing secondary market liquidity in government, inflation-linked, corporate, global, mortgage and asset-backed securities. It also provides risk management solutions through structured securities and derivative-based products relating to credit and interest rate risk.

The Debt Markets division merged with the Foreign Exchange division on April 1, 2010, to become the Fixed Income & Currencies division.

Emerging Markets. Emerging Markets provides a full suite of services to institutional and local market participants in emerging markets globally. Sales and trading teams in Miami, New York and London provide execution, custody, derivatives, financing and structured products over emerging markets bonds, credit, distressed debt, interest rates and foreign exchange as well as high yield and high grade products. The team also arranges OTC derivatives over equities, currencies and commodities and distributes Macquarie's structured products and funds. The Private Capital Markets and Advisory team provide specialized services in financing solutions, debt acquisitions and selective capital partnering in addition to establishing and managing investment vehicles and distressed asset opportunities in emerging markets. Emerging Markets also makes principal investments, including interests in emerging market funds and related ventures.

Agricultural Commodities. Agricultural Commodities is a global business, with professional staff based in New York, Sao Paolo, Ribeirao Preto, London, Singapore, Sydney and Melbourne. The division provides risk management, trading and selected physical commodity solutions to a broad customer base. Agricultural Commodities expertise includes agricultural commodities (grains, soy complex, sugar, coffee, cocoa and ethanol) as well as physical and financial dry and wet freight. The division holds equity stakes in Lansing Ethanol Services, LLC and Lansing Trade Group both of which are active in physical ethanol trading in the US.

Futures. Futures provides a full range of broking and clearing services for Australian and international futures exchange. Futures is selectively pursuing growth opportunities in offshore markets. Futures makes extensive use of proprietary technology to provide clients with customized execution and clearing solutions, including direct market access and straight-through processing. Futures operates from offices in Sydney, Melbourne, Brisbane, London, New York, Chicago, Hong Kong and Seoul.

Central. Central serves as an incubator for various non-division specific or early stage or cross-divisional initiatives as well as housing various MGL Group-wide services including:

- Environmental Financial Products' global team, which is active in originating/structuring emission reduction credits from projects in China and Russia under the Kyoto Clean Development Mechanism and Joint Implementation, and distributing these credits to compliance buyers in Europe, Australia, New Zealand and Japan. With dedicated, full-time trading and structuring teams in Sydney, London and Houston working with Environmental Financial Products' project origination team in Asia and Europe, Fixed Income, Currencies & Commodities offers trading and client services with the benefit of knowledge and experience located at the project source;

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

- new jurisdictions and branch initiatives; and

- joint-venture alliances.

Significant acquisitions and organic growth

There were no significant acquisitions in Fixed Income, Currencies & Commodities during the 2010 fiscal year, however, on April 1, 2010, MGL Group announced the acquisition of substantially all of the wholesale electric marketing and trading portfolio of Integrys Energy Services, Inc. ("Integrys Energy") including various power transactions, products and trading positions (including physical forwards, financial transmission rights and derivatives) by Macquarie Energy. The acquisition was completed and integrated in Energy Markets on March 31, 2010.

In the 2010 fiscal year, Fixed Income, Currencies & Commodities:

- continued to consolidate its North American gas and power franchise in Macquarie Energy;

- expanded into physical oil trading in Singapore;

- expanded its physical shipping and freight capabilities;

- added the provision of corporate banking, foreign exchange and other trading services to Korean corporate and institutional clients after MBL obtaining a licence to offer banking services in Korea; and

- extended into client sales and trading in the New York based credit trading business.

Macquarie Securities (excluding the Cash division)

Macquarie Securities is in MBL Group and offers equity linked investments, trading products and risk management services, equity finance, arbitrage trading and synthetic products.

Macquarie Securities contributed A$116 million to MBL Group's profit in the 2010 fiscal year and as at March 31, 2010, had 97 MBL staff operating across 6 countries, including Australia, Hong Kong, Singapore and the United Kingdom.

Macquarie Securities in MBL Group comprises the following division:

Derivatives DeltaOne Trading. The Derivatives DeltaOne Trading division combines MGL Group's institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic product businesses and global securities finance. Global securities finance includes capital management (cash and liquidity management and interest rate and foreign exchange hedging), collateral management and securities borrowing and lending.

Macquarie Securities also has a cash equities business that operates within the Non-Banking Group.

Significant acquisitions and organic growth in the Derivatives DeltaOne Trading division

During the year, Macquarie Securities' Derivatives DeltaOne Trading division continued to grow its global platform both organically and via the acquisition of Sal. Oppenheim.

Sal. Oppenheim. The acquisition of Sal. Oppenheim's equity derivatives and structured products business on April 6, 2010, following our balance sheet date, has added more than 90 new staff to the Derivatives DeltaOne Trading division across Switzerland and Germany and complements Macquarie Securities existing Asian derivatives operation as well as adding a wider set of products to its growing European business. The business has market making and issuance operations on exchanges in Germany, Switzerland, Austria and Italy.

This acquisition is in the process of being integrated into the Macquarie Securities platform and as it was completed after the balance sheet date of March 31, 2010, it has not had any impact on Macquarie Securities' results of operation for the 2010 fiscal year.

Macquarie Securities continued to grow its market share and made 4 selective MBL director level hires during the 2010 fiscal year.

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 develop an integrated suite of advice, wealth management and lending products and services, to build broader and more valuable client relationships.

Banking & Financial Services contributed A$268 million to MBL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 3,261 staff operating across 10 countries, including Australia, Canada, United Kingdom, New Zealand and Singapore.

At March 31, 2010, Banking & Financial Services' total assets under administration, advice and management (including loan and deposit portfolio) was A$120.0 billion which was up from A$98.4 billion at March 31, 2009.

Banking & Financial Services comprises the following seven divisions:

Macquarie Adviser Services. Macquarie Adviser Services manages relationships with external financial, insurance and mortgage intermediaries and provides sales service and product management of in-house and external products including retail superannuation, mortgages, investment lending, Macquarie Life insurance, Coin financial planning software and outsourced paraplanning. The division includes the A$3.6 billion CMA, the A$10 billion CMT and the Macquarie Wrap administration service which had A$22.5 billion in funds under administration each at March 31, 2010.

Macquarie Direct. Macquarie Direct provides a range of consumer and financial products for clients in Australia. This includes Macquarie credit cards, self directed stock broking through an online trading platform, Macquarie Edge, established in August 2009 and cash products. The division manages a full range of credit card offerings ranging from low rate, low fee cards through to premium. The business also offers a white label partnering capability.

Macquarie Global Investments. Macquarie Global Investments provides Banking & Financial Services with product development capabilities for retail and wholesale investors globally. It currently has responsibility for MGL Group's ownership of New Zealand fund manager Brook Asset Management and its 19.9% shareholding of equities manager Omega Global Investors. This division includes the Macquarie Professional Series, Macquarie Private Portfolio Management and the Macquarie Pastoral Fund.

Macquarie Private Wealth. Macquarie Private Wealth maintains direct relationships with clients offering a range of services including full-service and online broking, strategic financial planning, executive wealth management, private banking and private portfolio management. The stockbroking business is Australia's leading full-service retail stockbroker by market share and trading volumes, and Macquarie Private Wealth continues to grow its adviser base as well as its client numbers. Macquarie Private Wealth currently has a 51% interest in online foreign exchange company OzForex which also has subsidiary outlets UKForex and Canadian Forex. Macquarie Private Wealth has entered into a strategic partnership with WHK, a listed Australasian financial services company, and a member of Horwath International.

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

BFS Europe and Asia. BFS Europe and Asia is responsible for expanding Banking & Financial Services wealth management business into the Asian, United Kingdom and European markets. It has a joint venture agreement with the Indian company Religare to offer advice and wealth management solutions to high net worth investors in India. BFS Europe and Asia also recently established a Private Wealth business in Singapore and is planning to expand into other Asian Markets. It has launched a premium platform service in the United Kingdom.

BFS North America. BFS North America is responsible for expanding Banking & Financial Services mortgages, banking, premium funding and the new Macquarie Private Wealth Canada into the North American market. BFS North America also operates our Canadian Mortgages business, which has grown significantly over the past year.

Significant acquisitions and organic growth

During the 2010 fiscal year, Banking & Financial Services selectively recruited 33 director level hires as part of MGL Group's expansion into the United Kingdom and Asian financial services markets, and in specialist areas such as insurance and in service and operations in Australia and Asia.

In addition, Banking & Financial Services continued to develop its product offering in new international markets, acquiring Canadian financial services company Blackmont, building a wealth management and business banking capability to target segments in the Canadian market and opening a new office in Bristol, United Kingdom from which it will provide increased business lending services to the United Kingdom insurance broking industry. In addition, the Australian mortgages business has also launched an enhanced mortgages offering to new clients in Australia and Banking & Financial Services is writing increased mortgage volumes in its Canadian mortgage business.

In December 2009, MGL Group completed its acquisition of Blackmont, a Canadian wealth management business headquartered in Toronto with retail branches in 12 locations, from CI Financial for a cash payment of C$102.8 million (US$95.6 million). Blackmont was one of the largest independent, full service investment dealers in Canada with approximately 410 employees, including a network of more than 130 investment advisers.

Blackmont also operated a capital markets division that provides institutional and corporate clients with capital markets, advisory, equity research, sales and trading services.

As at March 31, 2010, the Blackmont integration was well advanced and the business had total assets under management of C$8.25 billion (up 5% since acquisition), 144 additional advisers and had expanded MBL Groups' research coverage from 100 stocks to approximately 450 across Canada and the United States. The impact of the Blackmont acquisition on Banking & Financial Services' result for the year ending March 31, 2010 was immaterial. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment overview — Banking & Financial Services" for further information.

On April 22, 2010, unitholders in the CMT approved the conversion of their investments in the CMT to the CMA effective July 31, 2010. See "Macquarie Group Limited — Recent Developments" and "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions — Recent funding developments" below for further information.

Macquarie Funds

Macquarie Funds is in the Banking Group and encompasses MBL Group's funds-management and funds based structured products business.

Macquarie Funds is a full service fund manager that manages assets for institutional and retail investors. Macquarie Funds offers a diverse range of products including managed funds across a wide range of asset classes, funds based structured products, hedge funds and fund of funds. With a strong client focus, disciplined investment processes and proven success in product innovation, Macquarie Funds is building its reputation as a leading provider of investment solutions on a global scale.

Macquarie Funds contributed A$84 million to MBL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 1,074 MBL staff operating across 10 countries, including Australia, United States, United Kingdom and Hong Kong.

As at March 31, 2010, Macquarie Funds had Assets under Management of over A$209.9 billion.

Macquarie Funds comprises the following seven divisions:

Listed Equities. The Listed Equities team has more than 50 investment professionals located in Australia, Asia and the United States and manages equities across the full spectrum of domestic and international funds. The investment process has evolved to be a combination of quantitative and fundamental strategies.

Fixed Income, Currency and Commodities Asset Management. The Fixed Income, Currency and Commodities Asset Management team is a global fixed income manager, with over 60 investment professionals in Australia, United States and United Kingdom and is one of Australia's largest cash and fixed income managers. The team manages a vast array of fixed income products for the United States and Australian market, along with currency products spanning from passive to dynamic investment strategies, and an active hedge fund. The team's Commodities capabilities are headquartered in London, where it manages index and hedge fund products.

Infrastructure Securities. The Infrastructure Securities team of approximately 20 investment professionals, based in Sydney and New York, specializes in the management of global and emerging market listed infrastructure securities.

Real Estate Securities. The Real Estate Securities team offers listed real estate securities investment solutions managed by a dedicated and experienced global real estate securities team with 15 investment professionals in the United States, Europe, Asia and Australia.

Fund of Funds. The Fund of Funds team offer innovative funds of private equity funds and funds of hedge funds products using a disciplined and extensive investment process designed to provide a professionally managed portfolio with diversified exposure to high quality private equity funds and hedge funds.

Investment Solutions and Sales. The Investment Solutions and Sales team specializes in providing a range of market-leading investment solutions to clients. The division structures and distributes Macquarie Funds products independently and through joint ventures globally. It has distribution capabilities and offices in Australia, Europe, Asia and North America. In addition, Investment Solutions and Sales provides leverage solutions to clients across a range of underlying asset classes including funds of hedge funds. In addition, a product incubation team also sits within this division. The incubation team focuses on identifying, recruiting and seeding exceptional investment talent to create new fund products.

Affiliated Managers. Macquarie Affiliated Managers specializes in growing the asset management business through acquisitions of and partnerships with external asset managers. It pursues strategic acquisitions which can extend the footprint of MGL Group's broader securities asset management capabilities, as well as the purchase of controlling stakes in specialist managers that it believes can benefit from an affiliation with MGL Group. Delaware Investments now forms part of this business. In addition, Affiliated Managers has an interest in a specialist energy asset manager in Korea (Macquarie-Samchully Asset Management).

Significant acquisitions and organic growth

In the 2010 fiscal year, the acquisition of Delaware Investments from Lincoln Financial Corporation, added 521 employees based in the United States and Assets under Management of A$151.1 billion (as at March 31, 2010) to Macquarie Funds' global asset management capability. For further information on the impact of the three month contribution of Delaware Investments on Macquarie Funds' result for the year ending March 31, 2010, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment overview — Macquarie Funds" for further information.

The business is now branded Delaware Investments, a member of Macquarie Group and to date 20 staff from Macquarie Funds have relocated to Philadelphia and work with Delaware Investments. In the period since acquisition, Macquarie Funds has launched the new Delaware Macquarie Global Infrastructure Fund which combines Delaware Investments' United States distribution platform with Macquarie Funds' infrastructure investment experience. Further initiatives are now underway which utilize the complementary investment expertise and distribution platforms of Macquarie Funds and Delaware Investments.

In addition, Macquarie Funds selectively recruited 6 director level hires during the 2010 fiscal year, as part of its organic expansion, particularly in Listed Equities and Investment Solutions and Sales divisions.

Macquarie Capital

Macquarie Capital contributed a loss of A$49 million to MBL Group's profit in the 2010 fiscal year. The result relates to businesses and activities that were not transferred to the Non-Banking Group as part of the Restructure.

Divisions within MBL Group

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 leasing and asset finance, asset remarketing, sourcing and trading for long cycle assets (such as manufacturing, transportation and energy) and short cycle assets (including motor vehicles, information technology and medical) as well as offering tailored debt and finance solutions.

Corporate & Asset Finance contributed A$259 million to MBL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 656 MBL staff across 10 countries, including Australia, New Zealand, Korea, United States and the United Kingdom.

As at March 31, 2010, Corporate & Asset Finance managed A$13.6 billion in lease and loan assets (A$8.3 billion at March 31, 2009), which is consistent with our strategy to grow the Corporate & Asset Finance business.

Corporate & Asset Finance comprises the following eight businesses:

Macquarie Aviation Capital. Macquarie Aviation Capital is a leasing and trading business in spare commercial jet aircraft engines. Macquarie Aviation Capital offers lease financing, equipment trading and remarketing services to airlines, maintenance repair and overhaul organizations, equipment manufacturers and aviation leasing companies in Europe, the Middle East, Africa, Asia, the Pacific and the Americas. Macquarie Aviation Capital focuses on providing operating leases and related financial products across multiple engine types to assist clients to improve capital efficiency and flexibility, reduce fleet and technology migration costs, increase fleet management capability and minimize market risk and equipment obsolescence risk.

Macquarie Electronics. Macquarie Electronics provides operating and finance leasing services of semiconductor manufacturing equipment to clients in Europe, Japan, Singapore, South Korea, Taiwan and the United States. Macquarie Electronics also uses its equipment expertise to provide remarketing services to its clients and to selectively acquire used assets for trading.

Macquarie Equipment Finance. Macquarie Equipment Finance is a global business providing specialist IT leasing, equipment finance and services solutions for a wide range of technology-based equipment. Macquarie Equipment Finance provides a complete technology lifecycle solution and offers equipment finance and support services to government, large corporations and universities. Macquarie Equipment Finance also provides vendor finance to brokers.

Macquarie Leasing. Macquarie Leasing offers services including finance leases, novated lease agreements and commercial hire purchases to small to medium enterprises for motor vehicles and other income producing plant and equipment. Macquarie Leasing operates out of Sydney and Melbourne.

Macquarie Lending. Macquarie Lending specializes in offering bridging and term lending facilities to large corporate clients and acquiring debt assets where it believes the market price does not reflect the underlying quality of the relevant asset. The lending team operates out of Sydney, London, New York and Chicago.

Macquarie Equipment Leasing Fund. The Macquarie Equipment Leasing Fund was launched in June 2009. This is a Macquarie managed equipment leasing program which offers eligible United States retail investors exposure to a diversified portfolio of equipment and equipment leases.

Macquarie Meters. Macquarie Meters owns an extensive gas and electricity metering portfolio in the United Kingdom. The portfolio comprises traditional 'mechanical' meters and newer 'Smart' electronic meters, which are capable of communicating remotely via GSM mobile technology. Clients are major United Kingdom energy providers, with the business providing stable and predictable cash flows over a long period of time.

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

Significant acquisitions and organic growth

Corporate & Asset Finance continued to build strong technical expertise through 6 director level appointments with expertise in leasing, lending, credit, legal and mergers & acquisitions. Corporate & Asset Finance also continued to grow its aircraft, IT and motor vehicle lease portfolios, through several acquisitions during the year and post balance sheet date.

In October 2009, Macquarie Leasing acquired a portfolio of auto leases and loans from Ford Credit Australia. The value of the portfolio was A$1.0 billion comprising approximately 60,000 cars. The portfolio was integrated into the Macquarie Leasing division of Corporate & Asset Finance, and transitioned to MBL Group's systems and administration in January 2010.

In April 2010, post balance sheet date, Corporate & Asset Finance announced that it had entered into an agreement to purchase a US$1,671 million aircraft operating lease portfolio from ILFC to expand its existing aircraft leasing portfolio and diversify its client base in the aircraft sector.

On April 30, 2010, MGL Group announced that it had acquired a portfolio of retail auto leases and loans from GMAC Australia. The portfolio, comprised of loans and leases for approximately 60,000 cars, has a value of approximately A$1 billion.

The ILFC and GMAC transactions will be integrated into the Macquarie Aviation Capital and Macquarie Leasing divisions of Corporate & Asset Finance, respectively.

Real Estate Banking

Real Estate Banking is a diverse, international business focused on managing balance sheet positions across a number of locations and products. Real Estate Banking's global expertise encompasses development management, funds management, deal sourcing, advisory, structuring and financing.

The Real Estate Banking division contributed a loss of A$151 million to MBL Group's profit in the 2010 fiscal year and as at March 31, 2010, had 105 MBL staff operating across 5 countries, including Australia, United States, United Kingdom, China and Korea.

As at March 31, 2010, Real Estate Banking managed A$5.0 billion in Assets under Management (A$14.8 billion at March 31, 2009).

Real Estate Banking includes the following activities:

Business partnerships. Real Estate Banking has an interest in MGPA, which is a private equity real estate investment advisory company investing in Asia and Europe. MGPA advises a number of real estate investment funds, with the largest being MGPA Fund III that raised US$5.2 billion in equity. Real Estate Banking has a co-investment and asset management agreement with National Pension Service. National Pension Service is Korea's largest pension fund and the fifth largest pension fund in the world with over US$200 billion Assets under Management. Under the agreement, National Pension Service has a right to invest up to KRW 500 billion (approximately A$500 million) of equity in Macquarie managed Korean REITs.

Development. Real Estate Banking is also involved in real estate development projects around the world. In Australia, it owns the developer Urban Pacific Limited and is in the Medallist joint venture with Great White Shark Enterprises (Australia, the United States and South Africa).

Project & Development Financing. Real Estate Banking is responsible for the procurement, underwriting and management of real estate loans to clients for real estate projects across all major real estate sectors. Activities include providing mezzanine finance for stabilized property, real estate project financing and joint venture equity investments with clients.

Real Estate Banking is experienced in structuring complex transactions and creating tailored financing solutions. It has active structured finance projects in Australia, the United Kingdom and on the west coast of the United States.

Real Estate Banking holds MBL Group's ownership interests in specialist Australian and international listed and unlisted REITs. These include investments in:

- Macquarie NPS REIT – South Korean wholesale REIT investing in stabilized office and retail properties in South Korea. See "— Business partnerships" above for further detail on National Pension Service.

- J-REP – The Macquarie Goodman Japan joint venture owns 51.7% of this Japanese listed logistics development and funds management business.

- Charter Hall Office REIT ("*CQO*") – formerly MOF, this REIT is listed on the ASX and invests in high grade office properties across Australia, the US, Europe and Asia

- Charter Hall Retail REIT ("*CQR*") – formerly MCW, this REIT is listed on the ASX and invests predominantly in grocery-anchored retail property. Current investments in Australia, New Zealand, the US and Europe

In March 2010, MGL Group sold the majority of its listed Australian real estate management platform to Charter Hall. Charter Hall acquired the management business associated with two listed real estate funds (MCW and MOF) and three unlisted real estate funds (Macquarie Direct Property Fund, Macquarie Martin Place Trust and Macquarie Property Income Fund), and a portion of Real Estate Banking's holding in three of these funds. Charter Hall also acquired the asset service and property management businesses that supported the funds as well as a portion of MGL Group's co-investment holdings in three of the funds. Real Estate Banking retains shareholdings of 6% and 4% in CQO (formerly MOF) and CQR (formerly MCW) respectively.

On April 22, 2010, as part of the Macquarie DDR Trust ("*MDT*") recapitalization, Real Estate Banking sold its ownership interest in MDT.

MDT has disclosed that its Head Trust financing facility is in covenant breach and that the lenders had advised they were not prepared to extend the facility on its current terms. MDT entered into trading halt on March 26, 2010 and was subsequently suspended from quotation on March 30, 2010 pending the release of an announcement in respect of continuing discussions with the lenders in respect of various alternatives to facilitate the extension of the loan. MDT debt both at the Head Trust and portfolio level are non recourse to MGL Group. On April 22, 2010, MDT announced that it had entered into an agreement with a new cornerstone investor, EPN GP, LLC ("*EPN*"), to recapitalize and stabilize its balance sheet. On May 7, 2010, the terms of the recapitalization were announced, comprising an A$9.5 million private placement to EPN, completed on April 22, 2010, and fully underwritten A$198.9 million renounceable pro rata entitlement offer to eligible unitholders, which was launched on May 7, 2010. The proceeds of the recapitalization will be used to fully repay MDT's unsecured loan facilities and derivative contracts and to facilitate the part repayment and extension of the Revolver loan facility. To facilitate the recapitalization, MGL Group sold its 2.6% principal unitholding in MDT, and has agreed to sell its 50% interest in Macquarie DDR Management LLC, the owner of the responsible entity of MDT, following completion of the entitlement offer, which is expected to be June 18, 2010. The suspension of trading in MDT was lifted on May 7, 2010 following announcement of the entitlement offer. MGL Group has executed foreign exchange and interest rate hedging contracts with MDT, which will be closed out with the proceeds of the capital raising.

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 minority interests and internal management accounting adjustments and charges.

Corporate contributed a net loss of A$600 million to MBL's net profit for the year ended March 31, 2010 and as at March 31, 2010, had 4,800 staff across 18 countries.

For further information on Corporate's results of operation and financial condition for the year ended March 31, 2010, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment overview — Corporate" in this Report.

Relationship between MBL and MGL

On November 16, 2007 most of the activities of Macquarie Capital and certain less financially significant assets and businesses of the former Equity Markets operating group (now part of Macquarie Securities) and the former Treasury & Commodities operating group (now part of Fixed Income, Commodities & Currencies) were transferred to the Non-Banking Group and its intermediate holding company. The activities not transferred to the Non-Banking Group upon Restructure, formed part of the Banking Group and our intermediate holding company, Banking Holdco. As part of the Restructure completed on November 19, 2007, MBL became an indirect subsidiary of MGL and MGL continues to undertake all the activities previously undertaken by MBL Group.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADI's and NOHC's, 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. 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.

Relationships among MGL Group members include:

- Shared Services provided in accordance with the Services Agreements, described below under "— Shared Services";
- the Intra Group Loan provided by MBL to MGL as part of the Restructure see "— Intra Group Loan" below for further information;
- certain indemnities and backstop arrangements pursuant to the Umbrella Deed provided to MBL by MGL as part of the Restructure;
- certain tax sharing and funding deeds among MGL, MBL and Non-Banking Holdco, each dated as of December 19, 2007;
- hedging, trading and other transactions with the Non-Banking Group;
- delivering integrated capabilities to clients; and
- business opportunities introduced among our operating groups.

Interactions between the Banking Group and the Non-Banking Group are related party transactions which are conducted on arm's-length terms and conditions in accordance with our corporate governance principles and APRA requirements.

Shared Services

Shared services are provided to the Banking Group and the Non-Banking Group by Macquarie Group Services Australia Pty Limited, a subsidiary of MGL, as part of outsourcing arrangements pursuant to the Service Agreements between MGL and the Banking Group and the Non Banking Group as a result of the Restructure.

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.

Intra Group Loan

Concurrent with and to facilitate the Restructure, on November 13, 2007, MGL entered into a A$10.1 billion two-year senior transitional Intra Group Loan with MBL. MGL drew down the entire available amount under the facility on November 21, 2007. MGL is the guarantor of principal, interest and any other payments due under the Intra Group Loan in respect of its subsidiaries that are borrowers under the facility. As at March 31, 2010, A$1.2 billion remained outstanding under the Intra Group Loan. This loan is to be repaid by December 2012.

The Intra Group Loan includes a negative pledge that restricts MGL or any subsidiary from incurring, issuing or assuming any financial indebtedness if it is secured by a security interest over (i) any voting shares of Banking Holdco or Non-Banking Holdco or any other subsidiary that is a borrower, whether such voting shares are owned now or acquired in the future; and (ii) any right, entitlement or claim of MGL to be paid, repaid or reimbursed for any amount by a subsidiary in relation to any loan or other facility provided by MGL utilizing all or part of the proceeds of the Intra Group Loan, in each case, without providing that MBL, as lender, shall be secured equally and ratably with such financial indebtedness. The Intra Group Loan includes an undertaking that the consolidated net worth of MGL and its subsidiaries shall not at any time be less than A$2.4 billion.

Interest on outstanding amounts drawn under the Intra Group Loan is payable at the base rate plus a margin. For drawings in Australian dollars, the base rate is BBSY; for drawings in Euro, the base rate is EURIBOR; and for drawings in US dollars pounds sterling or Japanese yen, the base rate is LIBOR in the relevant currency.

Effective May 13, 2009, MGL and MBL agreed to vary the loan such that the balance of the loan was redenominated to US dollars and the term extended so that such balance will be repaid in three equal installments in June, September and December 2012, at the latest.

Funds Management Business – MBL Group

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

Assets under Management provides a consistent measure for measuring the scale of MBL Group's funds management activities across our operating groups in the Banking Group, which is discussed in "— Assets under Management" section below.

Assets under Management

MBL Group had an aggregate of A$229.3 billion of Assets under Management as at March 31, 2010, from which it derived an aggregate of A$463 million of funds management base fees for the year ended March 31, 2010.

The table below illustrates MBL Group's aggregate Assets under Management by operating group, region and industry sector as at March 31, 2010 and March 31, 2009.

Assets under Management by operating group, region and industry sector for the years ended March 31, 2010 and March 31, 2009

	As at		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Assets under Management by group			
Macquarie Funds	209,894	49,656	large
Banking & Financial Services[2]	14,318	19,178	(25)
Real Estate Banking	5,045	14,761	(66)

	As at		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Total Assets under Management	**229,257**	**83,595**	174
Assets under Management by region			
Australia	63,726	61,828	3
Americas	6,898	2,259	205
Europe, Africa and Middle East	149,977	9,909	large
Asia	8,656	9,599	(10)
Total Assets under Management	**229,257**	**83,595**	174
Assets under Management by industry sector			
Investment funds	224,213	68,834	226
Commercial real estate	2,791	10,391	(73)
Retail real estate	871	941	(7)
Tourism/leisure and residential real estate	1,041	3,176	(67)
Industrial real estate	341	253	35
Total Assets under Management	**229,257**	**83,595**	**174**

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

2 The Macquarie Cash Management Trust, included in Banking & Financial Services Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The Cash Management Trust closed at A$10.0 billion at March 31, 2010 (March 31, 2009: A$14.7 billion).

Assets under Management at March 31, 2010 were A$229.3 billion, a 174% increase from A$83.6 billion at March 31, 2009. The overall net increase in Assets under Management was driven by Macquarie Funds' acquisition of Delaware Investments, which added A$151.1 billion to Assets under Management at March 31, 2010. This was partially offset by a reduction in Assets under Management due to the strengthening of the Australian dollar against major global currencies, which resulted in lower asset values for offshore assets.

Real Estate Banking. Real Estate Banking's Assets under Management decreased by 66% in the year ended March 31, 2010 to A$5.0 billion from A$14.8 billion at March 31, 2009. This was largely due to the sale of the majority of our Australian real estate management platform to Charter Hall and strengthening of the Australian dollar resulting in lower offshore asset values as well as write-downs and disposals by some funds.

Macquarie Funds. Macquarie Funds' Assets under Management increased significantly to A$209.9 billion at March 31, 2010 from A$49.7 billion at March 31, 2009. The acquisition of Delaware Investments contributed A$151.1 billion of Assets under Management at March 31, 2010 to the total A$160.2 billion net increase in Assets under Management over the year. Excluding the impact of this, Assets under Management increased A$9.1 billion to A$58.8 billion at March 31, 2010 due to new equity and fixed income mandates and the impact of rising equity markets since March 31, 2009.

Banking & Financial Services. Banking & Financial Services' Assets under Management decreased 25% to A$14.3 billion at March 31, 2010 from A$19.2 billion at March 31, 2009. The decrease was primarily due to the decrease in Cash Management Trust assets to A$10.0 billion at March 31, 2010, a decrease of 32% from A$14.7 billion at March 31, 2009. This was partially offset by a 17% increase in Assets under Management in the Macquarie Pastoral Fund to A$509 million at March 31, 2010, from A$434 million at March 31, 2009.

The table below shows MBL Group's total Assets under Management by fund type for the years ended March 31, 2010 and 2009.

MBL Group Assets under Management for the years ended March 31, 2010 and March 31, 2009

	As at		
	Mar 10	**Mar 09**	**Movement[3]**
	A$m	**A$m**	**%**
Macquarie Funds			
Macquarie Delaware	151,129	—	—
Fixed Interest, Currency and Commodities Asset Management	41,529	34,895	19
Listed Equities	9,857	6,842	44
Investment Solutions and Sales	2,226	2,848	(22)
Infrastructure Securities	2,188	1,990	10
Funds of private equity funds	1,362	1,217	12
Real Estate Securities	1,241	1,225	1
Funds of hedge funds	362	459	(21)
Other Macquarie funds	-	180	(100)
Total Macquarie Funds	**209,894**	**49,656**	large
Banking & Financial Services			
Macquarie Cash Management Trust	9,960	14,692	(32)
Macquarie Pastoral Fund	509	434	17
Other unlisted Banking & Financial Services	3,849	4,052	(5)
Total Banking & Financial Services	**14,318**	**19,178**	(25)
Real Estate Banking			
Macquarie Office Trust [1]	-	6,546	(100)
J-REP managed funds[2]	218	375	(42)
Macquarie Central Office Corporate Restructuring REIT	-	181	(100)
Unlisted Real Estate funds	4,827	7,659	(37)
Total Real Estate Banking	**5,045**	**14,761**	(66)
Total Assets under Management	**229,257**	**83,595**	174

1 MOF formed part of the Australian real estate management platform that was sold to Charter Hall effective March 1, 2010.

2 J-REP Co. Limited is a listed fund manager on the Tokyo Stock Exchange. Through a joint venture with Goodman Group, MGL Group acquired an interest in J-REP in June 2007, and therefore its funds management activities.

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

The table below shows MBL Group's total performance and base fees for the years ended March 31, 2010 and 2009.

MBL Group performance and base fees for 2010 and 2009

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
MBL Group			
Base fees	464	403	15
Performance fees	45	15	200
Total MBL Group Funds Management Fees	**509**	**418**	22

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 predetermined benchmarks. For listed funds, incentive income is earned for outperformance of a benchmark rate of return. This may be either a widely acknowledged market index, generally either S&P/ASX or MSCI indices, or a pre-determined rate of return, typically 8% per annum. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of performance fee. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return typically 8%. Unlisted performance fees are generally payable upon the occurrence of a “liquidity event”, such as asset sale or fund listing, and are therefore unpredictable.

During the year ended March 31, 2010 performance fees of A$45 million for MBL Group increased 181% from A$16 million in the prior year. The result for the year ended March 31, 2010 included A$34 million of performance fees from the sale of the Kukdong building by Macquarie Central Office CR-REIT.

For further detail on MBL Group’s income from funds management, see “— Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Results analysis — Fee and commission income — Base and performance fees” in this Report.

Legal Proceedings

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 37 to our 2010 annual financial statements. We do not believe that the outcome of any such claims of which we are aware, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

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

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

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

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

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

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

REGULATION AND SUPERVISION

Australia

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

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

APRA

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

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

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

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

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

As well as MBL being subject to regulation by APRA as an ADI, MGL is subject to regulation by APRA as a NOHC. MGL, MBL and certain other subsidiaries of MGL Group, which meet the APRA definition of "Extended Licensed Entities", are required to report to APRA

APRA has stipulated a capital adequacy framework that applies to MBL and other entities in MGL Group. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Measurement of capital adequacy and MGL Group's economic capital model is more fully described in Section 4 of the MBL Pillar 3 Disclosures as at December 31, 2009 incorporated by reference herein. APRA has advised that it will monitor the overall MGL Group and may increase the prudential requirements it applies to MBL if the conduct of MGL Group places financial strain on MBL.

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

Discussion Paper - APRA's prudential approach to ADI liquidity risk

On September 11, 2009, APRA released proposals to enhance liquidity risk management by ADIs. The objective is to strengthen the resilience of ADIs to liquidity risk and improve APRA's ability to assess and monitor ADIs' liquidity risk profiles. For a description of APRA's current liquidity risk regulation, see "— APRA" above.

APRA has stated that the proposed changes to be incorporated as part of its revised approach to liquidity risk are to include:

- enhanced qualitative requirements consistent with the Principles for Sound Liquidity Risk Management and Supervision issued by the Basel Committee on Banking Supervision ("*Basel Committee*") in September 2008;

- extending the "going concern" cash flow projection requirement to all ADIs and lengthening the projection to at least 12 months;

- strengthening the current APRA-defined stress testing to ensure ADIs meet a minimum acceptable level of resilience, which includes:

- lengthening the minimum survival horizon for the current APRA-defined "name crisis" scenario from five business days to one month; and

- an additional APRA-defined three-month "market disruption" stress scenario; and

- a standardized reporting framework for collecting regular liquidity data from ADIs, including the ability to access data at short notice in times of stress.

In December 2009, the Basel Committee on Banking Supervisions released its consultative document International Framework for Liquidity Risk Measurement, Standards and Monitoring. APRA subsequently advised all Australian banks in its letter of December 18, 2009 that APRA's approach to liquidity will be consistent with the proposed global framework and APRA's next consultation paper on liquidity would be held over until the Basel Committee's proposals take firmer shape.

Subject to industry consultation and ongoing international supervisory developments, APRA intends to issue final standards and reporting forms subsequent to the Basel committee issuing their final standards which is expected to be at the end of calendar 2010. Transition arrangements are also expected to apply as appropriate. In its discussions on what constitutes a liquid asset for stress testing purposes, APRA proposes to adopt a definition of liquid assets in APS 210 which is consistent with the view, of what it describes as "an emerging international consensus amongst prudential supervisors", that liquid assets should be high quality assets that can be readily sold or used as collateral in private markets, even when those markets may be under stress and, as a backstop, liquid assets should also be eligible central bank collateral for normal market operations. APRA has noted that, if it is the case that the Australian dollar denominated stock of assets satisfying APRA's proposed liquid asset definition is insufficient for the aggregate need of ADIs, it will consider permitting some limited portion of the liquid asset buffer to comprise assets that are RBA eligible collateral for normal market operations as the sole criterion.

MBL Group currently expects that if APRA's liquidity proposals are implemented in their current form the key implication for MBL would be the narrowing of the definition of "liquid assets" which could require it to hold lower yielding assets such as Commonwealth Government Securities and significantly increased reporting requirements.

Remuneration – Extensions to governance requirements for APRA-regulated institutions

On November 30, 2009, APRA released its prudential requirements on remuneration for ADIs, general insurers and life insurers. These revised governance standards impose new requirements on APRA-regulated institutions and came into effect on April 1, 2010.

According to APRA in its proposing the requirements, the extended governance requirements are designed to endorse and implement the Financial Stability Board's ("*FSB*") new principles on pay and compensation by giving effect to the FSB's Principles of Sound Compensation Practices and are intended to deal with what APRA describes as "an important deficiency highlighted by the FSB's work, namely the lack of alignment of remuneration with risk management in many financial institutions".

The revised governance standards require boards of regulated institutions to have a remuneration policy that aligns remuneration arrangements with the long term financial soundness of the institution and its risk management framework. At the same time, boards are to be able to design remuneration arrangements that suit the structure of their own institution. The policy extends beyond senior executives to all persons who, because of their roles, have the capacity to make decisions that could materially affect the interests of depositors or policyholders, and owners. The revised governance standards also require that regulated institutions have a Board Remuneration Committee, comprising only non-executive directors and a majority of "independent" directors, as defined by the prudential requirements.

Under the requirements, boards of regulated institutions will be held accountable for compliance with APRA's prudential requirements for remuneration. APRA has stated that its principles-based approach, rather than the prescription required in most regulatory regimes, together with its active supervision of regulated institutions, will be aimed at ensuring compliance with both the intent and the substance of these requirements. Where the remuneration arrangements of a regulated institution are likely to encourage excessive risk taking, APRA will have several supervisory options, including the power to impose additional capital requirements on that institution.

Basel Committee on Banking Supervision Discussion Papers

On December 17, 2009, the Basel Committee on Banking Supervision released two consultative documents, "Strengthening the Resilience of the Banking Sector" and "International Framework for Liquidity Risk Measurement, Standards and Monitoring". The documents set out the Basel Committee's proposals to strengthen global capital and liquidity requirements, with the goal of promoting a more resilient international banking system. The proposed reforms of the Basel Committee aim to:

- Raise the quality, consistency and transparency of the regulatory capital base to ensure that the banking system is in a better position to absorb losses on both a going concern and a gone concern basis. In addition to raising the quality of the Tier 1 capital base, the Basel Committee is also harmonizing the other elements of the capital structure;

- Further strengthen the risk coverage of the Basel II capital framework by, among other things, enhancing the capital requirements for counterparty credit risk exposure arising from banks' derivatives, repo and securities financing activities;

- Introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework;

- Introduce a global standard on liquidity that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio, referred to as the "net stable funding ratio". The framework also includes a common set of monitoring metrics to assist supervisors in identifying and analyzing liquidity risk trends at both the bank and system wide level; and

- Introduce a series of measures to reduce the extent to which the minimum capital requirement is correlated to the performance of the overall economy. In addition, the Basel Committee is promoting more forward-looking provisioning based on expected losses, which captures actual losses more transparently and is also less correlated to the performance of the overall economy than the current "incurred loss" provisioning model.

Given the wide-ranging nature of the Basel Committee's proposals, a global quantitative impact study is being undertaken in the first half of calendar 2010 to assess their impact and to ensure that they are calibrated appropriately. Final calibration of the proposals is expected to only occur after the impact study has been completed. The Basel Committee expects that the fully calibrated set of standards will be developed by the end of calendar 2010 to be phased in as financial conditions improve and the economic recovery is assured, with the aim of implementation by end of calendar 2012, with appropriate phase-in measures and grandfathering arrangements for a sufficiently long period to ensure a smooth transition to the new standards.

As a member of the Basel Committee, APRA has been involved in developing these global initiatives, and it has indicated that it supports the broad set of proposals contained in the consultative documents. APRA expects to generally follow the agreed international timetable when implementing the new capital standards in Australia, which is currently expected to be by the end of calendar 2012. Given the Basel Committee's timetable, APRA expects that it will finalize its prudential standards on liquidity around the middle of calendar 2011, with implementation and (if necessary) any transition arrangements to be considered once the final proposals are clearer.

Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme

Guarantee of deposits

Under the Australian Banking Act, certain deposits in eligible Australian ADIs (including MBL) are guaranteed for a period of three years from October 12, 2008 pursuant to the Financial Claims Scheme established under the Australian Banking Act and administered by APRA. In addition, section 13A of the Australian Banking Act provides that the assets of an Australian ADI (including MBL) in Australia are, in the event of the Australian ADI becoming unable to meet its obligations or suspending payment, available to meet, in priority to all other liabilities of that Australian ADI:

- first, certain obligations of the Australian ADI to APRA (if any) arising under the Financial Claims Scheme established by Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of protected accounts up to a maximum of A$1,000,000 per holder for all protected accounts held by the holder with the Australian ADI. A "protected account" is either (i) an account where the Australian ADI is required to pay the account-holder, on demand or at an agreed time, the net credit balance of the account, or (ii) another account or financial product prescribed by regulation;

- second, APRA's costs in exercising its powers and performing its functions relating to the Australian ADI in connection with the Financial Claims Scheme; and

- third, the Australian ADI's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

Under section 16 of the Australian Banking Act, other debts due to APRA shall in a winding-up of an Australian ADI have, subject to section 13A of the Australian Banking Act, priority over all other unsecured debts of that Australian ADI. Further, under section 86 of the Reserve Bank Act 1959 of Australia, debts due by a bank (which includes MBL) to the RBA shall in a winding-up of that bank have, subject to sections 13A and 16 of the Australian Banking Act, priority over all other debts of that bank other than debts due to the Commonwealth.

The statutory provisions set out above are a separate regime to the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme (described below).

The Financial Claims Scheme (ADIs) Levy Act 2008 of Australia also provides for the imposition of a levy to fund the excess of certain of APRA's costs connected with an Australian ADI over the sum of specified amounts paid to APRA by that Australian ADI in connection with the Financial Claims Scheme or in the winding up of that Australian ADI. The levy is imposed on liabilities of Australian ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities.

Since November 28, 2008, the first A$1,000,000 of aggregate deposits held by a person per eligible Australian ADI has been guaranteed for free under the Financial Claims Scheme. For aggregate deposits in excess of A$1,000,000 held by a person with an eligible Australian ADI and made on or prior to March 31, 2010, such deposits may be covered under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme (described further under "— Guarantee of wholesale term funding" below) if the amounts are held with an eligible Australian ADI in a type of account in respect of which an "eligibility certificate" (as defined in the Scheme Rules) has been issued and subject to the Scheme Rules and the terms of that account. The guarantee facility under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme closed to additional deposit funds at 5.00 p.m. (Canberra, Australia time) on March 31, 2010. Guaranteed deposits existing at 5.00 p.m. (Canberra time) on March 31, 2010 may remain guaranteed subject to the Scheme Rules and in accordance with the terms of the relevant account.

Fees apply for the Guarantee to apply to aggregate deposits in excess of A$1,000,000. A different fee applies to eligible ADIs based on their credit rating. The fee that applies to MBL in respect of the large deposits, based on its current rating by Standard & Poor's of A, is 100 basis points (or 1.0%). The fee is levied on a monthly or quarterly basis depending on the liability.

Guarantee of wholesale term funding

The Commonwealth has also guaranteed certain wholesale term funding liabilities of eligible Australian ADIs in return for a fee (which applies in respect of the full amount of the liability and is based on the credit rating of each eligible ADI, as described above) payable by the relevant Australian ADI. The guarantee facility under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme closed to new issuances of wholesale term funding liabilities at 5.00 p.m. (Canberra, Australia time) on March 31, 2010. Guaranteed liabilities existing at that date may remain guaranteed subject to the Scheme Rules and in accordance with the terms of the relevant liability.

The obligations of the Commonwealth in respect of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme are contained in the Guarantee, which took effect from November 28, 2008. The Scheme Rules govern access to the benefit of the Guarantee.

Wholesale term funding liabilities will only have the benefit of the Guarantee if an "eligibility certificate" (as defined in the Scheme Rules) has been issued in respect of those liabilities and the liabilities were issued on or prior to March 31, 2010. MBL has been issued eligibility certificates which apply such that certain of its liabilities have the benefit of the Guarantee.

As of March 31, 2010, MBL Group had US$12 billion of Commonwealth guaranteed debt outstanding pursuant to the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme. Subject to any significant changes in market conditions, MBL does not believe that the withdrawal of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme will affect MBL's ability to raise sufficient funding in offshore markets.

Obligations under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme

In addition to the fee payable by us to the Commonwealth, we are required to indemnify the Commonwealth in respect of all actions, claims and payments arising out of its guarantee under the Guarantee of any Guaranteed Liabilities (as defined in the Guarantee). Any claims by the Commonwealth against us in respect of amounts paid by the Commonwealth to the holders of Guaranteed Liabilities (i) will be unsecured and unsubordinated claims ranking equally with the claims of our other unsecured and unsubordinated creditors, and (ii) will not benefit from such statutory provisions described under "— Guarantee of deposits" above.

RBA

In exercising its powers, APRA works together with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, serves as banker to the Australian government and, through the Payment Systems Board, supervises the payments system. On July 1, 2002, the RBA transferred its responsibility for the registration and categorization of financial corporations to APRA.

ASIC

ASIC is Australia's corporate, markets and financial services regulator. As the corporate regulator, ASIC is responsible for ensuring that company directors and officers carry out their duties honestly, diligently and in the best interests of their company. As the markets regulator, ASIC assesses how effectively authorized financial markets are complying with their legal obligations to operate fair, orderly and transparent markets, and advise the Commonwealth about authorizing new markets. As the financial services regulator, ASIC licenses and monitors financial services businesses to ensure that they operate efficiently, honestly and fairly.

ASIC regulates each of the entities we operate in Australia as the corporate regulator and some MGL Group entities who hold Australian financial services ("*AFS*") licenses as the financial services regulator. ASIC oversees MGL Group's AFS licensees' compliance with a comprehensive regulatory regime comprising requirements for financial resources, organizational capacity and compliance systems.

SFE

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

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

ASX

ASX is Australia's primary securities market. MBL's Macquarie Income Securities and MGL's ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX's listing rules, which have the statutory backing of the Australian Corporations Act. Certain funds that we manage are listed on ASX.

The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee compliance with ASX's listing rules by MBL, MGL and funds managed by each of them that are listed on the ASX.

ACCC

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

Anti-Money Laundering and Counter-Terrorism Financing

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

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

Other

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

International

Our businesses, the businesses of the rest of MGL Group and the businesses and the funds we or other members of MGL Group manage outside of Australia are subject to various regulatory regimes.

United States

As a result of the global economic crisis, the United States government has recently proposed significant changes in the regulation of the financial services industry including reforming the financial supervisory and regulatory framework in the United States, which could have a material impact on financial institutions and their activities, including the activities of MBL and its subsidiaries in the United States. Currently, the timing and content of financial reform legislation remains uncertain. See "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in markets in which we operate" above, for further information.

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

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

Anti-money laundering regulations. MBL representative offices as well as MGL Group's U.S. broker-dealer subsidiaries and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to anti-money laundering laws and regulations, including regulations issued by the U.S. Treasury Department to implement various anti-money laundering requirements of Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "*USA PATRIOT Act*"). In the 2010 fiscal year, MGL Group obtained an additional U.S. broker-dealer through our acquisition of FPK, a specialist investment bank and registered broker-dealer focused on financial institutions with offices in the United States.

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

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

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

Securities and commodities regulations. In the United States, we or other members of MGL Group are regulated by the U.S. Securities and Exchange Commission ("*SEC*") and by the Financial Industry Regulatory Authority ("*FINRA*") with respect to certain securities and corporate finance related activities conducted through broker-dealers, or through investment advisors or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or the U.S. Investment Company Act of 1940, as amended (the "*ICA*"). We will be subject to greater oversight and regulation by the SEC and FINRA as our business grows in the U.S., such as through our 2010 acquisitions of FPK and Delaware Investments, a U.S. based securities management firm that offers mutual funds registered under the ICA.

In addition, we or other members of MGL Group are regulated by the Commodity Futures Trading Commission ("*CFTC*") and the CME Group with respect to futures trading, options markets and clearing activities. The Federal Energy Regulatory Commission ("*FERC*") also regulates our energy trading activities and our downstream natural gas business. Our energy trading business has grown through our acquisitions of Constellation Energy in 2009 and of Tristone and Integrys Energy in 2010. As we continue to expand our U.S. energy trading business, our compliance with energy trading regulations will become increasingly important.

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

United Kingdom

The FSA is the single regulator for the full range of financial business in the United Kingdom, including banking, investment business and insurance. APRA remains the lead prudential regulator for MBL UK, with regulatory oversight by the FSA in the UK. MBL operates a branch, MBL UK, and a subsidiary, Macquarie Bank International Limited ("*MBIL*"), in the United Kingdom. MBIL, a United Kingdom incorporated subsidiary is authorized and regulated by the FSA as a bank. MGL also has two subsidiaries in the United Kingdom, Macquarie Capital Funds (Europe) Limited ("*MCFEL*") and Macquarie Capital (Europe) Limited ("*MCEL*"), authorized and regulated by the FSA. MCFEL is authorized and regulated by the FSA as a limited licence firm, while MCEL is authorized and regulated by the FSA as a full scope investment firm. As FSA regulated entities MBIL, MCFEL and MCEL are required to comply with the FSA rules. The rules include requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, conduct of business and the treatment of customers.

In many cases, these rules implement applicable European Union Directives (such as the Capital Requirements Directive, which relates to regulatory capital and the Markets in Financial Instruments Directive, which relates to the carrying on of investment businesses). Under FSA liquidity standards, FSA regulated banks and certain investment firms, including MBIL, MCFEL, MCEL and MBL UK, are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Liquidity Contingency Plan" for further information.

Other United Kingdom regulators that impact the business of, and the businesses and funds managed by other members of, MGL Group include the Office of Communication (Ofcom) which regulates the United Kingdom communications industry and the Gas and Electricity Markets Authority (Ofgem), which regulates the United Kingdom gas and electricity industry. The Office of Fair Trading is the United Kingdom's consumer and competition authority.

Other regulators

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

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

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

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

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

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

For the year ended March 31, 2010, MBL Group was divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities (excluding the Cash division), Fixed Income, Currencies & Commodities, Macquarie Funds and Banking & Financial Services. The Real Estate Banking and Corporate & Asset Finance divisions also reported separately for internal reporting and risk management purposes. Transfers between segments are determined on an arm's length basis and are eliminated on consolidation.

We report certain items in the Corporate segment, which includes the Group Treasury division, the Head Office and central support functions. The Corporate segment includes unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and profits attributable to minority interests. The Corporate segment also includes the impact of changes in credit spreads on non-trading financial instruments that are classified as fair value through profit or loss. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equates to our total profit after tax.

During the 2010 fiscal year, MBL Group acquired a number of entities and businesses (see "Financial Information Presentation — Impact of acquisitions on the 2010 fiscal year") however, the operating results of these acquisitions were not considered to have a material impact on the results of operation of MBL Group for the 2010 fiscal year. For further information on their impact on our results of operation and financial condition for the 2010 fiscal year, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment analysis".

During the 2009 fiscal year, MBL Group implemented a number of changes to its internal operating groups to realign the product offerings of each group in a more consistent manner. As a result of these changes, MBL Group's operating segments for financial reporting purposes also changed. In accordance with AASB 8 "Operating Segments", MBL Group restated the comparative information for the 2008 fiscal year to reflect the changes in MBL Group's reportable segments. See "Financial Information Presentation — Reorganization of operating groups and reporting segments within MBL Group" above and "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2009 compared to year ended March 31, 2008" for further information.

Consequently, our historical financial information for the 2010, 2009 and 2008 fiscal years included in this Report has been presented on a consistent basis with our current reportable operating segments. However, Investors should note that while we restated the comparative operating segment data for the 2008 fiscal year in note 5 to our 2009 annual financial statements to reflect these changes in MBL Group's operating segments, we were not required to restate the operating segment data in the financial statements for earlier fiscal periods. As a result, the consolidated segment financial information reported in our 2008 annual financial statements and in our financial statements for prior fiscal years have not been restated to reflect internal reorganizations undertaken in the 2009 fiscal year or our current reportable operating segments. Further, the audit reports on those 2008 annual financial statements and in our financial statements for prior fiscal years report on historical financial statements that have not been re-presented on the same basis that our 2009 and 2010 annual financial statements have been prepared. Investors are urged to use caution in analyzing the segment disclosures reported in our financial statements for our prior fiscal years, since such historical financial statements include the disclosures of our previous operating segments and have not been restated to reflect our current reportable segments in accordance with AASB 8.

See "Financial Information Presentation" above for further information.

Critical Accounting Policies and Significant Judgments

Note 1 to our 2010 annual financial statements provides a list of the significant accounting policies. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, we have particularly identified the following policies as involving critical accounting estimates and requiring management's exercise of judgment.

Basis of preparation and selection of policies

We prepare our financial statements in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements comply with IFRS as issued by the IASB. Consequently, the financial statements incorporated by reference herein are also prepared in accordance with and comply with IFRS as issued by the IASB.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying its accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements are discussed in this section, as a guide to understanding how their application affects our reported results. A broader and more detailed description of the accounting policies we employ is shown in Note 1 to our 2010 annual financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial statements are reasonable. Actual results in the future may differ from those reported.

Fair value of financial instruments

Financial assets and financial liabilities in our trading portfolio, those designated at fair value through profit and loss, and derivative instruments, are recorded at fair value on the balance sheet. Fair value reflects the present value of future cash flows associated with a financial asset or liability.

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

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

Impairment of loan assets

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

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

Impairment of equity accounted investments

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

As indicated in Note 1 to our 2010 financial statements incorporated herein by reference, investment assets are carried at fair value through profit or loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair value are recognized in the income statement in the financial period in which the changes occur.

Impairment of investment securities available for sale

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

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

Impairment of disposal groups classified as held for sale

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

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

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

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

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

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

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

Debt issued at amortised cost

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

Other financial liabilities at fair value through profit or loss

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

Fair value gains and losses relating to financial liabilities designated as held at fair value through profit or loss are included in net trading income. This includes gains or losses as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value.

Loan capital

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

Special purpose entities and securitizations

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

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

Income tax

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

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

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

Pending Accounting Standards Changes

For a description of standards, interpretations and amendments to AGAAP that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2010 annual financial statements.

Off Balance Sheet Arrangements

In the ordinary course of business and primarily to facilitate client transactions, we enter into off balance sheet arrangements with unconsolidated entities. Unlike US GAAP where a qualifying special purpose entity is not consolidated by the primary beneficiary, under AGAAP all such entities are consolidated by us where we are exposed to the majority of the risks and rewards (and therefore are not entities described below).

Special purpose and variable interest entities

The off balance sheet arrangements entered into by us typically involve the use of special purpose entities as addressed under Interpretation 112 and variable interest entities as addressed under FIN 46R. These are entities set up for a specific purpose and generally would not enter into an operative activity nor have any employees. The most common form of special purpose entity involves the acquisition of financial assets that are funded by the issuance of securities to external investors, which have cash flows different from those of the underlying instruments. The repayment of these securities is determined by the performance of the assets held by the special purpose entity. These entities form an integral part of many financial markets, and are important to the development of the securitization markets. Our involvement may include the provision of liquidity, acting as derivatives counterparty, investing in some of the senior notes, as well as the purchasing and warehousing of securities and other financial assets until they are transferred to the special purpose entity. Our accounting policy for interests in special purpose entities is described in Note 1 to our 2010 annual financial statements.

Assets under Management

We provide investment management and other fiduciary activities as responsible entity, trustee or manager on behalf of individuals, trusts and other institutions. These activities involve the management of assets in investment schemes, and the holding or placing of assets on behalf of third parties on an arm's length basis and at market terms and prices. The underlying assets managed typically include infrastructure assets, financial assets, and/or investment properties. In some cases, we may make a small, non controlling investment in a fund that we also manage, which generally will be treated as an associate investment.

Post retirement plans

We operate a number of post retirement plans for our employees. These are usually administered by an independent trustee, and our involvement is generally limited to remitting specified contributions on behalf of employees. The risks of the underlying investments are borne by the employees.

Year ended March 31, 2010 compared to year ended March 31, 2009

Results overview

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Income statement			
Net interest income	1,325	965	37
Fee and commission income	1,036	995	4
Net trading income	1,237	1,545	(20)
Share of net profits of associates and joint ventures	7	98	(93)
Other operating income and charges[2]	47	(534)	large
Total operating income	**3,652**	**3,069**	19
Employment expenses	(1,089)	(887)	23
Brokerage and commission expenses	(548)	(509)	8
Occupancy expenses	(122)	(101)	21
Non-salary technology expenses	(88)	(75)	17
Other operating expenses	(1,043)	(872)	20
Total operating expenses	**(2,890)**	**(2,444)**	18
Operating profit before income tax	762	625	22
Income tax expense	(65)	32	large
Profit from ordinary activities after income tax	697	657	6
Profit attributable to minority interests	(13)	(48)	(73)
Profit attributable to equity holders of Macquarie Bank Limited	684	609	12
Distributions paid or provided on Macquarie Income Securities	(21)	(33)	(36)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**663**	**576**	15

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

2 "Other operating income and charges" includes A$403 million in impairment charges (March 31, 2009: A$1,029 million).

Consolidated net profit after income tax attributable to ordinary equity holders of A$663 million for the year ended March 31, 2010 increased 15% from A$576 million in the prior year primarily due to improving market conditions and growth in existing businesses. Contributions from acquired businesses, Blackmont and Delaware Investments were not material to MBL Group's net profit for the 2010 fiscal year. See "Financial Information Presentation — Impact of acquisitions on the 2010 fiscal year" for further information.

Total operating income of A$3,652 million for the year ended March 31, 2010 increased 19% from A$3,069 million in the prior year. The main drivers of this increase were:

- a significant increase in other operating income to A$47 million for the year ended March 31, 2010 from a net loss of A$534 million in the prior year, primarily due to an overall reduction in the level of write-downs and impairment charges (net expense of A$403 million, decreased 61% from a net expense of A$1,029 million in the prior year) (see "— Results analysis — Details of impairment charges and provisions" below for further information);

- a 37% increase in net interest income to A$1,325 million for the year ended March 31, 2010 from A$965 million in the prior year, primarily due to growth in the higher yielding lending portfolio in Corporate & Asset Finance, which was partially offset by a reduction in volumes in the Australian mortgage portfolio combined with the sale of the margin lending portfolio in January 2009; and

- an 4% increase in fee and commission income to A$1,036 million for the year ended March 31, 2010 from A$995 million in the prior year, primarily due to A$34 million of performance fees received on the sale of the Kukdong building by Macquarie Central Office CR REIT, partially offset by lower mergers and acquisitions, advisory and underwriting fees due to challenging market conditions; and

- gains from liability management (Macquarie Income Preferred Securities, A$127 million and subordinated debt, A$55 million).

These results were partially offset by:

- a 93% decrease in share of net profits of associates and joint ventures of A$7 million for the year ended March 31, 2010 from a net profit of A$98 million in the prior year driven by a deterioration in the underlying results of investments due to the significant market disruption experienced in the 2010 fiscal year; and

- a 20% decrease in net trading income to A$1,237 million for the year ended March 31, 2010 from A$1,545 million in the prior year, primarily due to the negative fair value adjustments on fixed rate issued debt (net expense of A$255 million decreased from net income of A$179 million in the prior year) which primarily drove the result for interest rate products combined with a 57% decrease in income from foreign exchange products to A$104 million for the year ended March 31, 2010 from A$241 million for the year ended March 31, 2010.

Total operating expenses of A$2,890 million for the year ended March 31, 2010 increased 18% from A$2,444 million in the prior year. The increase was largely driven by:

- a 23% increase in employment expenses to A$1,089 million for the year ended March 31, 2010 from A$887 million in the prior year, which was primarily due to a 34% increase in headcount mainly from acquisitions during the year, combined with an increase in performance related profit share; and

- a 21% increase in occupancy expenses to A$122 million from A$101 million in the prior year primarily due to new office space in Sydney, London and the United States and recognition of the cost of future surplus leased space.

Income tax expense of A$65 million increased significantly from a tax benefit of A$32 million in the prior year, as a result of increased operating profit before income tax, primarily due to improved market conditions and lower levels of write-downs and impairment charges. See "— Results analysis — Income tax expense" below for further information.

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

Our results for the 2010 fiscal year continued to be affected by trading and market conditions. See "Macquarie Bank Limited — Trading Conditions and Market Update" above for further information. In addition, the strengthening of the Australian dollar contributed to a reduction in both income and expenses generated offshore.

Results analysis

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

Net Interest Income

	Year ended		Movement[2]
	Mar 10	**Mar 09**	
	A$m	**A$m**	**%**
Net interest income			
Interest revenue	4,353	6,267	(31)
Interest expense	(3,028)	(5,302)	(43)
Net interest income (as reported)	**1,325**	**965**	37
Adjustment for accounting for swaps[1]	(218)	**(1)**	large
Net interest income (as adjusted)	**1,107**	**964**	**15**

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

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

Interest revenue of A$4,353 million for the year ended March 31, 2010 decreased 31% from A$6,267 million in the prior year and interest expense of A$3,028 million for the year ended March 31, 2010 decreased 43% from A$5,302 million in the prior year primarily due to lower interest rates compared to the prior year.

Adjusted net interest income of A$1,107 million for the year ended March 31, 2010, increased 15% from A$964 million in the prior year. This increase was primarily driven by the growth of the higher yielding lending portfolio in the Corporate & Asset Finance division which grew 64% in the 2010 fiscal year to A$13.6 billion (March 31, 2009: A$8.3 billion). This was partially offset by a reduction in volumes in the Australian mortgage portfolio combined with the sale of the margin lending portfolio in January 2009. Overall lending volumes decreased as a result of these sales, but income increased overall due to the change in product mix from lower margin mortgages to higher margin corporate and asset lending during the year.

Fee and commission income

	Year ended		Movement
	Mar 10	**Mar 09**	
	A$m	**A$m**	**%**
Fee and commission income			
Base fee income	464	403	15
Performance fee income	45	15	200
Mergers and acquisitions, advisory and underwriting fees	37	71	(48)
Brokerage and commissions	288	276	4
Other fee and commission income	154	171	(10)
Income from life investment contracts and other unit holder investment assets	48	59	(19)
Total fee and commission income	**1,036**	**995**	4

Total fee and commission income of A$1,036 million for the year ended March 31, 2010 increased 4% from A$995 million in the prior year largely due to a 200% increase in performance fee income to A$45 million for the year ended March 31, 2010 from A$15 million in the prior year, partially offset by 48% decrease in mergers and acquisitions, advisory and underwriting fees to A$37 million for the year ended March 31, 2010 from A$71 million in the prior year.

Base and performance fees

Base fees of A$464 million for the year ended March 31, 2010, increased 15% from A$403 million for the prior year despite a significant increase in Assets under Management to A$229 billion as at March 31, 2010 from A$84 billion as at March 31, 2009. The increase in Assets under Management did not result in a corresponding increase in base fees as the majority of the increase occurred in January 2010 with the acquisition of Delaware Investments, which contributed A$151 billion of Assets under Management as at March 31, 2010 and A$90 million of base fees in the year ended March 31, 2010. See "Macquarie Group Limited—Funds Management Business—MBL Group and the Non-Banking Group—Assets under Management" for further discussion on the movements in Assets under Management during the period.

Performance fees of A$45 million for the year ended March 31, 2010 increased 200% from A$15 million in the prior year. Market conditions in the year ended March 31, 2010 continued to be difficult and there were few funds which outperformed their benchmarks which led to low performance fees, however, in the year ended March 31, 2009, we also recognized a significant non-recurring performance fee on the termination of the advisory agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited) from MAp, which drove the result in the prior year.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A$37 million for the year ended March 31, 2010 decreased 48% from A$71 million in the prior year largely due to one-off advisory fee income generated in Macquarie Funds and Real Estate Banking in the year ended March 31, 2009 that was not repeated in the year ended March 31, 2010.

Brokerage and commission

Brokerage and commission income of A$288 million for the year ended March 31, 2010 increased 4% from A$276 million in the prior year as a result of improved equity market conditions and the growth in advisor numbers in Banking & Financial Services due to organic growth in Australia and Asia as well as the acquisition of Blackmont Capital in December 2009.

Other fee and commission income

Other fee and commission income, which includes platform and other administration fee income, of A$154 million for the year ended March 31, 2010 decreased 10% from A$171 million in the prior year largely due to non-recurring service fees in the prior year for Agricultural products and lower true index income in Macquarie Funds Group. Macquarie True Index delivers clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by MGL Group and conversely, any out-performance is retained by MGL Group.

Platform and other administration fee income of A$135 million for the year ended March 31, 2010 was broadly in line with A$134 million in the prior year due to average Wrap Funds under administration in Banking & Financial Services only increasing 3% over the year.

Income from life investment contracts and other unit holder investment assets

Income from life investment contracts and other unit holder investment assets includes income from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds. Income from life investment contracts and other unit holder investment assets of A$48 million for the year ended March 31, 2010 decreased 19% from A$59 million in the prior year largely as a result of reduced income from True Index funds within Macquarie Funds, predominantly in the six months ended September 30, 2009.

Macquarie True Index delivers clients pre-tax returns (before buy/sell spreads on transactions). Any under-performance is compensated by MGL and conversely, any out-performance is retained by MGL.

Net trading income

A complete representation of our trading activities is not shown by the composition of trading income set out below as it excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. To obtain a complete view of the performance of our trading activities, see "— Segment Overview — Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group)" and "— Segment Overview — Fixed Income, Currencies & Commodities".

	Year ended		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Net trading income			
Equities	555	430	29
Commodities	663	574	16
Foreign exchange products	104	241	(57)
Interest rate products	133	301	(56)
Net trading income (adjusted)	**1,455**	**1,546**	**(6)**
Adjustment for swaps[2]	(218)	(1)	large
Net trading income (as reported)	**1,237**	**1,545**	**(20)**

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

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

Total adjusted net trading income of A$1,237 million for the year ended March 31, 2010 decreased 20% from A$1,545 million in the prior year driven by the impact of negative fair value adjustments on fixed rate issued debt of A$255 million on our trading income from interest rate products for the year ended March 31, 2010.

Equities

Trading income from equity products of A$555 million for the year ended March 31, 2010 increased 29% from A$430 million in the prior year. The increase is due to improved trading conditions across substantially all regions, particularly in the first half of the year.

Revenues from derivative products for the year ended March 31, 2010 were up on the prior year due to improved trading conditions and an increase in volumes, primarily in Asia. Arbitrage trading activities have continued to contribute strongly to trading profits as a result of favorable markets in exchange traded instruments, particularly in Taiwan, India and Korea. Structured Equity Finance revenues were down on the prior year as a result of lower volumes as customers became more risk averse. See "— Segment analysis — Macquarie Securities".

Commodities

Commodity products income of A$663 million for the year ended March 31, 2010 increased 16% from A$574 million in the prior year. The increase in commodities trading income (including metals, energy and agricultural products) was primarily driven by improved market conditions and a strong contribution from the energy businesses predominately due to the strong performance of energy operations in the United Kingdom and the United States, growth of the global coal business and increased volumes. During the year, energy markets experienced generally low volatility together with mixed market liquidity, however more recently market conditions have shown signs of improvement. The Constellation Energy business was acquired in March 2009 and contributed a non-recurring gain in the year ended March 31, 2009. Commodity products income benefitted from a full year trading contribution from the Constellation Energy business for the year ended March 31, 2010. Freight markets improved in the year ended March 31, 2010 from the extreme lows experienced in the prior year. The Metals and Energy Capital division was a strong contributor with all major metals prices recovering over the past 12 months, particularly gold.

Foreign exchange products

Trading income from foreign exchange products of A$104 million for the year ended March 31, 2010 decreased 57% from A$241 million in the prior year due to a significant reduction in both volatility and turnover in global foreign exchange markets impacting foreign exchange market participants. The strong Australian dollar placed additional downward pressure on foreign exchange revenues resulting in a decreased contribution by Fixed Income, Currencies & Commodities' Foreign Exchange Division.

Interest rate products

Trading income from interest rate products of A$133 million for the year ended March 31, 2010 decreased 56% from A$301 million in the prior year. The key driver of the change from the prior year is a net A$255 million expense in the year ended March 31, 2010 relating to the fair value adjustment on fixed rate issued debt, whereas in the prior year a net A$179 million gain was recognized. See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information.

Excluding the fair value adjustment on fixed rate issued debt, income from interest rate products of A$388 million increased 218% from A$122 million in the prior year. The Credit Trading division and to a lesser extent the Emerging Markets division made substantial contributions during the year ended March 31, 2010. Credit Trading revenues were driven by selective expansion into underlying high yield and distressed corporate and debt securities, the extension into client sales and trading, and the rally in credit markets which mirrored equity markets and to a lesser extent Emerging Markets division experienced increased client activity and continued broadening of their products and services. Improving Australian debt market conditions supported increased debt market activity in the Debt Markets division.

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

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Share of net profits/(losses) of associates and joint ventures	**7**	98	(93)

Share of net equity accounted profits of associates and joint ventures of A$7 million for the year ended March 31, 2010 decreased 93% from A$98 million in the prior year. The decrease was driven by net equity accounted losses for Real Estate Banking associated with investments in J-REP and Medallist and a reduction in equity accounted income from Fixed Income, Currencies & Commodities due to the termination of some joint venture agreements.

Other operating income and charges

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Other operating income and charges			
Net gains on sale of investment securities available for sale	42	(6)	large
Net gains on sale of associates (including associates held for sale) and joint ventures	9	29	(69)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	138	298	(54)
Impairment charge on investment securities available for sale	(101)	(240)	(58)
Impairment charge on investments in associates (including associates held for sale) and joint ventures	(69)	(102)	(32)
Impairment charge on disposal groups held for sale	-	(192)	(100)
Impairment charge on non-financial assets	(23)	(45)	(49)
Gain on repurchase of subordinated debt	55	-	-
Net operating lease income	72	55	31
Net expense from non-current assets classified as held for sale	-	(3)	(100)
Dividends/distributions received/receivable from investment securities available for sale	23	19	21
Management fees, group service charges and cost recoveries	(27)	(21)	29
Collective allowance for credit losses during the period	(1)	(91)	(99)
Specific provisions	(209)	(359)	(42)
Other income	138	124	11
Total other operating income and charges	**47**	**(534)**	(109)

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

Total other operating income and charges was a net gain of A$47 million for the year ended March 31, 2010, which compares with a net loss of A$534 million in the prior year. Improving market conditions resulted in a significant decrease in impairment charges in the year ended March 31, 2010 to A$403 million from A$1,029 million in the prior year. (See "—Details of impairment charges and provisions" for further detail on impairment charges, including specific loan provisions and collective allowance for credit losses).

Net gains on sale of equity investments (including available for sale, associates and joint venture investments) of A$51 million for the year ended March 31, 2010 increased 122% from A$23 million in the prior year primarily due to increased sales volumes of resource sector equity investments within Fixed Income, Currencies & Commodities during the year ended March 31, 2010.

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale of A$138 million for the year ended March 31, 2010 decreased 54% from A$298 million in the prior year. The result for the year ended March 31, 2010 included a gain of A$127 million from a liability management transaction.

During the year ended March 31, 2010, a gain of A$55 million was generated on the repurchase of issued subordinated debt in April 2009. There were no similar gains in the prior year.

Net operating lease income of A$72 million for the year ended March 31, 2010 increased 31% from A$55 million in the prior year mainly due to the transfer of the leasing business from the Non-Banking Group to the Banking Group during the first half of the year ended March 31, 2010.

Other income of A$138 million for the year ended March 31, 2010 increased 11% from A$124 million in the prior year, primarily due to an increase in income from sub-leasing activity.

Details of impairment charges and provisions

	Year ended Mar 10								
	Macquarie Capital	Fixed Income, Currencies & Commodities	Macquarie Securities	Banking & Financial Services	Macquarie Funds	Corporate & Asset Finance	Real Estate Banking	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Impairments and equity accounted gains/losses									
Listed Macquarie-managed funds	–	–	–	–	–	–	(34)	–	(34)
Real estate equity investments	–	–	–	–	–	–	(140)	(1)	(141)
US portfolios of asset backed securities held as available for sale	(62)	–	–	–	–	–	–	–	(62)
Resources equity investments	–	(3)	–	–	–	–	–	–	(3)
Other equity co-investments	12	13	–	(7)	–	–	40	(4)	54
Total	**(50)**	**10**	**–**	**(7)**	**-**	**-**	**(134)**	**(5)**	**(186)**
Loan impairment									
Real estate loans	–	–	–	–	–	–	(24)	–	(24)
Resources loans	–	(48)	–	–	–	–	–	–	(48)
Corporate & Asset Finance leasing and lending	–	–	–	–	–	(92)	–	–	(92)
Banking & Financial Services business banking	–	–	–	(16)	–	–	–	–	(16)
Other loans	(6)	–	(1)	(29)	(2)	–	–	8	(30)
Impairments recognized on trading asset positions									
CLO/CDO exposures held in trading portfolio	–	(20)	–	–	–	–	–	–	(20)
Total impairment charges and provisions[1]	**(56)**	**(58)**	**(1)**	**(52)**	**(2)**	**(92)**	**(158)**	**3**	**(416)**

[1] Total impairment charges and provisions includes Impairment charge on investment securities available for sale (A$101 million); Impairment charge on investments in associates and joint ventures (A$69 million); Impairment charge on non-financial assets (A$23 million); Collective allowance for credit losses during the period (A$1 million); Specific provisions A$209 million; Impairments recognized on trading asset positions (A$20 million) offset by Share of net profits of associates and joint ventures ($7 million income).

Total impairment charges and provisions contributed a loss of A$416 million in aggregate for the year ended March 31, 2010, a 58% decrease from A$1,005 million in the prior year. The year ended March 31, 2010 included:

- impairments and equity accounted losses of A$186 million predominantly in Real Estate Banking (including in relation to listed Macquarie managed funds of A$34 million, real estate equity investments of A$141 million, United States' portfolio of asset backed securities held as available for sale of A$62 million and resources equity investments of A$3 million) compared to A$481 million in the prior year, which included A$197 million in relation to losses recognized on the sale of the Italian Mortgages portfolio;

- loan impairments of A$210 million (A$209 million specific provisions and A$1 million collective allowance for credit losses) predominantly in Fixed Income, Currencies & Commodities, Banking & Financial Services and Corporate & Asset Finance (including real estate loans of A$24 million, resources loans of A$48 million and other loans of A$138 million) compared to A$450 million in the prior year; and

- impairments recognized on trading asset positions of A$20 million due to CLO/CDO exposures held in our trading portfolio compared to A$74 million in the prior year.

A summary of our critical accounting policies relating to impairment charges and provisions is set forth under "— Critical Accounting Policies and Significant Judgments."

Operating expenses

	Year ended		
	Mar 10	Mar 09	Movement
	A$m	A$m	%
Operating expenses			
Employment expenses:			
Salary, commissions, superannuation and performance-related profit share	(1,012)	(853)	19
Share based payments	(66)	(32)	106
Provision for annual leave	(8)	(2)	300
Provision for long service leave	(3)	-	-
Total employment expenses	**(1,089)**	**(887)**	23
Brokerage and commission expenses	(548)	(509)	8
Occupancy expenses	(122)	(101)	21
Non-salary technology expenses	(88)	(75)	17
Professional fees	(121)	(131)	(8)
Travel and entertainment	(55)	(57)	(4)
Advertising and communication	(56)	(45)	24
Other expenses	(811)	(639)	27
Total operating expenses	**(2,890)**	**(2,444)**	18

Total operating expenses of A$2,890 million for the year ended March 31, 2010 increased 18% from A$2,444 million in the prior year, primarily due to an increase in employment expenses.

Employment expenses of A$1,089 million for the year ended March 31, 2010 increased 23% from A$887 million in the prior year due to a 34% increase in headcount to 5,889 at March 31, 2010 from 4,412 at March 31, 2009 mainly due to acquisitions of businesses during the year;

Brokerage and commission expense of A$548 million for the year ended March 31, 2010 increased 8% from A$509 million in the prior year and consisted of an increase in brokerage expense of A$37 million and an increase in other fee and commission expense of A$2 million. The increase in brokerage expense was primarily driven by the growth in volumes over the year for the Credit Trading and Emerging Markets businesses within Fixed Income, Currencies & Commodities.

Occupancy expense of A$122 million for the year ended March 31, 2010 increased 21% from A$101 million in the prior year mainly due to increased floor space in Sydney, New York and London to support the increased headcount in those cities.

Other expenses of A$811 million for the year ended March 31, 2010 increased 27% from A$639 million in the prior year largely due to integration expenses relating to various businesses acquired during the year, including Blackmont Capital and Delaware Investments. See “Macquarie Group Limited—Our History and Evolution”.

Headcount

Total headcount of 5,889 as at March 31, 2010 increased 34% from 4,412 as at March 31, 2009. The increase was mainly outside of Australia and was driven by acquisitions during the year, including Delaware Investments and Blackmont Capital. The increase in the headcount in Australia as at March 31, 2010 was due to organic growth, partially offset by a decrease as part of the sale of the majority of the Australian real estate management platform to Charter Hall Group.

Our headcount by operating group is provided in the table below:

	Year ended		
	Mar 10	**Mar 09**	**Movement**
			%
Headcount by operating group			
Banking & Financial Services	3,261	2,592	26
Macquarie Securities	97	113	(14)
Fixed Income, Currencies & Commodities	696	509	37
Macquarie Funds	1,074	560	92
Real Estate Banking	105	136	(23)
Corporate & Asset Finance	656	479	37
Total headcount	**5,889**	**4,412**	34

Income tax expense

	Year ended	
	Mar 10	**Mar 09**
	A$m	**A$m**
Reconciliation of income tax (expense)/credit to prima facie tax payable		
Prima facie income tax expense on operating profit[1]	(229)	(188)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	200	155
Distribution provided on Macquarie Income Preferred Securities and related distributions	2	13
Non-deductible share based payments expense	(9)	(10)
Other items	(29)	62
Total income tax (expense)/credit	**(65)**	**32**

[1] Prima facie income tax on operating profit is calculated at the rate of 30% (year ended March 31, 2009: 30%;). The consolidated entity has a tax year ending on September 30.

The effective tax rate for the year ended March 31, 2010 was 9%. The increase was largely due to a lower level of write-downs and impairment charges in the year ended March 31, 2010 compared to the prior year.

The effective tax rate before the impact of write-downs and impairment charges is relatively stable compared to the prior year.

Segment Overview

Summary of segment results

For internal reporting and risk management purposes, MBL Group is divided into operating groups as shown in the following table.

	Macquarie Funds	Banking & Financial Services	Real Estate Banking	Fixed Income, Currencies & Commodities	Macquarie Securities	Macquarie Capital	Corporate & Asset Finance	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Year ended March 31, 2010									
Net interest income/(expense)	36	551	(21)	100	(50)	(9)	364	354	1,325
Fee and commission income	344	727	69	57	(62)	4	(2)	(101)	1,036
Trading income	4	8	0	1,022	501	–	39	(337)	1,237
Share of net profits (losses) of associates and joint ventures accounted for using the equity method	7	2	(22)	10	-	12	1	(3)	7
Other operating income and charges	12	(42)	(110)	34	-	(67)	14	206	47
Internal revenue	4	11	(14)	80	21	11	25	(138)	-
Total operating income	407	1,257	(98)	1,303	410	(49)	441	(19)	3,652
Total operating expenses	(324)	(983)	(53)	(567)	(294)	0	(180)	(489)	(2,890)
Profit before tax	83	274	(151)	736	116	(49)	261	(508)	762
Tax expense	–	–	–	–	–	–	–	(65)	(65)
Profit attributable to minority interests	1	(6)	–	–	–	–	(2)	(27)	(34)
Net Profit/(loss) contribution	84	268	(151)	736	116	(49)	259	(600)	663
Year ended March 31, 2009									
Net interest income/(expense)	84	431	(2)	28	(19)	(38)	134	347	965
Fee and commission income	275	698	50	126	(20)	88	12	(234)	995
Trading income	(20)	(49)	(8)	927	401	(11)	(27)	332	1,545
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(1)	(6)	6	69	–	31	(1)	-	98
Other operating income and charges	2	(253)	(294)	(188)	–	(12)	14	197	(534)
Internal revenue	4	(22)	(14)	65	106	147	9	(295)	–
Total operating income	344	799	(262)	1,027	468	205	141	347	3,069
Total operating expenses	(251)	(897)	(93)	(475)	(390)	(72)	(56)	(210)	(2,444)
Profit before tax	93	(98)	(355)	552	78	133	85	137	625
Tax expense	–	–	–	–	–	–	–	32	32
Profit attributable to minority interests	–	(6)	–	1	–	–	(1)	(75)	(81)
Net Profit/(loss) contribution	93	(104)	(355)	553	78	133	84	94	576

Basis of preparation

MBL Group segments

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

For internal reporting and risk management purposes, MBL Group is divided into five operating groups and two divisions, as set forth below.

Operating groups:

- Macquarie Capital
- Fixed Income, Currencies & Commodities (formerly Treasury & Commodities)
- Macquarie Securities
- Banking & Financial Services
- Macquarie Funds

Divisions:

- Corporate & Asset Finance
- Real Estate Banking

In addition, a separate Corporate segment includes Group Treasury, head office and central support functions. The Corporate segment includes unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to minority interests. The Corporate segment also includes the impact of changes in credit spread on fixed rate issued debt that are classified as fair value through the profit or loss statement.

MBL operating group restructures

Since March 31, 2009 there have been no restructures of operating groups.

Treasury and Commodities was renamed Fixed Income, Currencies & Commodities during the year to more accurately reflect the services provided by the operating group since the relocation of Group Treasury to Corporate in October 2007. See "—Financial Information Presentation" above for further information on restructures that have occurred in prior periods.

Internal transactions

Any transactions or transfers between segments have been determined on what MBL believes is an arm's length basis and are included within the relevant categories of income. These transactions eliminate on aggregation/consolidation. Below is a selection of the key policies applied to internal transactions.

Internal funding arrangements

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

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

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, and a profit in one operating group must be offset with an equal and opposite loss in the other operating group.

Service area recoveries

Service areas recover their costs to operating groups on either a time and effort allocation basis or a fee for service basis. Where appropriate, recoveries include a relevant profit mark up, for example charges for services that cross tax jurisdictions.

Internal management revenue/(charges)

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

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.

Macquarie Funds

	Year ended		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**36**	84	(57)
Fee and commission income			
Base fees	**234**	142	65
Performance fees	**10**	14	(29)
Other fee and commission income	**100**	119	(16)
Total fee and commission income	**344**	275	25
Net trading income	**4**	(20)	120
Share of net profits of associates and joint ventures using the equity method	**7**	(1)	large
Impairment charge on equity investments	**(7)**	(5)	40
Specific provisions and collective allowance for credit losses	**(2)**	(9)	(78)
Other income	**21**	16	31
Total other operating income and charges	**12**	2	large
Internal revenue[2]	**4**	4	-
Total operating income	**407**	344	18
Operating expenses			
Employment expenses	**(116)**	(87)	33
Brokerage and commission expenses	**(69)**	(67)	3
Other operating expenses	**(140)**	(97)	44
Total operating expenses	**(324)**	(251)	29
Minority interests[3]	**1**	—	—
Total contribution to profit by operating group	**84**	93	(10)
Non-GAAP metrics			
Assets under Management[4] (A$ billion)	**209.9**	49.7	large
Headcount[5]	**1,074**	560	92

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

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

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

4 Macquarie Cash Management Trust, excluded from Assets under Management reported above, is a Banking & Financial Services product that is managed by Macquarie Funds. The Cash Management Trust closed at A$10 billion at March 31, 2010 (March, 31 2009: A$14.7 billion).

5 The acquisition and consolidation of fund managers in the United States during 2009, as well as the internal transfer of a European distribution business from Macquarie Securities, contributed 521 staff members to the headcount increase in the year ended March 31, 2010.

Macquarie Funds Group's net profit contribution of A$84 million for the year ended March 31, 2010 decreased 10% from A$93 million in the prior year largely as a result of increased employment expense and other operating expenses. The result includes the contribution from Delaware Investments of A$20 million in net profit since its acquisition in January 2010 (including all transaction costs). Excluding the impact of this acquisition, the result for the year ended March 31, 2010 decreased 31% on the prior year, primarily due to a decrease in net interest (excluding Delaware) for the year ended March 31, 2010 from A$84 million in the prior year. The result was mainly driven by increases in the value of seed investments that are carried at fair value and activities relating to the hedging of capital protected products.

Net interest income/(expense)

Net interest income of A$36 million for the year ended March 31, 2010 decreased 57% from A$84 million in the prior year driven by a net reduction in retail loans provided which fell due to redemptions in Macquarie Funds Group's structured investment offerings and increased borrowings as a result of the acquisition of Delaware Investments.

Base fees

Base fee income of A$234 million for the year ended March 31, 2010 increased 65% from A$142 million in the prior year. Increases in base fees arose largely as a result of the growth in Assets under Management particularly due to the acquisition of Delaware Investments which contributed A$90 million in the year ended March 31, 2010.

Total Assets under Management of A$209.9 billion at March 31, 2010 increased significantly from A$49.7 billion at March 31, 2009. The acquisition of Delaware Investments contributed A$151.1 billion at March 31, 2010 to the total A$160.2 billion net increase in Assets under Management over the year. Excluding the impact of this, Assets under Management increased A$9.1 billion to A$58.8 billion at March 31, 2010 due to new equity and fixed income mandates and the impact of rising equity markets since March 31, 2009. See "Macquarie Bank Limited—Funds Management Business—MBL Group and the Non-Banking Group—Assets under Management" for a breakdown of Macquarie Funds Group's Assets under Management by asset class.

Performance fees

Performance fee income of A$10 million for the year ended March 31, 2010 decreased 29% from A$14 million in the prior year due to lower performance fees from emerging markets strategies and funds of private equity funds products.

Other fee and commission income

Other fee and commission income includes structuring fees, capital protection fees, wholesale threshold management fees, income from True Index products and internal fees received for managing and administering investment products on behalf of Banking & Financial Services. Macquarie True Index delivers clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by MGL Group and conversely, any out-performance is retained by MGL Group.

Other fee and commission income of A$100 million for the year ended March 31, 2010 decreased 16% from A$119 million in the prior year mainly due to one-off advisory fees earned in the prior period in the Investment Solutions and Sales division that were not repeated in the year ended March 31, 2010.

Net trading income

Net trading income of A$4 million for the year ended March 31, 2010 increased from a loss of A$20 million in the prior year. The result was mainly driven by increases in the value of seed investments that are carried at fair value and activities relating to the hedging of capital protected products.

Other income

Other income of A$21 million for the year ended March 31, 2010 increased 31% from A$16 million in the prior year and comprised proceeds from the sale of assets held on the balance sheet and distributions from Macquarie Funds' seed investments, which were minimal in the prior year.

Operating expenses

Total operating expenses of A$324 million for the year ended March 31, 2010 increased 29% from A$251 million in the prior year largely due to the acquisition of Delaware Investments, including integration costs and increased headcount of 521 staff.

Banking & Financial Services

	Year ended[1]		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Net interest income	**551**	431	28
Fee and commission income			
Base fees	**199**	229	(13)
Brokerage and commissions	**224**	198	13
Other fee and commission income	**264**	241	10
Income from life insurance business and other unit holder businesses	**40**	30	33
Total fee and commission income	**727**	698	4
Net trading income	**8**	(49)	(116)
Share of net profits of associates and joint ventures using the equity method	**2**	(6)	(133)
Other operating income and charges			
Net gains on sale of equity investments	**2**	(2)	(200)
Impairment charge on equity investments	**(5)**	(214)	(98)
Impairment charge on non-financial assets	**(3)**	(2)	50
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**4**	57	(93)
Specific provisions and collective allowance for credit losses	**(45)**	(95)	(53)
Other income	**5**	3	67
Total other operating income and charges	**(42)**	(253)	(83)
Internal revenue[2]	**11**	(22)	(150)
Total operating income	**1,257**	799	57
Operating expenses			
Employment expenses	**(406)**	(391)	4
Brokerage and commission expenses	**(121)**	(140)	(14)
Other operating expenses	**(456)**	(366)	25
Total operating expenses	**(983)**	(897)	10
Minority interests[3]	**(6)**	(6)	-
Total contribution to profit by operating group	**268**	(104)	large
Non-GAAP metrics			
Assets under Management[4] (A$ billion)	**14.3**	19.2	(26)
Headcount	**3,261**	2,592	26

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

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

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

4 The Macquarie Cash Management Trust, included in Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The Cash Management Trust closed at A$10 billion at March 31, 2010 (March 31, 2009: A$14.7 billion).

Banking & Financial Services' net profit of A$268 million for the year ended March 31, 2010 increased significantly from a net loss of A$104 million in the prior year. The result in the prior year included a loss of A$307 million relating to the Italian Mortgages portfolio and a gain from the sale of the majority of the margin lending portfolio of A$41 million. Excluding these items, the result for the year ended March 31, 2010 increased 65% on the prior year.

Net interest income/(expense)

Net interest income of A$551 million for the year ended March 31, 2010 increased 28% from A$431 million in the prior year predominately due to increased margins and retail deposits. Retail deposits increased 16% to A$15.5 billion at March 31, 2010 from A$13.4 billion at March 31, 2009 due to a focus on cash offerings, including the Cash Management Account.

Banking & Financial Services' loan book primarily comprises residential mortgages in Australia and North America, as well as loans to Australian businesses, loans on capital protected products, and credit cards. The total loan book size decreased 8% to A$26.4 billion at March 31, 2010, from A$28.6 billion at March 31, 2009. The main driver of the decrease has been a 22% reduction in the size of the Australian mortgage portfolio from A$18.3 billion at March 31, 2009 to A$14.3 billion at March 31, 2010 as a result of the decision in March 2008 to wind back the Australian residential origination business. This decision was made due to the existence of increased funding costs as a result of adverse financial market conditions. Banking & Financial Services resumed the origination of new mortgages late in calendar year 2009 as a result of a recovery in mortgage funding markets.

Origination volumes and margins on the Canadian mortgage loan portfolio have improved significantly over the prior year due to increased market share. Canadian mortgage originations increased 103% during the year ended March 31, 2010 compared to the prior year. The business continues to participate in the Canadian government sponsored Mortgage securitisation programme. The Canadian loan portfolio, which includes mortgages, insurance premium funding and margin loans, closed at A$7.0 billion at March 31, 2010, up 75% from A$4.0 billion at March 31, 2009.

Base fees

Base fee income of A$199 million for the year ended March 31, 2010 decreased 13% from A$229 million in the prior year largely as a result of a 26% decrease in Assets under Management to A$14.3 billion at March 31, 2010 from A$19.2 billion at March 31, 2009. The decrease was predominately in the Cash Management Trust, which closed at A$10.0 billion at March 31, 2010, down 32% from A$14.7 billion at March 31, 2009. This was partially offset by a 17% increase in Macquarie Pastoral Fund to A$509 million at March 31, 2010, from A$434 million at March 31, 2009.

In April 2010, Cash Management Trust unitholders accepted a proposal to convert Cash Management Trust accounts to Cash Management Accounts. See "— Macquarie Bank Limited — Overview — Recent Developments" for further information.

Brokerage and commissions

Brokerage and commission income of A$224 million for the year ended March 31, 2010 increased 13% from A$198 million in the prior year as a result of improved equity market conditions and growth in the number of advisors to 595 at March 31, 2010 from 430 at March 31, 2009. The increase in adviser numbers was due to organic growth in Australia and Asia, as well as the acquisition of Blackmont Capital (rebranded "Macquarie Private Wealth Canada") in December 2009.

Other fee and commission income

Other fee and commission income of A$264 million for the year ended March 31, 2010 increased 10% from A$241 million in the prior year.

The main contributor to this income category is platform and other administration fee income, which remained broadly in line with the prior year. Banking & Financial Services' Wrap platforms operate in Australia and more recently, the United Kingdom (established April 2009). Funds under administration on the Australian Wrap platform closed at A$22.5 billion at March 31, 2010, up from A$17.5 billion at March 31, 2009 due to positive inflows and market movements. Net inflows were A$3.1 billion and market movements were A$1.9 billion positive during the year ended March 31, 2010, compared to net inflows of A$3.0 billion and negative market movements of A$8.0 billion in the prior year. While closing Wrap funds under administration at March 31, 2010 increased 29% on the prior year, average Funds under administration during the year ended March 31, 2010 only increased 3% on the prior year due to market volatility.

The increase in other fee and commission income was also due to the acquisition of Blackmont Capital, which contributed A$4 million of income to this category.

Other contributors to this income category were loan termination fees, driven by the Australian mortgage and capital protected loan portfolios decreasing, as well as advisory fees earned from six property acquisitions by the Macquarie Pastoral Fund.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder business of A$40 million increased 33% from A$30 million in the prior year, primarily due to growth in the insurance inforce book, which grew to A$59 million at March 31, 2010 from A$29 million at March 31, 2009. The inforce book is the aggregate annualized life insurance premium payable for polices issued by the life company, and still paying premiums, at the balance date.

Net trading income

Net trading income was a profit of A$8 million for the year ended March 31, 2010, compared to a loss of A$49 million in the prior year. The prior year included losses of A$20 million on the sale of Macquarie Private Wealth's holding in BrisConnections.

Impairment charge on equity investments and disposal groups held for sale

Impairment charges on equity investments and disposal groups held for sale of A$5 million for the year ended March 31, 2010 decreased 98% from A$214 million in the prior year. Impairment charges in the prior year mainly related to the Italian Mortgages portfolio.

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

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale was A$4 million for the year ended March 31, 2010. The A$57 million income in the prior year included a gain on the sale of the majority of the margin lending portfolio in January 2009.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$45 million for the year ended March 31, 2010 decreased 53% from A$95 million in the prior year. The prior year included significant provisions on the Italian Mortgages portfolio and Investment Lending portfolio. Provision charges in the year ended March 31, 2010 were lower compared to the prior year as a result of improved economic conditions, particularly in North America.

Operating expenses

Total operating expenses of A$983 million for the year ended March 31, 2010 increased 10% from A$897 million in the prior year. The increase was mainly in other operating expenses, which were up 25% on the prior year to A$456 million for the year ended March 31, 2010 due primarily to significant integration and acquisition costs relating to the Blackmont Capital acquisition which occurred on December 31, 2009. The acquisition resulted in an additional 410 staff in Banking & Financial Services. Expenses associated with deposit generating activities also contributed to the increase in other operating expenses. Brokerage and commission expense for the year ended March 31, 2010 decreased 14% compared to the prior year, which included commissions related to the Italian Mortgages portfolio and the margin lending portfolio prior to their sales.

Real Estate Banking

	Year ended		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Net interest income/(expense)	**(21)**	(2)	large
Fee and commission income			
Base fees	**30**	26	15
Performance fees	**35**	2	large
Mergers and acquisitions, advisory and underwriting	**–**	11	(100)
Other fee and commission income	**4**	11	(64)
Total fee and commission income	**69**	50	38
Net trading income/(expense)	**–**	(8)	(100)
Share of net profits of associates and joint ventures using the equity method	**(22)**	6	large
Other operating income and charges			
Net gains/(losses) on sale of equity investments	**(32)**	13	large
Impairment charge on equity investments	**(92)**	(142)	(35)
Impairment charge on non-financial assets	**(19)**	(40)	(53)
Specific provisions and collective allowance for credit losses	**(24)**	(170)	(86)
Other income	**57**	45	27
Total other operating income and charges	**(110)**	(294)	(63)
Internal revenue[2]	**(14)**	(14)	-
Total operating income	**(98)**	(262)	(63)
Operating expenses			
Employment expenses	**(19)**	(31)	(39)
Other operating expenses	**(34)**	(62)	(45)
Total operating expenses	**(53)**	(93)	(43)
Net profit/(loss) contribution	**(151)**	(355)	(57)
Non-GAAP metrics			
Assets under Management (A$ billion)	**5.0**	8.2	(39)
Headcount	**105**	136	(23)

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

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

Real Estate Banking's net loss of A$151 million for the year ended March 31, 2010 decreased by 57% from a net loss of A$355 million in the prior year driven by a 51% decrease in impairment charges on equity investments to A$71 million in the year ended March 31, 2010 from A$146 million in the prior year and an 86% reduction in specific provisions and collective allowance for credit losses to A$24 million in the year ended March 31, 2010 from A$170 million in the prior year. Although the year remained challenging for Real Estate Banking, an asset disposal by Macquarie Central Office CR-REIT resulted in significant base and performance fees for Real Estate Banking during the six months ended September 30, 2009. On March 1, 2010 as part of a combined transaction with Macquarie Capital involving the sale of Australian listed REIT platforms to Charter Hall Group, Real Estate Banking sold the majority of its holdings in Macquarie Countrywide Trust, Macquarie Office Trust and Macquarie Direct Property Fund. The full impact of the Charter Hall Group transaction on Real Estate Banking was a loss of A$39 million, comprising a loss on sale of equity investments of A$35 million and an impairment on non-financial assets of A$4 million.

Net interest income/(expense)

Net interest expense of A$21 million for the year ended March 31, 2010 increased significantly from A$2 million in the prior year due to the prior year including one-off revenue of A$30 million relating to interest accrual adjustments.

Base fees

Base fee income of A$30 million for the year ended March 31, 2010 increased 15% from A$26 million in the prior year primarily due to A$16 million received from Macquarie Central Office CR-REIT on the sale of the Kukdong building as base fees are calculated on income of the REIT. This was partially offset by a decrease in base fees attributable to lower Assets under Management. Assets under Management of A$5.0 billion at March 31, 2010 decreased 66% from A$14.8 billion at March 31, 2009 due to the Charter Hall Group transaction noted above, the strengthening Australian dollar, resulting in lower offshore asset values as well as write-downs and disposals by some funds.

Performance fees

Performance fee income of A$35 million for the year ended March 31, 2010 increased significantly from A$2 million in the prior year, primarily due to a one-off performance fee of A$34 million in relation to the disposal of Macquarie Central Office CR-REIT's Kukdong building in Korea.

Mergers and acquisitions, advisory and underwriting

There were no mergers and acquisitions, advisory and underwriting fees earned during the year ended March 31, 2010. Fees of A$11 million in the prior period mainly related to advisory fees earned from the sale of an investment in Macquarie Prime REIT and its manager.

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

Equity accounted losses of A$22 million were recognized for the year ended March 31, 2010 compared to an equity accounted gain of A$6 million in the prior year. The result was driven by losses in Real Estate Banking's associates, including investments in Medallist and J-REP (a listed fund manager on the Tokyo Stock Exchange), partially offset by profits from MGPA (a real estate investment advisory company). The gain in the prior year was driven by higher equity accounted profits in MGPA.

Net gains/(losses) on sales of equity investments

The net loss on sale of equity investments of A$32 million for the year ended March 31, 2010 compares to a A$13 million gain in the prior year. A loss of A$35 million was incurred as part of the Charter Hall Group transaction noted above. A gain of A$8 million was recognized as a result of the sale of the managers of Macquarie Office Trust and Macquarie Countrywide Trust to Macquarie Capital. In addition, the sale of an investment in MW Cell Manager LLC in the United States generated a loss of A$6 million, partially offset by a small gain on the disposal of Macquarie Leisure Trust units.

Impairment charge on equity investments

The impairment charge on equity investments of A$92 million for the year ended March 31, 2010 decreased 35% from A$142 million in the prior year. Write-downs for the year ended March 31, 2010 included A$33 million on offshore investments, A$21 million on Australian investments, A$7 million on Structured Finance investments and A$31 million on listed REITs.

The impairment charge of A$142 million in the prior year included a charge of A$101 million on offshore listed investments, A$26 million on Australian listed and unlisted REIT investments, A$12 million on Structured Finance investments and A$3 million of direct property write-downs.

Impairment charge on non-financial assets

The impairment charge on non-financial assets of A$19 million for the year ended March 31, 2010 was recognized on consolidation of a joint venture in Queensland that Real Estate Banking took control of during the six months ended September 30, 2009, write-downs on foreclosed assets and the write-off of management rights on the

US Macquarie Office Trust portfolio as part of the Charter Hall Group transaction noted above. An impairment charge of A$40 million was recognized in the prior year that related to REIT investments, direct property and inventory.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$24 million for the year ended March 31, 2010 decreased 86% from A$170 million in the prior year. Provisions during the year were primarily attributable to loans made to developers with United States residential market exposure.

Other income

Other income of A$57 million for the year ended March 31, 2010 increased 27% from A$45 million in the prior year. The year included higher property development income and A$10 million from a legal settlement with a property developer in Australia, partially offset by lower distribution revenue.

Operating expenses

Total operating expenses of A$53 million for the year ended March 31, 2010 decreased 43% from A$93 million in the prior year. The decrease was in line with the 23% reduction in headcount, as the business focused on extracting value from its current investments.

Corporate & Asset Finance

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Net interest income/(expense)	**364**	134	172
Fee and commission income/(expenses)	**(2)**	12	(117)
Net trading income	**39**	(27)	(244)
Share of net profits of associates and joint ventures using the equity method	**1**	(1)	(200)
Other operating income and charges			
Impairment charge on non-financial assets	**-**	(3)	(100)
Net operating lease income	**68**	47	45
Specific provisions and collective allowance for credit losses	**(92)**	(31)	197
Other income	**38**	1	large
Other operating income and charges	**14**	14	0
Internal revenue[2]	**25**	9	178
Total operating income	**441**	141	213
Operating expenses			
Employment expenses	**(86)**	(28)	207
Other operating expenses	**(94)**	(28)	236
Total operating expenses	**(180)**	(56)	221
Minority interests[3]	**(2)**	(1)	100
Net profit/(loss) contribution	**259**	84	208
Non-GAAP metrics			
Headcount	**656**	479	37

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

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

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

Corporate & Asset Finance's net profit contribution of A$259 million for the year ended March 31, 2010 increased 208% from A$84 million in the prior year predominately due to increased net interest income, partially offset by higher operating expenses.

The transfer of some businesses that operated in the Non-Banking Group to the Banking Group during the year also impacted the overall result.

Net interest income

Net interest income of A$364 million for the year ended March 31, 2010 increased 172% from A$134 million in the prior year. The increase was driven by an 87% increase in the loan and finance lease portfolios to A$12.9 billion at March 31, 2010 from A$6.9 billion at March 31, 2009 mainly due to increased corporate lending and the acquisition of the A$1.0 billion Ford Credit portfolio in October 2009. In addition, there was an increase in lending margins due to a change in product mix from lower margin leases to higher margin corporate lending during the year.

Net trading income

Net trading income of A$39 million for the year ended March 31, 2010 compares to a loss of A$27 million in the prior year. The income was due to mark-to-market and trading profit on options and equity securities from a single issuer, particularly in the six months ended September 30, 2009.

Net operating lease income

Net operating lease income (net of depreciation) of A$68 million for the year ended March 31, 2010 increased 45% from A$47 million in the prior year largely due to the transfer of the A$524 million US leasing portfolio from the Non-Banking Group to the Banking Group on April 1, 2009.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$92 million for the year ended March 31, 2010 increased 197% from A$31 million in the prior year as a result of the growth in the loan and finance lease portfolios.

Other income

Other income of A$38 million for the year ended March 31, 2010 increased significantly from A$1 million in the prior year largely due to improved market conditions resulting in increased sales income from assets that have come off-lease and inventory largely in the electronics business.

Operating expenses

Total operating expenses of A$180 million for the year ended March 31, 2010 increased 221% from A$56 million in the prior year due to the transfer of some businesses that operated in the Non-Banking Group to the Banking Group during the year. The increase in the loan and lease portfolio size and the higher transaction and integration costs associated with increased volumes also drove the higher operating expenses.

Fixed Income, Currencies & Commodities

	Year ended		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Income from trading activities including net interest income[2]			
Commodity products	**710**	650	9
Foreign exchange products	**88**	180	(51)
Interest rate products	**324**	125	159
Total income from trading activities including net interest income	**1,122**	955	17
Fee and commission income	**57**	126	(55)
Share of net profits of associates and joint ventures using the equity method	**10**	69	(86)
Other operating income and charges			
Net gains/(losses) on sale of equity investments	**64**	10	large
Impairment charge on equity investments	**(3)**	(120)	(98)
Specific provisions and collective allowance for credit losses	**(48)**	(158)	(70)
Other income	**21**	80	(74)
Total operating income and charges	**34**	(188)	(118)
Internal revenue[3]	**80**	66	21
Total operating income	**1,303**	1,028	27
Employment expenses	**(155)**	(142)	9
Brokerage and commission expenses	**(172)**	(86)	100
Other operating expenses	**(240)**	(247)	(3)
Total operating expenses	**(567)**	(475)	19
Total contribution to profit by operating group	**736**	553	33
Non-GAAP metrics			
Headcount	**696**	509	37

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

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

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

Fixed Income, Currencies & Commodities' net profit contribution of A$736 million for the year ended March 31, 2010 increased 33% from A$553 million in the prior year, primarily due to a decrease in impairment charges and provisions, combined with improved trading conditions.

Commodities trading income

Commodities trading income of A$710 million for the year ended March 31, 2010 increased 9% from A$650 million in the prior year.

Trading income in the Energy Markets division was up on the prior year, particularly related to the consolidation and growth of the Macquarie Energy franchise in the United States gas and power business. Transaction volumes and trading revenues in the division's Corona and Macquarie Energy businesses benefitted from the cold northern hemisphere winter. During the year the Energy Markets division's primary markets experienced generally low volatility together with mixed market liquidity, however more recently, conditions have shown signs of improvement. The Constellation Energy business was acquired in March 2009 and contributed a non-recurring gain in the year ended March 31, 2009. The full year trading contribution for the year ended March 31, 2010 was not material.

Trading income from the Agricultural Commodities business was broadly in line with the prior year as Fixed Income, Currencies & Commodities witnessed a return of confidence in agricultural commodity markets after the global financial crisis of 2009. The freight markets have also improved from the extreme lows experienced in the prior year. The Metals and Energy Capital division was a strong contributor with all major metals prices recovering, particularly gold.

Foreign exchange products trading income

Trading income on foreign exchange products of A$88 million for the year ended March 31, 2010 decreased 51% from A$180 million in the prior year. A significant reduction in both volatility and turnover in global foreign exchange markets during the year impacted results. The strong Australian dollar relative to most major trading currencies placed additional downward pressure on foreign exchange revenues.

Interest rate products trading income

Trading income on interest rate products of A$324 million for the year ended March 31, 2010 increased 159% from A$125 million in the prior year. The Credit Trading division and to a lesser extent Emerging Markets division made substantial contributions during the year ended March 31, 2010. Credit Trading revenues were driven by selective expansion into underlying high yield and distressed corporate and debt securities, extension into client sales and trading, and the rally in credit markets which mirrored equity markets. Emerging Market revenues were underpinned by increased client activity, continued broadening of the products and services and its geographical expansion into the United States and Europe. Improving Australian debt market conditions supported increased debt market activity and provided opportunities for the Debt Markets Division.

Fee and commission income

Fee and commission income of A$57 million for the year ended March 31, 2010 decreased 55% from A$126 million in the prior year. The Futures division contribution experienced similar levels of activity as the prior year however the decrease was largely driven by service fees in relation to the Credit Trading and Emerging Markets businesses between the Banking Group and the Non-Banking Group.

Net gains/(losses) on sale of equity investments

Net gains on sale of equity investments of A$64 million for the year ended March 31, 2010 increased significantly from A$10 million in the prior year due to increased volumes.

Impairment charge on equity investments

Minimal impairment charges on equity investments of A$3 million were recognized for the year ended March 31, 2010. The A$120 million impairment charge in the prior year mainly related to listed equity investments in the resources sector.

Specific provisions and collective allowance for credit losses

Net loan charges of A$48 million for the year ended March 31, 2010 decreased 70% from A$158 million in the prior year principally due to improved market conditions. There were A$50 million in net specific provisions raised in relation to loans in the energy capital and agricultural commodities sectors, combined with a decrease in the collective allowance for credit losses of A$2 million.

Other income

Other income of A$21 million for the year ended March 31, 2010 decreased 74% from A$80 million in the prior year. Income in the prior year included A$52 million from other asset sales reflecting the gain on sale of a number of resources related net profit interests (a right to a share of the production or the proceeds from production derived from petroleum and natural gas rights without the obligation to pay any of the costs of exploration and development) in the Metals & Energy Capital Division. Net profit interest sales in the year ended March 31, 2010 were negligible.

Operating expenses

Total operating expenses of A$567 million for the year ended March 31, 2010 increased 19% from A$475 million in the prior year. Employment expenses of A$155 million for the year ended March 31, 2010 increased 9% from A$142 million in the prior year. Headcount growth of 37% from 509 at March 31, 2009 to 696 at March 31, 2010 has occurred largely in the United States and the United Kingdom as a result of acquisitions conducted in those areas. Notwithstanding the increased headcount, employment expenses benefited from the strengthening of the Australian dollar in the year ended March 31, 2010.

Brokerage and commission expenses of A$172 for the year ended March 31, 2010 increased 100% from A$86 million in the prior year. This increase was primarily a result of the growth in volumes over the year for the Credit Trading and Emerging Markets businesses.

Other operating expenses of A$240 million for the year ended March 31, 2010 decreased 3% from A$247 million in the prior year. Other operating expenses primarily relates to internal charges for services provided by the central support functions.

Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group)

	Year ended		
	Mar 10	Mar 09	Movement
	A$m	A$m	%
Income from trading activities including net interest income[1]	**451**	382	18
Total fee and commission income	**(62)**	(20)	210
Total other income	**–**	–	–
Internal revenue[2]	**21**	106	(80)
Total operating income	**410**	468	(12)
Operating expenses			
Employment expenses	**(23)**	(27)	(15)
Brokerage and commission expenses	**(166)**	(206)	(19)
Other operating expenses	**(105)**	(157)	(33)
Total operating expenses	**(294)**	(390)	(25)
Total contribution to profit by operating group	**116**	78	49
Non-GAAP metrics			
Headcount	**97**	113	(14)

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

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

Macquarie Securities' net profit contribution of A$116 million for the year ended March 31, 2010 increased 49% from A$78 million in the prior year primarily due to improved conditions in a number of markets, especially in the first half of the year, and lower average headcount.

Net trading income (including net interest income)

Net trading income (including net interest income) of A$451 million for the year ended March 31, 2010 increased 18% from A$382 million in the prior year. Derivatives revenues were up on the prior year due to improved trading conditions, primarily in Asia. Arbitrage Trading activities have continued to contribute strongly to trading profits as a result of favorable markets in exchange traded instruments, particularly in Taiwan, India and Korea. Structured Equity Finance revenues were down significantly on the prior year as a result of lower volumes. The prior year included a provision for losses on BrisConnections of A$35 million.

Fee and commission expense

Total fee and commission expense of A$62 million for the year ended March 31, 2010 increased 210% from an expense of A$20 million in the prior year. This category mainly consists of internal transfer pricing charges paid as compensation for services provided to MBL by non-bank service entities.

Operating expenses

Total operating expenses of A$294 million for the year ended March 31, 2010 decreased 25% from A$390 million in the prior year, benefitting from a stronger Australian dollar and a reduction in average headcount for the year ended March 31, 2010.

Employment expenses of A$23 million for the year ended March 31, 2010 decreased 15% from A$27 million in the prior year in line with a 14% decrease in overall headcount.

Brokerage and commission expenses of A$166 million for the year ended March 31, 2010 decreased 19% from A$206 million in the prior year. The decrease in brokerage and commission expenses was driven mainly by a reduction in derivatives and arbitrage trading volumes, particularly in Asia.

Other operating expenses of A$105 million for the year ended March 31, 2010 decreased 33% from A$157 million in the prior year. The decrease was predominantly driven by lower average headcount and expense rationalization.

Macquarie Capital

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Net interest income	**(9)**	(38)	(76)
Fee and commission income	**4**	88	(95)
Total net trading income	**–**	(11)	(100)
Share on net profits of associates and joint ventures using the equity method	**12**	31	(61)
Other operating income and charges	**(67)**	(12)	large
Internal revenue[1]	**11**	147	(93)
Total operating income	**(49)**	205	(124)
Total operating expenses	**–**	(72)	(100)
Total contribution to profit by operating group	**(49)**	133	(137)

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

Macquarie Capital's net loss contribution of A$49 million for the year ended March 31, 2010 compares with net gain of A$133 million in the prior year due to a number of factors discussed in detail below. All remaining Banking Group staff were transferred to the Non-Banking Group during the year. Income generated by Macquarie Capital in the Banking Group is driven by legacy assets that were not transferred as part of the Restructure.

Net interest expense

Net interest expense of A$9 million for the year ended March 31, 2010 decreased 76% from A$38 million in the prior year. This reduction mainly reflects interest expense on borrowings for principal investments which decreased in line with lower interest rates during the year ended March 31, 2010 compared to the prior year.

Fee and commission income

Total fee and commission income of A$4 million for the year ended March 31, 2010 decreased significantly from A$88 million in the prior year due to structured finance fee income in the prior year that was not repeated.

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

Net equity accounted income of A$12 million for the year ended March 31, 2010 decreased 61% from a A$31 million net profit in the prior year driven by a deterioration of the underlying results of investments due to the significant market disruption experienced over the past year.

Other operating income and charges

Other operating income and charges of A$67 million expense increased significantly from A$12 million in the prior year primarily related to the writedowns of asset-backed securities held as available for sale.

Operating expenses

The reduction in operating expenses from A$72 million in the prior year to nil for the year ended March, 31 2010 was driven by nil headcount for the year ended March 31, 2010.

Corporate

	Year ended		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Net interest income	**354**	347	2
Fee and commission income	**(101)**	(234)	(57)
Net trading income	**(337)**	332	large
Share of net profits of associates and joint ventures using the equity method	**(3)**	—	—
Other operating income and charges			
Net gains on sale of equity investments	**16**	—	—
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**137**	202	(32)
Gain on repurchase of debt	**55**	—	—
Specific provisions and collective allowance for credit losses	**6**	12	(50)
Other income	**(8)**	(17)	(55)
Other operating income and charges	**206**	197	5
Internal revenue[2]	**(138)**	(295)	(53)
Total operating income	**(19)**	347	(105)
Operating expenses			
Employment expenses	**(283)**	(121)	134
Brokerage and commission expenses	**(10)**	(24)	(58)
Other operating expenses	**(196)**	(65)	203
Total operating expenses	**(489)**	(210)	133
Tax expense	**(65)**	32	large
MIPS	**(8)**	(45)	(82)
MIS	**(21)**	(33)	(36)
OEI	**2**	3	(33)
Net profit contribution	**(600)**	94	large

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

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

The Corporate segment's net loss contribution of A$600 million for the year ended March 31, 2010 compared to a net profit contribution of A$94 million in the prior year, primarily due to:

- A net trading loss of A$336 million in the year ended March 31, 2010 compared to net trading income of A$332 million in the prior year primarily due to negative fair value adjustments on fixed rate issued debt of A$255 million in the year ended March 31, 2010, compared to positive fair value adjustments of A$179 million in the prior year, see "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information; and

- an increase in employment expenses of 134% to A$283 million in the year ended March 31, 2010 from A$121 million in the prior year primarily due to an increase in headcount.

Net interest income

Interest income is mainly generated through the investment of MBL's capital, offset by funding costs not passed on to businesses through Group Treasury. Net interest income of A$354 million for the year ended March 31, 2010 increased 2% from A$347 million in the prior year primarily due to an increase in contributed equity during the year largely offset by lower interest rates compared to the prior year generating lower earnings on capital, combined with the cost of holding excess liquidity.

Fee and commissions expense

Fee and commissions expenses primarily relate to internal transactions with operating groups that net out in their entirety on consolidation across MBL Group.

Net trading income/(expense)

The primary drivers of net trading income in the Corporate segment were derivative volatility and the impact of changes in the fair value of fixed rate issued debt. Net trading expense of A$336 million for the year ended March 31, 2010 decreased from net trading income of A$332 million in the prior year. This is primarily due to the fact that during the year ended March 31, 2010, negative fair value adjustments on fixed rate issued debt amounted to A$255 million, as compared to positive fair value adjustments in the prior year of A$179 million. See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information.

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

The Corporate segment holds investments in Macquarie-managed funds to hedge exposures to liabilities under the Directors' profit share plan. These investments are accounted for using the equity method whereas the related Director's profit share plan liabilities are accounted for on a fair value (mark-to-market) basis. The investment holdings are not significant and therefore the profit or loss from equity accounting of those investments is not material. The change from the prior year reflected the impact of the significant market disruption over the past year on the underlying results of investments. There was no single investment that was the main contributor to the change.

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of A$16 million for the year ended March 31, 2010 related to the sale of debt securities by Group Treasury of A$9 million and the sale of equity securities held to hedge Director's profit share plan balances of A$7 million.

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

The gain of A$137 million in the year ended March 31, 2009 largely related to gains from financing the acquisition of Macquarie Income Preferred Securities (MIPS). Further acquisitions of MIPS were financed during the year ended March 31, 2010 resulting in a gain of A$127 million.

Gain on repurchase of debt

In the year ended March 31, 2010 MGL Group undertook further buy-backs of a portion of MGL Group's outstanding subordinated debt carried at amortized cost at a discount to face value that realized a profit of A$55 million.

Employment expenses

Employment expenses in the Corporate segment relate to staff profit share and the impact of mark-to-market adjustments of Director's profit share plan liabilities. Employment expenses of A$283 million for the year ended March 31, 2010 increased 134% from A$121 million in the prior year. The majority of the increase was due to an increase in headcount and a charge for the net mark-to-market increase in Director's profit share plan liabilities resulting from share price appreciation of many Macquarie-managed listed funds during the year ended March 31, 2010.

Brokerage and commission expenses

Brokerage and commission expenses in the Corporate segment relates to fees and commissions paid on the issuance of debt instruments by Group Treasury. Brokerage and commission expenses of A$10 million for the year ended March 31, 2010 decreased 58% from A$24 million in the prior year, primarily due to a reduction in the amount of issuances. The Commonwealth Large Deposit and Wholesale Funding Guarantee Scheme introduced in October 2008 resulted in higher levels of issuances in the year ended March 31, 2009.

Macquarie Income Preferred Securities (MIPS)

The reduction in the net distributions under the MIPS from A$45 million in the prior year to A$8 million in the year ended March 31, 2010 was due to the acquisitions of the MIPS financed in February and June 2009.

Year ended March 31, 2009 compared to year ended March 31, 2008

Our historical financial statements for 2009 incorporated by reference in this Report reflect our consolidated results for 2009 and 2008 as we now operate post-Restructure; the pre-Restructure results of the Non-Banking Group are presented as discontinued operations. In addition, as a result of the changes made to the operating segments of MGL Group (including MBL Group) during the 2009 fiscal year, we restated the comparative information for the 2008 fiscal year in our 2009 annual financial statements to reflect the changes in our operating segments. As a result, in the discussion below of our financial results for the year ended March 31, 2009 compared to the year ended March 31, 2008, the financial data for our operating segments for the 2008 fiscal year has been re-presented and discussed on the basis of our current operating segments, as they exist following the changes made to our operating segments during the 2009 fiscal year. See "Financial Information Presentation" for further information.

Profit from continuing operations is disclosed below under " — Results overview" as profit from ordinary activities after income tax. Profit from discontinued operations is separately disclosed below under " — Results overview" as profit from discontinued operations (net of income tax).

Results overview

	Year ended		
	Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Income statement			
Net interest income	965	853	13
Fee and commission income	995	1,092	(9)
Net trading income	1,545	2,023	(24)
Asset and equity investment income[2]	(107)	203	(153)
Other operating income and charges[2]	(329)	(26)	large
Total operating income	**3,069**	**4,145**	**(26)**
Employment expenses	(887)	(2,028)	(56)
Brokerage and commission expenses	(509)	(570)	(11)
Occupancy expenses	(101)	(67)	51
Non-salary technology expenses	(75)	(64)	17
Other operating expenses	(872)	(606)	44
Total operating expenses	**(2,444)**	**(3,335)**	**(27)**
Operating profit before income tax	625	810	(23)
Income tax expense	32	(60)	(153)
Profit from ordinary activities after income tax	**657**	**750**	**(12)**
Profit from discontinued operations (net of income tax)[2]	-	15,030	(100)
Profit from ordinary activities and discontinued operations after income tax	657	15,780	(96)
Profit attributable to minority interest	(48)	(50)	(4)
Profit attributable to equity holders of Macquarie Bank Limited	609	15,730	(96)
Distributions paid or provided on Macquarie Income Securities	(33)	(34)	(3)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**576**	**15,696**	**(96)**

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

[2] Under the Restructure, subsequent to MBL becoming a legal subsidiary of MGL, MBL sold certain controlled entities and assets to the Non-Banking Group for fair value at November 13, 2007. This resulted in MBL generating a profit on sale of these controlled entities of A$14,163 million which is included in the March 31, 2008 result. The majority of MBL's profit on sale of these controlled entities was distributed by MBL via dividends to MGL. See Note 7 to our 2008 annual financial statements for a summary of the financial impact of the Restructure.

[2] "Asset and equity investment income" and "Other operating income and charges" include A$1,029 million in impairment charges (March 31, 2008: A$448 million).

Our consolidated net profit after income tax from ordinary activities after income tax was A$657 million for year ended 2009, a decrease of 12% from A$750 million in the prior year. The result was delivered in extremely difficult global financial market conditions and includes significant restructuring costs (A$0.2 billion), write-downs and equity accounted losses (A$0.4 billion), and impairment provisions (A$0.5 billion).

Total operating income for 2009 was A$3,069 million, a decrease of 26% from the prior year's operating income of A$4,145 million. This was largely driven by:

- impairment charges of A$1,029 million in aggregate for the year ended March 31, 2009 compared to A$448 million in the prior year, including impairments of the following assets:
  - funds management and other co-investments of A$0.4 billion;
  - loans of A$446 million (excluding A$4 million relating to the Italian Mortgages portfolio);
  - loss on the sale of the Italian Mortgages business of A$189 million and a loan provision of A$4 million (other restructuring and redundancy costs for the business of A$55 million were recognized in selected trading income and operating expenses);
  - trading assets of A$4 million, which also includes fair value adjustments to selected trading asset positions and equity accounted losses of A$0.1 billion;
- a A$945 million, or 69%, decrease in equities net trading income from the prior year primarily driven by significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses; and
- a A$92 million increase in total tax credit from a tax expense of A$60 million to tax benefit of A$32 million, largely as a result of lower income due to impairment charges in the current year.

These effects were partially offset by:

- a A$467 million, or 72%, increase in net trading income from commodities, foreign exchange and interest rate products from the prior year, primarily driven by increased contributions from interest rate products and energy markets-based commodities businesses, particularly US gas and electricity trading, in the Treasury & Commodities group;
- A$274 million recognized as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value (which would be reversed in future periods if credit spreads were to tighten during such future periods), plus A$197 million from the financing of the acquisition of £150 million of Macquarie Income Preferred Securities;

Total operating expenses were A$2,444 million in the year ended March 31, 2009, a decrease of 27% from A$3,335 million in the prior year. This was largely driven by employment expense of A$887 million for the year ended March 31, 2009, a A$1,141 million, or 56%, decrease on the prior year from A$2,028 million. The decrease in employment expenses was driven by lower performance related profit share expense.

The Restructure became effective on November 13, 2007. Under the Restructure, and subsequent to MBL becoming a legal subsidiary of MGL, MBL sold certain controlled entities and assets to the Non-Banking Group for fair value at November 13, 2007. This resulted in MBL generating a profit on sale of these controlled entities of A$14.2 billion. This profit on sale is reported in our profit from discontinued operations (net of income tax) in our March 31, 2008 year financial statements and is described in more detail below under " — Discontinued operations".

Discontinued operations

A discontinued operation is a component of an entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, whichever occurs first. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations are presented separately on the face of the income statements.

On November 13, 2007, MBL implemented a restructure of MGL Group under which a new listed non operating holding company (MGL) was established as the ultimate parent entity of MGL Group, which now comprises two separate sub groups, a Banking Group and a Non-Banking Group. The Non-Banking Group was sold by MBL to Macquarie Financial Holdings Limited at fair value and is reported in our March 31, 2009 year financial statements as a discontinued operation.

Financial performance from discontinued operations

The financial performance presented is for the period ended November 13, 2007 (year ended March 31, 2008) and the year ended March 31, 2009:

	Year ended	
	Mar 09	**Mar 08**
	A$m	**A$m**
Profit before income tax	–	1,045
Income tax credit/(expense)	–	(178)
Profit after income tax of discontinued operations	–	867
Gain on sale of the discontinued operations before income tax	–	14,163
Income tax expense		–
Gain on sale of the discontinued operations after income tax	–	14,163
Profit from discontinued operations	**–**	**15,030**

Results analysis

We present below information relating to our financial results on a consolidated MBL Group basis.

Net interest income

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Net interest income			
Interest revenue	6,267	6,647	(6)
Interest expense	(5,302)	(5,794)	(8)
Net interest income	**965**	**853**	**13**

Overall net interest income for 2009 was A$965 million, a 13% increase from A$853 million in 2008. Net interest income is primarily derived from lending activities including investment lending, leasing, real estate structured finance, relationship banking and residential mortgages.

Interest revenue for 2009 was A$6,267 million, a decrease of 6% from A$6,647 million in the prior year. The main driver of this decrease was the reduction in the Mortgages Australia portfolio and the sale of our Italian Mortgages business and a portion of the margin lending portfolios, which was partially offset by increases across the lending and leasing portfolios particularly in Australia following the RBA official cash rate increases that occurred since the prior year. The Italian Mortgages business generated A$70 million and A$78 million of interest revenue in the 2009 fiscal year and the 2008 fiscal year, respectively.

Interest expense of A$5,302 million decreased 8% from A$5,794 million in the prior year. The main driver of this decrease is the reduction in the Mortgages Australia portfolio, the sale of our Italian Mortgages business and margin lending portfolios, partially offset by an increase in the cost of funding compared with the prior year, which impacted all businesses including lending areas, and businesses with non-interest bearing assets, such as equity investments. The Italian Mortgages business incurred A$57 million and A$62 million of interest expense in the 2009 fiscal year and the 2008 fiscal year, respectively.

In March 2008, MGL Group announced it would wind back its Australian residential mortgage origination services for both retail and wholesale clients due to the significant increase in funding costs and current conditions in the global mortgage securitization market. The ongoing business has been profitable as the portfolio runs off due to an increase in interest rates to offset the significant increase in funding costs during the period.

The Canadian mortgages business continues to be supported by the Canadian Mortgage Bond program. The United States mortgages business has been closed and the book is being run down.

Average volumes of loans in fiscal 2009 were relatively stable from the prior year, despite the sale of the Italian mortgages business and a portion of the investment lending portfolio and the wind down of the Mortgages Australia business as loan volumes at the beginning of the year had increased materially prior to the worsening of economic conditions in Australia after the first quarter of 2009. Net interest margin increased in 2009 in spite of higher costs of funding as a result of monetary easing by the RBA, the full impact of which was not passed onto customers.

Fee and commission income

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Fee and commission income			
Base fee income	403	437	(8)
Performance fee income	15	63	(76)
Other fee and commission income	518	562	(8)
Income from life insurance business and other unit holder businesses	59	30	97
Total fee and commission income	**995**	**1,092**	**(9)**

Fee and commission income for the 2009 fiscal year was A$995 million, a decreased of 9%, from A$1,092 million in the prior year. Fee and commission income was impacted by lower base and performance fees for the year ended March 31, 2009, which were A$403 million and A$15 million, respectively, compared to A$437 million and A$63 million, respectively, for the year ended March 31, 2008.

Base and performance fees

	Year ended	
	Mar 09	Mar 08
	A$m	A$m
Base fees		
Real Estate Banking		
Macquarie Central Office Corporate Restructuring-REIT	1.6	1.7
Macquarie CountryWide Trust	6.7	8.0
Macquarie Office Trust	20.7	21.1
Unlisted funds	1.4	—
Managed assets	1.1	0.6
Total Real Estate Banking	**31.5**	**31.4**
Macquarie Funds	142.3	158.4
Banking & Financial Services	229.0	246.8
Total base fee income	**402.8**	**436.6**

Performance fees		
Real Estate		
Unlisted funds	1.0	0.9
Managed assets	0.7	17.2
Total Real Estate	1.7	18.1
Macquarie Funds	13.5	45.2
Total performance fee income	**15.2**	**63.3**

Base fees are ongoing fees generated from managing funds or assets, and performance fees are earned when the funds or assets outperform predetermined benchmarks. Base fees for 2009 were A$403 million, a decrease of 8% from A$437 million in the prior year.

Base fees are generally driven by total Assets under Management. Our Assets under Management were relatively stable during the 2009 fiscal year at A$83,595 million compared to A$83,911 million in the prior year. Assets under Management has been impacted by the weakening of the Australian dollar against major global currencies, which in turn has increased the value of Assets under Management denominated in foreign currencies. In addition, the acquisition of the remaining shares in Allegiance Investment Management, a US fund manager, increased Assets under Management by A$5.1 billion. This increase offset reductions in Assets under Management due to falling equity indices impacting the value of listed securities, especially those funds managed by Macquarie Funds.

Total performance fees for 2009 were A$15 million, a decrease of 76% from A$63 million in the prior year. The reduction was largely the result of market conditions which drove significant falls in the prices of listed securities, making out-performance of the relevant benchmarks difficult to achieve.

Income from life insurance business and other unit holder businesses

Income from the life insurance business and other unit holder businesses increased 97% to A$59 million in 2009 from A$30 million in 2008 largely due to the contribution to performance fees from the Macquarie Funds' True Income Index business' out-performance of its benchmark.

Other fee and commission income

Income on other fee and commission income, including income from financial products, platform and other administration fee income, banking, lending and securitization fee income, was A$518 million in the 2009 fiscal year, a decrease of 8% from A$562 million in the prior year. The main components of other fee and commission income were generated by Banking & Financial Services and included brokerage and commission fee income of A$198 million, which decreased 23% from A$256 million in the prior year, due to reduced client activity. Platform and other administration fee income was A$134 million, a decrease of 7% from A$144 million in the prior year, driven largely by wrap platform volumes of A$17.5 billion at March 31, 2009, down from A$22.5 billion in the prior year, mainly as a result of falling equity indices in the second half which negatively impacted the value of listed securities administered under the platform.

Net trading income

A complete representation of our trading activities is not shown by the composition of trading income set out below as it excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. To obtain a complete view of the performance of our trading activities, see " — Segment Overview — Macquarie Securities" and " — Segment Overview — Treasury & Commodities".

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Net trading income			
Equities	430	1,375	(69)
Commodities	574	417	38
Foreign exchange and interest rate products	541	231	134
Total net trading income	**1,545**	**2,023**	**(24)**

Total net trading income for 2009 was A$1,545 million, a 24% decrease from A$2,023 million in the prior year. This decrease was largely driven by decreases in our trading activities as described below.

Equity trading income

Trading income from equities decreased 69% to A$430 million for 2009 from A$1,375 million in 2008. A significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses contributed to the decline in derivatives trading income. Dislocation in global equity markets and continued volatility delivered arbitrage trading income that was slightly down on the prior year. Hedge fund de-leveraging, redemptions and regulatory changes to short-selling resulted in a substantial decline in synthetic products revenues. structured equity finance revenues were down significantly as a result of lower stock borrow and loan volumes.

Commodities trading income

Commodities trading income increased 38% to A$574 million for 2009 from A$417 million in 2008. Commodity products trading (encompassing metals, energy and agricultural trading) experienced higher volatility, wider margins and an exit of competitors across a number of its markets.

Trading income in the Energy Markets division was significantly up on the prior year. The key drivers were increased market volatility and continued growth of various businesses. The biggest contributor was US Gas Trading, while other key contributors were US Power, UK Gas and Energy OTC. The Constellation Energy business was acquired in March 2009 and will impact our results going forward.

The Agricultural and Investor Products division was down 84% on a very strong prior year. While we experienced a decline in revenue opportunities for investor products, increased market volatility resulted in increased activity in agricultural risk management services.

The Metals and Energy Capital division was again a significant contributor during the year. The Metals trading book had a strong year, also benefiting from volatile markets, fewer competitors and wider spreads.

Foreign exchange and interest rate products trading income

Trading income on foreign exchange and interest rate products increased 134% to A$541 million for 2009 from A$231 million in 2008. The Foreign Exchange division had a record year, benefiting from volatile currency markets and the positive effect of this volatility on client demand for foreign exchange products which translated to increased volumes transacted. The Interest Rate Derivative book also provided a strong contribution benefiting from significant movements in interest rates. The result was adversely impacted by mark-to-market write-downs of A$50 million (2008: A$38 million) on CLO/CDO investments due to difficult market conditions.

Asset and equity investment income and other income

	Year ended		
	Mar 09	**Mar 08**	**Movement[1]**
	A$m	**A$m**	**%**
Asset and equity investment income			
Profit on sale of investment securities available for sale	(6)	107	(106)
Net gains on sale of associates (including associates held for sale) and joint ventures	29	94	(69)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	298	99	201
Net expense from non-current assets held for sale	(3)	(16)	(81)
Share of net profits of associates and joint ventures using the equity method	98	160	(39)
Dividends/distributions received/receivable from equity investments and investment securities available for sale	19	59	(68)
Impairment charge on investment in associates (including associates held for sale) and joint ventures	(102)	(280)	(64)
Impairment charge on investment securities available for sale	(240)	(84)	186
Impairment charge on disposal group held for sale	(192)	—	—
Impairment charges on non-financial assets	(45)	—	—
Management fees, group services charges and costs recoveries - subsidiaries	(21)	—	—
Other asset sales	58	64	(9)
Total asset and equity investment income	**(107)**	**203**	**(153)**
Other income			
Impairment charges:			
Collective allowance for credit losses	(91)	(32)	184
Specific provisions for credit losses	(359)	(52)	large
Other	121	58	109
Total other income	**(329)**	**(26)**	**large**

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

Asset and equity investment income and other income was a combined loss of A$436 million in the 2009 fiscal year, compared to a combined profit of A$177 million in the prior year, largely as a result of impairment charges of A$1,029 million in aggregate for the year ended March 31, 2009, compared to A$448 million in the prior year, relating to:

- funds management and other co-investments of A$0.4 billion;
- loans of A$446 million (excluding A$4 million relating to the Italian Mortgages portfolio);

- the loss on the sale of the Italian Mortgages portfolio of A$189 million and a loan provision of A$4 million (other restructuring and redundancy costs for the business of A$55 million were also recognized in trading income and operating expenses); and

- trading assets of A$4 million, which also includes fair value adjustments to selected trading assets positions and equity accounted losses of A$0.1 billion.

Impairment charges and provisions for the year ended March 31, 2009 are set forth in more detail in the table below. A summary of our critical accounting policies relating to impairment charges and provisions is set forth under " — Critical Accounting Policies and Significant Judgments."

	Year ended Mar 09 A$b
One-off costs relating to Italian Mortgages exit[1]	**0.2**
Impairment and equity accounted losses of funds management assets and other co-investments[2]	
Real estate equity investments (including J-REP, Macquarie CountryWide and Macquarie Office Trust)	0.2
US portfolios of ABS held as available for sale	0.1
Resources equity investments	0.1
	0.4
Loan impairment[3]	
Real estate loans	0.2
Resources and other loans	0.3
Total loan impairments	**0.5**
Impairments recognized on trading asset positions[4]	
Other equity investments carried at fair value through profit or loss (including BrisConnections and CLO/CDO exposures)	0.1
Total Impairments recognized on trading asset positions	**0.1**
Total Impairment charges and provisions	**1.2**

1 Includes loss on sale of loan portfolio, write-off of capitalized acquisition costs, loan impairment provisions and closure/redundancy costs.

2 <A$0.1 billion equity accounted losses included on the basis impairment write-downs would have been recognized on MBL's co-investments if these equity accounted losses had not been recognized.

3 Includes specific credit provisions and collective allowance for credit losses recognized in the year ended March 31, 2009.

4 Selected items included are carried in the trading portfolio at fair value. Realized gains and losses, and unrealized gains and losses arising from changes in the fair value of the trading portfolio are recognized as trading income or expense in the income statement in the period in which they arise.

In addition, asset realizations were down substantially in the 2009 fiscal year as difficult market conditions and more limited availability of acquisition finance lead to lower transaction volumes. Asset and equity investment income includes a A$298 million gain on acquiring and disposing businesses and subsidiaries which includes a A$197 million gain from financing the acquisition of Macquarie Income Preferred Securities.

Operating expenses

	Year ended		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Operating expenses			
Employment expenses:			
Salary, commissions, superannuation and performance-related profit share	(853)	(1,962)	(57)
Share based payments	(32)	(51)	(37)
Provision for annual leave	(2)	(9)	(78)
Provision for long service leave	-	(6)	(100)
Total employment expenses	**(887)**	**(2,028)**	**(56)**
Brokerage and commission expenses	(509)	(570)	(11)
Occupancy expenses	(101)	(67)	51
Non-salary technology expenses	(75)	(64)	17
Professional fees	(131)	(96)	36
Travel and entertainment	(57)	(95)	(40)
Advertising and communication	(45)	(46)	(2)
Other expenses	(639)	(369)	73
Total operating expenses	**(2,444)**	**(3,335)**	**(27)**

Total operating expenses for the 2009 fiscal year were A$2,444 million, a decrease of 27%, from A$3,335 million in the prior year. This result is largely driven by a decrease in total employment expenses of A$887 million for the year ended March 31, 2009, a decrease of 56% from A$2,028 million in the prior year, which in turn was driven by reduced performance-related profit share. Our headcount decreased to 4,399 at March 31, 2009, from 4,876 at March 31, 2008, with headcount by operating group and region provided in the table below:

	As at		
	Mar 09	Mar 08	Movement
			%
Headcount by operating group			
Banking & Financial Services	2,592	3,052	(15)
Macquarie Securities	113	163	(31)
Treasury and Commodities	509	483	5
Macquarie Funds	560	465	20
Real Estate Banking	136	213	(36)
Corporate & Asset Finance	479	476	1
Total headcount - operating groups	4,389	4,852	(10)
Total headcount - service areas	10	24	(58)
Total headcount	**4,399**	**4,876**	**(10)**

All remaining expenses were A$1,557 million for the 2009 fiscal year, a 19% increase from A$1,307 million, with other expense including recharges from Macquarie Group Services Australia Pty Limited which provides administration and central support functions, being the largest contributor. The overall expense to income ratio of 80.5% decreased 0.9% on the prior year to 79.6%, due to the effect of lower income partially offset by lower expenses.

Income tax expense

	Year ended	
	Mar 09	Mar 08
	A$m	A$m
Reconciliation of income tax (expense)/credit to prima facie tax payable		
Prima facie income tax expense on operating profit[1]	(187)	(4,805)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	154	258
Distribution provided on Macquarie Income Preferred Securities and similar distributions	13	15
Share based payments expense	(10)	(25)
Gain on disposal of discontinued operations	-	4,249
Other items	62	70
Total income tax (expense)/credit	**32**	**(238)**
Income tax (expense)/credit is attributable to:		
Profit from continuing operations	32	(60)
Profit from discontinued operations	-	(178)
Total	**32**	**(238)**
Amounts recognized directly in equity		
Aggregate deferred tax arising in the period and not recognized in net profit or loss but recognized directly in equity:		
Net deferred tax – (credited)/debited directly in equity	(87)	(1)
Total	**(87)**	**(1)**

1 *Prima facie* income tax on operating profit is calculated at the rate of 30% (year to March 31 2008: 30%). The Australian tax consolidated group has a tax year ending on September 30.

Total income tax expense from continuing operations differs from the *prima facie* income tax expense due to permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses, including employee options expense and interest payments made under the Macquarie Income Securities.

Income tax expense from continuing operations for year ended March 31, 2009 has been impacted by the following items:

- Permanent differences on underlying income have been relatively stable when compared to the prior year;
- Operating income for the year ended March 31, 2009 is 26% lower then the prior year due to write-offs in the year ended March 31, 2009; and
- Funding and associated hedging transactions have reduced income and tax expense (approximately 19% reduction in effective tax rate).

Segment Overview

Summary of segment results

	Macquarie Funds	Banking & Financial Services	Real Estate Banking	Corporate & Asset Finance	Treasury & Commodities	Macquarie Securities	Macquarie Capital	Total
	A$m	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
Year ended March 31, 2009								
Net interest income/(expense)	84	431	(2)	134	29	(19)	(38)	619
Fee and commission income	275	698	56	12	126	(20)	83	1,230
Trading income	(20)	(49)	(8)	(27)	926	401	(11)	1,212
Asset and equity investment income	(4)	(167)	(143)	(3)	11	-	21	(285)
Other income/(expense)	9	(114)	(160)	25	(64)	106	144	(54)
Total operating income	344	799	(257)	141	1,028	468	199	2,722
Total operating expenses	(251)	(897)	(93)	(56)	(476)	(390)	(71)	(2,234)
OEI	-	(6)	-	(1)	1	-	-	(6)
Profit contribution	93	(104)	(350)	84	553	78	128	482
Corporate								94
Continuing Operations								576
Discontinued Operations								-
Total								**576**
Year ended March 31, 2008								
Net interest income/(expense)	(27)	348	1	57	(84)	(251)	(69)	(25)
Fee and commission income	272	783	68	7	129	(28)	(37)	1,194
Trading income	121	19	6	17	771	1,163	(64)	2,033
Asset and equity investment income	104	(2)	(77)	2	108	-	131	242
Other income/(expense)	42	(8)	(38)	42	80	218	314	674
Total operating income	512	1,140	(40)	125	1,004	1,102	275	4,118
Total operating expenses	(237)	(900)	(89)	(58)	(394)	(500)	(189)	(2,367)
OEI	2	(2)	-	-	-	-	-	-
Profit contribution	277	238	(129)	67	610	602	86	1,751
Corporate								(1,085)
Continuing Operations								666
Discontinued Operations								15,030
Total								**15,696**

Basis of Presentation

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

The separate Corporate segment includes Group Treasury, head office and central support functions. The Corporate segment includes unallocated head office costs, employment-related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to minority interests. The Corporate segment also includes the impact of changes in credit spread on non-trading financial instruments that are classified as fair value through profit or loss.

Internal transactions between segments have been determined on an arm's length basis are included within the relevant categories of income. Internal management charges are recognized to reflect permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

Internal Reorganization of Operating Groups

In February 2008, the activities of Financial Services and Banking & Securitization were combined to form the new operating group called Banking & Financial Services.

In April 2008, MBL Group combined the activities of Equity Markets (which was part of the Banking Group) and the Macquarie Capital Securities division of Macquarie Capital (which was part of the Non-Banking Group) to form a new operating group called Macquarie Securities. The newly formed Macquarie Securities operating group is part of MBL Group, however, the Cash division remains part of the Non-Banking Group.

In August 2008, MBL Group combined the activities of Funds Management with the funds and funds-based structured products of Macquarie Securities and the Macquarie Capital Products division of Macquarie Capital to form a new operating group called Macquarie Funds. In connection with this reorganization, the funds and funds-based structured products of the Macquarie Capital Products division of Macquarie Capital was transferred from the Non-Banking Group to MBL Group. The newly formed Macquarie Funds operating group is part of MBL Group.

In September 2008, the Corporate & Asset Finance division was also formed from the separation of the Macquarie Capital Finance division from Macquarie Capital. In connection with this reorganization, the Macquarie Capital Finance division was transferred from the Non-Banking Group to MBL Group. The newly formed Corporate & Asset Finance division is part of MBL Group.

In January 2009, the Real Estate operating group was reorganized and the majority of Real Estate staff and several of its responsible entities transferred from MBL Group to Macquarie Capital, forming part of the Non-Banking Group. The remaining staff and assets in the Banking Group were amalgamated to form the Real Estate Banking division, which is part of MBL Group.

The results of these new operating groups are presented effective April 1, 2008, with the comparative information for the years ended March 31, 2008 based on aggregated results of the businesses that comprise the new operating groups and divisions. The table below reconciles the operating segment results for the 2008 fiscal year prior to the internal reorganizations discussed above (and as reported in the 2008 annual financial statements) to the restated comparative operating segment data included in Note 5 to the 2009 annual financial statements, which reflect the internal reorganization. See "Financial Information Presentation" above for further information.

					Year ended Mar 08					
Operating groups as previously reported	**Operating group contribution**	**Banking & Financial Services Formation**	**Macquarie Securities Formation**	**Macquarie Funds Formation**	**Corporate & Asset Finance Formation**	**Real Estate Banking Formation**	**Group Treasury**	**Other**	**Operating group contribution**	**Operating groups as currently reported**
Macquarie Capital	192		(25)	(37)	(67)	50		(27)	86	Macquarie Capital
Equity Markets	639		25	(62)					602	Macquarie Securities
Treasury & Commodities	653						(43)		610	Treasury & Commodities
Real Estate	(79)					(50)			(129)	Real Estate Banking
Banking & Securitization	51	187							238	Banking & Financial Services
Financial Services	187	(187)							-	
Funds Management	178			99					277	Macquarie Funds
	-				67				67	Corporate & Asset Finance
Corporate	(1,155)						43	27	(1,085)	Corporate
Discontinued Operations	15,030								15,030	Discontinued Operations
Total	**15,696**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,696**	

Macquarie Funds

	Year ended Mar 09 A$m	Year ended Mar 08 A$m	Movement[1] %
Net interest income/(expense)	84	(27)	large
Fee and commission income			
Base fees	142	158	(10)
Performance fees	14	45	(69)
Other fee and commission income	119	69	72
Total fee and commission income	275	272	1
Net trading income	(20)	121	(117)
Asset and equity investment income	(4)	104	(104)
Total other income	9	42	(79)
Total operating income	344	512	(33)
Operating expenses			
Employment expenses	(87)	(61)	43
Brokerage and commission expenses	(67)	(74)	(9)
Other operating expenses	(97)	(100)	(3)
Total operating expenses	(251)	(235)	7
Total contribution to profit by operating group	**93**	**277**	**(66)**
Non-GAAP metrics			
Assets under management[2] (A$ billion)	50	47	6
Headcount[3]	**560**	**465**	**20**

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

2 The Macquarie CMT, excluded from Macquarie Funds Assets under Management reported above, is a Banking & Financial Services product that is managed by Macquarie Funds. The CMT closed at A$14.7 billion at March 31, 2009 (September 30, 2008: A$16.1 billion; March 31, 2008: A$17.6 billion).

3 Macquarie Funds added 198 new staff during the period, offset by a reduction in staff of 111. The acquisition and consolidation of fund managers in the US during the year, as well as the internal transfer of a European distribution business from Macquarie Securities, contributed 66 staff members to the headcount increase in 2009.

Macquarie Funds' profit contribution was A$93 million for 2009, a 66% decrease on the prior year from A$277 million which included a large gain on the sale of Macquarie-IMM Investment Management Co. Limited.

Net interest income/(expense)

Net interest income of A$84 million in the 2009 fiscal year increased from a loss of A$27 million in the prior year. This result was driven largely by interest margins from Macquarie Funds' fixed rate loan portfolios, as well as the full year interest income contribution from retail loans issued to investors in June 2007 as part of Macquarie Funds' structured investment offerings, including the reFleXion and Gateway products.

Base fees

Base fee revenue of A$142 million in the 2009 fiscal year, decreased 10% from A$158 million in the prior year due to the decrease in Assets under Management for most of the year. Base fee revenue was lower across most asset classes, particularly in real estate and infrastructure.

Total Assets under Management were A$49,656 million at March 31, 2009, an increase of 5% from A$47,254 million at March 31, 2008. The increase included a A$1.7 billion mandate won in March 2009 and A$5.1 billion Assets under Management from Macquarie Fund's acquisition of the remaining shares in Allegiance Investment Management in January 2009. Excluding the impact of this acquisition, Assets under Management decreased 6% to A$44.6 billion at March 31, 2009. Assets under Management was negatively impacted by declining asset values and outflows from hedge funds and Asian retail investors moving into lower risk investments, but was partially offset by inflows from Australian investors. The fall in base fee revenue was greater than the decrease in Assets under Management due to fund redemptions from higher margin products. In addition, the decrease in Assets under Management would have been greater but for the new mandate won in March 2009.

Performance fees

Performance fee revenue was A$14 million in the 2009 fiscal year, down 69% from A$45 million in 2008. The prior year included significant performance fees from the Listed Equities division.

Other fee and commission income

Other fee and commission income was A$119 million in the 2009 fiscal year, an increase of 72% from A$69 million in the prior year. Other fee and commission income includes structuring fees, capital protection fees, wholesale threshold management fees and internal fees received for managing Banking & Financial Services products including Cash Management Trust.

Structuring fees were down on the prior year due to lower Australian and European retail product raisings. Wholesale threshold management fees also declined as the base on which these were earned was affected by adverse market conditions. These decreases were offset by significantly higher income from the True Index products due particularly to strong performance by the Real Estate Securities division and the inclusion of income from the German investment distribution business.

Net trading income

Net trading income includes the results for Macquarie Fund's seed investments and some products offered by the Investment Solutions & Distribution division. Macquarie Funds incurred a trading loss of A$20 million for the 2009 fiscal year, compared to a trading income of A$121 million in the prior year as seed investments were impacted by the negative performance of markets.

Asset and equity investment income

Asset and equity investment loss for the 2009 fiscal year was A$4 million, compared to a gain of A$104 million in the prior year, which included a large gain of A$100 million on the sale of investment in Macquarie-IMM. The current year result largely consisted of equity accounted losses and diminution in the value of investment securities from Four Corners Capital Management, Fortress Trust, MD Sass Financial Strategies Investment Vehicle, LLC and the United Kingdom open-ended investment company, CF Macquarie Global Infrastructure Securities Fund.

Other income

Other income for the 2009 fiscal year was A$9 million, a 79% decrease from A$42 million in the prior year, which included profit from the disposal of held for sale investments. The current period result includes dilution gains on the sale of joint venture interests and seasonal inventory sales associated with the agricultural funds management business.

Total operating expenses

Total operating expenses increased 7% on the prior year to A$251 million. This was mainly due to higher overall staff numbers as a result of the acquisition and consolidation of Allegiance Investment Management and Four Corners Capital Management in the United States, as well as the internal transfer of a European distribution business from Macquarie Securities, which contributed 66 staff members to the overall headcount in 2009. The increase in employment expenses was partially offset by reduced IT system costs associated with a new investment accounting and administration system implemented during the prior year, and lower brokerage and commission expenses associated with lower structured product raisings in the current year.

Banking & Financial Services

	Year ended Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Net interest income	431	348	24
Fee and commission income			
Base fees	229	247	(7)
Brokerage and commissions	198	256	(23)
Platform and other administration fee income	134	144	(7)
Banking, lending and securitization	75	57	32
Other fee and commission income	32	50	(36)
Income from life insurance business and other unit holder businesses	30	29	3
Total fee and commission income	698	783	(11)
Net trading income	(49)	19	large
Asset and equity investment income			
Impairment charges on equity investments	(216)	(3)	large
Other asset and equity investment income	49	1	large
Total asset and equity investment income	(167)	(2)	large
Other income			
Specific provisions and collective allowance for credit losses	(95)	(26)	265
Other income	3	11	(73)
Internal management charges[2]	(22)	7	large
Total other income	(114)	(8)	large
Total operating income	799	1,140	(30)
Operating expenses			
Employment expenses	(391)	(427)	(8)
Brokerage and commission expenses	(140)	(117)	20
Other operating expenses	(372)	(358)	4
Total operating expenses	(903)	(902)	nm
Total contribution to profit by operating group	**(104)**	**238**	**(144)**
Non-GAAP metrics			
Assets under management[3] (A$ billion)	19	23	(17)
Funds under management/advice/administration[4] (A$ billion)	104	114	(9)
Headcount	**2,592**	**3,052**	**(15)**

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

2 Internal management charges are used to capture permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

3 The Macquarie CMT, included in Banking & Financial Services Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The CMT closed at A$14.7 billion at March 31, 2009 (September 30, 2008: A$16.1 billion; March 31, 2008: A$17.6 billion).

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 management), 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).

Banking and Financial Services' loss of A$104 million for the year was mainly driven by one-off costs relating to A$248 million recognized on the sale of the Italian Mortgages portfolio.

Net interest income/(expense)

Net interest income of A$431 million for the 2009 fiscal year, a 24% increase from A$348 million in the prior year.

Retail deposits grew 103% over the year to A$13.4 billion. This strong growth in deposits reflected a shift in investor preference to cash-based products combined with the marketing of new cash product offerings such as Cash XL, the Cash Management Account and deposits via Macquarie Wrap.

In March 2008, Macquarie announced it would wind back its Australian residential mortgage origination services for both retail and wholesale clients due to the significant increase in funding costs and current conditions in the global mortgage securitization market. The ongoing business has been profitable as the portfolio runs off. The Australian mortgage book has reduced in size to A$18.3 billion from A$23.7 billion in the prior year.

The Canadian mortgages business is able to access the Canadian Mortgage Bond program. All Canadian mortgages are insured by an agency backed by the Canadian government.

The United States' mortgages business has been closed and the book is being run down.

In April 2008, the decision to cease originating new fixed rate consumer loans was announced. The business will continue to provide services to existing clients. Outstanding loans were approximately A$120 million at March 31, 2009.

In January 2009, MBL Group sold the majority of its investment lending business. As a result of the sale, combined with poor conditions in equity markets, the investment lending portfolio has fallen to A$2.2 billion at March 31, 2009 from A$6.0 billion at March 31, 2008. MBL Group retained a portfolio of loans related to structured products and a small book of margin loans.

Average volumes of loans in fiscal 2009 were relatively stable from the prior year, despite the sale of the Italian mortgages business and a portion of the investment lending portfolio and the wind down of the Mortgages Australia business as loan volumes at the beginning of the year had increased materially prior to the worsening of economic conditions in Australia after the first quarter of 2009. Net interest margin increased in 2009 in spite of higher costs of funding as a result of monetary easing by the RBA, the full impact of which was not passed onto customers.

Base fee income

Base fee income decreased 7% to A$229 million in the 2009 fiscal year from A$247 million in the 2008 fiscal year. The Cash Management Trust closed at A$14.7 billion at March 31, 2009, down 16% since March 2008. The impact of falling Assets under Management in the CMT was partially offset by growth of 256% in Assets under Management in the Macquarie Pastoral Fund during the year, with funds under management of A$434 million at March 31, 2009 as it ramped up in its early stages.

Brokerage and commission income

Brokerage and commission income decreased 23% to A$198 million in the 2009 fiscal year from A$256 million in the 2008 fiscal year. Despite difficult market conditions, Macquarie Private Wealth maintained its position as the number one full-service retail stockbroker in Australia in terms of consideration traded.

Platform and other administration fee income

Platform and other administration fee income in the 2009 fiscal year decreased 7% to A$134 million from A$144 million in the 2008 fiscal year. Wrap funds under administration decreased from A$22.5 billion at March 31, 2008 to A$17.5 billion at March 31, 2009, mainly due to negative market movements offsetting Funds under administration inflows. Macquarie Wrap ranked number one for wrap inflows in the Australian market for the 2008 calendar year.

Banking, lending and securitization fee income

Banking, lending and securitization fee income of increased 32% on the prior year to A$75 million from A$57 million in the 2008 fiscal year. This increase relates mainly to the mortgages and Macquarie Relationship Banking servicing and administration fees.

Net trading income

Net trading income decreased to a A$49 million loss in the 2009 fiscal year from A$19 million income in the 2008 fiscal year. The A$20 million loss on the sale of Macquarie Private Wealth's holding in BrisConnections in the first half as well as a A$24 million loss due to the impact of foreign exchange movements relating to the sale of the Italian Mortgages portfolio were the major contributors to Banking & Financial Services' A$49 million trading loss for the year.

Asset and equity investment income

Asset and equity investment income of A$49 million in the 2009 fiscal year increased from A$1 million in the 2008 fiscal year. This was largely driven by a premium of A$52 million which was received on the sale of the margin lending portfolio. After provisions for redundancies and other closure costs, Banking & Financial Services recognized a profit on the sale of that business of A$41 million.

Impairment charges on asset and equity investments

Impairment charges on asset and equity investments increased on the prior year to A$216 million, primarily due to losses of A$189 million recognized on the sale of the Italian Mortgages portfolio combined with falling asset values as a result of the conditions in financial markets.

Difficult economic conditions in Italy coupled with the effective closure of international securitization markets led to the decision to cease originating residential mortgages in Italy in June 2008 and the subsequent sale of our portfolio of Italian Mortgages to Barclays Bank.

Specific provisions and collective allowance for credit losses

Specific and collective provisions against loans increased 265% in the 2009 fiscal year to A$95 million from A$26 million in the 2008 fiscal year primarily due to increased loan loss provisions across all loan portfolios due to the slow down in economic activity in all markets and falling house prices in the United States.

Operating expenses

Employment expenses decreased 8% in the 2009 fiscal year to A$391 million from A$427 million in the 2008 fiscal year, in line with a decrease in headcount from 3,052 to 2,592. Remuneration of some staff (mainly financial planners and advisers) within Banking & Financial Services includes a commission component. Commission payments to staff were down 15% as a result of the decrease in brokerage and commission income.

Brokerage and commissions expenses are driven by fees paid to external distributors of Banking & Financial Services products and/or services. These expenses increased 20% in the 2009 fiscal year to A$140 million from A$117 million in the 2008 fiscal year, driven by additional fees paid due to growth in insurance related business, including sales of insurance policies and funding of insurance premiums.

Real Estate Banking

	Year ended		
	Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Net interest income	(2)	1	(300)
Fee and commission income			
Base fees	32	31	3
Performance fees	2	18	(89)
Mergers and acquisitions, advisory and underwriting	11	4	177
Other fee income	11	15	(27)
Total fee and commission income	56	68	(18)
Net trading income	(8)	6	(233)
Asset and equity investment income			
Asset and equity investment income	31	184	(83)
Impairment charges on equity investments	(180)	(301)	(40)
Other asset sales	6	40	(85)
Total asset and equity investment income	(143)	(77)	86
Other income			
Specific provisions and collective allowance for credit losses	(170)	(13)	large
Other income	24	14	71
Internal management charges[2]	(14)	(39)	(64)
Total other income	(160)	(38)	large
Total operating income	(257)	(40)	large
Operating expenses			
Employment expenses	(31)	(32)	(3)
Other operating expenses	(62)	(57)	9
Total operating expenses	(93)	(89)	4
Total contribution to profit by operating group	**(350)**	**(129)**	171
Non-GAAP metrics			
Assets under management (A$ billion)	15	14	7
Headcount	**136**	**213**	**(36)**

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

2 Internal management charges are used to capture permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

During the 2009 fiscal year, the majority of the Real Estate platform was merged with Macquarie Capital in the Non-Banking Group to create an integrated real estate platform in an attempt to maximize domestic and international real estate growth opportunities (including funds management, advisory and principal activities) and to leverage expertise from all Macquarie Capital industry and product teams. The remaining businesses formed a new division called Real Estate Banking.

Real Estate Banking's loss for the year to March 31, 2009 was A$350 million, up 171% from a loss of A$129 million in the prior year. The year has been challenging for Real Estate Banking with the financial crisis significantly impacting real estate markets worldwide. Consequently, Real Estate Banking has recognized a number of provisions and impairment charges during the year, which is described below under " — Impairment charges on equity investments and non-financial assets".

Net interest income/(expense)

Net interest expense for the year to March 31, 2009 was A$2 million, a 300% decrease from net interest income of A$1 million in the prior year. The decrease in the year reflects the increased funding cost of equity investments.

Base and performance fee income

Base management fee income for the year to March 31, 2009 was A$32 million, a 3% increase from A$31 million in the prior year. Performance fee income for the year ended March 31, 2009 was A$2 million, an 89% decrease from the prior year from A$18 million. Minimal performance fee income was recognized as a result of the general downturn in global real estate markets and the resulting losses sustained by funds managed by MBL.

Advisory fee income

Advisory fee income increased to A$11 million in the 2009 fiscal year from A$4 million in the prior year. The main fee income for the year related to advisory fees on the sale of the interest in Macquarie Prime REIT and its manager. Additional fees were earned on the capital raising for MGPA Fund III.

Other fee income

Other fee income decreased 27% to A$11 million in the 2009 fiscal year from A$15 million in the prior year. The current year included fees recognized on a number of real estate transactions, including property development activities, which declined as a result of reduced activity across all real estate markets.

Asset and equity investment income

Asset and equity investment income decreased 83% to A$31 million in the 2009 fiscal year from A$184 million in the prior year. This income category was driven by Real Estate Banking’s share of equity accounted income from associates, which recognized lower income as a result of poor market conditions.

Impairment charges on equity investments and non-financial assets

Impairments decreased 40% to A$180 million in 2009 from A$301 million in the prior year. Difficult market conditions resulted in these further impairments including write-downs on Macquarie Office Trust, other REIT investments, direct property and inventory.

Other asset sales

Other asset sales decreased 85% to A$6 million in the 2009 fiscal year from A$40 million in the prior year. Other asset sales in the year ended March 31, 2008 primarily related to the sale of a portfolio of residential and office properties in Japan, which were not repeated in the 2009 fiscal year.

Specific provisions and collective allowance for loan losses

Specific provisions and collective allowance for credit losses on real estate loans were A$170 million for the year ended March 31, 2009, an increase from A$13 million in the year ended March 31, 2008. Difficult market conditions have resulted in this substantial increase, mostly attributable to loans made to developers with US residential market exposure.

Operating expenses

Operating expenses for the year ended March 31, 2009 were A$93 million, up 4% from A$89 million in the prior year. Recent decreases in headcount have not yet been reflected in employment expenses.

Corporate & Asset Finance

	Year ended		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Net interest income	134	57	135
Total fee and commission income	12	7	71
Net trading income	(27)	17	(259)
Other income			
Specific provisions and collective allowance for credit losses	(31)	(10)	210
Operating lease income	47	32	47
Other income	(3)	16	(119)
Internal management charges[1]	9	6	50
Total other income	22	44	(50)
Total operating income	141	125	13
Operating expenses			
Employment expenses	(28)	(30)	(7)
Other operating expenses	(29)	(28)	4
Total operating expenses	(57)	(58)	(2)
Total contribution to profit by operating group	**84**	**67**	**25**
Non-GAAP metrics			
Headcount	**479**	**476**	**1**

[1] Internal management charges are used to capture permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

Corporate & Asset Finance's result for the year to March 31, 2009 was A$84 million, up 25% from A$67 million in the prior year.

Net interest income

Net interest income for the 2009 fiscal year increased 135% to A$134 million from A$57 million in the prior year. The increase in net interest income on the combined loan and leasing book was primarily due to portfolio growth, higher margins and the full year impact from the acquisition of Macquarie Equipment Finance US (formerly CIT Equipment Leasing) in December 2007.

Specific provisions and allowances for credit losses

Specific provisions and collective allowance for credit losses increased 210% to A$31 million in the 2009 fiscal year from A$10 million in the prior year. This change is primarily a result of portfolio growth and losses incurred across the businesses and difficult economic conditions impacting some clients.

Operating lease income

Operating lease income for the 2009 fiscal year increased 47% to A$47 million from A$32 million in the prior year.

Other income

Other income which primarily relates to gains and losses from the sales of inventory decreased 119% on the prior year to an expense of A$3 million, from an income of A$16 million in the 2008 fiscal year, due to reduced sales activity.

Total operating expenses

Total operating expenses decreased 2% on the prior year to A$57 million from A$58 million in the 2008 fiscal year.

Treasury & Commodities

	Year ended		
	Mar 09	**Mar 08**	**Movement[1]**
	A$m	**A$m**	**%**
Income from trading activities (including net interest income)[2]			
Commodity products	650	449	45
Foreign exchange products	180	135	33
Interest rate products	125	103	21
Total net trading income	955	687	39
Fee and commission income	126	129	(2)
Asset and equity investment income			
Asset and equity investment income	79	106	(25)
Impairment charges on equity investments	(120)	(22)	large
Other asset sales	52	24	117
Total asset and equity investment income	11	108	(90)
Other income			
Specific provisions and collective allowance for credit losses	(158)	(32)	large
Other income	29	16	81
Internal management charges[3]	65	96	(32)
Total other income	(64)	80	(180)
Total operating income	1,028	1,004	2
Operating expenses			
Employment expenses	(142)	(116)	22
Brokerage and commission expenses	(86)	(93)	(8)
Other operating expenses	(247)	(185)	34
Total operating expenses	(475)	(394)	21
Total contribution to profit by operating group	**553**	**610**	**(9)**
Headcount	**509**	**483**	**5**

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

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

3 Internal management charges are used to capture permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

Treasury & Commodities' total contribution to profit decreased 9% to A$553 million in 2009 from A$610 million in the prior year due mainly to write-downs, impairment charges and equity accounted losses, including A$50 million of CDO/CLO investments.

Commodity products trading income

Commodity products trading income of A$449 million in the prior year increased 45% to A$650 million. Commodity products trading (encompassing metals, energy and agricultural trading) experienced higher volatility, wider margins and an exit of competitors across a number of its markets.

Trading income in the Energy Markets division was significantly up on the prior year primarily due to increased market volatility and continued growth of various businesses. The largest contributor was US Gas Trading, and other key contributors were US Power, UK Gas and Energy OTC. The Constellation business was acquired in March, 2009.

The Agricultural and Investor Products division was down on a very strong prior year. Although revenue opportunities for investor products declined, increased market volatility resulting in increased activity in agricultural risk management services.

The Metals and Energy Capital division was again a significant contributor during the year. The Metals trading book had a strong year, also benefiting from volatile markets, fewer competitors and wider spreads.

Foreign exchange products trading income

Trading income on foreign exchange products for the 2009 fiscal year increased 33% to A$180 million from A$135 million in the prior year. The Foreign Exchange division had a record year, benefiting from volatile currency markets and the positive effect of this volatility on client demand for foreign exchange products, which translated to increased volumes transacted.

Interest rate products trading income

Trading income on interest rate products for the 2009 fiscal year increased 21% to A$125 million from A$103 million in the prior year. The current year result included a strong contribution from the Interest Rate Derivative book but was also impacted by difficult market conditions and mark-to-market write-downs of A$50 million on CLO/CDO investments (March 31, 2008: A$38 million).

Fee and commission income

Fee and commission income for the 2009 fiscal year decreased 2% to A$126 million from A$129 million in the prior year. The Futures division remains the key contributor to this income category.

Asset and equity investment income

Asset and equity investment income for the 2009 fiscal year decreased 25% to A$79 million from A$106 million in the prior year due to lower profits from the sale of equity investments in the resources sector.

Impairment charges on equity investments

Impairment charges increased to A$120 million in the fiscal year 2009 from A$22 million in the prior year. These impairment charges were recognized mainly on listed equity investments in the resources sector.

Other asset sales

Income from other asset sales increased 117% to A$52 million from A$24 million in the prior year, reflecting the gain on sale of a number of resources-related net profit interests in the Metals & Energy Capital division.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses increased to A$158 million in 2009 from A$32 million in the prior year. There were A$133 million in specific provisions raised and an increase in the collective allowance for credit losses of A$25 million.

Operating expenses

Total operating expenses in the 2009 fiscal year increased 21% to A$475 million from A$394 million in the prior year. Employment expenses in the 2009 fiscal year increased 22% to A$142 million from A$116 million in the prior year; this was driven by an increase in headcount and costs incurred in restructuring and growing the business. Other operating expenses in the 2009 fiscal year increased 34% to A$247 million from A$185 million in the prior year, mainly as a result of increased investment in IT infrastructure, including the development of new global Loan and Deposits system.

Macquarie Securities

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Income from trading activities (including net interest income) - equities [1]	382	912	(58)
Total fee and commission income	(20)	(28)	(29)
Other income			
Other income	-	3	(100)
Internal management charges[2]	106	215	(51)
Total other income	106	218	(51)
Total operating income	468	1,102	(58)
Operating expenses			
Employment expenses	(27)	(67)	(60)
Brokerage and commission expenses	(206)	(309)	(33)
Other operating expenses	(157)	(124)	27
Total operating expenses	(390)	(500)	(22)
Total contribution to profit by operating group	**78**	**602**	**(87)**
Non-GAAP metrics			
Headcount	**113**	**163**	**(31)**

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

2 Internal management charges are used to capture permanent differences arising from the income tax treatment of certain income and expenses, which include tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses. All internal transactions are eliminated on consolidation.

Macquarie Securities profit contribution for the year ended March 31, 2009 was A$78 million, down 87% from A$602 million in the prior year mainly due to decline in equity products income and brokerage and commission income.

Income from trading activities (including net interest income)

Trading income from equity products (including net interest income) for the year ended March 31, 2009 was A$382 million, down 58% from A$912 million in 2008. A significant decline in demand for listed structured products and unprecedented volatility resulting in trading losses contributed to the decline in derivatives trading income. Dislocation in global equity markets and continued volatility delivered arbitrage trading income that was slightly down on the prior year. Hedge fund de-leveraging, redemptions and regulatory changes to short selling resulted in a substantial decline in Synthetic Products revenues. Structured Equity Finance revenues were significantly down as a result of lower stock borrow and loan volumes. In addition, the trading result for the year included a provision for losses on BrisConnections.

Fee and commission income

Fee and commission income for the year ended March 31, 2009 was a loss of A$20 million, down 29% from a loss of A$28 million in the prior year. This income category largely consists of brokerage and commission income, which predominantly includes transaction-related fees from cash equities services provided to institutional clients including internal clients.

During the year, a decline in equity market values, the de-leveraging of certain market participants and a flight of investors from equities saw significantly lower equity market volumes than the prior year, which led to lower overall equity market turnover (down 25% in Australia and 32% in Asia on the prior year), and a corresponding decrease in income.

The effect of the lower overall market turnover was partially offset by the full year contribution from secondary market brokerage from the Canadian business (acquired December 2007) and income from the United States and European greenfield cash equities businesses that continue to be built out as well as a service fee charged to the Non-Banking Group for back office functions.

Employment expenses

Employment expenses in the year ended March 31, 2009 were A$27 million, down 60% from A$67 million in the prior year, largely due to decreases in headcount.

Brokerage and commission expenses

Brokerage and commission expenses in the year ended March 31, 2009 were A$206 million, down 33% from A$309 million in the prior year. The decrease in brokerage and commission expenses was primarily driven by lower trading volumes and brokerage operations during the year.

Other operating expenses

Other operating expenses in the year ended March 31, 2009 were A$157 million, up from A$124 million in the prior year. The increase was predominantly due to continued investment on enhancing the IT platform for both front and back office functions and the increased offshore expense driven by the depreciation of the Australian dollar against the US dollar and Euro.

Macquarie Capital

	Year ended		
	Mar 09	**Mar 08**	**Movement[1]**
	A$m	**A$m**	**%**
Net interest income	(38)	(69)	(45)
Fee and commission income	83	(37)	large
Total net trading income	(11)	(64)	(83)
Asset and equity investment income	21	131	(84)
Other income	144	314	(54)
Total operating income	199	275	(28)
Total operating expenses	(71)	(189)	(62)
Total contribution to profit by operating group	**128**	**86**	**49**

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

Macquarie Capital's result for the year to March 31, 2009 was A$128 million, up 49% on the prior year result of A$86 million.

Net interest income/(expense)

Net interest expense of A$38 million for the year ended March 31, 2009 comprises net interest expense on borrowings for investments which decreased during the year.

Fee and commission income

Fee and commission income for the year ended March 31, 2009 increased over the prior year to A$83 million largely due to the release of a provision of A$62 million which was initially recognized in the prior year.

Asset and equity investment income

Asset and equity investment income for the year ended March 31, 2009 included a A$41 million gain on disposal of aircraft leasing assets offset by A$56 million in impairment charges related to the write down of the US portfolio of asset-backed securities held for sale reflecting a decline in value.

Total other income

Total other income for the year ended March 31, 2009 was A$144 million driven by internal management charges (which are eliminated across the segments on aggregation) of A$149 million.

Total operating expenses

Total operating expenses were A$71 million for the year ended March 31, 2009, down 62% on the prior year due to a reduction in activity.

For the period post the Restructure, which occurred in November 2007, and up to September 30, 2008 all Macquarie Capital staff were employed by the Non-Banking Group and therefore no direct employment expenses are incurred in the Banking Group. Employment expenses are incurred in the Non-Banking Group and recharged via a service fee to MBL which is reflected in the "Total operating expenses" category.

Capital Analysis

Overview

As an Australian Prudential Regulation Authority (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 the dollar value 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.

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.

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8% at both Level 1 (ELE Group) and Level 2 (Consolidated Banking Group), with at least half of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios that may be higher than these levels. MBL Group internal capital policy set by the Board requires capital floors above the minimum regulatory required levels.

Tier 1 capital

MBL Group's Tier 1 capital consists of ordinary share capital, retained earnings, certain reserves, plus eligible hybrid capital instruments. Reserves included in Tier 1 capital are the share based payment reserve and foreign currency translation reserve. The hybrid Tier 1 capital includes MIS and MIPS. 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) on October 19, 1999 and became redeemable (in whole or in part) at MBL's discretion on November 19, 2004. 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.

MIPS were issued when the London branch of MBL issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020. On September 11, 2009, £307.5 million of MIPS owned by entities associated with MGL Group were redeemed and on September 29, 2009, £307.5 million of reset convertible debentures issued by Macquarie Bank's London Branch were subsequently redeemed. As at March 31, 2010, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with MGL Group.

Tier 2 capital

MBL Group Upper Tier 2 capital consists of the portion of MIS and MIPS not eligible for inclusion in Tier 1 capital and a portion of equity reserves. MBL Group Lower Tier 2 capital consists of subordinated debt issued to financial institutions, subject to limits imposed by APRA based on Tier 1 capital. Repayment of this debt is subordinated to the claims of depositors and other creditors but ranks ahead of equity instruments.

During the year ended March 31, 2010, MGL Group either called or bought back A$463 million of subordinated debt instruments.

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 total capital base

MBL Group's regulatory capital supply and capital ratios as of March 31, 2010 are detailed in the following tables.

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Tier 1 capital			
Paid-up ordinary share capital	6,595	4,560	45
Reserves	(86)	190	(145)
Retained earnings	962	882	9
Innovative Tier 1 capital	459	915	(50)
Gross Tier 1 capital	**7,930**	**6,547**	21
Deductions from Tier 1 capital:			
Goodwill	193	162	19
Deferred tax assets	434	53	large
Changes in the ADI's own creditworthiness on banking book liabilities	49	340	(86)
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	621	128	large
Loan and lease origination fees and commissions paid to mortgage originators and brokers	132	170	(22)
Holding of own Tier 1 capital instruments agreed with APRA	-	127	(100)
Other Tier 1 capital deductions	283	357	(21)
Deductions from Tier 1 capital only	**1,712**	**1,337**	28
Other 50/50 deductions from Tier 1 capital:			
Non-subsidiary entities exceeding prescribed limits (50%)	151	112	35
Non-consolidated subsidiaries (50%)	255	274	(7)
All other deductions relating to securitization (50%)	43	74	(42)
Shortfall in provisions for credit losses (50%)	171	294	(42)
Other 50/50 deductions from Tier 1 capital (50%)	134	172	(22)
Total 50/50 deductions from Tier 1 capital	754	926	(19)
Total Tier 1 capital deductions	2,466	2,263	9
Net Tier 1 capital	5,464	4,284	28

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Tier 2 capital			
Upper Tier 2 capital:			
Excess Tier 1 capital instruments	-	204	(100)
Other Upper Tier 2 capital	168	86	95
Lower Tier 2 capital:			
Term subordinated debt	1,404	1,941	(28)
Gross Tier 2 capital	1,572	2,231	(30)
Deductions from Tier 2 capital:			
Holding of own Tier 2 capital instruments agreed with APRA	-	204	(100)
50/50 deductions from Tier 2 capital	754	926	(19)
Total Tier 2 capital deductions	754	1,130	(33)
Net Tier 2 capital	818	1,101	(26)
Total capital base	**6,282**	**5,385**	17

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

Risk Weighted Assets

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Credit risk – Risk-Weighted Assets (RWA)			
Subject to F-IRB approach:			
Corporate[2]	15,254	9,901	54
Sovereign	730	36	large
Bank	2,324	1,134	105
Residential mortgage	1,897	1,952	(3)
Other retail	1,006	680	48
Total RWA subject to F-IRB approach	21,211	13,703	55
Specialized lending exposures subject to slotting criteria[3]	3,002	3,101	(3)
Subject to standardized approach:			
Corporate	3,270	3,486	(6)
Bank	49	18	172
Residential mortgage	462	197	135
Other retail	3,376	2,496	35
Other	2,728	3,540	(23)
Total RWA subject to standardized approach	9,885	9,737	2
Credit risk RWA for securitization exposures	1,019	1,074	(5)
Total credit risk RWA	35,117	27,615	27
Equity risk exposures RWA	1,715	1,189	44
Market risk RWA	2,480	2,082	19
Operational risk RWA	6,748	5,761	17
Interest rate risk in banking book RWA	—	6	(100)
APRA scaling factor (6%) applied to IRB exposures	1,273	822	55
Total RWA	**47,333**	**37,475**	**26**
Capital ratios			
Macquarie Bank Group Tier 1 capital ratio (%)	11.5	11.4	1
Macquarie Bank Group Total capital ratio (%)	13.3	14.4	(8)

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

2 Includes A$393 million for exposures to the Non-Banking Group (March 31, 2009: A$710 million).

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

Statutory consolidated balance sheet

	As at		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Assets			
Cash and balances with central banks	–	141	(100)
Due from banks	6,490	10,169	(36)
Cash collateral on securities borrowed and reverse repurchase agreements	6,084	4,534	34
Trading portfolio assets	11,324	8,772	29
Loan assets held at amortized cost	43,794	43,922	nm
Other financial assets at fair value through profit or loss	7,125	5,541	29
Derivative financial instruments – positive values	21,540	27,335	(21)
Other assets	7,321	4,341	69
Investment securities available for sale	16,761	14,544	15
Intangible assets	948	337	181
Life investment contracts and other unit holder assets	4,854	4,314	13
Due from related body corporate entities	2,391	4,647	(49)
Interests in associates and joint ventures using the equity method	915	1,571	(42)
Property, plant and equipment	139	88	58
Deferred income tax assets	373	93	large
Non-current assets and assets of disposal groups classified as held for sale	51	56	(9)
Total assets	**130,110**	**130,405**	nm
Liabilities			
Due to banks	2,167	3,264	(34)
Cash collateral on securities lent and repurchase agreements	7,201	3,881	86
Trading portfolio liabilities	4,921	1,980	149
Derivative financial instruments – negative values	21,634	27,273	(21)
Deposits	22,288	21,603	3
Debt issued at amortized cost	39,408	48,270	(18)
Other financial liabilities at fair value through profit or loss	2,625	3,878	(32)
Other liabilities	6,727	4,001	68
Current tax liabilities	76	111	(32)
Life investment contracts and other unit holder liabilities	4,864	4,312	13
Provisions	71	76	(7)
Due to related body corporate entities	8,008	3,332	140
Deferred income tax liabilities	273	72	279
Liabilities of disposal groups classified as held for sale	9	–	–
Total liabilities excluding loan capital	**120,272**	**122,053**	**(1)**
Loan capital			
Subordinated debt at amortized cost	905	1,491	(39)
Subordinated debt at fair value through profit or loss	499	451	11
Total loan capital	**1,404**	**1,942**	**(28)**
Total liabilities	**121,676**	**123,995**	**(2)**
Net assets	**8,434**	**6,410**	**32**
Equity			
Contributed equity:			
Ordinary share capital	6,508	4,503	45
Equity contribution from ultimate parent entity	87	57	53
Macquarie Income Securities	391	391	nm
Reserves	(170)	(201)	(15)

	As at		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Retained earnings	1,533	1,250	23
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**8,349**	**6,000**	**39**
Minority interests	85	410	(79)
Total equity	**8,434**	**6,410**	**32**

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

Total assets of A$130.1 billion at March 31, 2010 were marginally down from A$130.4 billion at March 31, 2009, a decrease of A$295 million.

Improved activity in global markets over the past year has resulted in an increase in trading related balances, including Cash collateral on securities borrowed & reverse repurchase agreements (up A$1.6 billion).

Loan assets of A$43.8 billion at March 31, 2010 were broadly in line with A$43.9 billion at March 31, 2009 primarily due to a reduction in the Australian mortgage portfolio as the business continued to wind down, partially offset by an increase in loan volumes in the Corporate & Asset Finance division largely due to corporate debts acquired since March 2009 and the acquisition of a A$1.0 billion portfolio from Ford Credit in October 2009.

Amounts due from banks decreased A$3.7 billion since March 31, 2009 mainly due to a reduction in liquidity requirements.

Interests in associates and joint ventures using the equity method decreased 42% from A$1.6 billion at March 31, 2009 to A$915 million March 31, 2010 due to impairments and asset sales recognized during the year. The strengthening of the Australian Dollar compared with major global currencies during the year contributed to a reduction in the value of investments held in foreign currencies.

Intangible assets increased A$611 million from A$337 million at March 31, 2009 to A$948 million at March 31, 2010 largely due to the acquisition of Delaware Investments in January 2010. Other assets increased A$3.0 billion from March 31, 2009 to A$7.3 billion at March 31, 2010 mainly due to an increase in unsettled trades, reflecting an increase in global market activity.

Total liabilities (excluding loan capital) decreased 1% from A$122.1 billion at March 31, 2009 to A$120.3 billion at March 31, 2010. The main driver of the decrease has been a A$8.9 billion reduction in Debt issued at amortised cost from A$48.3 billion at March 31, 2009 to A$39.4 billion at March 31, 2010. Movements in trading related balances from March 31, 2009 (Cash collateral on securities lent & repurchase agreements up A$3.3 billion and Trading portfolio liabilities up A$2.9 billion) have resulted from improved market conditions compared to the prior year.

Total equity has increased A$2.0 billion since March 31, 2009 to A$8.4 billion at March 31, 2010. The main driver of the change has been the profit for the year to March 31, 2010 of A$663 million.

This analysis is based on the funded balance sheet classification of loan assets and not the statutory balance sheet classification. For details on the funded balance sheet see "— Liquidity — Funded Assets and Funding Sources of MBL Group."

For the year ended March 31, 2010 funded loan assets of MBL Group consisted of:

	Year ended
	MBL Group Mar 10
	A$b
Mortgages	
Australia	2.2
United States	0.9
Canada	6.7
Structured investments	3.7
Banking	3.6
Real estate	0.6
Resources and commodities	1.7
Corporate & Asset Finance leasing	3.5
Corporate & Asset Finance lending	5.1
Other lending	0.1
Total	**28.1**

Our funded loan asset portfolio comprises diverse, secured assets:

<u>Loan Category</u>	<u>Asset Security</u>
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. Large impairment provisions.
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.
Corporate & Asset Finance leasing	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.

Loan Category	Asset Security
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 MGL 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 are 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 2010 and 2009 fiscal years.

Equity investments reconciliation

	As at	
	Mar 10	**Mar 09**
	A$m	**A$m**
Equity investments (excluding Held for Sale)		
Statutory balance sheet		
Equity investments within Other financial assets at fair value through profit or loss	1,190	2,086
Equity investments within Investment securities available for sale	661	411
Interests in associates and joint ventures using the equity method	915	1,571
Total equity investments per statutory balance sheet	**2,766**	**4,068**
Adjustment for funded balance sheet		
Equity hedge positions[1]	(1,023)	(1,951)
Total funded equity investments	**1,743**	**2,117**
Adjustments for equity investments analysis		
Available-for-Sale reserves[2]	(172)	(19)
Associate reserves[3]	(1)	(43)
Total adjusted equity investments[4]	**1,570**	**2,055**
Held-for-Sale investments		
Net assets of disposal groups classified as held for sale	42	56
Total equity investments including Held for Sale investments	**1,611**	**2,111**

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

[2] Available for sale reserves that will be released to income upon realization of the investment.

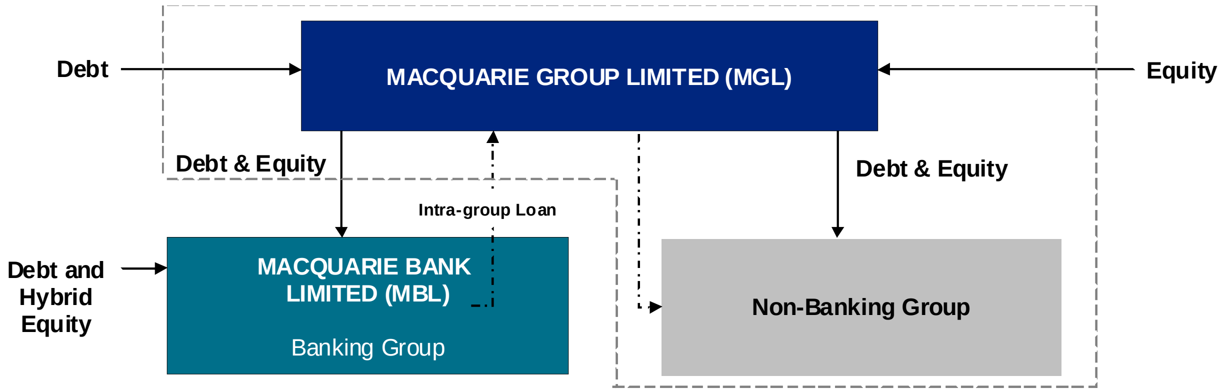
[3] Associates reserves that will be released to income upon realization of the investment.

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

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 and provides funding under the Intra Group Loan to MGL.

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



Liquidity Management

MGL Group's liquidity 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. Each of 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, Head of Risk Management, 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.

In Australia, MBL is subject to regulation by APRA as an ADI and MGL is subject to regulation by APRA as a NOHC. See "Regulation and Supervision — Australia — APRA" for further information.

Liquidity Policies and Principles

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

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MGL has no short-term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 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.

MBL can provide debt funding to MGL (or the Non-Banking Group) up to a regulatory limit that is determined by APRA's non ELE rules. MBL's ability to return capital to MGL for use by MGL (or the Non-Banking Group) is limited by MBL's existing capital requirements as an ADI. See "Regulation and Supervision — Australia — APRA". As a result, MGL's liquidity modeling and twelve month scenarios separately test MGL Group, MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business.

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

Liquidity and Funding Management

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

Liquidity Limits

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

Scenario Analysis

Scenario analysis is central to MGL 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 and MBL Group's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modeling includes two 12-month liquidity projection scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes (including twelve months) and a range of conservative assumptions are used in the scenarios with regard to 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 designed to ensure that adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum 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 remaining 10% must be approved by Group Treasury and Risk Management before inclusion in the liquid asset portfolio. As at March 31, 2010, 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 bank and unguaranteed bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper. The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in US dollars or other currencies where appropriate.

MGL Group had A$22.2 billion cash and liquid assets at March 31, 2010 (March 31, 2009: A$30.3 billion), of which A$20.1 billion were held by MBL Group (March 31, 2009: A$25.5 billion).

MGL Group continues to monitor regulatory and other market developments in response to the global financial crisis that may impact the composition of its cash and liquid asset portfolio. See "— Regulatory Developments" below for further information.

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 upon the occurrence of 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.

Certain jurisdictions in which MGL has regulated banking subsidiaries may require a more comprehensive contingency plan specific to that region. In that instance, a supplement to our Liquidity Contingency Plan which is consistent with the liquidity management principles and policies of MGL Group is maintained.

Funding Transfer Pricing

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

Credit Ratings

On February 17, 2010, Standards and Poor's revised its outlook for MGL from Negative to Stable. As at March 31, 2010, the credit ratings for each of our funding vehicles were as follows:

	Macquarie Group Limited			Macquarie Bank Limited		
Rating Agency[1]	Short-term	Long-term	Long-term Rating Outlook	Short-term	Long-term	Long-term Rating Outlook
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Services	P-1	A2	Negative	P-1	A1	Negative
Standard & Poor's	A-2	A-	Stable	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.

Regulatory developments

In response to the global financial crisis, regulators worldwide are proposing to enhance their prudential standards for liquidity risk management of financial institutions. The proposed changes include more stringent qualitative and quantitative requirements to enhance the resilience of financial institutions under stressed market conditions. See "Regulation and Supervision" above for further information on these proposed changes.

In Australia, the proposed regulatory changes are expected to result in higher capital and tighter liquidity requirements for the banking sector. MBL Group currently expects that, if APRA's liquidity proposals are implemented in their current form, the key implication for MBL would be the narrowing of the definition of "liquid assets", which could require it to hold lower yielding assets such as Commonwealth Government Securities, and significantly increased reporting requirements. See "Regulation and Supervision — Australia — Discussion Paper - APRA's prudential approach to ADI liquidity risk" for further information. MBL Group continues to monitor relevant regulatory and other market developments.

Funding Transactions

The table below sets out MGL Group's term funding transactions in the year ended March 31, 2010:

	Year ended Mar 10		
Funding Source	Banking Group	Non-Banking Group	Total
	A$bn	A$bn	A$bn
Secured finance			
Term secured finance	3.1	-	3.1
Issued paper			
Commonwealth Guaranteed	3.7	-	3.7
Unguaranteed	-	3.0	3.0
Capital			
Institutional placement and retail share purchase plan	-	1.2	1.2
Total	**6.8**	**4.2**	**11.0**

In the year ended March 31, 2010, MBL Group raised A$3.1 billion of term secured finance, of which A$2.5 billion was through the Canadian Mortgage Bonds program.

Since March 31, 2009, MBL and MGL have continued to raise term wholesale funding. In the year ended March 31, 2010, MBL issued A$3.7 billion of Commonwealth – guaranteed funding and MGL issued A$3.0 billion of non-guaranteed funding.

On October 14, 2009, MBL Group raised further term funding through the issuance of A$675 million SMART Series 2009-1 bonds. These securities are backed by automobile and equipment receivables previously funded through non-recourse warehouse facilities.

On February 7, 2010, the Commonwealth announced the withdrawal of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme effective March 31, 2010. Although wholesale markets began to be accessible without the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme during the second half of the 2010 fiscal year, the effect of terminating the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme is uncertain, and may affect the general level of liquidity in the international capital markets and our cost of funding. As at March 31, 2010, MBL had US$12.0 billion of Commonwealth guaranteed debt outstanding. See "Risk Factors — Our business and financial condition may be negatively impacted by adverse credit and equity market conditions, which may negatively affect our businesses in certain industry sectors, impair our ability to meet our liquidity needs, adversely affect our access to international capital markets and increase our cost of funding". Commonwealth guaranteed issuances were only available to MBL and could not be used to fund the Non-Banking Group.

On May 7, 2009, MGL completed a A$540 million capital raising in the Australian and international capital markets through an institutional private placement that resulted in the issue of approximately 20 million additional ordinary shares at A$27 per ordinary share. In addition to the institutional placement, on June 2, 2009, MGL completed a A$669 million Share Purchase Plan for eligible retail shareholders that resulted in the issue of approximately 25 million additional ordinary shares at A$26.60 per ordinary share.

Recent Funding Developments. On April 22, 2010, unitholders of investments in the CMT approved the conversion of the CMT to an at call CMA with MBL, effective July 31, 2010. The final balance to be transferred is subject to change, however, the CMT volume at March 31, 2010 was A$9.5 billion, which represents the CMT balance as at March 31, 2010 net of amount on deposit with MBL of A$0.5 billion. We expect that our excess liquidity will continue to be deployed across our businesses as growth opportunities arise and are evaluated. See "Macquarie Bank Limited — Our Strategy" above for further information.

During April 2010, MBL Group raised C$181 million of term secured finance through the issuance of National Housing Authority Mortgage Backed Securities.

Explanation of Funded Balance Sheet

MGL and MBL's statutory balance sheets are prepared based on AGAAP and do not always represent their actual funding requirements. For example, the statutory balance sheet includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of MGL or MBL.

The tables below have been prepared to reconcile the reported assets of the consolidated MGL Group to net funded assets at March 31, 2010. This MGL Group funding requirement is then split between the Banking Group and the Non-Banking Group to assist in the analysis of each of the separate funding requirements of MBL and MGL.

MGL Group	**As at**
	Mar 10
	A$b
Total assets per MGL Statutory Balance Sheet	**145.9**
Accounting deductions:	
Self funded trading assets[1]	(15.4)
Derivative revaluation accounting gross-ups[2]	(21.2)
Life investment contracts and segregated assets[3]	(7.3)
Broker settlement balances[4]	(5.7)
Short term working capital assets[5]	(6.6)
Non-recourse funded assets:	
Securitized assets and non-recourse warehouses[6]	(14.8)
Net funded assets	74.9

1. *Self funded trading assets.* There are a number of entries on the balance sheet that arise from the normal course of trading activity MGL Group conducts with its clients and counterparties. They typically represent both sides of a transaction. The entries off-set 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.* MGL Group's derivative activities are mostly client driven with client positions hedged by off-setting 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 MGL 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 MGL 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 MGL 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, MGL 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 rather than the gross balance.

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 MGL Group and are funded by third parties rather than MGL Group.

Funded Assets and Funding Sources of MGL Group

The following table represents the funded balance sheet of MGL Group at March 31, 2010:

	As at Mar 10 A$b
MGL Group	
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposits	1.9
Commercial paper	3.0
Net trade creditors[2]	0.4
Structured notes[3]	2.8
Secured funding[4]	8.3
Bonds[5]	17.5
Other loans[6]	0.7
Senior credit facility[7]	6.9
Deposits[8]	
Retail deposits	15.5
Corporate and wholesale deposits	4.1
Loan Capital[9]	2.0
Equity and hybrids[10]	11.8
Total	**74.9**
Funded assets	
Cash and liquid assets[11]	22.2
Net trading assets[12]	12.7
Loan assets less than one year[13]	7.2
Loan assets greater than one year[13]	22.3
Assets held for sale[14]	0.1
Debt investment securities[15]	2.8
Co-investment in MGL Group managed funds and equity investments[16]	5.5
Property, plant and equipment and intangibles	2.1
Total	**74.9**

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

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.6 billion facility, of which A$0.7 billion is undrawn as at March 31, 2010.

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

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

10 *Equity and hybrids.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments includes the MIPS security issues.

11 *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.

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

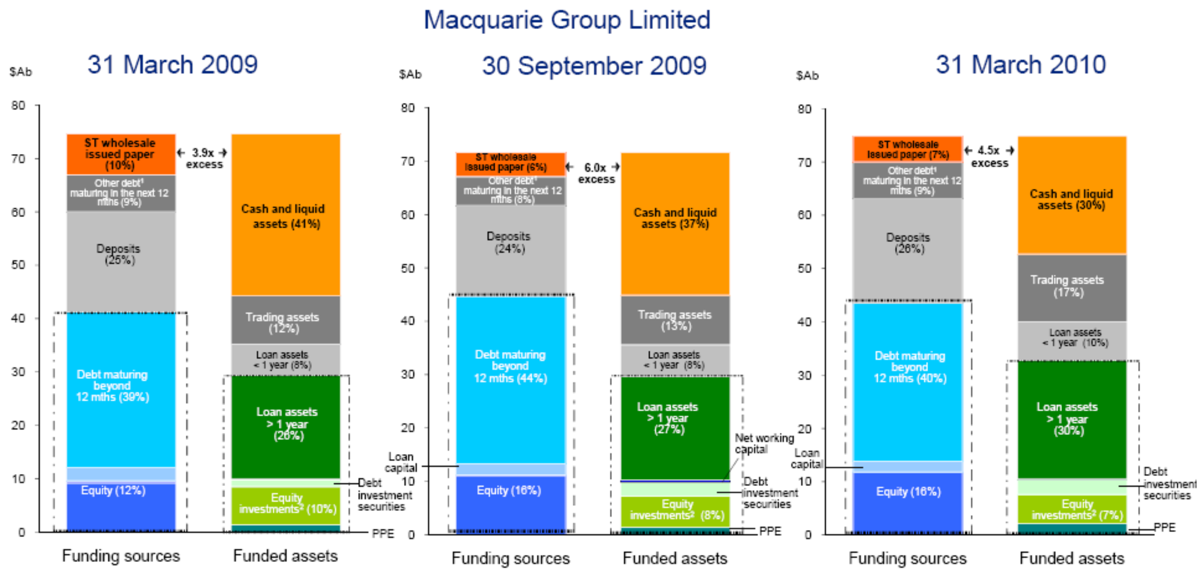
[13] *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

[14] *Assets held for sale.* These are the net assets/liabilities of the held-for-sale categories on the balance sheet.

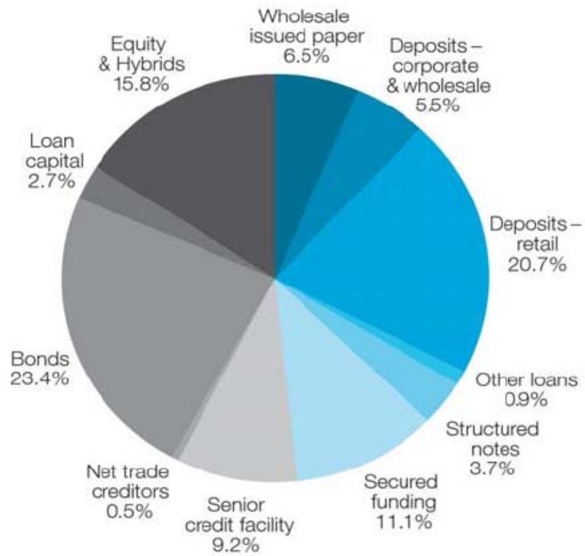
[15] *Debt investment securities.* These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

[16] *Co-investment in MGL Group managed funds and equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in Macquarie Capital managed funds.

The funded balance sheet of MGL has continued to strengthen due to the term funding raised in the year ended March 31, 2010, as described above under "— Funding Transactions". The graph below illustrates the change in composition of the funded balance sheet from March 31, 2009 to March 31, 2010.

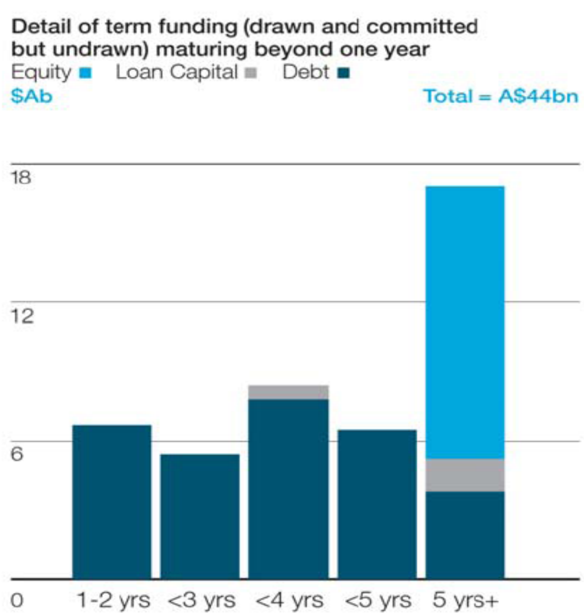


Diversity of funding sources of MGL Group, as at March 31, 2010



As at March 31, 2010, deposits at MBL represented A$19.6 billion, or 26% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A$4.9 billion, or 7% of total funding and other debt funding maturing within 12-months represented A$6.8 billion or 9% of total funding.

The following chart and table provide details of MGL Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:



	As at				
	Mar 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
MGL Group	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**
Structured notes	0.4	0.2	0.1	0.3	0.2
Secured funding	0.4	1.3	2.2	2.1	1.7
Bonds	3.2	1.6	5.5	4.1	1.7
Other loans	–	–	–	–	0.2
Senior credit facility	2.5	2.1	–	–	–
Total debt	**6.5**	**5.2**	**7.8**	**6.5**	**3.8**
Loan capital	–	–	0.6	–	1.4
Equity and hybrid	–	–	–	–	11.8
Total funding sources drawn	**6.5**	**5.2**	**8.4**	**6.5**	**17.0**
Undrawn	0.2	0.2	–	–	–
Total funding sources drawn and undrawn	**6.7**	**5.4**	**8.4**	**6.5**	**17.0**

MGL Group's term funding (including undrawn facilities) maturing beyond one year exceeds term assets, which primarily comprises loan assets of greater than one year (A$22.3 billion or 30% of total funded assets) and equity investments (A$5.5 billion or 7% of total funded assets). In addition, at March 31, 2010 MGL Group's cash and liquid assets of A$22.2 billion exceeded short-term wholesale issued paper of A$4.9 billion. Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short term funding) increased to 3.9 years at March 31, 2010 from 3.7 years at March 31, 2009.

Funding Profile for Banking Group

The funded balance sheet of the Banking Group as at March 31, 2010:

	As at
	Mar 10
Banking Group	**A$b**
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	1.9
Commercial paper	3.0
Net trade creditors[2]	-
Structured notes[3]	2.6
Secured funding[4]	7.7
Bonds[5]	14.3
Other loans[6]	0.2
Deposits[7]	
Retail	15.5
Corporate and wholesale	4.1
Loan capital[8]	1.4
Equity and hybrids[9]	8.5
Total	**59.2**

Funded assets	
Cash and liquid assets[10]	20.1
Net trading assets[11]	11.3
Loan assets less than one year[12]	6.8
Loan assets greater than one year[12]	21.3
Assets held for sale[13]	0.1
Debt investment securities[14]	2.5
MBL Intra Group Loan to MGL[15]	1.2
Non-Banking Group deposit with MBL	(6.9)
Co-investment in MGL Group managed funds and equity investments[16]	1.6
Property, plant and equipment and intangibles	1.1
Net trade debtors[17]	0.1
Total	**59.2**

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

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

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

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

9 *Equity and hybrids.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIPS security issues.

10 *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.

11 *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.

12 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

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

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

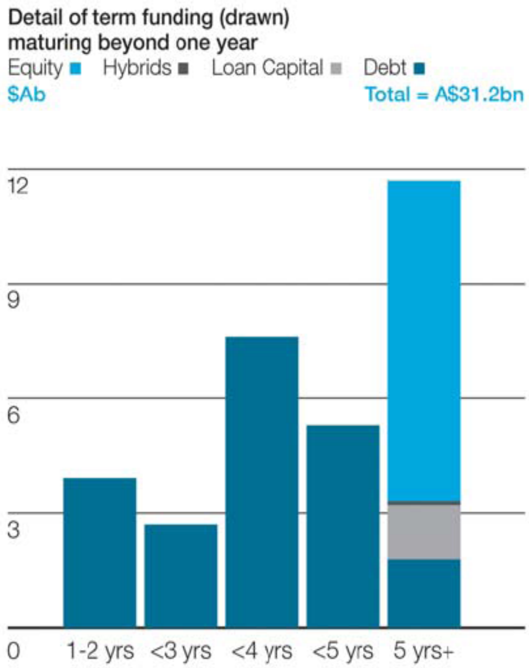
15 *Intra Group Loan.* Subsequent to March 31, 2009 MBL and MGL agreed to vary the Intra Group Loan, see "Macquarie Bank Limited — — Relationship between MBL and MGL — Intra Group Loan" above for details.

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

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

As at March 31, 2010, deposits represented A$19.6 billion, or 33% of total funding, short-term wholesale funding represented A$4.9 billion, or 8% of total funding, and other debt funding maturing within 12 months represented A$3.5 billion, or 6% of total funding.

The following chart and table provides details of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:



	As at				
	Mar 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
Banking Group	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**
Structured notes	0.4	0.2	0.1	0.3	0.2
Secured funding	0.3	1.1	2.1	2.0	1.6
Bonds	3.2	1.4	5.4	3.0	-
Total debt	**3.9**	**2.7**	**7.6**	**5.3**	**1.8**
Loan capital	-	-	-	-	1.4
Equity and hybrid	-	-	-	-	8.5
Total funding sources drawn	**3.9**	**2.7**	**7.6**	**5.3**	**11.7**
Undrawn	-	-	-	-	-
Total funding sources drawn and undrawn	**3.9**	**2.7**	**7.6**	**5.3**	**11.7**

As demonstrated above, the Banking Group has diversity in its funding sources by source and maturity. The Banking Group's term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.8 years.

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 that may be issued 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$8.0 billion of debt securities outstanding at March 31, 2010, of which US$4.5 billion are Commonwealth Government guaranteed;

- US$10 billion Commercial Paper Program incorporating Commonwealth Government guaranteed and unguaranteed securities under which US$1.6 billion of debt securities were outstanding as at March 31, 2010; and

- US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Commonwealth Government guaranteed and unguaranteed securities. As at March 31, 2010, Government guaranteed issuance amounted to US$7.5 billion under the Rule 144A/Regulation S Medium Term Note Program, of which all are Commonwealth Government guaranteed and there are no unguaranteed notes outstanding under the program.

In addition to the foregoing, MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits and Transferable Negotiable Certificates of Deposits. As at March 31, 2010, MBL Group had A$1.9 billion of these securities outstanding, of which none are Commonwealth Government guaranteed.

Furthermore, MBL Group as an ADI has access to liquidity from the RBA's daily market operations. At March 31, 2010, MBL Group had internally securitized A$1.6 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Funding Profile for Non-Banking Group

The funded balance sheet of the Non-Banking Group as at March 31, 2010:

	As at Mar 10 A$b
Non-Banking Group	
Funding sources	
MBL Intra Group Loan to MGL[1]	1.2
Net trade creditors[2]	0.5
Structured notes[3]	0.2
Secured funding[4]	0.6
Bonds[5]	3.2
Other loans[6]	0.5
Senior credit facility[7]	6.9
Loan capital[8]	0.6
Equity and hybrids[9]	3.3
Total	**17.0**
Funded assets	
Cash and liquid assets[10]	2.1
Non-Banking Group deposit with MBL	6.9
Net trading assets[11]	1.4
Loan assets less than one year[12]	0.4
Loan assets greater than one year[12]	1.0

	As at
	Mar 10
	A$b
Debt investment securities[13]	0.3
Co-investment in MGL Group managed funds and equity investments[14]	3.9
Property, plant and equipment and intangibles	1.0
Total	**17.0**

1 *Intra Group Loan*. See "Macquarie Bank Limited — Relationship between MBL and MGL — Intra Group Loan" above for details.

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.6 billion facility, of which A$0.7 billion is undrawn as at March 31, 2010.

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

9 *Equity and hybrids.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIPS security issues.

10 *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.

11 *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.

12 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

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

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

The following chart and table provides detail of the Non-Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:

	As at Mar 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
Non-Banking Group	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**
Structured notes	–	–	–	–	–
Secured funding	0.1	0.2	0.1	0.1	0.1
Bonds	–	0.2	0.1	1.1	1.7
Other bank loans	–	–	–	–	0.2
Senior credit facility	2.5	2.1	–	–	–
Intra-group loan	–	1.2	–	–	–
Total debt	**2.6**	**3.7**	**0.2**	**1.2**	**2.0**
Loan capital	–	–	0.6	–	–
Equity	–	–	–	–	3.3
Total funding sources drawn	**2.6**	**3.7**	**0.8**	**1.2**	**5.3**
Undrawn[1]	0.2	0.2	–	–	–
Total funding sources drawn and undrawn	**2.8**	**3.9**	**0.8**	**1.2**	**5.3**

[1] Undrawn term facilities for the Non-Bank include A$0.7 billion undrawn on the Senior Credit Facility.

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.8 years.

Debt funding of MGL, which primarily funds the activities of the Non-Banking Group, includes:

- Senior Credit Facility, of which at March 31, 2010 was A$6.9 billion drawn and A$0.7 billion undrawn.

- US$1.1 billion Intra Group Loan from MBL. This facility is an unsecured term loan to be repaid by December 2012. As at March 31, 2010, the balance outstanding was A$1.2 billion. This facility provided funding to MGL following the Restructure and is described under "Macquarie Group Limited — Relationship between MBL and MGL — Intra Group Loan" above.

In addition to the above facilities, the other key tools used for accessing wholesale debt funding markets for MGL:

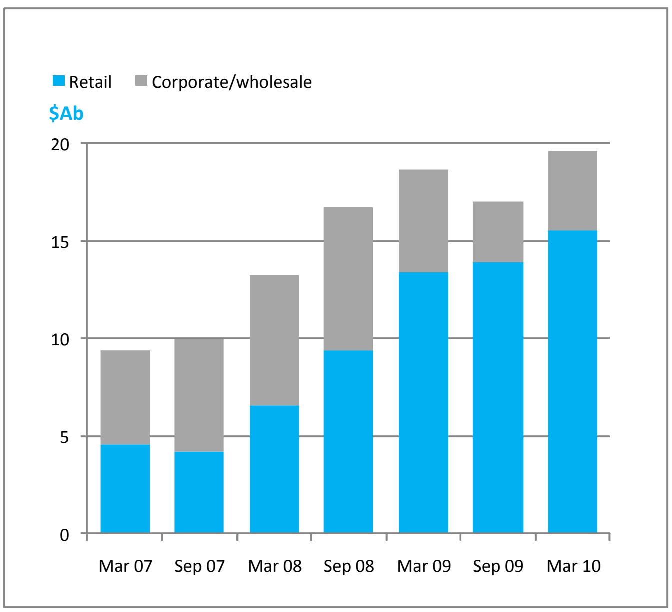
- US$10 billion Rule 144A/Regulation S Medium Term Note Program. US$2.5 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at March 31, 2010; and

- US$10 billion multi-instrument Regulation S Debt Instrument Program, under which securities may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits and MGL Wholesale Notes. The Debt Instrument Program had US$605 million of debt securities outstanding at March 31, 2010.

Deposit Strategy

During the 2010 fiscal year, MBL continued to pursue a deposit strategy that was consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy focused on growing the retail deposit base, which generally represents a more stable and reliable source of funding than corporate and wholesale deposits. This resulted in a reduction in corporate and wholesale deposits from A$5.4 billion at March 31, 2009 to A$4.1 billion at March 31, 2010, while retail deposits continued to grow by A$2.1 billion to A$15.5 billion at March 31, 2010.

The chart below illustrates MBL Group's strong retail deposit growth since March 2007.



Deposits	Mar 07 A$b	Sep 07 A$b	Mar 08 A$b	Sep 08 A$b	Mar 09 A$b	Sep 09 A$b	Mar 10 A$b
Retail	4.6	4.2	6.6	9.4	13.4	13.9	15.5
Corporate/Wholesale	4.8	5.8	6.6	7.3	5.4	3.1	4.1

MBL is an Australian ADI, and therefore the provisions of the financial claims scheme apply to MBL. See "Regulation and Supervision — Australia — Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme" for further information.

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. 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. See Note 38 "Capital and other expenditure commitments" and Note 39 "Lease commitments" to our 2010 annual financial statements for further information.

As at March 31, 2010, MBL Group had A$5.0 billion of contingent liabilities and commitments, including A$1.0 billion of contingent liabilities and A$4.0 billion of commitments under undrawn credit facilities. See Note 37 "Contingent liabilities and commitments" to our 2010 annual financial statements which shows MBL Group's contingent liabilities and commitments at March 31, 2010.

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 2010 annual financial statements for a quantitative and qualitative discussion of these risks.

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