MACQUARIE
BANK

Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the Fiscal Year ended March 31, 2009

Dated: May 21, 2009

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the Fiscal Year ended March 31, 2009 (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;
- "*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 Guarantee Scheme Website”* means the website maintained by the Commonwealth at www.guaranteescheme.gov.au;

- *“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;

- *“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;

- conversions of Australian dollars to US dollars have been made at the exchange rate of US$0.7609 per A$1.00, see “Exchange Rates” unless otherwise specified;

- *“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;

- *“Equity under Management”* is a non-GAAP financial measure we use that aggregates the market capitalization of listed funds managed by entities in MBL Group or the Non-Banking Group, as applicable, committed capital from investors in unlisted funds, the face value of hybrid instruments and invested capital in managed assets, see “Financial Information Presentation — Non-GAAP financial measures”;

- *“Exchange Act”* means the 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 2009 annual financial statements, our 2008 annual financial statements and our 2007 annual financial statements;

- *“IASB”* means the International Accounting Standards Board;

- *“IFRS”* means International Financial Reporting Standards;

- *"international income"* is a non-GAAP financial measure we use that means total operating income derived from our operations outside Australia, or in Australia for non-Australian clients and counterparties, see "Financial Information Presentation — Non-GAAP financial measures — International income";

- *"Intra Group Loan"* means the lending facility more fully described under "Macquarie Bank Limited — Relationship between MBL and MGL Group — 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 within MGL Group", the Macquarie Capital Advisers division which includes Macquarie Capital Funds and certain activities of Treasury & 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;

- *"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;

- *"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;

- *"non-specialist funds"* means those funds managed by entities within MBL Group or the Non-Banking Group, as applicable, that are not specialized funds;

- *"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;

- *"Previous AGAAP"* means Australian GAAP that applied to our financial statements prior to our adoption of AGAAP;

- *"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, as more fully described in Note 1 to our 2009 annual financial statements;

- *"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$7.8 billion senior credit facilities provided to MGL comprising A$0.1 billion bilateral facilities, A$2.4 billion revolving credit facilities and A$5.3 billion term facilities, as more fully described under "Macquarie Bank Limited — Relationship between MBL and MGL Group — Senior Credit Facility";

- *"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;

- *"Share Purchase Plan"* means the offer made by MGL on May 11, 2009 to its eligible retail shareholders with a registered address in Australia or New Zealand as at 7:00 p.m. on April 30, 2009 to invest in a parcel of MGL shares at the lower of A$26.60 per share or a 5% discount to the volume weighted average price of MGL ordinary shares during the five business days before May 29, 2009. Eligible retail shareholders may apply to purchase a parcel of either A$2,500, A$5,000, A$10,000 or A$15,000 of shares;

- *"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";

- *"specialist funds"* means MGL Group's 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;

- *"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;

- *"WHK"* means WHK Group Ltd., an Australasian financial advisory and accounting company;

- *"2007 annual financial statements"* means our audited consolidated financial statements contained in our 2007 Annual Report;

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

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

Our fiscal year ends on March 31, so references to years such as 2009 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 United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). Examples of these forward-looking statements include, but are not limited to (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “probability”, “risk”, and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

- macroeconomic conditions in the global debt and equity markets;
- 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;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy;
- 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 effectively manage our growth;
- 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;
- our ability to complete, integrate or process acquisitions and dispositions; and
- various other factors beyond our control.

Other factors are discussed under “Risk Factors” and “Management’s Discussion and Analysis of Results of Operation and Financial Condition” 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, 2008, when the noon buying rate for Australian dollars into US dollars was A$1.00 per US$0.9132, there have been significant movements and volatility in the Australian and US dollar exchange rate. From March 31, 2008 to March 31, 2009, the Australian dollar has depreciated by approximately 24% 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 May 8, 2009, which was US$0.7609 per A$1.00.

Fiscal Year	Period End	Average Rate[1]	High	Low
2004	0.7620	0.7004	0.7970	0.5970
2005	0.7729	0.7423	0.7974	0.6840
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

Month	Period End	Average Rate[1]	High	Low
December 2008	0.6983	0.6719	0.6985	0.6343
January 2009	0.6380	0.6756	0.7212	0.6380
February 2009	0.6419	0.6504	0.6834	0.6320
March 2009	0.6925	0.6666	0.7022	0.6301
April 2009	0.7317	0.7166	0.7317	0.6941
May 2009 (through May 15)	0.7596	0.7524	0.7635	0.7290

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

Reorganization of Operating Groups within MGL Group

During the 2009 fiscal year, MBL Group implemented a number of changes to its 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 and certain businesses were transferred to, and certain businesses were transferred from, the Non-Banking Group. 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.

The 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 structured products businesses of the 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, MBL Group's businesses remain the same.

The rationale for the internal reorganizations is discussed in "Macquarie Bank Limited — Our Business — Reorganization of Operating Groups within MGL Group". 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".

Investors should note that while the audited financial information for the year ended March 31, 2009 presents our current operating segments in accordance with AASB 8 "Operating Segments" following these changes to our operating segments, and while in our 2009 annual financial statements we restated the comparative information for the 2008 fiscal year to reflect these changes in MBL Group's operating segments, we were not required to restate the operating segment presentation in the financial statements for earlier fiscal periods. As a result, the operating segments reported in our 2008 annual financial statements and our financial statements for prior fiscal years have not been restated to reflect our current reportable operating segments. Further, the audit reports on those historical financial statements report on historical financial statements that have not been re-presented on the same basis that our 2009 annual financial statements have been prepared. Investors are urged to use caution in analyzing the segment disclosures reported in our financial statements and the segment discussion presented in "Management's Discussion and

Analysis of Results of Operation and Financial Condition" 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.

In our 2009 annual financial statements, the financial results of Macquarie Securities 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 also incorporates the financial results of Macquarie Capital Finance (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 was 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 5 to our 2009 annual financial statements.

Impact of the Restructure

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. 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.

The accounting policies adopted by entities within MBL Group are as reported in Note 2 included in our 2009 annual financial statements.

Our 2008 and 2009 Annual Financial Statements

Due to the Restructure, our consolidated income statement for 2008 and 2009 presents separately the results of our continuing businesses (following the Restructure) from the results attributed to the businesses that we transferred to the Non-Banking Group as part of the Restructure, which are classified as "discontinued operations". As required under AGAAP, our 2007 consolidated income statement included in our 2008 annual financial statements has been re-presented on a comparable basis. Although our cash flow statement and balance sheet for 2008 and 2009 do not present separately "discontinued operations", Note 7 to our 2008 and 2009 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.

Our Annual Financial Statements for 2007 and Prior Fiscal Periods

Our previously issued financial statements for 2007 and prior fiscal years reflect the historical income statement, cash flows and balance sheet of MBL Group *prior* to the Restructure. As a result, such financial statements do not present separately the results of the Non-Banking Group or report such businesses as discontinued operations. In particular, the income statements for these prior fiscal years have not been re-presented to reflect the reclassification of discontinued operations in accordance with AASB 5 "Non-current assets held for sale and discontinued operations". In addition, the financial statements for those years do not include any note disclosure that presents separately income statement, cash flow or balance sheet information relating to those discontinued operations. In our view, presenting our historical results for 2006 and 2005 to separately report our results from continuing and discontinued operations would be impracticable due to the significant effort that would be required to re-present our financial statements in this manner. Accordingly, the information and discussion included in this Report and incorporated by reference in the offering memorandum with respect to our previously reported financial statements for 2007 and prior fiscal years does not reflect MBL's current businesses and operating groups and should be viewed in conjunction with our 2008 and 2009 Annual Reports. Investors are urged to use caution in analyzing the results of our previously-reported financial information for 2007 and prior fiscal years, since such financial information includes the income and assets of businesses now owned by the Non-Banking Group.

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 Australian equivalents to 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. In addition, some of these non-GAAP financial measures are used by MGL Group in respect of our and the Non-Banking Group's financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by AGAAP and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AGAAP. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report.

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

Assets under Management is reported by the Macquarie Capital, Macquarie Funds and Banking & Financial Services operating groups.

Equity under Management

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

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

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

International income

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

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

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

Earnings on capital and other corporate income items

Earnings on capital and other corporate income items is a non-GAAP financial measure. 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

The following is a summary of some of the information contained elsewhere in this Report.

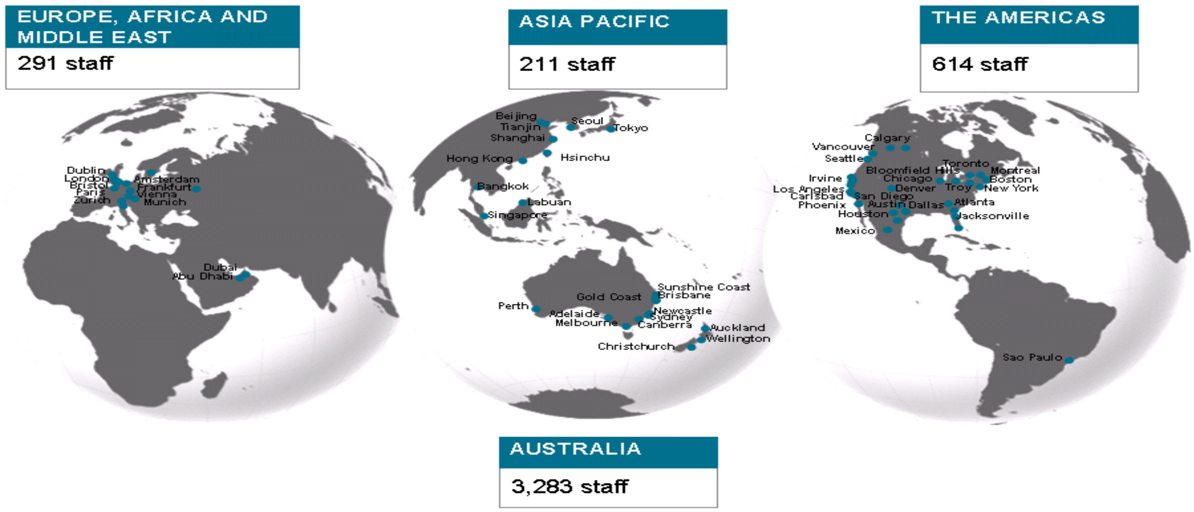
In fiscal 2009, we undertook a reorganization of our operating groups whereby MBL Group transferred businesses between operating groups within the Banking Group, and certain activities of operating groups in the Banking Group were transferred to, and from, the Non-Banking Group. See "Financial Information Presentation — Reorganization of Operating Groups within MGL Group" for more information. Our audited financial information for the year ended March 31, 2009 and our results of operations for this period described herein present the results of our current operating segments, as described in "Financial Information Presentation — Impact of the Restructure — Our 2008 and 2009 Annual Financial Statements". The operating segment data reported in our historical financial statements for fiscal 2008 and prior fiscal years, however, has not been restated to reflect our current reportable operating segments. In addition, we were not required to restate, and have not restated, our consolidated financial information for the 2008 fiscal year in our 2009 annual financial statements or for prior years. As a result, the audit reports on those historical financial statements, and the information contained herein in relation to those periods, have not been represented on the same basis as our 2009 annual financial statements. Accordingly, investors are urged to use caution in analyzing the results of our previously-reported financial information for 2008 and prior fiscal years, since such financial information includes the income and assets of some businesses now owned by the Non-Banking Group.

Macquarie Bank Limited

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. MBL is an indirect subsidiary of MGL, an ASX-listed company with a market capitalization at close of business on May 20, 2009 of A$10.4 billion (approximately US$7.9 billion). MGL Group is a global provider of banking, financial, advisory, investment and funds management services to clients. See "MGL Group" below for further information.

At March 31, 2009, we employed approximately 4,400 people and had total assets of A$130.4 billion, a Tier 1 regulatory capital adequacy ratio of 11.4%, a total regulatory capital adequacy ratio of 14.4% and total equity of A$6.4 billion. For 2009, our net operating income from continuing operations was A$3.1 billion and our consolidated net profit after tax from continuing operations was A$657 million.

The following chart shows our international footprint and staff numbers as at March 31, 2009[1]:



1 The figures in the chart do not include staff on extended leave, agency temps, casuals, and non-executive directors or consultants or staff seconded to joint ventures.

MBL conducts its business through the following four operating groups and two divisions: the Macquarie Securities, Treasury & Commodities, Macquarie Funds and Banking & Financial Services operating groups, and the Real Estate Banking and Corporate & Asset Finance divisions. The major business activities of each operating group are described below under “Macquarie Bank Limited — Operating Groups within MBL Group”.

Reorganization of Operating Groups within MGL Group

In April 2008, MGL 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 decision to combine these businesses followed the success of the Alternative Strategies division, which was set up previously as a joint venture between Equity Markets and Macquarie Capital. The two businesses already shared the same operational platform. MGL Group believes that combining these businesses allows it to provide a broader range of products to more clients and facilitate the building of its global equities and derivatives platform. 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, MGL 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. The formation of Macquarie Funds is intended to provide MGL Group’s clients with a single, integrated funds product suite covering the full spectrum of the funds management and funds-based structured products of MGL Group. In connection with this reorganization, the funds and funds-based products businesses of the 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 majority of staff from our Real Estate operating group and several of our responsible entities were transferred to the Non-Banking Group and became part of Macquarie Capital. The majority of the assets remained in the Banking Group. The purpose of the transfer was to create an integrated real estate platform, in order 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 Real Estate staff and assets remaining in the Banking Group were amalgamated to form the Real Estate Banking division on March 31, 2009. The new Real Estate Banking division consists of real estate assets comprising lending portfolios in Australia, the United States and the United Kingdom and investments in principal assets, development assets and REITs.

See also "Financial Information Presentation" above for further information on the financial impact of these operating group reorganizations.

Overview of MBL Group

The tables below show the relative revenues from external customers and profit contribution from continuing operations of each of our current operating groups in 2009 and 2008:

Revenues from external customers of MBL Group[1] by operating group for 2009 and 2008

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Macquarie Funds[2]	718	741	(3)
Banking & Financial Services	3,439	3,599	(4)
Real Estate Banking [3]	284	346	(18)
Corporate & Asset Finance[4]	397	356	12
Treasury & Commodities	1,877	1,979	(5)
Macquarie Securities[5]	675	2,032	(67)
Macquarie Capital[6]	92	244	(62)
Total group revenue from external customers	**7,482**	**9,297**	**(20)**
Corporate[7]	2,110	896	135
Total revenue from external customers from continuing operations	**9,592**	**10,193**	**(6)**

Profit contribution of MBL Group[1] by operating group for 2009 and 2008

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Macquarie Funds[2]	93	277	(66)
Banking & Financial Services	(104)	238	(144)
Real Estate Banking[3]	(350)	(129)	171
Corporate & Asset Finance[4]	84	67	25
Treasury & Commodities	553	610	(9)
Macquarie Securities[5]	78	602	(87)
Macquarie Capital[6]	128	86	49
Total MBL Group profit contribution	**482**	**1,751**	**(72)**
Corporate[7]	94	(1,085)	109
Total profit after tax from continuing operations[8]	**576**	**666**	**(14)**

1 For further information on our segment reporting, see Note 5 to our 2009 annual financial statements.

2 In August 2008, the activities of Funds Management combined 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.

3 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, 2009.

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

5 In April 2008, MBL Group combined the activities of Equity Markets and the Macquarie Capital Securities division of Macquarie Capital to form a new operating group called Macquarie Securities.

6 Being certain less financially significant businesses of Macquarie Capital that were not transferred to the Non-Banking Group in connection with the Restructure.

7 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, staff profit share, options expense, income tax expense, profit attributable to minority interests and internal management accounting adjustments and charges.

8 Total profit after tax from continuing operations for the year ended March 31, 2009 is presented after allowing for profit attributable to minority interests of A$48 million and distributions paid or provided on Macquarie Income Securities of A$33 million.

Diversity of income of MBL Group

Our current operating groups provide a diverse source of income. Our income comprises:

- *Trading income* — generated predominately through client trading activities and products issued by Macquarie Securities and Treasury & Commodities;
- *Fee and commission income* — including:
  - Funds management fee income from Banking & Financial Services and Macquarie Funds;
  - Fee income from securitization vehicles, lending activities and transaction fees;
  - Macquarie Wrap and other administration fee income from Banking & Financial Services;
  - Brokerage fee income from Banking & Financial Services; and
  - Structuring fee income from Macquarie Funds' structured financial products;
- *Interest income* — earned on the loan books, and margin and equities lending assets of Banking & Financial Services, interest income on trading assets from Treasury & Commodities and Macquarie Securities and interest income on loan and leasing books 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.

The following table shows the diversity of MBL Group's combined operating by income type:

Combined operating income of MBL operating groups by income type for 2009 and 2008

MBL income type	Year ended Mar 09	Year ended Mar 08	Movement[2]
	A$m	A$m	%
Net interest income	965	853	13
Fee and commission income	995	1,092	(9)
Net trading income	1,545	2,023	(24)
Share of net profits of associates and joint ventures using the equity method	98	160	(39)
Other operating income[1]	(534)	17	large
Total operating income	**3,069**	**4,145**	**(26)**

1 "Other operating income" includes A$1,029 million in impairment charges and loan provisions (March 31, 2008: A$448 million).

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

MGL Group

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of banking, financial, advisory, investment and funds management services, MGL Group's business focus is making returns by providing a diversified range of services to clients. MGL Group acts on behalf of institutional, corporate and retail clients and counterparties around the world.

MGL Group's 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, a conservative approach to risk management, incremental growth and evolution, operations that are diversified by business and geography, and an ability to adapt to change. MGL Group believes this strategy provides it with the flexibility to enter into new sectors and regions as opportunities emerge, and has resulted in it establishing a leading presence in a range of markets.

MGL Group's operations are conducted primarily through two groups — the Banking Group, which includes the assets and businesses of MBL Group, and the Non-Banking Group, which includes the majority of the assets and businesses of Macquarie Capital and certain other less financially significant assets and businesses of our former Equity Markets operating group and the Treasury & Commodities operating group that we transferred to the Non-Banking Group in connection with the Restructure. MGL also provides certain administrative and operational services to us and other members of MGL Group. See "Macquarie Bank Limited — Overview" for a description of our organization structure and that of the rest of MGL Group, as well as a description of some of our relationships with MGL and other members of MGL Group.

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, a conservative approach to risk management, incremental growth and evolution, operations that are diversified by business and geography, and an ability to adapt to change. This approach allows us to be flexible in entering into new sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise. It is the basis on which we have established a leading presence in a range of markets. Our strategy is consistent with MGL Group's strategy.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating group 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 MGL's centralized Risk Management group to ensure that appropriate assessment and management of these risks occurs throughout MGL Group. MGL applies this existing strategy and risk management framework across the entire MGL Group including MBL Group.

Historically, our growth has been principally organic and not driven by significant acquisitions. We have made strategic acquisitions in the past, and since March 31, 2008, including the acquisitions of the North American energy trading business of Constellation Energy in March 2009, and the acquisition of a strategic stake in, and entry into a partnership with, WHK, an Australian and New Zealand financial service business in March 2009. From time to time, we explore strategic acquisition opportunities and we may make material acquisitions in the future should the opportunity arise.

In response to challenging market conditions, MGL Group has been exiting or winding down low-yielding businesses that are now less competitive due to increased costs of funding. This is intended to allow MBL Group to focus on more profitable, balance sheet efficient businesses. These balance sheet initiatives totaled approximately A$15 billion in fiscal 2009 and included the winding down of certain of our trading portfolios, the sale of the majority of our investment lending business, and the sale of our Italian Mortgage Portfolio.

Furthermore, in light of current credit market conditions we have strengthened our liquidity position and increased our total deposits by A$5.6 billion since March 31, 2008, with retail deposit growth being particularly strong, increasing 103% over this period. As at March 31, 2009, MBL Group had cash and liquid assets of A$25.5 billion, which significantly exceeded short term wholesale issued paper of A$7.7 billion. In addition, MBL has raised A$14.0 billion of term funding under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme since December 2008. For further information on funding and capital refer to "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity" and "Capitalization, Indebtedness and Capital Adequacy" section of this Report, respectively.

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 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 are conducting 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.

- *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, together with our historically restrained appetite for principal risk, has been an important factor in our growth. We believe our earnings are diversified by business group, geographic source and income type. We engage in a range of financial services businesses, including but not limited to retail and business banking and securitization, asset and wealth management (wholesale and retail), equity markets trading and retail and wholesale equity products, funds management, asset leasing, financial markets trading and related activities across foreign exchange, commodities, interest rates and other markets. The ongoing diversification of our businesses has contributed to our continued profitability. Our earnings have also been assisted by the significant proportion of our revenues that are derived from relatively stable sources, such as funds management base fees and net interest income, which together accounted for 45% of our total operating income from continuing operations in the 2009 fiscal year.

- *Geographic diversity.* As at March 31, 2009, we employed approximately 4,400 people in 23 countries. Of those staff, 25% were located in offshore markets.

- *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. This is evidenced by the recently completed balance sheet initiatives which sought to redeploy capital away from low-yielding businesses that were less competitive, due to increased cost of funding, to what are expected to be more profitable balance sheet efficient businesses.

- *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.

- *Risk management.* Risk is an integral part of our business, and we believe strong prudential management has been a 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 44 to our 2009 annual financial statements. Risk Management manages the key risks applicable to the entire MGL Group, including MBL Group, along the following principles:

  - *Independence* — Risk Management assesses and monitors risks for the entire MGL Group, including MBL 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, including MBL Group-wide, responsibilities enable it to assess risks from the perspective of the entire MGL Group and the entire MBL 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 MBL's Executive Committee and Board of Directors.

  - *Continuous assessment* — Risk Management's responsibilities include the continual 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.

- *Capital Position.* We are regulated as an ADI by APRA and, as a result, are subject to APRA's capital adequacy requirements. At March 31, 2009, our Tier 1 capital ratio was 11.4% and our total capital ratio was 14.4%.

- *Employee loyalty and retention.* As a services organization that benefits from the business development and innovation of our employees, our success is dependent upon attracting and retaining qualified employees. Due to our emphasis on appropriately rewarding and incentivizing the achievements and skills of our employees, we historically have experienced relatively high rates of director and employee retention. Excluding involuntary reductions made during the course of the year, the retention rate among our directors and among our non-directors (on a twelve month rolling basis) was 94% and 87%, respectively, at March 31, 2009.

Trading Conditions and Market Update

Overview

Since the second half of 2007 and particularly during the second half of 2008, the financial services industry and the securities markets were adversely affected by significant declines in the values of almost all asset classes and by a lack of liquidity. This was initially triggered by declines in the value of subprime mortgages in the United States, but spread to other jurisdictions and other asset classes including real estate, leveraged bank loans and equities. The global markets have been characterized by substantially increased volatility, short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently across other industries and in the broader markets. In Australia, this translated to a fall in Australia's S&P/ASX200 Index from a historical high of 6,829 points on November 1, 2007 to a low since that time of 3,145 points on March 6, 2009. As at May 20, 2009, the index had recovered to 3,825 points.

In the past year, turmoil in the financial markets has flowed into the real economy with major global economies either slowing substantially or contracting, which has caused increased unemployment in many countries, including Australia. The Australian Bureau of Statistics has announced that the Australian economy contracted at rate of 0.5% in the quarter ended December 31, 2008, after the economy expanded at growth rate of just 0.1% in the quarter ended September 30, 2008.

While market conditions remain challenging, we are seeing some early signs of stabilization. Significant uncertainties remain, however, and we believe it is still too early to make any judgments on sustained market improvements.

Australian Government Response to Market Conditions

The Commonwealth has implemented a number of initiatives to help alleviate the impact of the economic crisis, including:

- In October and November 2008, the Commonwealth implemented two government guarantee schemes: the Financial Claims Scheme (under which the Commonwealth has guaranteed deposits of up to A$1 million per depositor per eligible ADI until October 2011) and the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme (under which the Commonwealth has guaranteed deposits in excess of A$1 million held with, and also certain wholesale funding liabilities of, eligible ADIs in respect of which an eligibility certificate (as defined in the Scheme Rules) has been issued). See "Regulation and Supervision — Australia — Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme".

- As a result of the economic slowdown, the Commonwealth announced a A$10.4 billion fiscal stimulus package in October 2008, a A$42 billion fiscal stimulus package in February 2009, and has announced substantial additional fiscal stimulus measures in its budget on May 12, 2009.

- In addition to the fiscal stimulus packages, the RBA has cut the cash rate from 7.25% in August 2008 to 3.00% in April 2009 — their lowest rate in 45 years. At its latest meeting on May 5, 2009, the RBA resolved to maintain the current base lending rate at 3.00%.

Impact on MBL Group

The global economic crisis has increased our cost of funding and limited our access to some of our traditional sources of liquidity, including both secured and unsecured borrowings. The numerous steps taken by the Australian government and the RBA have helped increase our access to traditional and new sources of liquidity, particularly for MBL as an ADI which is eligible to be covered by the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme. In the year ended March 31, 2009, MBL Group raised A$20.1 billion in term funding, of which A$14.0 billion were securities issued by MBL under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions and Recent Developments" for further information.

The Australian dollar declined significantly against major currencies during the year ended March 31, 2009. Although the Australian dollar has appreciated against the US dollar since March 31, 2009, and at May 8, 2009 was US$0.7609, the noon buying rate of US dollars for Australian dollars fell 24% from US$0.9132 at March 31, 2008 to US$0.6925 at March 31, 2009, and reached a low of US$0.6120 on October 28, 2008. Given our significant level of offshore business activities, our total operating income and Assets under Management were generally positively impacted by a weakening of the Australian dollar, however, this impact was partially offset by an increase in expenses incurred by businesses outside Australia and the impact of declining equity values. MBL Group's regulatory capital position has been adversely impacted by a depreciating Australian dollar, which increases the capital requirement for those assets denominated in currencies other than Australian dollars.

The turmoil in world financial markets has also negatively impacted the value of investments that MBL Group holds.

For a detailed discussion of the impact that market conditions had on our operating performance and results of operation for fiscal 2009, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2009 compared to Year ended March 31, 2008 — Results overview".

Throughout fiscal 2009, MBL Group has responded to the changes in its operating environment and adapted its business in a number of ways. These changes included:

- completing balance sheet initiatives totaling approximately A$15 billion, which included the winding-down of certain of our trading portfolios, the sale of the majority of our investment lending portfolio and the sale of our Italian Mortgage portfolio; and

- diversifying our funding sources through growing our deposit base and decreasing our reliance on short-term wholesale funding markets.

At the date hereof, MBL Group maintains surplus capital in excess of its regulatory requirements. At March 31, 2009, MBL had cash and liquid assets of A$25.5 billion, exceeding short-term wholesale issued paper of A$7.7 billion, and a total regulatory capital base of A$6.5 billion, which was A$1.8 billion in excess of MBL's minimum capital requirement at March 31, 2009.

MBL Group's deposits increased 43% to A$18.6 billion as at March 31, 2009 from A$13.0 billion as at March 31, 2008. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions and Recent Developments" for further information.

These initiatives have helped MBL Group address the impact of market conditions in fiscal 2009 and capitalize on opportunities that arose during fiscal 2009 and that are beginning to emerge, including:

- the acquisition of Constellation Energy's North American downstream natural gas business;

- the formation of a strategic partnership with WHK, an Australasian financial advisory and accounting services company; and

- the promotion of our environmental financial products and renewable energy businesses in the United States and United Kingdom.

See "Macquarie Bank Limited — Operating Groups within MBL Group" for further information.

Fitch Ratings, Moody's Investor Services and Standard & Poor's have reaffirmed their long-term and short-term issuer credit ratings on MBL as of the date hereof, however, on September 17, 2008 Standard & Poor's revised its rating outlook for MBL to negative and on October 16, 2008, Moody's Investor Services also revised its rating outlook for MBL to negative. Moody's Investors Service has also separately announced that it will maintain a negative watch on the Australian banking sector as a whole. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Credit Ratings" for the credit ratings of MBL at March 31, 2009.

Recent Developments

Changes to Remuneration Arrangements

On March 31, 2009, MGL Group announced proposed changes to its remuneration arrangements consistent with global remuneration and regulatory trends. These proposed changes include an increase in the portion of performance-based profit share deferred and allocated as equity for the Chief Executive Officer and other members of MGL Group's Executive Committee and changed the vesting and payout schedule for retained profit share, among other proposals, which are designed to further enhance staff and shareholder alignment.

The proposed changes would be subject to approval by shareholders at the July 2009 Annual General Meeting and, if implemented, will apply to more than 300 of MGL Group's most senior employees, including Executive Directors, the Chief Executive Officer and members of the Executive Committee.

If implemented, it is estimated that approximately A$500 million of retained profit share for fiscal 2009 and prior periods will be applied to the grant of fully paid ordinary MGL shares, which will be provided via the issue of new shares, priced at the volume weighted average price of MGL's ordinary shares from May 4, 2009 to July 29, 2009.

On May 5, 2009, the Commonwealth announced proposed amendments to legislation concerning executive termination benefits and, in connection with the announcement of the Federal Budget on May 12, 2009, announced proposed changes to the taxation of employee share schemes that could lead to an adverse impact on MGL's ability to implement the proposed remuneration changes discussed above and some existing remuneration arrangements. MGL Group will continue to assess the impact of these proposed legislative changes as further details or any changes to the proposed legislation emerge. MGL Group will be unable to assess the precise impact of these changes on current remuneration arrangements or the proposed remuneration scheme discussed above until the proposed legislation is finalized.

Capital Raisings

In addition to the above A$500 million ordinary shares proposed to be issued by MGL under the new proposed remuneration arrangements, on May 7, 2009, MGL raised A$540 million through the issuance of approximately 20 million ordinary shares, at A$27 per share, in the Australian and international capital markets through an institutional offering. The new shares rank *pari passu* with existing ordinary shares and will participate in the 2009 final dividend to be paid on July 3, 2009. The price reflected a 13.2% discount to the volume weighted average price of MGL's ordinary shares during the five business days prior to April 30, 2009 (the last trading day before the offering was launched).

On May 4, 2009, MGL also extended an offer to its eligible retail shareholders for the opportunity to participate in a capital raising by way of a Share Purchase Plan. Eligible retail shareholders have the opportunity to invest in MGL's ordinary shares at the lower of A$26.60 per share (which is the issue price under the institutional offering adjusted for the 2009 final dividend of A$0.40 per share) and a five percent discount to the volume weighted average price of MGL ordinary shares during the five business days prior to May 29, 2009. The shares to be issued under the Share Purchase Plan will rank *pari passu* with existing ordinary shares except that they will not participate in the 2009 final dividend to be paid on July 3, 2009. The total number of shares to be issued is to be determined on the allotment date on or around June 5, 2009.

Excluding the Share Purchase Plan, it is expected that the above capital initiatives, including the new remuneration arrangements (subject to shareholder approval and the other matters referred to in "— Changes to Remuneration Arrangements" above) and institutional offering will provide MGL with a minimum of A$1 billion in additional capital.

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 44 to our 2009 annual financial statements.

We continue to have exposure to adverse conditions in global credit and equity markets and these market conditions may negatively affect our businesses in certain industry sectors or may impact our profitability in future periods.

Global credit and equity markets, particularly in the United States and Europe, have experienced extreme volatility, disruption and decreased liquidity for more than 18 months, reaching unprecedented levels of disruption from September 2008. These challenging market conditions have 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 has impacted transaction flow in a range of industry sectors, all of which adversely impact our financial performance.

In addition, turmoil in the financial markets has flowed into the real economy, with major global economies either slowing substantially or contracting, which has caused increased unemployment in many countries, including Australia. See "Macquarie Bank Limited — Trading Conditions and Market Update".

As a diversified financial institution, we may be impacted in a number of ways by the current 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.

We continue to monitor industry and company specific developments and the state of the global and Australian economies, however, it is difficult to predict how long these conditions will persist and which markets, products or other businesses will be affected, and these factors may continue to adversely impact our results of operations.

Our business and financial condition may be negatively impacted by the continuing adverse credit and equity market conditions, which may significantly affect our ability to meet our liquidity needs, adversely affect our access to international capital markets and increase our cost of funding.

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. We are exposed to liquidity risk, which is the inability to pay our debts and other obligations as they fall due.

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, or an operational problem that affects our trading clients or ourselves. Further, our ability to sell assets may also be impaired if other market participants seek to sell similar assets at the same time.

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. The international credit markets are currently characterized by wider credit spreads, tightened liquidity conditions and a general weakening in the economic environment. A continued or worsening general economic downturn could adversely impact any or all of these factors.

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.

While initiatives from governments to guarantee the term funding of ADIs such as MBL have been implemented, it is not yet clear whether they will remain in place into the future. Other risks associated with guaranteed funding that we may face are over-reliance on such funding sources or a significant increase in funding costs. Although MBL has benefited from the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme, we have incurred the additional cost of the fee payable to the Commonwealth to access this Scheme, which has directly increased our funding costs. Our ability to meet our liquidity needs may be adversely affected if the Commonwealth amends or withdraws this Scheme and the Financial Claims Scheme and other funding sources are not available at that time.

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.

There can be no assurance that actions of governments and governmental and regulatory bodies to stabilize financial markets will achieve the intended effect.

Although as the global economic crisis emerged, governments and central banks around the globe have acted relatively swiftly in implementing relief measures, in an attempt to restore confidence in financial systems and bolster economic growth, it is yet to be seen whether these actions will result in a sustained stabilization of financial markets. Further slowdowns in advanced economies are a possibility. Emerging economies will be adversely impacted by the slowdowns in advanced economies. This may have an adverse effect on the Australian economy, particularly if demand for resources in markets that are significant importers of Australian products, such as China and Japan, continues to weaken. In addition, governments may withdraw or alter their support of such relief measures without notice and it is not clear what effect these actions would have on global economic conditions or MBL's financial condition.

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 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 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 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 resultant 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 44 to our 2009 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances.

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

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

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, our Assets under Management would also decline, which would result in a decrease in our management fees from our listed funds. In the event that any of our funds perform poorly, 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. In the last twelve months, the market values of our listed funds have experienced substantial declines and, as a result, we recognized lower performance fees in the year ended March 31, 2009, compared to the prior year. See “Macquarie Bank Limited — Funds Management Business — MBL Group and the Non-Banking Group” herein.

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

For the twelve months ended March 31, 2009 MBL Group recognized a A$0.2 billion one-off cost relating to the sale of the Italian Mortgages business and also recognized A$0.4 billion of impairment and equity accounted losses on funds management assets and other co-investments, A$0.5 billion of loan impairment provisions and A$0.1 billion of impairments recognized against selected trading asset positions. Further writedowns and provisions may be required in future periods if the market value of assets similar to those held were to decline.

Our funds management and investment strategies expose us to equity investments and financial products. As market conditions continue to evolve, the market value of these investments and the underlying assets could deteriorate further. Our ability to renegotiate or reprice outstanding loan commitments may also be adversely affected. 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.

Our historical financial statements prior to 2007 do not reflect our future prospects.

As a result of the Restructure, our historical operating groups and financial statements for 2007 and prior years do not reflect our current operating groups and businesses, primarily because we transferred the majority of Macquarie Capital and certain other activities to the Non-Banking Group. Therefore, as described in “Financial Information Presentation — Impact of the Restructure — Our Annual Financial Statements for 2007 and Prior Fiscal Periods”, our historical financial statements for 2007 and prior years include the historical financial results and condition of MGL Group and not solely our financial results and condition. In addition, as the Macquarie Capital operating group comprised most of the businesses that we transferred to the Non-Banking Group as part of the Restructure, our descriptions of the profit contribution and operating income of our remaining operating groups in this Report is intended to assist your understanding of our historical results. However, those descriptions have limited value and will not necessarily be representative of our results to be reported in future periods. Undue reliance should not be placed on them as they have not, unlike the information contained in our 2008 annual financial statements and our 2009 annual financial statements, been re-presented on a comparable basis. Also, our existing operating groups transferred certain relatively limited businesses to the Non-Banking Group and we retained certain relatively limited businesses previously operated by Macquarie Capital.

MBL Group has a significant financial exposure to the other parts of MGL Group.

In connection with the Restructure, we provided MGL with the Intra Group Loan, all A$10.1 billion of which MGL drew down on November 21, 2007. At March 31, 2009, A$3.8 billion of this balance remained outstanding, which represented 3% of MBL Group’s total consolidated assets and 9% of MBL Group’s total outstanding loans, of which A$1.9 billion was repaid on May 15, 2009. There are no assurances that MGL will be able to refinance amounts outstanding under this facility as they become due. If MGL is unable to meet its obligations under the Intra Group Loan our financial position may be weakened.

In addition to the Intra Group Loan, MBL has also indemnified Non-Banking Holdco for tax liabilities incurred by the Non-Banking Group prior to the Restructure. Also, the Non-Banking Group engages in various business activities with the Banking Group (on an arm’s-length basis) that create financial and other exposures.

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, the Bank 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.

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 (as has been the case recently), 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 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 in response to current market conditions will adequately anticipate additional market stress or unforseen circumstances.

For a further discussion of our risk management policies and procedures, see Note 44 to our 2009 annual financial statements.

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

Future growth may place significant demands on our legal, accounting and operational infrastructure, and increased expenses. Our future growth will depend, among other things, on our ability to 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.

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 us or MGL Group.

The financial condition and results of operation of MBL Group may be indirectly adversely affected by the negative performance by, 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 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 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. While competition has been affected by recent market conditions, such competition can be expected to increase if there is a sustained improvement in market conditions.

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. In response to this, MGL Group has announced proposed changes to its remuneration policies. See Macquarie Bank Limited — Recent Developments" for further information. 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 opportunities or potential efficiencies, which could adversely affect our profitability.

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

The credit ratings assigned to us 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 light of the difficulties in the banking sector and financial markets, the rating agencies have indicated they are watching global developments closely and if conditions continue to deteriorate, they have indicated that they may further adjust the rating outlook of some Australian banks and financial institutions. 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.

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

From time to time MBL Group and MGL Group evaluate strategic opportunities and may 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. Should we determine to make any such acquisitions, we may become subject to unknown liabilities of the acquired business, we may be subject to 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 of the acquired business into MBL Group or MGL Group, our management's time may be diverted to facilitate the integration of the acquired business into MBL Group or MGL 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.

Actual or perceived breaches of applicable laws and regulations, obligations of fidelity or confidence to clients and counterparties, unenforceability of counterparty obligations, fraud, negligence, misleading or other inappropriate conduct or inappropriate documentation of contractual relationships could adversely affect our reputation, operating results or credit ratings and have adverse regulatory consequences.

While we seek to ensure that we comply with applicable laws and regulations as well as our contractual, fiduciary and other arrangements, and also seek to ensure that our third-party arrangements are properly documented, we are a large organization engaged in a diverse range of financial services businesses, many of which are highly regulated. While our policies and procedures are designed to allow us to comply with applicable laws and regulations, protect our reputation and avoid conflicts of interest, they may not be effective or followed by all of our employees in all instances in all markets. As a result, we may be subject to lawsuits and regulatory and other proceedings or adverse market or media commentary arising out of actual or perceived legal, compliance, documentation or other issues that could adversely affect our reputation, operating result or credit ratings and have adverse regulatory consequences.

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external 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 and our geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. 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 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 clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions, and as our interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients' systems. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses or result in financial loss or liability to our clients, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

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

Our reputation is one of our most important assets. 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 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, which, if they crystallize, may adversely impact upon our results of operation and financial condition in future periods. We regularly obtain legal advice and make provisions, as deemed necessary. There is a risk that these contingencies may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

Some 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.

The majority 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) who operate representative offices in the United States, Italy, New Zealand and Malaysia. This regulation varies from country to country but generally is designed to protect depositors and the banking system as a whole, not holders of MBL's securities or creditors. Being 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. 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, 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 subject to the full range of APRA regulation and MGL is regulated by APRA as a NOHC. APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MGL as a NOHC. Any such event could result in changes to the organizational structure of MGL Group and adversely affect the business or financial performance of MBL Group or MGL 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. In addition, there has been global and coordinated regulatory intervention to implement temporary measures to restore market confidence in certain jurisdictions in which we do business. Such temporary measures may be modified or withdrawn at short notice. It is not possible to predict with certainty what other regulatory or related changes may result from the current 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.

Changes and increased volatility in currency exchange rates and changes in RBA policies 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.

The RBA regulates the supply of money and interest rates in Australia. Its policies help determine our cost of funds for lending and investing and the return that we will earn on those loans and investments and influence the rate at which the Australian dollar is exchanged for other currencies. Both of these impact our net interest margin and can materially affect the value of financial instruments held by us, such as debt securities. RBA policies can also affect our borrowers and other customers, potentially increasing the risk that they may fail to repay their loans or satisfy their contractual obligations to us.

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.

From March 31, 2008 to March 31, 2009, the Australian dollar (as measured by the noon buying rate) depreciated by approximately 24% against the US dollar.

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

Our business 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. While we believe that we have in place controls and procedures that are designed to ensure that transactions involving third parties comply with applicable tax laws and regulations, any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

We face enhanced risks as new business initiatives lead us to transact with a broader array of clients, with new asset classes and other new products and in new markets.

Our operating strategy is built on a number of factors, including growth and diversification. A number of our recent and planned business initiatives and expansions of existing businesses may 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.

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.

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, 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.

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, 2009.

The information relating to MBL Group in the following table is based on our 2009 annual financial statements, which were prepared in accordance with AGAAP and should be read in conjunction therewith.

	As at	
	Mar 09	Mar 09
	US$m[1]	A$m
Capitalization		
Borrowings		
Debt issued[2] — due greater than 12 months	15,605	20,509
Subordinated debt — due greater than 12 months	1,478	1,942
Total borrowings[3]	**17,083**	**22,451**
Equity		
Contributed equity		
Ordinary share capital	3,426	4,503
Equity contribution from ultimate parent entity	43	57
Macquarie Income Securities	298	391
Reserves	(153)	(201)
Retained earnings	951	1,250
Minority interest	312	410
Total equity	**4,877**	**6,410**
Total Capitalization	**21,960**	**28,861**

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on May 8, 2009, which is US$ 0.7609 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, 2009, we had A$5.3 billion of secured indebtedness due greater than 12 months compared to A$2.2 billion at March 31, 2008.

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$14.0 billion as at March 31, 2009 and securitizations totaled A$20.4 billion as at March 31, 2009 compared to A$31.1 billion and A$22.8 billion, respectively, as at March 31, 2008.

For further details on our short term debt position at March 31, 2009, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity” in this Report.

Capital Adequacy

The following table sets forth our capital adequacy and risk weighted assets as at March 31, 2009.

	As at	
	Mar 09	Mar 09
	US$m[1]	A$m
Tier 1 capital		
Paid up ordinary share capital	3,470	4,560
Reserves	145	190
Retained earnings	671	882
Innovative Tier 1 capital	696	915
Gross Tier 1 capital	**4,982**	**6,547**
Deductions from Tier 1 capital		
Goodwill	123	162
Deferred tax assets	40	53
Changes in the ADI's own creditworthiness on banking book liabilities	259	340
Intangible component of investments in non-consolidated subsidiaries and other non-Level-2 entities	97	128
Loan and lease origination fees and commissions paid to mortgage originators and brokers	129	170
Holdings of own Tier 1 capital instruments agreed with APRA	97	127
Other Tier 1 capital deductions	272	357
Deductions from Tier 1 capital only	1,017	1,337
Other 50/50 deductions from Tier 1 capital:		
Non-subsidiary entities exceeding prescribed limit (50%)	85	112
Non-consolidated subsidiaries (50%)	208	274
All other deductions relating to securitization (50%)	56	74
Shortfall in provisions for credit losses (50%)	224	294
Other 50/50 deductions from Tier 1 capital (50%)	131	172
50/50 deductions from Tier 1 capital	704	926
Total Tier 1 capital only deductions	1,722	2,263
Net Tier 1 capital	**3,260**	**4,284**
Tier 2 capital		
Upper Tier 2 capital:		
Excess Tier 1 capital instruments	155	204
Other upper Tier 2 capital	65	86
Lower Tier 2 capital:		
Term subordinated debt	1,477	1,941
Gross Tier 2 capital	**1,697**	**2,231**
Deductions from Tier 2 capital		
Holdings of own Tier 2 capital instruments agreed with APRA	155	204
Total 50/50 deductions from Tier 2 capital	705	926
Total Tier 2 capital deductions	860	1,130
Net Tier 2 capital	**838**	**1,101**
Total capital base	**4,098**	**5,385**

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on May 8, 2009, which is US$ 0.7609 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 09	Mar 09
	US$m[1]	A$m
Credit risk — Risk weighted assets (RWA)		
Subject to F-IRB approach:		
Corporate[2]	7,534	9,901
Sovereign	27	36
Bank	863	1,134
Residential mortgage	1,485	1,952
Other retail	517	680
Total RWA subject to F-IRB[2] approach	**10,426**	**13,703**
Specialized lending exposures subject to slotting criteria[3]	2,360	3,101
Subject to Standardized approach:		
Corporate	2,666	3,504
Residential mortgage	150	197
Other retail	1,899	2,496
Other	2,694	3,540
Total RWA subject to Standardized approach	**7,409**	**9,737**
Credit risk RWA for Securitization exposures	817	1,074
Total Credit risk RWA	**21,012**	**27,615**
Equity exposures RWA	905	1,189
Market risk RWA	1,584	2,082
Operational risk RWA	4,384	5,761
Interest rate risk in the banking book RWA	5	6
APRA scaling factor (6%) applied to IRB exposures	625	822
Total RWA	**28,515**	**37,475**
Capital ratios		
MBL Group Tier 1 capital ratio (%)	11.4	11.4
MBL Group Total capital ratio (%)	14.4	14.4

1 Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on May 8, 2009, which is US$ 0.7609 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 Includes A$710 million for exposures to the Non-Banking Group (September 30, 2008: A$1,293 million; March 31, 2008: A$2,129 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, 2009, 2008, 2007, 2006 and 2005 and income statement data for the fiscal years ended March 31, 2009, 2008, 2007, 2006 and 2005 presented below have been derived from our audited financial statements for 2009, 2008, 2007 and 2006. 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.

Our financial statements have been audited by our independent auditors. Investors should note, however, that while our 2009 annual financial statements and our 2008 annual financial statements present separately the results of our continuing businesses (following the Restructure) from the results attributed to the businesses that we transferred to the Non-Banking Group as part of the Restructure (as “discontinued operations”), our previously issued financial statements for 2007 and prior fiscal years reflect the historical results, cash flows and financial condition of MBL Group *prior* to the Restructure and do not present separately as “discontinued operations” the businesses that we transferred to the Non-Banking Group as part of the Restructure in accordance with AASB 5 “Non-current assets held for sale and discontinued operations”. As a result, the audit reports on those previously issued financial statements relate to financial statements that have *not* been re-presented on the same basis that our 2009 annual financial statements and our 2008 annual financial statements have been prepared and audited. See “Financial Information Presentation — Impact of the Restructure — Our Annual Financial Statements for 2007 and Prior Fiscal Periods” in this Report for further information.

Investors are urged to use caution in analyzing the results of our previously-reported financial information for 2007 and prior fiscal years, since such financial information includes the income and assets of businesses now owned by the Non-Banking Group.

In addition, investors should note that during the 2009 fiscal year, MGL Group implemented a number of changes to its internal operating groups to realign the product offerings of each group more consistently. As a result of these changes, the operating segments of MGL Group (including MBL Group) for financial reporting purposes were also changed, and certain businesses that formerly were part of the Non-Banking Group were transferred to MBL Group and certain businesses that formerly were part of MBL Group were transferred to the Non-Banking Group. See “Financial Information Presentation”. Although 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.

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

Income Statements

	Year ended			
	Mar 09	**Mar 09**	**Mar 08**	**Mar 07**
	US$m[1]	**A$m**	**A$m**	**A$m**
Net interest income	734	965	853	611
Fee and commission income	757	995	1,092	855
Net trading income	1,176	1,545	2,023	929
Share of net profits of associates and joint ventures using the equity method	75	98	160	198
Other operating income	(406)	(534)	17	682
Total operating income	**2,336**	**3,069**	**4,145**	**3,275**
Employment expenses	(675)	(887)	(2,028)	(1,709)
Brokerage and commission expenses	(387)	(509)	(570)	(335)
Occupancy expenses	(77)	(101)	(67)	(69)
Non-salary technology expenses	(57)	(75)	(64)	(55)
Other operating expenses	(664)	(872)	(606)	(387)
Total operating expenses	**(1,860)**	**(2,444)**	**(3,335)**	**(2,555)**
Operating profit before income tax	**476**	**625**	**810**	**720**
Income tax (expense)/benefit	24	32	(60)	(63)
Profit from ordinary activities after income tax	**500**	**657**	**750**	**657**
Profit from discontinued operations after income tax	—	–	15,030	894
Profit from ordinary activities and discontinued operations after income tax	500	**657**	**15,780**	**1,551**
Profit attributable to minority interest	(37)	(48)	(50)	(57)
Profit attributable to equity holders of Macquarie Bank Limited	**463**	**609**	**15,730**	**1,494**
Distributions paid or provided on Macquarie Income Securities	(25)	(33)	(34)	(31)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**438**	**576**	**15,696**	**1,463**

Balance Sheets

	As at			
	Mar 09	Mar 09[3]	Mar 08[3]	Mar 07[3]
	US$m[1]	A$m	A$m	A$m
ASSETS				
Cash and balances with central banks	107	141	7	3
Due from banks	7,738	10,169	7,169	6,120
Cash collateral on securities borrowed and reverse repurchase agreements	3,450	4,534	21,278	25,909
Trading portfolio assets	6,675	8,772	15,225	15,518
Loan assets held at amortized cost	33,420	43,922	46,848	45,796
Other financial assets at fair value through profit or loss	4,216	5,541	3,635	2,779
Derivative financial instruments — positive values	20,799	27,335	20,952	11,913
Other assets	3,303	4,341	3,925	10,444
Investment securities available for sale	11,067	14,544	14,736	6,060
Intangible assets	256	337	133	100
Life investment contracts and other unit holder assets	3,283	4,314	5,705	5,847
Due from related MGL entities	3,536	4,647	10,568	–
Interest in associates and joint ventures using the equity method	1,195	1,571	1,956	4,071
Property, plant and equipment	67	88	44	378
Deferred income tax assets	71	93	78	457
Assets and disposal groups classified as held for sale	43	56	35	994
Total assets	**99,226**	**130,405**	**152,294**	**136,389**
LIABILITIES				
Due to banks	2,484	3,264	3,749	4,127
Cash collateral on securities lent and repurchase agreements	2,953	3,881	13,469	7,489
Trading portfolio liabilities	1,507	1,980	10,716	15,922
Derivative financial instruments — negative values	20,752	27,273	21,154	11,069
Deposits	16,438	21,603	15,565	12,403
Debt issued at amortized cost	36,729	48,270	54,763	51,365
Other financial liabilities at fair value through profit or loss	2,951	3,878	6,271	5,552
Other liabilities	3,044	4,001	4,120	11,958
Current tax liabilities	84	111	27	132
Life investment contracts and other unit holder liabilities	3,281	4,312	5,689	5,781
Due to related MGL entities	2,535	3,332	7,769	–
Provisions	58	76	87	153
Deferred income tax liabilities	55	72	193	78
Liabilities of disposal groups classified as held for sale	—	–	–	170
Total liabilities excluding loan capital	**92,871**	**122,053**	**143,572**	**126,199**
Loan capital				
Subordinated debt at amortized cost	1,135	1,491	1,691	1,783
Subordinated debt at fair value through profit and loss	343	451	646	888
Total liabilities	**94,348**	**123,995**	**145,909**	**128,870**
Net assets	**4,877**	**6,410**	**6,385**	**7,519**
EQUITY				
Contributed equity				
Ordinary share capital	3,470	4,560	3,604	3,103
Treasury shares	—	–	–	(7)
Macquarie Income Securities	298	391	391	391
Reserves	(153)	(201)	182	380
Retained earnings	951	1,250	1,374	2,795
Total capital and reserves attributable to equity holders of MBL	4,566	6,000	5,551	6,662
Minority interest	312	410	834	857
Total equity	**4,877**	**6,410**	**6,385**	**7,519**

Other Financial Data

	As at		
	Mar 09	Mar 08	Mar 07
Ratios			
Net loan losses as a percentage of loan assets(%)[4]	1.7	0.6	0.4
Ratio of earnings to fixed charges[5]	1.1x	1.1x	1.2x
Expense/income ratio(%)[6]	79.6	80.5	78.0
Tier 1 regulatory capital adequacy ratio(%)	11.4	12.4	—
Total regulatory capital adequacy ratio(%)	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 May 8, 2009, which is US$0.7609 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 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.

3 The balance sheets as at March 31, 2009 and 2008 and the restated balance sheet as at March 31, 2007 not include the assets and liabilities of the businesses that we transferred to the Non-Banking Group as part of the Restructure, as the Restructure became effective as of November 13, 2007.

4 Net impaired assets 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.

5 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.

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

Years ended March 31, 2007, 2006 and 2005 as previously reported under AGAAP

Our previously reported historical financial statements for 2007, 2006 and 2005 reflect the income and assets of MBL Group on a pre-Restructure basis, which includes the income and assets of the businesses that we transferred to the Non-Banking Group as part of the Restructure (and that are therefore no longer owned by MBL Group), and does not separately report the results of continuing and discontinued operations. The income and assets of the businesses that we transferred to the Non-Banking Group as part of the Restructure will not be available to meet our obligations under the Notes. See "Financial Information Presentation".

Income Statements

	Year ended		
	Mar 07	**Mar 06**	**Mar 05**
	A$m	**A$m**	**A$m**
Net interest income	728	592	536
Fee and commission income	3,540	2,842	2,250
Net trading income	1,047	876	734
Share of net profits of associates and joint ventures using the equity method	242	172	17
Other operating income	1,624	350	660
Total operating income	7,181	4,832	4,197
Employment expenses	(3,733)	(2,407)	(2,045)
Brokerage and commission expenses	(421)	(366)	(403)
Occupancy expenses	(226)	(139)	(101)
Non-salary technology expenses	(163)	(128)	(104)
Other operating expenses	(710)	(505)	(386)
Total operating expenses	(5,253)	(3,545)	(3,039)
Operating profit before income tax	**1,928**	**1,287**	**1,158**
Income tax (expense)/benefit	(377)	(290)	(288)
Profit from ordinary activities after income tax	**1,551**	**997**	**870**
Profit attributable to minority interests	(57)	(52)	(29)
Profit attributable to equity holders of Macquarie Bank Limited	1,494	945	841
Distributions paid or provided on Macquarie Income Securities	(31)	(29)	(29)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**1,463**	**916**	**812**

Balance Sheets

	As at		
	Mar 07	**Mar 06**	**Mar 05**
	A$m	**A$m**	**A$m**
ASSETS			
Cash and balances with central banks	3	5	4
Due from banks	6,120	6,394	3,969
Cash collateral on securities borrowed and reverse repurchase agreements	25,909	13,570	8,927
Trading portfolio assets	15,518	14,246	7,800
Other securities	–	–	1,712
Loan assets held at amortized cost	45,796	34,999	28,425
Other financial assets at fair value through profit or loss	2,779	2,104	–
Derivative financial instruments — positive values	11,913	10,978	5,690
Other assets	10,444	8,452	3,691
Investment securities available for sale	6,060	3,746	–
Intangible assets	100	150	371
Life investment contracts and other unit holder assets	5,847	5,183	4,473
Equity investments	–	–	116
Interest in associates and joint ventures using the equity method	4,071	3,463	2,117
Property, plant and equipment	378	292	148

	As at		
	Mar 07	Mar 06	Mar 05
	A$m	A$m	A$m
Deferred income tax assets	457	240	203
Assets and disposal groups classified as held for sale	994	2,389	334
Total assets	**136,389**	**106,211**	**67,980**
LIABILITIES			
Due to banks	4,127	2,118	1,548
Cash collateral on securities lent and repurchase agreements	7,489	6,995	1,983
Trading portfolio liabilities	15,922	10,057	7,681
Derivative financial instruments — negative values	11,069	10,057	6,224
Deposits	12,403	9,267	7,240
Notes payable	–	–	28,161
Debt issued at amortized cost	51,365	39,022	–
Other financial liabilities at fair value through profit or loss	5,552	5,481	–
Other liabilities	11,958	9,553	4,581
Current tax liabilities	132	97	41
Life investment contracts and other unit holder liabilities	5,781	5,130	4,429
Provisions	153	132	119
Deferred income tax liabilities	78	157	189
Liabilities of disposal groups classified as held for sale	170	1,427	–
Total liabilities excluding loan capital	**126,199**	**99,493**	**62,196**
Loan capital			
Subordinated debt at amortized cost	1,783	1,115	1,359
Subordinated debt at fair value through profit and loss	888	266	–
Total liabilities	**128,870**	**100,874**	**63,555**
Net assets	**7,519**	**5,337**	**4,425**
EQUITY			
Contributed equity			
Ordinary share capital	3,103	1,916	1,600
Treasury shares	(7)	(2)	(1)
Macquarie Income Securities	391	391	391
Reserves	380	250	49
Retained earnings	2,795	1,934	1,523
Total capital and reserves attributable to equity holders of MBL	6,662	4,489	3,562
Minority interest	857	848	863
Total equity	**7,519**	**5,337**	**4,425**

Other Financial Data

	As at		
	Mar 07	Mar 06	Mar 05
Ratios			
Net impaired assets as a percentage of loan assets(%)[1]	0.4	0.5	0.3
Ratio of earnings to fixed charges[2]	1.5x	1.5x	1.6x
Expense/income ratio(%)[3]	73.2	73.4	72.4
Tier 1 regulatory capital adequacy ratio(%)	15.0	12.4	14.4
Total regulatory capital adequacy ratio(%)	15.5	14.1	21.2

1 Net impaired assets 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.

2 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.

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

MACQUARIE BANK LIMITED

In fiscal 2009 we undertook a reorganization of our operating groups, in which MBL Group transferred businesses and activities between operating groups within the Banking Group, and certain businesses and activities of operating groups in the Banking Group were transferred to, and certain businesses were transferred from, the Non-Banking Group. See "Financial Information Presentation — Reorganization of Operating Groups within MGL Group" for more information. Our audited financial information for the year ended March 31, 2009 and our results of operations for this period described herein present the results of our current operating segments, as described in "Financial Information Presentation — Impact of the Restructure — Our 2008 and 2009 Annual Financial Statements". The operating segment data reported in our historical financial statements for fiscal 2008 and prior fiscal years, however, has not been restated to reflect our current reportable operating segments. In addition, we were not required to restate, and have not restated, our consolidated financial information for the 2008 fiscal year in our 2009 annual financial statements or for prior years. As a result, the audit reports on those historical financial statements, and the information contained herein in relation to those periods, have not been represented on the same basis as our 2009 annual financial statements. Accordingly, investors are urged to use caution in analyzing the results of our previously-reported financial information for 2008 and prior fiscal years, since such financial information includes the income and assets of some businesses now owned by the Non-Banking Group.

Overview

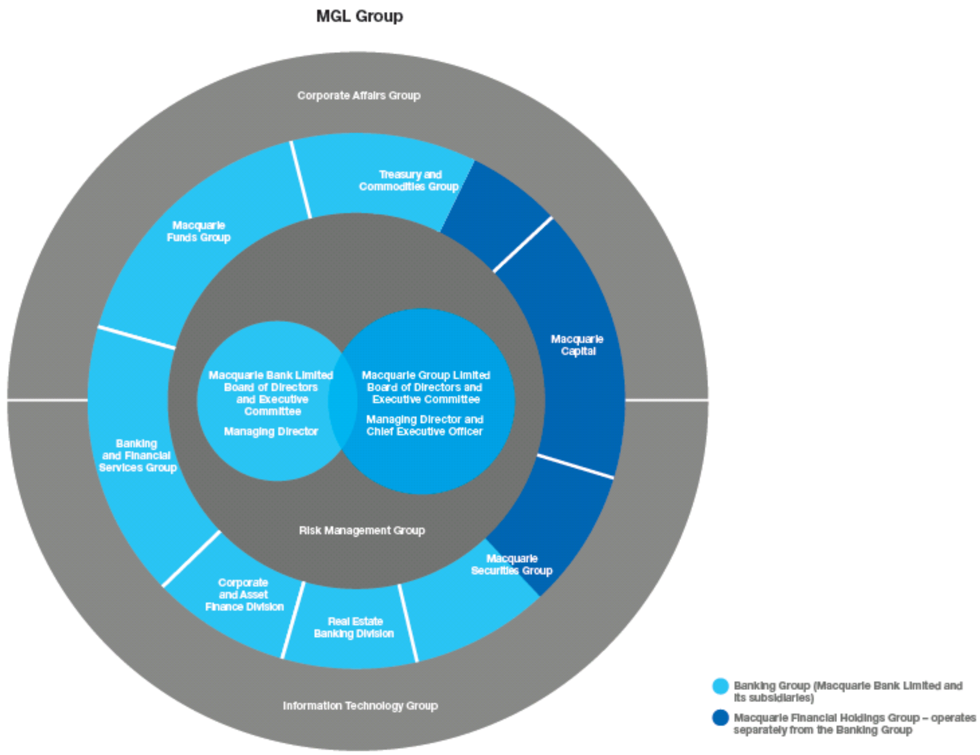
MBL is headquartered in Sydney, Australia and is an APRA-regulated ADI that, directly and through subsidiaries, engages in Australian and international financial services businesses through four operating groups and two divisions: the Treasury & Commodities, Macquarie Securities, Banking & Financial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

MBL was founded in 1969 as the merchant bank Hill Samuel Australia Limited, a wholly-owned subsidiary of Hill Samuel & Co. Limited, London. Authority for MBL to conduct banking business in Australia was received from the Australian Federal Treasurer on February 28, 1985.

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 and Treasury & 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.

Since the Restructure, a further internal reorganization of our operating groups has taken place. See "Financial Information Presentation — Reorganization of Operating Groups within MGL Group" for further information.

The following diagram shows the organizational structure of MGL Group, and reflects the composition of the Banking and Non-Banking Group as at March 31, 2009.



See " — Our Business" below for further information on the composition of MBL Group and our relationship with MGL Group.

At March 31, 2009, we employed approximately 4,400 people and had total assets of A$130.4 billion, a Tier 1 regulatory capital adequacy ratio of 11.4%, a total regulatory capital adequacy ratio of 14.4% and total equity of A$6.4 billion. For 2009, our net operating income was A$3.1 billion and profit after tax from continuing operations was A$657 million.

As at March 31, 2009, MBL conducted its operations directly and through approximately 768 subsidiaries organized in over 23 countries.

MBL's registered office is Level 3, 25 National Circuit, Forrest, Australian Capital Territory 2603 Australia. Its principal place of business is No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

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, a conservative approach to risk management, incremental 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 sectors and regions as opportunities emerge and to expand our existing businesses in selective areas of expertise. It is the basis on which we have established a leading presence in a range of markets. Our strategy is consistent with MGL Group's strategy.

We seek to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating group level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by MGL through the Services Agreements. It is the responsibility of MGL's centralized Risk Management group to ensure that appropriate assessment and management of these risks occurs within MGL Group. MGL applies this existing strategy and risk management framework across the entire MGL Group including MBL Group.

Historically, our growth has been principally organic and not driven by significant acquisitions. We have made strategic acquisitions in the past and since March 31, 2008, including the acquisitions of the North American energy trading business of Constellation Energy, and the acquisition of a strategic stake in, and entry into a partnership with, WHK, an Australian and New Zealand financial service business. From time to time, we explore strategic acquisition opportunities and we may make material acquisitions in the future should the opportunity arise.

In response to challenging market conditions, MGL Group has been exiting or winding down low-yielding businesses that are now less competitive due to increased costs of funding. This is intended to allow MBL Group to focus on more profitable, balance sheet efficient businesses. These balance sheet initiatives totaled approximately A$15 billion and included the winding down of certain of our trading portfolios, the sale of the majority of our investment lending portfolio and the sale of our Italian Mortgage portfolio.

Furthermore, in light of current credit market conditions we have strengthened our liquidity position and managed to increase our total retail deposits by A$6.8 billion since March 31, 2008, with retail deposit growth being particularly strong, increasing 103% over this period. As at March 31, 2009, MBL Group had cash and liquid assets of A$25.5 billion, which significantly exceeded short term wholesale issued paper of A$7.7 billion. In addition, MBL has raised A$14.0 billion of term funding under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme since December 2008. For further information on funding and capital refer to "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity" and "Capitalization, Indebtedness and Capital Adequacy" section of this Report, respectively.

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 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 are conducting 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.

- *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, together with our historically restrained appetite for principal risk, has been an important factor in our successful growth. We believe our earnings are diversified by business group, geographic source and income type. We engage in a range of financial services businesses, including but not limited to, retail and business banking and securitization, asset and wealth management (wholesale and retail), equity markets trading and retail and wholesale equity products, funds management, asset leasing, financial markets trading and related activities across foreign exchange, commodities, interest rates and other markets. The ongoing diversification of our businesses has contributed to our continued profitability. Our earnings have also been assisted by the significant proportion of our revenues that are derived from relatively stable sources, such as funds management base fees and net interest income, which together accounted for 45% of our total operating income from continuing operations in 2009.

- *Geographic diversity.* As at March 31, 2009, we employed approximately 4,400 people in 23 countries. Of those staff, 25% were located in offshore markets.

- *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. This is evidenced by the recently completed balance sheet initiatives which sought to redeploy capital away from low-yielding businesses that were less competitive, due to increased cost of funding, to more profitable balance sheet efficient businesses.

- *Selective approach to growth and diversification.* 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.

- *Risk management.* Risk is an integral part of our business, and we believe strong prudential management has been a 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 44 to our 2009 annual financial statements. Risk Management manages the key risks applicable to the entire MGL Group, including MBL Group, along the following principles:

  - *Independence* — Risk Management assesses and monitors risks for the entire MGL Group, including MBL 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, including MBL Group-wide, responsibilities enable it to assess risks from the perspective of the entire MGL Group and the entire MBL 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 MBL's Executive Committee and Board.

  - *Continuous assessment* — Risk Management's responsibilities include the continual 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.

- *Capital Position.* We are regulated as an ADI by APRA and, as a result, are subject to APRA's capital adequacy requirements. At March 31, 2009, our Tier 1 capital ratio was 11.4% and our total capital ratio was 14.4%.

- *Employee loyalty and retention.* As a services organization that benefits from the business development and innovation of our employees, our success is dependent upon attracting and retaining qualified employees. Due to our emphasis on appropriately rewarding and incentivizing the achievements and skills of our employees, we historically have experienced relatively high rates of director and employee retention. Excluding involuntary reductions made during the course of the year, the retention rate among our directors and among our non-directors (on a twelve month rolling basis) was 94% and 87%, respectively, at March 31, 2009.

Trading Conditions and Market Update

Overview

Since the second half of 2007 and particularly during the second half of 2008, the financial services industry and the securities markets were adversely affected by significant declines in the values of almost all asset classes and by a lack of liquidity. This was initially triggered by declines in the value of subprime mortgages in the United States, but spread to other jurisdictions and other asset classes including real estate, leveraged bank loans and equities. The global markets have been characterized by substantially increased volatility, short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently across other industries and in the broader markets. In Australia, this translated to a fall in Australia's S&P/ASX200 Index from a historical high of 6,829 points on November 1, 2007 to a low since that time of 3,145 points on March 6, 2009. As at May 20, 2009, the index had recovered to 3,825 points.

In the past year, turmoil in the financial markets has flowed into the real economy with major global economies either slowing substantially or contracting, which has caused increased unemployment in many countries, including Australia. The Australian Bureau of Statistics has announced that the Australian economy contracted at rate of 0.5% in the quarter ended December 31, 2008, after the economy expanded at growth rate of just 0.1% in the quarter ended September 30, 2008.

While market conditions remain challenging, we are seeing some early signs of stabilization. Significant uncertainties remain, however, and we believe it is still too early to make any judgments on sustained market improvements.

Australian Government Response to Market Conditions

The Commonwealth has implemented a number of initiatives to help alleviate the impact of the economic crisis, including:

- In October and November 2008, the Commonwealth implemented two government guarantee schemes: the Financial Claims Scheme (under which the Commonwealth has guaranteed deposits of up to A$1 million per depositor per eligible ADI until October 2011) and the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme (under which the Commonwealth has guaranteed deposits in excess of A$1 million held with, and also certain wholesale funding liabilities of, eligible ADIs in respect of which an eligibility certificate (as defined in the Scheme Rules) has been issued). See "Regulation and Supervision — Australia — Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme".

- As a result of the economic slowdown, the Commonwealth announced a A$10.4 billion fiscal stimulus package in October 2008, a A$42 billion fiscal stimulus package in February 2009, and has announced substantial additional fiscal stimulus measures in its budget on May 12, 2009.

- In addition to the fiscal stimulus packages, the RBA has cut the cash rate from 7.25% in August 2008 to 3.00% in April 2009 — their lowest rate in 45 years. At its latest meeting on May 5, 2009, the RBA resolved to maintain the current base lending rate at 3.00%.

Impact on MBL Group

The global economic crisis has increased our cost of funding and limited our access to some of our traditional sources of liquidity, including both secured and unsecured borrowings. The numerous steps taken by the Australian government and the RBA have helped increase our access to traditional and new sources of liquidity, particularly for MBL as an ADI which is eligible to be covered by the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme. In the year ended March 31, 2009, MBL Group raised A$20.1 billion in term funding, of which A$14.0 were securities issued by MBL under the Commonwealth Large Deposits and Wholesale Funding Guarantee

Scheme. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions and Recent Developments” for further information.

The Australian dollar declined significantly against major currencies during the year ended March 31, 2009. Although the Australian dollar has appreciated against the US dollar since March 31, 2009, and at May 8, 2009 was US$0.7609, the noon buying rate of US dollars for Australian dollars fell 24% from US$0.9132 at March 31, 2008 to US$0.6925 at March 31, 2009, and reached a low of US$0.6120 on October 28, 2008. Given our significant level of offshore business activities, our total operating income and Assets under Management were generally positively impacted by a weakening of the Australian dollar, however, this impact was partially offset by an increase in expenses incurred by businesses outside Australia and the impact of declining equity values.

The turmoil in world financial markets has also negatively impacted the value of investments that MBL Group holds.

For a detailed discussion of the impact that market conditions had on our operating performance and results of operation for fiscal 2009, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2009 compared to Year ended March 31, 2008 — Results overview”.

Throughout fiscal 2009, MBL Group has responded to the changes in its operating environment and adapted its business in a number of ways. These changes included:

- completing balance sheet initiatives totaling approximately A$15 billion, which included the winding-down of certain of our trading portfolios, the sale of the majority of our investment lending portfolio and the sale of our Italian Mortgage portfolio; and

- diversifying our funding sources through growing our deposit base and decreasing our reliance on short-term wholesale funding markets.

At the date hereof, MBL Group maintains surplus capital in excess of its regulatory requirements. At March 31, 2009, MBL had cash and liquid assets of A$25.5 billion, exceeding wholesale issued paper of A$7.7 billion, and capital of A$6.5 billion, which was A$1.8 billion in excess of MBL’s minimum capital requirement at March 31, 2009.

MBL Group’s deposits increased 43% to A$18.6 billion as at March 31, 2009 from A$13.0 billion as at March 31, 2008. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funding Transactions and Recent Developments” for further information.

These initiatives have helped MBL Group address the impact of market conditions in fiscal 2009 and capitalize on opportunities that arose during fiscal 2009 and that are beginning to emerge, including:

- the acquisition of Constellation Energy’s North American downstream natural gas business;

- the formation of a strategic partnership with WHK, an Australasian financial advisory and accounting services company; and

- the promotion of our environmental financial products and renewable energy businesses in the United States and United Kingdom.

See “Macquarie Bank Limited — Operating Groups within MBL Group” for further information.

Fitch Ratings, Moody’s Investor Services and Standard & Poor’s have reaffirmed their long-term and short-term issuer credit ratings on MBL as of the date hereof, however, on September 17, 2008 Standard & Poor’s revised its rating outlook for MBL to negative and on October 16, 2008, Moody’s Investor Services also revised its rating outlook for MBL to negative. Moody’s Investors Service has also separately announced that it will maintain a negative watch on the Australian banking sector as a whole. See “Management’s Discussion and Analysis of

Results of Operation and Financial Condition — Liquidity — Credit Ratings" for the credit ratings of MBL at March 31, 2009.

Recent Developments

Changes to Remuneration Arrangements

On March 31, 2009, MGL Group announced proposed changes to its remuneration arrangements consistent with global remuneration and regulatory trends. These proposed changes include an increase in the portion of performance-based profit share deferred and allocated as equity for the Chief Executive Officer and other members of MGL Group's Executive Committee and changed the vesting and payout schedule for retained profit share, among other proposals, which are designed to further enhance staff and shareholder alignment.

The proposed changes would be subject to approval by shareholders at the July 2009 Annual General Meeting and, if implemented, will apply to more than 300 of MGL Group's most senior employees, including Executive Directors, the Chief Executive Officer and members of the Executive Committee.

If implemented, it is estimated that approximately A$500 million of retained profit share for fiscal 2009 and prior periods will be applied to the grant of fully paid ordinary MGL shares, which will be provided via the issue of new shares, priced at the volume weighted average price of MGL's ordinary shares from May 4, 2009 to July 29, 2009.

On May 5, 2009, the Commonwealth announced proposed amendments to legislation concerning executive termination benefits and, in connection with the announcement of the Federal Budget on May 12, 2009, announced proposed changes to the taxation of employee share schemes that could lead to an adverse impact on MGL's ability to implement the proposed remuneration changes discussed above and some existing remuneration arrangements. MGL Group will continue to assess the impact of these proposed legislative changes as further details or any changes to the proposed legislation emerge. MGL Group will be unable to assess the precise impact of these changes on current remuneration arrangements or the proposed remuneration scheme discussed above until the proposed legislation is finalized.

Capital Raisings

In addition to the above A$500 million ordinary shares proposed to be issued by MGL under the new proposed remuneration arrangements, on May 7, 2009, MGL raised A$540 million through the issuance of approximately 20 million ordinary shares, at A$27 per share, in the Australian and international capital markets through an institutional offering. The new shares rank *pari passu* with existing ordinary shares and will participate in the 2009 final dividend to be paid on July 3, 2009. The price reflected a 13.2% discount to the volume weighted average price of MGL's ordinary shares during the five business days prior to April 30, 2009 (the last trading day before the offering was launched).

On May 4, 2009, MGL also extended an offer to its eligible retail shareholders for the opportunity to participate in a capital raising by way of a Share Purchase Plan. Eligible retail shareholders have the opportunity to invest in MGL's ordinary shares at the lower of A$26.60 per share (which is the issue price under the institutional offering adjusted for the 2009 final dividend of A$0.40 per share) and a five percent discount to the volume weighted average price of MGL ordinary shares during the five business days prior to May 29, 2009. The shares to be issued under the Share Purchase Plan will rank *pari passu* with existing ordinary shares except that they will not participate in the 2009 final dividend to be paid on July 3, 2009. The total number of shares to be issued is to be determined on the allotment date on or around June 5, 2009.

Excluding the Share Purchase Plan, it is expected that the above capital initiatives, including the new remuneration arrangements (subject to shareholder approval and the other matters referred to above in "— Changes to Remuneration Arrangements" above) and institutional offering will provide MGL with a minimum of A$1 billion in additional capital.

Our Business

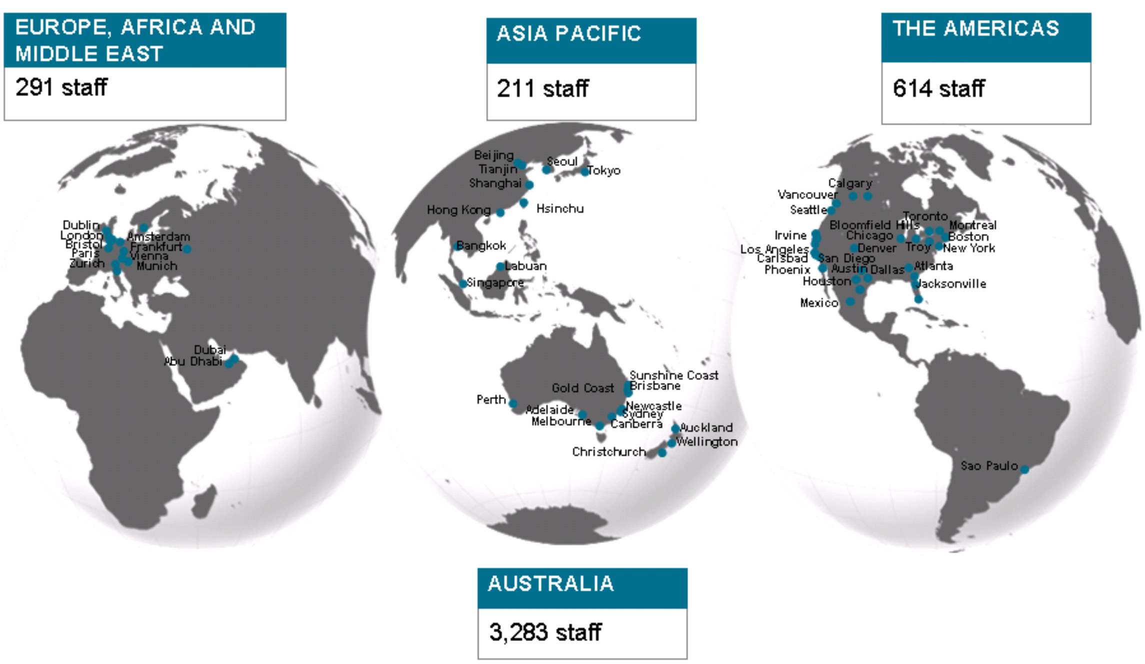
We currently conduct our business through the following operating groups and divisions:

- Treasury & Commodities
- Macquarie Securities
- Banking & Financial Services
- Macquarie Funds
- Corporate & Asset Finance division
- Real Estate Banking division

As at March 31, 2009, we employed approximately 4,400 people in 23 countries, of whom over 25% were located outside of Australia.

The following chart shows our international footprint and staff numbers as at March 31, 2009[1]:

International footprint and staff numbers as at March 31, 2009



[1] The figures in the chart do not include staff on extended leave, agency temps, casuals and non-executive directors or consultants or staff seconded to joint ventures.

Reorganization of Operating Groups within MGL Group

In April 2008, MGL 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 decision to combine these businesses followed the success of the Alternative Strategies division, which was set up previously as a joint venture between Equity Markets and Macquarie Capital. The two businesses already shared the same operational platform. MGL Group believes that combining these businesses allows it to provide a broader range of products to more clients and facilitate the building of its global equities and derivatives platform. 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, MGL 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. The formation of Macquarie Funds is intended to provide MGL Group's clients with a single, integrated funds product suite covering the full spectrum of the funds management and funds-based structured products of MGL Group. In connection with this reorganization, the funds and funds-based structured products businesses of the 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 majority of staff from our Real Estate operating group and several of our responsible entities were transferred to the Non-Banking Group and became part of Macquarie Capital. The majority of the assets remained in the Banking Group. The purpose of the transfer was to create an integrated real estate platform, in order 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 Real Estate staff and assets remaining in the Banking Group on January 1, 2009 were amalgamated to form the Real Estate Banking division on March 31, 2009. The new Real Estate Banking division consists of real estate assets comprising lending portfolios in Australia, the United States and the United Kingdom and investments in principal assets, development assets and REITs.

See also "Financial Information Presentation" above for further information on the financial impact of these operating group reorganizations.

Overview of MBL Group

The tables below show the relative revenues from external customers and profit contribution from continuing operations of each of our current operating groups in 2009 and 2008:

Revenues from external customers of MBL Group[1] by operating group for 2009 and 2008

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Macquarie Funds[2]	718	741	(3)
Banking & Financial Services	3,439	3,599	(4)
Real Estate Banking[3]	284	346	(18)
Corporate & Asset Finance[4]	397	356	12
Treasury & Commodities	1,877	1,979	(5)
Macquarie Securities[5]	675	2,032	(67)
Macquarie Capital[6]	92	244	(62)
Total group revenue from external customers	**7,482**	**9,297**	**(20)**
Corporate[7]	2,110	896	135
Total revenue from external customers from continuing operations	**9,592**	**10,193**	**(6)**

Profit contribution of MBL Group[1] by operating group for 2009 and 2008

	Year ended Mar 09	Year ended Mar 08	Movement
	A$m	A$m	%
Macquarie Funds[2]	93	277	(66)
Banking & Financial Services	(104)	238	(144)
Real Estate Banking division[3]	(350)	(129)	171
Corporate & Asset Finance division[4]	84	67	25
Treasury & Commodities	553	610	(9)
Macquarie Securities[5]	78	602	(87)
Macquarie Capital[6]	128	86	49
Total MBL Group profit contribution	**482**	**1,751**	**(72)**
Corporate[7]	94	(1,085)	109
Total profit after tax from continuing operations[8]	**576**	**666**	**(14)**

1 For further information on our segment reporting, see Note 5 to our 2009 annual financial statements.

2 In August 2008, the activities of Funds Management combined 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.

3 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, 2009.

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

5 In April 2008, MBL Group combined the activities of Equity Markets and the Macquarie Capital Securities division of Macquarie Capital to form a new operating group called Macquarie Securities.

6 Being certain less financially significant businesses of Macquarie Capital that were not transferred to the Non-Banking Group in connection with the Restructure.

7 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, staff profit share, options expense, income tax expense, profit attributable to minority interests and internal management accounting adjustments and charges.

8 Total profit after tax from continuing operations for the year ended March 31, 2009 is presented after allowing for profit attributable to minority interests of A$48 million and distributions paid or provided on Macquarie Income Securities of A$33 million.

Diversity of income of MBL Group

Our current operating groups provide a diverse source of income. Our income comprises:

- *Trading income* — generated predominately through client trading activities and products issued by Macquarie Securities and Treasury & Commodities;
- *Fee and commission income* — including:
  - Funds management fee income from Banking & Financial Services and Macquarie Funds;
  - Fee income from securitization vehicles, lending activities and transaction fees;
  - Macquarie Wrap and other administration fee income from Banking & Financial Services;
  - Brokerage fee income from Banking & Financial Services; and
  - Structuring fee income from Macquarie Funds' structured financial products;
- *Interest income* — earned on the loan books, and margin and equities lending assets of Banking & Financial Services, interest income on trading assets from Treasury & Commodities and Macquarie Securities and interest income on loan and leasing books of Corporate & Asset Finance;

- *Equity accounted income* — from investments in 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.

The following table provides the split of the combined operating income of MBL Group's operating groups by income type:

Combined operating income of MBL operating groups by income type for 2009 and 2008.

MBL income type	**Year ended Mar 09**	**Year ended Mar 08**	**Movement[2]**
	A$m	**A$m**	**%**
Net interest income	965	853	13
Fee and commission income	995	1,092	(9)
Net trading income	1,545	2,023	(24)
Share of net profits of associates and joint ventures using the equity method	98	160	(39)
Other operating income[1]	(534)	17	large
Total operating income	**3,069**	**4,145**	**(26)**

1 "Other operating income" includes A$1,029 million in impairment charges and loan provisions (March 31, 2008: A$448 million).

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

Operating Groups within MBL Group

Treasury & Commodities

Treasury & Commodities aims to continue building a cycle-resilient portfolio of businesses with ties to financial and commodity related activities. This comprises a complementary portfolio of businesses at varying stages of maturity across a variety of markets and jurisdictions where our position may range from new entrant to established participant.

Treasury & Commodities is primarily in the Banking Group, however, it still has some assets and businesses in the Non-Banking Group. Treasury & Commodities activities include trading and related activities in a broad range of financial and commodity markets. Treasury & Commodities provides clients globally with over-the-counter and structured hedging and financing solutions and is recognized as a leader across a number of markets. Treasury & Commodities focuses on selective geographic expansion and continued product innovation in its chosen markets.

As at March 31, 2009, Treasury & Commodities had approximately 509 staff operating in 10 countries across six operating business divisions — Energy Markets, Metals and Energy Capital, Foreign Exchange, Debt Markets, Agricultural Commodities and Investor Products, and Futures, as well as a Central incubation area. Proprietary trading does not represent a material portion of business revenues or profitability. Revenues and profitability in the Treasury & Commodities group are driven by customer and counterparty transaction flows. Treasury & Commodities contributed A$553 million to MBL Group's profit in 2009.

Treasury & Commodities comprises the following divisions:

Energy Markets. Energy Markets operates in London, Sydney, Melbourne, Los Angeles, Houston, Denver, New York, Singapore and Japan and provides risk management and financing solutions to a broad customer base across the energy sector. Customers include producers, refiners, airlines and shipping companies. Global energy products traded include crude oil, fuel oil, heating oil, gasoline, distillates (gas oil and jet fuel), naphtha, coal and natural gas. The division is also active in physical gas and electricity trading in North America through subsidiary companies Macquarie Cook Energy and Macquarie Cook Power as well as in the United Kingdom and expanding into Europe through the Utility Services business based in London.

In February 2009, MGL Group entered into an agreement to acquire Constellation Energy's Houston based, downstream natural gas operations. Based in Houston and with operations in Calgary and Baltimore, Constellation Energy's downstream natural gas trading unit provides physical natural gas to meet the fuel supply needs of customers, including local distribution companies, power generators, retail aggregators, industrials and large end-users in the United States and Canada. Constellation Energy's downstream natural gas trading unit is one of the largest marketers of natural gas in North America. The business has been integrated into Macquarie Cook Energy creating a leading participant in the North American natural gas market. Macquarie Cook Energy offers industry participants a range of energy services and solutions, including asset management and optimization, structured hedging, core needs fulfillment and sophisticated risk management tools. Operating alongside Macquarie Cook Energy in the North American energy markets is Macquarie Cook Power. Macquarie Cook Power, which has operated since early 2007, services North American electricity producers, mid-sized utilities, industrial users, and other large wholesale energy sector participants.

Metals and Energy Capital. Metals and Energy Capital provides equity and debt finance to the global metals and energy sectors from its operations in Sydney, Perth, London, New York, Houston and Calgary. It also provides price making, derivative trading and structured hedging facilities to the base and precious metals sectors and, in conjunction with Energy Markets, the energy sector. Operating on a 24-hour basis, Metals and Energy Capital is a price-maker to the professional market in base and precious metals and is a 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.

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 tailored products to corporations and institutions in Australia and globally. Foreign Exchange has diversified to provide wholesale and retail delivery and technology platforms in Australia, New Zealand, Japan and North America and supports a currency derivatives joint venture in the United Arab Emirates.

Debt Markets. Debt Markets arranges and places primary market debt for clients, provides 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.

Agricultural Commodities and Investor Products. Agricultural Commodities and Investor Products is a global business, with professional staff based in North and South America, the United Kingdom and Australia. It provides risk management, structured financing, and limited commodity related investor products and selected physical commodity solutions to a broad customer base. Agricultural Commodities and Investor Products provides risk management services across agricultural commodities (grains, soy complex, sugar, coffee, cocoa and ethanol) and selected freight routes. Agricultural Commodities and Investor Products holds an equity stake in Lansing Ethanol Services, LLC, which is active in physical ethanol trading.

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, early stage or cross-divisional initiatives such as:

- Environment Financial Products whose global team is active in originating emission reduction credits from projects in China, Russia and the Commonwealth of Independent States under the Kyoto Clean Development Mechanism and Joint Implementation;

- Credit Trading is a new US-based business which is opportunistically building a highly experienced team of corporate and securitized debt staff focused on providing clients credit risk solutions and identifying trading opportunities;

- Based in Miami, Emerging Markets covers Latin American markets as a platform for distribution of investors products and structured financing and advisory solutions to clients in South America, Central America and the Caribbean; and

- Joint-venture alliances.

Initiatives and opportunities. Treasury & Commodities intends to selectively expand its international operations. A significant initiative since March 31, 2008 is the growth of the power trading business based in Houston, Texas. This business is complemented by the integration of the Constellation and Macquarie Cook Energy physical and financial gas trading businesses providing Treasury & Commodities with a meaningful platform for growth in the North American energy sector.

Treasury & Commodities diverse business activities provide a strong platform for growth initiatives and opportunities through:

- development of capabilities in emerging growth markets such as environmental financial products (emissions and carbon trading) and credit trading;

- market presence and expertise in Treasury & Commodities' traditional commodities markets for agricultural, energy and metals client hedging;

- build out of US power business, which is substantially complete, operating profitably and well positioned for future growth; and

- extension of the existing European energy business into physical and financial power trading into Germany, which will expand the comprehensive risk management products Energy Markets can offer to its clients in Europe.

Macquarie Securities

Macquarie Securities was formed in April 2008 by merging the operating activities of Equity Markets (excluding the Fund Products division) and Macquarie Capital Securities division of Macquarie Capital. Macquarie Securities is primarily in the Banking Group, however, it still has some assets and businesses in the Non-Banking Group.

Macquarie Securities offers equity-linked investments, trading products and risk management services, equity finance, arbitrage trading and synthetic products as well as full service institutional cash equities broker in the Asia-Pacific region and specialized in the rest of the world.

As at March 31, 2009, Macquarie Securities had approximately 113 staff operating in 4 countries across three divisions: Cash, Delta 1 and Derivatives. Macquarie Securities contributed A$78 million to MBL Group's profit in 2009.

Cash. The Cash division operates as a full service institutional cash equities broker in the Asia-Pacific region. In the rest of the world it operates as a specialized institutional cash equities broker. It provides an Equity Capital Markets service through a joint venture with Macquarie Capital Advisers. The Cash division remains part of the Non-Banking Group.

Delta 1. The Delta 1 division combines the Macquarie Securities equity finance, arbitrage trading and synthetic product issuance businesses. The business services institutional and hedge fund clients across a range of markets with particular focus on Asia. The Delta 1 division remains part of the Banking Group.

Derivatives. The derivatives division offers equity-linked investments, trading products and risk management services to wholesale and retail clients in Australia, Asia, Europe, and the United States. The Derivatives division remains part of the Banking Group.

Initiatives and opportunities. The Cash division will seek to maintain its number one ranking (combined institutional and retail market share) in Australian market share and continue to grow market share in all of its other markets. The United States and European greenfield businesses are expected to complete their build-outs this year. Macquarie Securities will continue to consider potential acquisitions in each region. The Delta 1 division will seek to expand arbitrage trading and products into other markets and build out its synthetic products platform. The Derivatives division will pursue new opportunities including the development of an Indian derivatives business, growing the derivatives business in South Africa and providing the global institutional derivatives platform to clients.

Banking & Financial Services

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 was formed in February 2008 through the merger of Banking & Securitization and Financial Services and is in the Banking Group.

Banking & Financial Services 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.

At March 31, 2009, Banking & Financial Services had approximately 2,600 staff operating in offices in Australia, Canada, India, New Zealand, Singapore, the United Kingdom and the United States. Banking & Financial Services has six divisions: Macquarie Adviser Services, Macquarie Direct, Macquarie Global Investments, Macquarie Private Wealth, Macquarie Business Banking and International Wealth Management.

In fiscal 2009, Banking & Financial Services continued to develop international opportunities, signing a joint venture agreement with the Indian wealth management company Religare (pursuant to which Banking & Financial Services owns a 50% interest in the joint venture), launching a private wealth business in Singapore and establishing a relationship banking business in the United Kingdom, providing business lending services to the United Kingdom insurance broking industry.

Banking & Financial Services made a loss contribution of A$104 million to MBL Group's profit in fiscal 2009.

At March 31, 2009, Banking & Financial Services' total assets under administration, advice and management (including loan and deposit portfolio) was approximately A$104 billion which was down from A$114 billion at March 31, 2008.

Macquarie Adviser Services. Macquarie Adviser Services has approximately 600,000 end clients. It manages relationships with external financial intermediaries and provides sales service and product management of in-house and external products including retail superannuation, investment lending, Macquarie life insurance, Coin financial planning software and outsourced paraplanning and mortgages. The division includes a A$14.7 billion Cash Management Trust, the largest cash management trust (by total deposits) in the Australian market at March 31, 2009, and the Macquarie Wrap administration service which had A$17.5 billion in funds under administration at March 31, 2009. The division has also established a Cash Management Account which provides investors with the benefits of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme.

Macquarie Direct. Macquarie Direct provides a range of consumer and financial products for non-advised clients in Australia. This includes Macquarie credit cards, self directed stock broking through an online trading platform 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 MBL 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. Funds under Management have grown to A$434 million at March 31, 2009.

Macquarie Private Wealth. Macquarie Private Wealth maintains direct relationships with approximately 250,000 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 significantly 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 CanadianForex. Macquarie Private Wealth recently 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 owns 100% of Insurance Pay Canada Inc., one of Canada's largest insurance premium funding companies and also has operations in the United Kingdom providing business lending services to the United Kingdom insurance broking industry.

International Wealth Management. International Wealth Management is responsible for expanding the Banking & Financial Services group's wealth management business into new international markets.

International Wealth Management has a joint venture agreement with the Indian company Religare to offer advice and wealth management solutions to high net worth investors in India. International Wealth Management 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.

Initiatives and opportunities. The formation of Banking & Financial Services is intended to facilitate integration of banking and wealth product offerings and provide a coordinated platform for us to increase market share in the retail banking and financial services sector in Australia and internationally. Providing a better client experience across a full banking and financial services product range through aligned channels and a reduced cost base is a priority for Banking & Financial Services.

Macquarie Funds

Macquarie Funds encompasses MBL Group's funds-based business. It offers a diverse range of investment structures across a variety of asset classes. Macquarie Funds is one of Australia's largest fund managers and provides an innovative range of investment solutions to superannuation funds, corporations, financial advisers, platforms and retail investors in Australia and internationally.

Macquarie Funds engages primarily in funds management activities, but also draws on its funds management expertise to develop and distribute investment products to funds. As at March 31, 2009, the business had over 580 staff operating in 12 countries. Macquarie Funds had over A$49.7 billion Assets under Management at March 31, 2009. Macquarie Funds contributed A$93 million to MBL Group's profit in 2009. Macquarie Funds is described under this section, while other funds management businesses conducted by MBL Group and MGL Group are described under " — Funds Management Business — MBL Group and the Non-Banking Group".

Macquarie Funds continues to focus much of its new activities internationally and in higher-margin funds management solutions. This includes building additional management and distribution capabilities in international and regional assets as well as focusing on gaining global scale through acquisitions.

With over 25 years of funds management experience, Macquarie Funds is a full-service fund manager, spanning major asset classes and a range of innovative funds, funds-based structured investments and fund of funds. The group comprises the following business areas:

Equities. A fusion of quantitative and fundamental strategies in a style-neutral approach is offered to investors across a range of active risk levels.

Fixed Income, Currency and Commodities. Macquarie Funds is Australia's largest cash manager and one of Australia's leading fixed income managers. It has built expertise in a diverse range of products including active, enhanced and indexed funds, over both Australian and international securities. The group also offers management of currency exposures via both active strategies and dynamic currency hedging.

Infrastructure Securities. The Infrastructure Securities team, based in Sydney and New York, specializes in the management of global listed infrastructure securities.

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

Fund of Funds. The group offers innovative funds of private equity funds and fund of hedge funds products investing in specialist underlying managers.

Investment Solutions and Distribution. The Investment Solutions and Distribution division specializes in providing a range of market-leading financial transactions and products to clients. In particular, the team pioneers new retail structured financial products. The team manufactures and distributes products independently and through joint ventures around the world with distribution capabilities and offices in Australia, Europe, Asia and North America.

Incubation. The incubation team focuses on identifying, recruiting and seeding exceptional investment talent to create new hedge funds, long-only funds and structured funds.

Affiliated Managers. The Affiliated Managers team pursues strategic acquisitions and acquires controlling stakes in high-quality specialized asset managers. In the current environment, the business is evaluating acquisitions that will globalize the footprint of MBL's securities asset management activities.

Initiatives and opportunities. Macquarie Funds intends to continue to expand its distribution capabilities in Asia, Europe, and North America. Acquisition opportunities are expected to be sought, especially where they expand the business' range of investment capabilities.

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. With offices in Australia, New Zealand, Asia, North America and Europe, Corporate & Asset Finance specializes in:

- leasing and asset finance;

- offering tailored debt and finance solutions; and
- asset remarketing, sourcing and trading.

Corporate & Asset Finance operates across 55 offices worldwide and contributed A$84 million to MBL Group's profit in 2009. Corporate & Asset Finance is comprised of the following eight business units managing A$8.5 billion of assets:

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. The lending team operates out of Sydney, London and New York.

Macquarie Maritime. Macquarie Maritime is a newly-established, London-based business which seeks to invest in the maritime industry through the acquisition of assets or companies, development of joint ventures with industrial partners, or sale and charter back opportunities.

Macquarie Meters. Macquarie Meters owns an extensive gas and electricity metering portfolio in the United Kingdom. The portfolio comprises traditional 'mechanical' meters (held via an 80% equity interest in Capital Meters Limited) 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.

Initiatives and opportunities. Corporate & Asset Finance intends to continue to grow its market share as competitors reduce or exit from domestic and international markets. The expansion of the primary and secondary lending business unit through selective recruitment is also expected to drive growth in its lending portfolio. Corporate & Asset Finance will continue to consider acquisitions of lease portfolios or businesses in selected jurisdictions, and to leverage the acquisition of CIT Equipment Leasing in fiscal 2008. We anticipate the launch of a speciality leasing funds management business in the United States during fiscal 2010 in addition to establishing a maritime leasing business. We believe that Corporate & Asset Finance is well positioned to take advantage of the funding available for asset acquisition and financing.

Real Estate Banking

Real Estate Banking is a diverse, international business focused upon 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, with businesses located in Australia, Asia, North America the United Kingdom and Africa. The Real Estate Banking division contributed a loss of A$350 million to MBL Group's profit in 2009.

Funds management. Real Estate Banking specializes in the management of specialist unlisted investment vehicles and listed REITs.

Major specialist international listed and unlisted REITs that are managed by Real Estate Banking are:

- Macquarie Central Office CR-REIT – MBL Group's first REIT listed on an exchange in South Korea.

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

- J-REP – The Macquarie Goodman Japan joint venture owns 53% of this Japanese listed logistics development and funds management business.

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

- Macquarie Office Trust (MOF, ASX) – listed on the ASX and invests in high grade office properties across Australia, the United States, Europe and Asia.

- Macquarie CountryWide Trust (MCW, ASX) – listed on the ASX and invests predominantly in grocery-anchored retail property with current investments in Australia, New Zealand, the United States and Europe.

- Macquarie DDR Trust (MDT, ASX) – listed on the ASX and invests in high quality value and convenience retail real estate in the United States.

- Macquarie Leisure Trust (MLE, ASX) – listed on the ASX and invests in quality leisure assets such as theme parks, bowling centers, health clubs and marinas with current investments in Australia, New Zealand and the United States.

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 which has US$5.2 billion in Equity under Management.

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.

Real Estate Banking has an interest in St Hilliers Property, an Australian development, property funds and asset management company. St Hilliers Property is focused on the primary institutional markets of Sydney, Melbourne and Canberra. As at March 31, 2009, St Hilliers Property has completed projects worth more than A$960 million.

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). In China, First China Property Group, a wholly-owned subsidiary is a residential developer.

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.

Shared Services

We and the Non-Banking Group are supported by a number of specialist areas at MGL. These shared services are outsourcing arrangements for us that Macquarie Group Services Australia Pty Limited, a subsidiary of MGL, performs pursuant to the Services Agreements and include:

- *Risk Management* — credit, finance, operational risk, internal audit, compliance and quantitative applications;
- *Finance* — accounting, reporting and financial strategy;
- *Information Technology* — hardware, software, voice communications and disaster center management;
- *Group Treasury* — funding, liquidity policy compliance, management of the balance sheets, interest rate risk management, cash management and rating agency relationship management;
- *Settlement Services* — processing the settlement of all currencies and products, specific control functions including customer and regulatory-required client information, control and maintenance of foreign correspondent bank accounts, reconciliation of all correspondent bank accounts, independent source and input of all rates and provision of SWIFT and general communication services;
- *Equity Markets Operations* — trade and documentation support, funds administration, collateral management, custody, corporate actions, equity settlements and reconciliation services in respect of equity and fund products;
- *Human Resources Services* — remuneration operations, remuneration policy, people strategy, recruitment and careers, and regional human resources;
- *Business Services* — facilities, guest relations, business information services, corporate risk and procurement;
- *Company Secretarial and Investor Relations Services* — company secretarial, shareholder liaison and share registry;
- *Media Relations and Corporate Communications* — media, brand and marketing, external relations, international relations, board and central executive support, internal communications, web co-ordination and community relations;
- *Taxation Services* — tax compliance and advisory/technical;

- *Business Improvement and Strategy Services* — growth strategy, organization design and effectiveness, performance improvement, merger and acquisition support, information technology alignment and change management;

- *Central Executive Services* — assessment of risks associated with large and unusual transactions, new businesses and prudential matters, and running the offices of the MBL Managing Director and Deputy Managing Director;

- *Other Group-wide Services* — group-wide projects;

- *Business Shared Services* — legal, compliance, and IT services for MBL Group's Macquarie Securities and Treasury & Commodities operating groups; and

- *Other* — such other services as may be agreed from time to time.

Interactions between MBL Group and the Non-Banking Group are related-party transactions and are intended to be conducted on arm's-length terms and conditions in accordance with good governance principles and APRA requirements.

Relationship between MBL and MGL Group

Following the Restructure, 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 intended to meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group currently consists of only MBL Group and our intermediate holding company, Banking Holdco. The Non-Banking Group primarily consists of Macquarie Capital and certain other less financially significant assets and businesses of our former Equity Markets operating group and the Treasury & Commodities operating group that we transferred to the Non-Banking Group in connection with the Restructure, and its intermediate holding company, Non-Banking Holdco. The Banking and Non-Banking Groups 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, MGL views both as integral to MGL Group's identity and strategy.

MGL and MBL will continue to monitor and review the appropriateness of the current structure, including the composition of and transactions between the Banking Group and the Non-Banking Group and the optimal allocation of businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group, and may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

Our relationships with other MGL Group members include:

- the Services Agreements;

- 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 by MGL to MBL 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 between the Banking Group and the Non-Banking Group;

- delivering integrated capabilities to clients; and

- business opportunities introduced to us and that we introduce to other members of MGL Group.

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.

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.

At March 31, 2009, A$3.8 billion remained outstanding under the Intra Group Loan. Since March 31, 2009, MGL and MBL have agreed to vary the loan agreement, with effect from May 13, 2009, such that (i) MGL made a repayment of A$1.9 billion on May 15, 2009 and (ii) the balance of the loan has been redenominated to US dollars at a current exchange rate and the term extended so that such balance will be repaid in three equal installments in June, September and December 2012, at the latest.

At May 15, 2009, A$1.9 billion remained outstanding under the Intra Group Loan.

Senior Credit Facility

To finance the Restructure, on November 13, 2007, MGL entered into a A$9 billion Senior Credit Facility. As at March 31, 2009 the facility limit was A$7.8 billion following the early unwind of the standby facility. The facility now comprises a A$0.1 billion bilateral facility, three revolving credit facilities totalling A$2.4 billion and four term facilities totalling A$5.3 billion. The term and revolving facilities originally had three, four and five year terms, maturing in November 2010, 2011 and 2012, respectively. In May 2008, MGL entered into the fourth three-year term facility that matures on May 16, 2011.

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

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

Interest on outstanding amounts drawn under the Senior Credit Facility is payable at the base rate plus a margin. For drawings in Australian dollars, the base rate is BBSY; for drawings in Euro, the base rate is EURIBOR; for drawings in US dollars, pounds sterling or Japanese yen, the base rate is LIBOR in the relevant currency. Funds drawn under the Senior Credit Facility are used for MGL’s general corporate purposes.

At March 31, 2009, MGL had drawn down the equivalent of approximately A$7.4 billion in Australian dollars under the Senior Credit Facility in the term and revolving facilities.

MGL Group

MGL Group is a global provider of banking, financial, advisory, investment and funds management services. MGL Group's main business focus is making returns by providing a diversified range of services to clients. MGL Group acts on behalf of institutional, corporate and retail clients and counterparties around the world.

MGL Group is listed in Australia (MQG; ASX) and is regulated by APRA as the owner of MBL. MGL Group also owns a bank in the United Kingdom, Macquarie Bank International, which is regulated by the FSA. Macquarie's activities are subject to scrutiny by other regulatory agencies around the world.

MGL Group's strategy is to focus on the medium term and built on providing services to clients, the alignment of interests with shareholders, investors, and staff, a conservative approach to risk management, incremental growth and evolution, operations that are diversified by business and geography, and an ability to adapt to change. MGL Group believes this strategy provides it with the flexibility to enter into new sectors and regions as opportunities emerge, and has resulted in it establishing a leading presence in a range of markets.

On November 13, 2007, as part of the Restructure, MGL became the holding company of MBL Group and MGL Group succeeded to all of MBL Group's businesses. As MGL Group 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.

At March 31, 2009, MGL Group employed over 12,700 people and had total assets of A$149.1 billion and total equity of A$9.6 billion.

For fiscal 2009, MGL Group's total operating income was A$5.5 billion and profit after tax attributable to ordinary equity holders was A$871 million, with 52% of MGL Group's operating income (excluding earnings on capital and other corporate items) derived from its international activities.

As at March 31, 2009, MGL Group conducted its operations directly and through approximately 1,280 subsidiaries organized in over 26 countries.

MGL was incorporated in Victoria on October 12, 2006. MGL's registered office and principal place of business is 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

As MGL Group represents one of MBL Group's largest credit exposures and contractual counterparties, the discussion of the Non-Banking Group is set out below in detail. ***Investors should note that neither the income nor assets of the businesses owned by the Non-Banking Group are available to meet our obligations under the Notes.***

Non-Banking Group

The following operating group, division and activities of MBL Group form the Non-Banking Group:

- Macquarie Capital, which comprises one division, Macquarie Capital Advisers, which incorporates Macquarie Capital Funds;
- the Cash division of Macquarie Securities; and
- certain less financially significant assets and businesses of Treasury & Commodities division that MBL transferred to the Non-Banking Group in connection with the Restructure.

The Macquarie Capital operating group comprises all of the assets and businesses within Macquarie Capital prior to the Restructure, except for a relatively small portion of assets and businesses from the former Macquarie Capital Products and the Macquarie Capital Finance divisions that were retained by the Banking Group because transferring these to the Non-Banking Group would have been impractical. In addition, as part of the Restructure, we transferred to the Non-Banking Group certain other, less financially significant, activities of the former Equity Markets group and Treasury & Commodities that were comprised of United States based broker-dealer activities, Asian futures execution and clearing, Asian origination of treasury and commodity transactions. The businesses and activities that we transferred to the Non-Banking Group were transferred because they are generally undertaken within regulated entities that form part of the Non-Banking Group.

Macquarie Capital's businesses were part of MBL Group prior to the Restructure. We continue to share the Macquarie name with Macquarie Capital and various funds it manages. We also continue to maintain shared services and other significant relationships with Macquarie Capital, including the Intra Group Loan, and our reputation is linked with Macquarie Capital. See " — Intra Group Loan" above for further information.

Accordingly, investors should note that as the Macquarie Capital operating group includes some less financially significant assets and businesses that we did not transfer to the Non-Banking Group in connection with the Restructure, the discussion below in relation to Macquarie Capital includes some information, including financial information, relating to the activities of Macquarie Capital currently conducted within the Banking Group. See "Financial Information Presentation — Impact of the Restructure".

Overview of Macquarie Capital

Macquarie Capital includes MGL Group's corporate advisory, equity underwriting and specialized funds management businesses (including infrastructure and real estate funds).

With offices in Australia, New Zealand, Asia, North America, Europe, South Africa and the Middle East, Macquarie Capital provides a depth of services including specialist capabilities in:

- Mergers and acquisitions, takeovers and corporate restructuring advice;
- Equity capital markets and equity and debt capital management and raising;
- Specialized funds management (including infrastructure and real estate funds);
- Debt structuring and distribution;
- Private equity placements; and
- Principal products.

The key features that are common to Macquarie Capital's businesses include a commitment to innovation and new initiatives, technical and operational expertise and product differentiation, an innovative culture, the recognition of opportunities to profit from untapped markets or niches and commitment to prudential management. In addition to its advisory capabilities, Macquarie Capital also uses its own balance sheet to invest as principal, either alongside clients or funds, or as a sole shareholder. The Principal Transactions & Prudential Management team within Macquarie Capital works with Risk Management to review the legal and commercial aspects of all principal transactions to ensure that the business' commercial and strategic objectives are satisfied. This team is also responsible for monitoring the ongoing performance of principal assets on Macquarie Capital's balance sheet.

At March 31, 2009, Macquarie Capital's businesses had over 2,600 staff operating across 23 countries including Australia, Canada, China, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Mexico, the Netherlands, New Zealand, Philippines, Singapore, South Africa, South Korea, Sweden, Taiwan, Thailand, the UAE, the United Kingdom and the United States.

Diversity of Income of Macquarie Capital. The broad and varied range of businesses within Macquarie Capital provides Macquarie Capital with significant diversity of income. Furthermore, Macquarie Capital believes the following complementary mix of businesses assists with reducing the volatility of its earnings:

- The funds management model, which produces relatively stable income streams from base management fees;
- The portfolio of infrastructure and real estate assets and other similar types of stable cashflow-generating assets; and
- The targeting of assets and transactions which provide opportunities in both strong and weak market conditions.

Macquarie Capital generates the following sources of income:

- *Fee and commission income* — including:
    - Funds management fee income from Macquarie Capital Funds, including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks;
    - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital Advisers;
- *Equity accounted income* — from principal investments in assets and businesses where significant influence is present; and
- *Other income* — from the sale of assets and equity investments as well as gains on the deconsolidation of controlled entities.

Macquarie Capital's operating income is also diversified by geographic source. As shown below, a significant amount of Macquarie Capital's operating income has been generated in Australia.

Diversity of operating income by region[1], as at March 31, 2009

Region	**% contribution**
Americas	(4)
Asia Pacific	13
Europe, Africa and Middle East	49
Australia	42

1 Operating income by region is determined with reference to our "international income" non-GAAP financial measure. For a discussion of how our non-GAAP financial measures are calculated, see "Financial Information Presentation — Non-GAAP financial measures — International income".

Macquarie Capital Structure

Macquarie Capital comprises one division, Macquarie Capital Advisers, which incorporates Macquarie Capital Funds.

During fiscal 2009, Macquarie Capital Securities division, Macquarie Capital Finance division and the retail arm of Macquarie Capital Products separated from Macquarie Capital. On January 1, 2009, the majority of our Real Estate operating group merged with Macquarie Capital to create an integrated real estate platform, in order 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. See "Financial Information Presentation — Reorganization of Operating Groups within MGL Group" above for further information.

Macquarie Capital Advisers (including Macquarie Capital Funds)

The Macquarie Capital Advisers division undertakes a diverse range of activities. The division initiates, structures, and executes a broad spectrum of transactions for corporate, institutional and government clients. Macquarie Capital Advisers is a global provider of corporate advice and services in relation to mergers and acquisitions, divestments, takeover responses, debt, listed and unlisted equity and hybrid financing, capital management, structuring and project financing and other strategic and financial issues.

Macquarie Capital Advisers includes Macquarie Capital Funds, which manages a range of specialist funds, that constitute an important part of the overall Macquarie Capital Advisers strategy. For further information on Macquarie Capital Funds, see " — Macquarie Capital Funds" below and " — Funds Management Business — MBL Group and the Non-Banking Group". Macquarie Capital Advisers' ability to source and acquire assets has allowed it to develop a number of specialist funds globally.

As mentioned above, Macquarie Capital Advisers also conducts a number of principal investments on behalf of MGL Group, including principal asset acquisitions and minority equity stakes in funds managed by Macquarie Capital Funds as part of its strategy of co-alignment.

The following diagram provides an overview of Macquarie Capital Advisers' business groups:

Macquarie Capital Advisers sources deal flow and assets for both third-party clients and the business' funds management vehicles. In certain cases, Macquarie Capital may acquire assets as principal investments. These assets are then packaged and offered to institutional or public investors or, where the business perceives investor demand, placed in new specialist funds managed by Macquarie Capital Funds. Through Macquarie Capital Funds, Macquarie Capital Advisers applies operational expertise in the day-to-day management of these assets in return for base management fees and performance fees when the funds outperform relevant benchmarks. For further information on Macquarie Capital Funds, see " — Macquarie Capital Funds" below and " — Funds Management Business — MBL Group and the Non-Banking Group".

Advisory/capital raisings. During fiscal 2009, Macquarie Capital Advisers has experienced mixed market conditions. Macquarie Capital Advisers continued to pursue strategic growth initiatives and to seek to source quality assets globally. In fiscal 2009, Macquarie Capital Advisers was involved in 299 transactions totaling A$203 billion.

Key transactions that Macquarie Capital Advisers was involved in during fiscal 2009 include:

- Exclusive financial adviser to Origin Energy in relation to its defense of BG Group's A$14 billion takeover offer and joint venture with ConocoPhillips of up to A$11 billion, resulting in the largest private treaty asset sale in Australian history and the largest oil and gas asset sale globally in 2008;

- Adviser to Rio Tinto on its response to the pre-conditional takeover offers from BHP Billiton;

- Adviser, sponsor, debt arranger and underwriter on the acquisition of Washington-based Puget Sound Energy and its parent company Puget Energy for US$7.9 billion;

- Adviser to Borealis Infrastructure on its C$2 billion acquisition of Teranet Income Fund in Canada;

- Adviser to Kirin-owned National Foods on the A$880 million acquisition of Australian Co-operative Foods (Dairy Farmers);

- Sole financial adviser to Goldcorp, the world's second largest gold company by market capitalization, on its acquisition of Gold Eagle Mines for total consideration of C$1.5 billion;

- Adviser and debt arranger to a Bilfinger Berger and John Laing led consortium on the €650 million A1 Hamburg-Bremen road project, the largest public private partnership project in Germany to date;

- Adviser to a Marubeni-led consortium on an approximate S$5 billion capital raising and the acquisition of Senoko Power, the largest power generation company in Singapore;

- Adviser to Bupa on the merger of its subsidiary, Bupa Australia, with MBF Australia by way of a scheme of arrangement, with A$2.4 billion cash consideration distributed to participating MBF contributors, creating the largest private health insurer in Australia at the time of the merger;

- Adviser on the £16 billion refinancing of BAA, owner of Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Aberdeen and Southampton airports;

- Adviser to ACS Infrastructure Development on its successful bid for the 35-year concession on the I-595 Corridor Roadway Improvement Project in Florida, United States;

- Joint lead manager, bookrunner and underwriter on the S$407 million private placement and preferential offering for Ascendas REIT in Singapore;

- Adviser and lead sponsor to Macquarie Partnerships for Ireland on its successful bid and financial close for the 27-year concession to develop four new public-private partnership schools across Ireland; and

- Adviser to funds managed by QIC Global Infrastructure on the NZ$423 million acquisition of a 58% equity interest in Powerco Limited in New Zealand.

Macquarie Capital recent developments. Macquarie Capital Advisers division held approximately 10.0% of the stapled units in BrisConnections as at May 8, 2009. On April 21, 2009, ASIC approved Macquarie Capital Advisers' proposal to make an offer to unitholders who own 50,000 units or less to transfer their units to Macquarie Capital Advisers and be relieved of any liability to pay the further two installments owing on the units. The offer closed on May 4, 2009. Upon the conclusion of the offer, 486 eligible BrisConnections unitholders (representing 7,699,126 units or 1.97% of issued capital) had accepted, resulting in an incremental cost to Macquarie Capital

Advisers of between approximately A$7.7 million and A$15.4 million depending on the number of unitholders who would have defaulted on the second and third installments, had the offer not been made.

Macquarie Capital Advisers division has entered into an underwriting agreement to underwrite 50% of the second and third installments due to BrisConnections by investors on April 29, 2009 and January 29, 2010.

Initiatives and opportunities. Macquarie Capital Advisers strives to maintain its strong Australian position while continuing its focus on international growth. In Europe, Macquarie Capital has selectively expanded its capabilities in the infrastructure space through its involvement in a number of public-private partnerships in France, Belgium, the Netherlands and Slovakia. In North America, Macquarie Capital believes that opportunities exist in the infrastructure and resources sector, particularly to expand its third-party advisory and equity capital markets capabilities. In Asia, the Middle East and South Africa, Macquarie Capital Advisers intends to further develop joint ventures with local partners.

Macquarie Capital Funds

Macquarie Capital Funds is a manager of capital and businesses. It manages most of MGL Group's infrastructure, real estate and other specialist funds.

Macquarie Capital Funds has experienced substantial growth over the last five years managing specialist funds and investment vehicles globally with total Assets under Management of A$160 billion as at March 31, 2009. For an explanation of Assets under Management, see "Financial Information Presentation — Non-GAAP financial measures — Assets under Management". The track record of operational and underlying earnings performance of the assets and businesses in which funds managed by Macquarie Capital Funds have invested has contributed to the continued growth in Funds under Management.

Macquarie Capital Funds manages funds that own assets which provide essential community services in infrastructure, real estate and related sectors. Within the Macquarie Capital Funds business resides a substantial group of people with operational or industry expertise (many of them being ex-industry or consulting specialists) in the sectors managed by the business. The funds and investment vehicles managed by Macquarie Capital Funds have investments in over 110 assets and approximately 500 properties across 27 countries. The debt extended to the funds and assets managed by Macquarie Capital Funds is non-recourse to MGL Group.

See " — Funds Management Business — MBL Group and the Non-Banking Group" below for a discussion of movements in Assets under Management within Macquarie Capital Funds and other MGL Group managed funds since March 31, 2008.

The following table indicates the extent of the services that the specialist funds managed by Macquarie Capital Funds provides to the community through the ownership of these assets by those specialist funds.

Provider of essential community services

Employees	Over 87,000 across the assets
Airports	Over 81 million passengers per annum
Toll Roads	Over 2.2 million cars per day
Gas Distribution	Over 13.7 million households
Water	Over 10.2 million households
Electricity	Over 4.1 million households
Communications	Over 95 million people reached by television, telephone and radio infrastructure and newspaper services
Rail	Over 2.8 million passengers per annum
Ferries	Over 6.8 million passengers per annum
Aged care/retirement villages	Over 12,000 beds/Over 8,100 units
Buses	Over 340 million passengers per annum
Ports	Over 4.3 million standard container units handled per annum

Macquarie Capital Funds focuses on acquiring quality assets and effectively managing them. At March 31, 2009, Macquarie Capital Funds managed 49 funds and had Equity under Management of A$53 billion (which is included in its A$160 billion of total Assets under Management). For an explanation of Equity under Management, see "Financial Information Presentation — Non-GAAP financial measures — Equity under Management".

The listed funds managed by the Macquarie Capital Funds include:

Funds and Listing	Selected assets in which the funds have an interest include
Macquarie Infrastructure Group (MIG, ASX)	Chicago Skyway, Dulles Greenway, South Bay Expressway and Indiana Toll Road in the US, Highway 407 in Canada, M6 Toll in the UK, and the Autoroutes Paris-Rhin-Rhône motorway in France
Macquarie Airports (MAp, ASX)	Bristol, Brussels, Copenhagen and Sydney airports
Macquarie Communications Infrastructure Group (MCG, ASX)[1]	Broadcast Australia and significant interests in Arqiva and Airwave in the United Kingdom
Macquarie Media Group (MMG, ASX)	Macquarie Southern Cross Media and American Consolidated Media
Macquarie Korea Infrastructure Fund (MKIF, LSE and Korea Exchange)[2]	Incheon Grand Bridge, Cheonan-Nonsan Expressway and Gwangju 2nd Beltway, Section 1
Macquarie Power & Infrastructure Income Fund (MPT, TSX)	Portfolio of gas cogeneration, wind, hydro and biomass power assets and an interest in Canadian long-term care provider
DUET Group (DUE, ASX)[2]	Four gas and electricity distribution and transmission networks in Australia and one in the United States.

Funds and Listing	Selected assets in which the funds have an interest include
Macquarie Infrastructure Company (MIC, NYSE)	Diversified portfolio of infrastructure businesses in the United States.
Macquarie International Infrastructure Fund (MIIF, Singapore Stock Exchange)	Diversified portfolio of global infrastructure assets, with a focus on Asia
Macquarie CountryWide Trust (MCW, ASX)	Portfolio of predominantly grocery anchored shopping centers across Australia, Europe, New Zealand and the United States
Macquarie DDR Trust (MDT, ASX) [2]	Portfolio of United States community shopping centers
Macquarie Leisure Trust Group (MLE, ASX)	Dreamworld, WhiteWater World, d'Albora Marinas and AMF

[1] On March 31, 2009 Macquarie Communications Infrastructure Group announced that Canada Pension Plan Investment Board had made formal cash offers to acquire MCG stapled securities at A$2.50 per stapled security.

[2] DUET Group, Macquarie Korea Infrastructure Fund and Macquarie DDR Trust are managed as joint ventures by wholly-owned subsidiaries of MGL and third-party managers.

In recent years, Macquarie Capital Funds' major source of funds has been the unlisted market. With the global pension industry investing a relatively large portion of its savings into long duration assets, Macquarie Capital Funds raised A$7.6 billion in equity in fiscal 2009. Of this amount, A$7 billion in equity was raised for the unlisted funds including ADCB Macquarie Infrastructure Fund (Middle East), Asian Resources Fund, Macquarie European Infrastructure Fund III, Macquarie Global Opportunities Partners, Macquarie Infrastructure Partners II, Macquarie SBI Infrastructure Fund, Macquarie Special Situations Fund and Retirement Villages Group.

See " — Funds Management Business — MBL Group and the Non-Banking Group — Equity under Management" below for a discussion of historical performance of our listed and unlisted funds.

Macquarie Capital Funds' initiatives and opportunities. Macquarie Capital Funds has significant capital available to take advantage of opportunities to diversify across geographies and industry sectors.

For further information on funds managed by Macquarie Capital Funds, see " — Funds Management Business — MBL Group and the Non-Banking Group".

Funds Management Business — MBL Group and the Non-Banking Group

MGL Group's funds management businesses are conducted by both MBL Group and the Non-Banking Group. MGL Group is a manager of listed and unlisted specialist funds which invest in infrastructure (including airports, toll roads, communications infrastructure, utilities and related sectors), private equity and real estate (including retail, office, industrial, commercial and development capital). MGL Group now has listed funds in Australia, Canada, the United States, Korea and Singapore and unlisted funds in Australia, Korea, Hong Kong, India, Canada, the United States, Europe, South Africa and the Middle East. MBL Group manages a portion of the real estate specialist funds and certain other funds of Macquarie Funds and Banking & Financial Services. The Non-Banking Group, through Macquarie Capital Funds, manages the infrastructure, media, private equity and most of the real estate specialist funds described below.

MGL Group had an aggregate of A$243 billion of Assets under Management as at March 31, 2009, from which MGL Group derived an aggregate of A$920.9 million of funds management base fees for the year ended March 31, 2009.

MBL Group had an aggregate A$83.6 billion of Assets under Management as at March 31, 2009, from which it derived an aggregate of A$402.8 million of funds management base fees from continuing operations for the year ended March 31, 2009, which amounts are included in the figures noted above in respect of MGL Group.

The table below illustrates MGL Group's aggregate Assets under Management by operating group, region and industry sector.

Assets under Management by operating group, region and industry sector for 2009 and 2008

	As at		
	Mar 09[1] **A$m**	**Mar 08** **A$m**	**Movement** **%**
Assets under Management by group			
Macquarie Capital	159,509	148,102	8
Macquarie Funds	49,656	47,254	5
Banking and Financial Services[2]	19,178	23,078	(17)
Real Estate Banking	14,761	13,579	9
Total Assets under Management	**243,104**	**232,013**	**5**
Assets under Management by region			
Australia	86,032	91,833	(6)
Europe, Africa and Middle East	83,113	83,195	(<1)
Americas	55,453	38,647	43
Asia Pacific	18,506	18,338	1
Total Assets under Management	**243,104**	**232,013**	**5**
Assets under Management by industry sector			
Investment funds	68,834	67,681	2
Energy and utilities	48,726	37,915	29
Roads	32,999	37,038	(11)
Communications infrastructure	21,246	18,165	17
Airports	20,895	20,845	<1
Other	14,288	15,044	(5)
Commercial real estate	11,626	12,587	(8)
Transport and related services	11,537	11,793	(2)
Retail real estate	8,349	8,318	<1
Tourism/leisure and residential real estate	4,276	1,520	181
Industrial real estate	328	1,107	(70)
Total Assets under Management	**243,104**	**232,013**	**5**

1 Holding at March 31, 2009 represents MGL Group's participating interest in the fund, excluding amounts held through True Index funds and their subsidiaries.

2 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).

Assets under Management at March 31, 2009 were A$243 billion, a 5% increase since March 31, 2008. Although Assets under Management have shown an overall net increase, the result was in part due to the weakening of the Australian dollar against major global currencies, which in turn increased the value of Assets under Management denominated in foreign currencies. In addition, the acquisition of the remaining shares in Allegiance Investment Management, a United States 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. The key movements in Assets under Management during the year are summarized below.

Macquarie Capital. Macquarie Capital's Assets under Management were A$159.5 billion at March 31, 2009, up 8% from A$148.1 billion at March 31, 2008. The increase was driven by the weakening of the Australian dollar against major global currencies, which increased the value of Assets under Management denominated in foreign currencies. These increases were partially offset by asset sales, including Westlink M7, Lusoponte and various real estate assets.

Real Estate Banking. Real Estate Banking's Assets under Management increased by 9% during fiscal 2009 to A$14.8 billion from A$13.6 billion in fiscal 2008. This was largely due to foreign currency movements, asset acquisitions in Singapore, Japan, Poland and France, and partially offset by the disposal of investments in Australia, Asia, and the United States.

Macquarie Funds. Excluding the A$5.1 billion increase in Assets under Management from Macquarie Funds' acquisition of the remaining share in Allegiance Investment Management in January 2009, Assets under Management were down 6% to A$44.6 billion at March 31, 2009 from A$47.3 billion at March 31, 2008. The decrease in Assets under Management was the result of market falls and outflows from hedge funds and Asian retail investors, which was partially offset by inflows from Australian investors and an increase of A$1.7 billion from a new mandate won in March 2009.

Banking & Financial Services. Banking & Financial Services' Assets under Management decreased 17% to A$19.2 billion at March 31, 2009 from A$23.1 billion at March 31, 2008. The decrease was largely due to the decrease in the Cash Management Trust, from A$17.6 billion at March 31, 2008 to A$14.7 billion at March 31, 2009 as a result of clients moving to higher yielding investments and other market offerings within Banking & Financial Services including Cash XL, which are not included in Assets under Management. Offsetting this decrease was an increase of 256% in Macquarie Pastoral Fund's Assets under Management to A$434 million driven by the acquisition of eight new properties during the year, significantly expanding its foothold in New South Wales.

MGL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform 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 MSIC indices, or a pre-determined rate of return, typically 8% per annum. For specialist funds which invest in infrastructure and other sectors, the incentive income is typically 20% of any outperformance and for specialist funds which invest in real estate it is typically 5% of any outperformance and then 15% of any outperformance above 2% 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 in timing. During the year ended March 31, 2009 performance fees for MGL Group declined 39% to A$234.4 million.

As illustrated below, the majority of the funds management fees generated in the periods indicated below were derived from base fees, rather than performance fees. This table also demonstrates the relatively unpredictable nature of performance fees.

MGL Group performance and base fees for 2009 and 2008

	Year ended Mar 09 A$m	Year ended Mar 08 A$m	Movement %
MBL Group			
Base fees	402.8	436.6	(8)
Performance fees	15.2	63.3	(76)
Total MBL Group Funds Management Fees	**418.0**	**499.9**	(16)
Non-Banking Group			
Base fees	518.1	523.1	(1)
Performance fees	219.2	320.5	(32)
Total Non-Banking Group Funds Management Fees	**737.3**	**843.6**	(13)
Total MGL Group Funds Management Fees	**1,155.3**	**1,343.5**	(14)

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, 2009 compared to year ended March 31, 2008 — Results analysis — Fee and commission income — Base and performance fees" in this Report.

MGL Group raised over A$6.6 billion in the year ended March 31, 2009 for MGL Group (in Real Estate and Macquarie Capital Funds) managed funds, 89% of which was in unlisted funds and 70% from international investors. A$1.6 billion of these raisings were by MBL through its Real Estate Funds.

Specialist Funds

Specialist funds focus on specific asset classes which provide essential community services in infrastructure, real estate and related sectors. The infrastructure, media, private equity and most of the real estate specialist funds are managed by Macquarie Capital Funds, a business of Macquarie Capital Advisers in the Non-Banking Group of MGL.

Specialist funds typically employ leverage to enhance returns to equity. The indebtedness of funds that we manage is substantially all borrowed at the asset level, none of which has recourse to the assets of MGL Group or MBL Group. In many circumstances, entities in MBL Group or MGL Group, as applicable, own a portion of the equity of specialist funds in order to properly align its interests with those of the equity holders of the fund.

The Non-Banking Group's managed funds and assets held by those funds had less than 5% of debt requiring refinancing in the next 12 months.

As at March 31, 2009, MGL Group managed over 160 specialist funds globally, with approximately 80% of assets located outside Australia. The tables below show total Assets under Management and total Equity under Management by fund type. For an explanation of the distinction between Assets under Management and Equity under Management, see "Financial Information Presentation — Non-GAAP financial measures" in this Report.

For further detail on MBL Group's Assets under Management, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2009 compared to year ended March 31, 2008 — Results analysis — Fee and commission income — Base and performance fees" in this Report.

The table below shows a more detailed breakdown of Assets under Management. For Macquarie Capital refer to " — Equity under Management" below for further information. The earning of base fees is closely aligned with the Assets under Management measure for funds in Real Estate Banking, Macquarie Funds and Banking & Financial Services.

MGL Group Assets under Management for 2009 and 2008

	As at	
	Mar 09	**Mar 08**
	A$m	**A$m**
Macquarie Funds		
Fixed interest, currency and commodities	34,895	27,584
Listed equities	6,842	9,254
Structured and specialist investments	2,848	2,809
Infrastructure securities	1,990	3,231
Real estate securities	1,225	2,922
Funds of private equity funds	1,217	822
Funds of hedge funds	459	565
Incubation	180	16
Affiliates and other	—	51
Total Macquarie Funds	**49,656**	**47,254**
Banking & Financial Services		
Macquarie Cash Management Trust	14,692	17,599
Macquarie Pastoral Fund	434	122
Other unlisted Banking and Financial Services	4,052	5,357
Total Banking and Financial Services	**19,178**	**23,078**
Real Estate Banking		
Macquarie Office Trust	6,546	6,940
J-REP managed funds[1]	375	433
Macquarie Central Office Corporate Restructuring REIT	181	191
Macquarie Prime REIT[2]	—	904
Unlisted Real Estate funds	7,659	5,111
Total Real Estate Banking	**14,761**	**13,579**
Total Macquarie Capital Assets under Management (refer to Equity under Management section)	**159,509**	**148,102**
Total Assets under Management	**243,104**	**232,013**

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

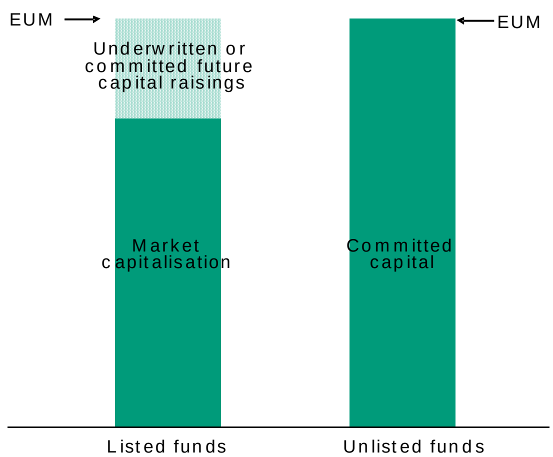
[2] During the year, Macquarie sold its investment in Macquarie Prime REIT and the REIT's manager.

The Macquarie Capital Funds business tracks its funds under management using an Equity under Management measure. Base management fee income is closely aligned with Equity under Management. Equity under management differs from the Assets under Management measure which real estate funds and other MGL Group managed funds use to determine base fee income. Equity under Management is determined as follows:

Type of equity investment	**Basis of Equity under Management calculation**
Listed funds	Market capitalization at the measurement date plus underwritten or committed future capital raisings
Unlisted funds	Committed capital from investors at the measurement date less called capital subsequently returned to investors
Hybrid instruments[1]	Face value of TICkETS and of exchangeable bonds
Managed businesses[2]	Invested capital at measurement date

1 Hybrid instruments include Tradeable Interest-Bearing Convertible to Equity Trust Securities (TICkETS) issued by Macquarie Airports Reset Exchange Securities Trust and exchangeable bonds issued by Macquarie Communications Infrastructure Group.

2 Managed businesses includes third party equity invested in Macquarie Capital Funds managed businesses where management fees may be payable to MGL Group.



If the fund is managed through a joint venture with another party, the equity under management amount is then weighted based on MGL Group's proportionate economic interest in the joint venture management entity. At March 31, 2009, this applied to Macquarie Korea Infrastructure Fund and DUET Group, which are weighted at 50% as outlined in the table overleaf, and some other funds.

Where a fund's equity under management is denominated in a foreign currency, amounts are translated to Australian dollars at the exchange rate prevailing at the measurement date.

MGL Group Equity under Management for 2009 and 2008

	Ownership of management company	Listing date	Stock Exchange/ ASX Code	Holding[1]	Equity under Management as at Mar 09	Equity under Management as at Mar 08
	%			%	A$m	A$m
Listed Macquarie Capital managed funds (excl real estate funds)						
ConnectEast Group[2]	—	Nov 04	CEU	—	—	2,002
DUET Group	50	Aug 04	DUE	4	534	929
Macquarie Airports	100	Apr 02	MAP	23	3,097	5,551
Macquarie Capital Alliance Group[3]	—	Apr 05	MCQ	—	—	536
Macquarie Communications Infrastructure Group	100	Aug 02	MCG	22	1,251	2,204
Macquarie Infrastructure Company	100	Dec 04	Listed on NYSE	7	89	1,433
Macquarie Infrastructure Group	100	Dec 96	MIG	17	3,346	6,683
Macquarie International Infrastructure Fund	100	May 05	Listed on SGX	11	356	815
Macquarie Korea Infrastructure Fund	50	Mar 06	Listed on KRX and LSE	4	772	1,201
Macquarie Media Group	100	Nov 05	MMG	24	207	791
Macquarie Power & Infrastructure Income Fund[4]	100	Apr 04	Listed on TSE	1	271	425
Listed Macquarie Capital managed funds (excl real estate funds)					**9,923**	**22,570**
Unlisted Macquarie Capital managed funds (excl real estate funds)						
Macquarie European Infrastructure Fund I and II					11,726	10,557
Macquarie Infrastructure Partners					5,753	4,380
Macquarie Korea Opportunities Fund					1,271	1,348
Other unlisted funds					13,227	7,672
Unlisted Macquarie Capital managed funds (excl real estate funds)					**31,977**	**23,957**
Less Macquarie Capital managed funds' investments in other Macquarie Capital managed funds					(390)	(446)
Total Macquarie Capital managed funds Equity under Management (excl real estate funds)					**41,510**	**46,081**
Hybrid instruments					1,303	1,848
Managed businesses[5]					8,567	6,391
Total Macquarie Capital Funds Equity under Management (excl Real Estate Funds)					**51,380**	**54,320**
Real Estate Funds Equity under Management					**1,883**	**3,708**
Total Macquarie Capital Funds Equity under Management					**53,263**	**58,028**

1 Holding at March 31, 2009 represents MGL Group's participating interest in the fund, excluding amounts held through True Index funds and their controlled entities.

2 On March 31, 2009, ConnectEast Group internalized its responsible entity, acquiring all shares in ConnectEast Management Limited from MGL Group.

3 In August 2008, Macquarie Capital Alliance Group security holders approved Macquarie Advanced Investment Group's proposal to take private Macquarie Capital Alliance Group. Following the completion of this transaction Macquarie Capital Alliance Group delisted.

4 Excludes Class B exchangeable units.

5 Excludes equity invested by MGL Group in businesses managed by Macquarie Capital Funds.

Corporate Governance - Specialist Funds

MGL Group has developed and implemented a Funds Management Policy, compliant with the ASX Corporate Governance Principles and Best Practice Recommendations.

All Macquarie managed listed funds have a majority of directors independent of MGL Group and unlisted funds typically have an investor review committee. Independent directors or investor representative bodies approve related-party transactions. Fee schedules and mandate terms and conditions for related-party transactions are subject to external benchmarking and third-party expert review, unless the independent directors or investor review committee determine otherwise on the basis of appropriate market information or practice. MGL Group directors do not, unless invited to do so by the independent fund directors or investor review committee, participate in any discussions on related-party matters and they do not vote in respect of these matters.

In addition, Chinese wall separation is imposed between advisory services provided by Macquarie Capital Advisers and funds management by Macquarie Capital Funds, within Macquarie Capital.

Macquarie Capital managed funds may co-invest from time to time with other MGL Group companies or managed entities. Co-investment arrangements with related and unrelated entities may include pre-emption and tagalong and drag along rights in favor of each other, including rights which are triggered on removal of MGL Group entities as manager or advisor, or if the manager or advisor ceases to be part of MGL Group. Where such arrangements are put in place, separate legal advice is obtained as necessary and the arrangements are approved by the independent fund directors or investor review committee, and disclosed to investors.

In October 2008, new corporate governance initiatives were announced by Macquarie Infrastructure Group, Macquarie Airports and Macquarie Communications Infrastructure Group. There are a majority of independent directors on the boards of each of Macquarie Infrastructure Group, Macquarie Airports and Macquarie Communications Infrastructure Group and a MGL Group representative. Most of these directors have been appointed by MGL Group. From the 2009 Annual General Meeting of each fund, security holders will nominate and vote on all directors on a rotational basis and MGL Group will exercise any appointment rights it has to ensure that the directors elected by the securityholders are appointed to the fund boards. No MGL Group employee will be eligible for nomination. These changes did not impact on the board's existing rights to appoint and remove the fund Chief Executive Officer and Chief Financial Officer and make all key investment, divestment and significant operational decisions, or engage independent advisors to the boards on any matter.

In addition, Macquarie Infrastructure Group, Macquarie Airports and Macquarie Communications Infrastructure Group were joined by Diversified Utility and Energy Trusts and Macquarie Media Group, in publishing the management arrangements for each of the stapled companies in their structures. The management arrangements for the trusts are in the trust constitutions which are already available on the fund websites.

From time to time we may also enter into financial services transactions with funds we manage and assets or businesses in which we or such funds have an equity interest. We have policies to monitor the conflicts of interest that may arise and limit our total exposure to individual assets or businesses. Where we enter into any such transaction, our policies require that the terms be determined on an arm's length basis and approved by the management and, where appropriate, independent directors or investment committee of the fund or asset (as applicable). Where we lend to our managed funds, or assets or businesses in which we or a fund we manage has an interest, our policy is to do so only as a member of a syndicate of lenders where we take a minority lending position and any lending to funds or assets is conducted at arm's length. All debt at the fund level is non-recourse to MGL Group. Similarly all debt at the asset level is non-recourse to the fund, and non-recourse to MGL Group.

Although MGL Group retains minority equity interests in its funds to maintain alignment with fund investors, it does not intervene to support weak funds or assets or act to 'bail out' such funds or assets.

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 40 to our 2009 annual financial statements. We do not believe that the outcome of any such claims of which we are aware, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

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

In Australia, we face significant competition from the four major Australian commercial banks, regional commercial banks, building societies, brokerage firms, private equity firms, mortgage repackagers and other financial intermediaries. In recent years, competition has 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.

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.

REGULATION AND SUPERVISION

Australia

In Australia, the principal regulators that supervise and regulate our activities, the rest of MGL Group's activities and those of the businesses and funds that we and other members of MBL Group manage 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 the operations of members of the MGL Group, and a summary of the functions of each of the principal regulators.

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

Guarantee of deposits

On October 12, 2008, the Commonwealth announced that it will guarantee certain deposits in eligible Australian ADIs (including MBL) for a period of three years from October 12, 2008.

The Australian Banking Act has been amended to facilitate this deposit guarantee by establishing a financial claims scheme to be administered by APRA. In addition, section 13A of the Australian Banking Act has been amended to provide 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.

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 Financial Claims Scheme 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, such deposits are eligible for coverage under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme 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. Fees apply for the Guarantee to apply to aggregate deposits in excess of A$1,000,000, and also apply to the wholesale term funding guarantee, under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme. A different fee applies to eligible ADIs based on their credit rating. The fee that applies to MBL in respect of the large deposits and wholesale term funding guarantee facility, 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.

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 above.

Guarantee of wholesale term funding

The Commonwealth has also guaranteed wholesale term funding of an eligible ADI in return for a fee (described above) payable by that Australian ADI.

On November 21, 2008, the Commonwealth released the final details and Scheme Rules for the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme (the "Scheme Rules"). The obligations of the Commonwealth are contained in the Guarantee, which took effect from November 28, 2008. The Scheme Rules govern access to the benefit of the Guarantee.

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.

MBL is entitled to apply for the issue of an eligibility certificate for certain liabilities to have the benefit of the Guarantee. The guarantee facility is restricted to senior unsecured liabilities which are "not complex" and issued domestically or offshore by eligible Australian ADIs with a term of up to 60 months with the Guarantee to apply for the full term of the relevant liabilities, including in the period following the closure of the guarantee facility to new issuances. The facility is available for debt issuance in all major currencies. The Commonwealth has issued a guidance note on the meaning of "not complex" which is available at the Commonwealth Guarantee Scheme Website.

A beneficiary of the Guarantee may rely upon the issue of an eligibility certificate as conclusive evidence that the liability described in the eligibility certificate satisfies the eligibility criteria set out in the Scheme Rules. In the case of our liabilities, the beneficiary need not be a resident of Australia.

The Commonwealth has announced that the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme will be reviewed on an ongoing basis and revised if necessary. Further, the Commonwealth has announced that it will withdraw the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme once market conditions have normalized.

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. All obligations under the AML-CTF Act are subject to a 15 month assisted compliance period for organizations taking reasonable steps to comply. The final expiration date for this amnesty period is March 12, 2010.

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 includes other elements which, 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 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 also 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 the 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 the MGL Group. In the case of the 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 March 31, 2009 incorporated by reference herein. APRA has advised us 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 (pension) 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.

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.

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 various other regulators, including the Australian Communications and Media Authority in connection with the management of communications and media funds, the Essential Services Commission and Economic Regulation Authority in connection with the management of utility and energy funds, the Road and Traffic Authority and Southern & Eastern Integrated Transport Authority in connection with the management of road infrastructure funds and the Civil Aviation Safety Authority in relation to MGL Group's interest in the management of infrastructure funds holding interests in Australian airports.

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

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 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.

Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001 requires US branches, agencies, and representative offices of foreign banks 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 foreign bank's board of directors or by a delegate acting under the express authority of the board of directors. United States representative offices of foreign banks 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 US Treasury Department. US branches, agencies and representative offices are also required to comply with regulations issued by OFAC which administers economic sanctions against targeted foreign countries, individuals and entities. The MBL representative offices in the US have adopted written anti-money laundering compliance programs, including procedures to comply with OFAC.

In the United States, we or other members of MGL Group are regulated by the US Securities and Exchange Commission with respect to certain securities related activities conducted through broker-dealers, registered investment companies or registered investment advisers, the Commodity Futures Trading Commission and the National Futures Association with respect to futures trading and clearing activities and the Financial Industry Regulatory Authority with respect to securities and corporate finance activities. Other regulators that impact the funds and companies we manage include, but are not limited to, the Federal Energy Regulatory Commission with respect to energy trading activities and our downstream natural gas business, the Federal Communications Commission with respect to certain media-related investments, and various state agencies.

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. MBL operates a branch, MBL UK, and a subsidiary, MBIL, in the United Kingdom. MBIL, a United Kingdom incorporated subsidiary was authorized by the FSA in February 2008 to provide banking, corporate finance, dealing and custody services. MGL also has two subsidiaries in the United Kingdom, MCFEL and MCEL, authorized by the FSA. MCFEL is authorized by the FSA to provide investment management and to operate unregulated collective investment schemes (investment funds), while MCEL is authorized by the FSA to advise on, arrange and deal in investments as agent or as principal. As FSA authorized entities, MBL UK, MBIL, MCFEL and MCEL are required to comply with the FSA rules. The rules include requirements as to capital adequacy, systems and controls, conduct of business and the treatment of customers. Primary prudential regulation of MBL UK, however, remains with APRA rather than the FSA. Certain of the FSA rules implement applicable European Union Directives (such as the Capital Adequacy Directive, which relates to regulatory capital and the Markets in Financial Instruments Directive, which relates to the carrying on of investment businesses).

Other United Kingdom regulators that impact the business of and the businesses and funds managed by other members of MGL Group include the Water Services Regulation Authority (Ofwat) which regulates the water and sewerage industry in England and Wales, 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 Labuan that are regulated by Banco d'Italia in Italy and the Labuan Offshore Financial Services Authority of Malaysia, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, that gives MBL limited authorization to conduct certain marketing for Australian services to institutional clients in New Zealand. 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 Monetary Authority of Singapore, the Singapore Exchange Securities Trading Limited and the Competition Commission of Singapore;

- in Korea, the Financial Services Commission, the Financial Supervisory Service, the Ministry of Strategy and Finance, the Korea Exchange and the Fair Trade Commission;
- the Financial Services Agency of Japan and the Japanese Fair Trade Commission;
- the Financial Services Board of South Africa; and
- the Ontario Securities Commission in Canada, the Investment Industry Regulation Organization of Canada and the Toronto Stock Exchange in Canada.

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

Our 2009 annual financial statements include our audited financial statements as at and for the years ended March 31, 2009 and 2008 and are presented on the basis of our current operating groups and divisions, which are also our segments as reported in accordance with AGAAP. See " — Year ended March 31, 2009 compared to year ended March 31, 2008" for further information. Our 2008 annual financial statements include our audited financial statements as at and for the years ended March 31, 2008 and 2007 and are presented on the basis of our prior operating groups that existed during that period, which were also our segments as reported in accordance with AGAAP. See " — Year ended March 31, 2008 compared to restated year ended March 31, 2007".

During the 2009 fiscal year, MGL Group implemented a number of changes to its internal operating groups to realign the product offerings of each group more consistently. As a result of these changes, the operating segments of MBL Group for financial reporting purposes were also changed, and certain businesses and activities that formerly were part of the Non-Banking Group were transferred to MBL Group and certain businesses and activities that formerly were part of MBL Group were transferred to Non-Banking Group. See "Financial Information Presentation" for more detail.

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 this internal reorganization or our current reportable operating segments.

For the year ended March 31, 2009, MBL Group was divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities, Treasury & Commodities, Macquarie Funds, Banking & Financial Services and Macquarie Capital. The Real Estate Banking and Corporate & Asset Finance divisions also reported separately for internal reporting and risk management purposes. In the discussion of our financial results for the year ended March 31, 2009 compared to the year ended March 31, 2008, our financial results for our segments for the 2008 fiscal year have been re-presented and discussed on a comparable basis to our financial results for the 2009 fiscal year and, therefore, reflect our current operating segments, as discussed below under " — Year ended March 31, 2009 compared to year ended March 31, 2008 — Segment Overview". However, in the discussion of our financial results for the year ended March 31, 2008 compared to the year ended March 31, 2007, the financial data for our operating segments for the 2008 fiscal year have been presented and discussed on the basis of our prior operating segments, as they existed prior to the changes made to our operating segments during the 2009 fiscal year. For a reconciliation of our segment presentation of our financial results for the year ended March 31, 2008, see " — Year ended March 31, 2009 compared to year ended March 31, 2008 — Segment Overview — Basis of Presentation — Internal Reorganization of Operating Groups".

For the year ended March 31, 2008, MBL Group was divided into the following operating groups for internal reporting and risk management purposes: Treasury & Commodities, Real Estate, Equity Markets, Banking & Securitization, Financial Services, Funds Management and Macquarie Capital. Our financial results for our segments for the year ended March 31, 2007 have been re-presented on a comparable basis to our financial results for March 31, 2008 and are presented and discussed below under " — Year ended March 31, 2008 compared to restated year ended March 31, 2007 — Results analysis — Segment analysis".

Our previously issued historical financial statements for 2007 and prior fiscal periods reflect income and assets of MBL Group on a pre-Restructure basis, which includes the income and assets of the businesses that we transferred to the Non-Banking Group as part of the Restructure. As part of the Restructure, we transferred most of the Macquarie Capital operating group's assets and activities to the Non-Banking Group, as well as certain less financially significant activities of our Equity Markets and Treasury & Commodities operating groups. See "Financial Information Presentation — Impact of the Restructure — Our Annual Financial Statements for 2007 and Prior Fiscal Periods".

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 Group Treasury division and 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 spread 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 less the contribution to profit included in the Corporate segment equates to our total profit after tax.

Critical Accounting Policies and Significant Judgments

Note 2 to our 2009 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 2 to our 2009 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 2 to our 2009 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.

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 2 to our 2009 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 2 to our 2009 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, 2009 compared to year ended March 31, 2008

Our historical financial statements for 2009 and 2008 incorporated by reference in this offering memorandum 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 operating segment data for the 2008 fiscal year in Note 5 to 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)	–	n/a
Impairment charges on non-financial assets	(45)	–	n/a
Management fees, group services charges and costs recoveries - subsidiaries	(21)	–	n/a
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	Year ended 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	As at 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	Mar 08	Movement[1]
	A$m	A$m	%
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 A$m	Year ended Mar 08 A$m	Movement[1] %
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)	<1
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 "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	Year ended 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

In January 2008, the new global capital regime for banks, known as the Basel II Framework, was implemented in Australia by APRA.

MBL is an ADI regulated by APRA. In December 2007, MBL received accreditation from APRA to adopt the advanced approaches under Basel II for credit risk and operational risk. The Foundation Internal Ratings Based approach (F-IRB) has been adopted for credit risk and the Advanced Measurement approach for operational risk.

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 (MBL Group), with at least 4% of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which 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, Macquarie Income Securities and Macquarie Income Preferred Securities. Reserves included in Tier 1 capital are the share based payment reserve and foreign currency translation reserve. The innovative Tier 1 capital includes Macquarie Income Securities and Macquarie Income Preferred Securities. Macquarie Income Securities are a perpetual instrument with no conversion rights. Macquarie Income Securities 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. Macquarie Income Preferred Securities were issued when the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020.

On February 11, 2009, an ELE subsidiary of MBL financed a related party's acquisition of £150 million of MIPS. The treatment of this financing transaction, as agreed with APRA, is that Macquarie will:

- report as a deduction in Tier 1 the amount of MIPS financed to the extent that a portion of the MIPS is eligible Tier 1 capital; and

- report as a deduction in Upper Tier 2 the amount of MIPS financed to the extent that a portion of the MIPS is eligible Upper Tier 2 capital.

During 2009, MGL injected A$917 million of capital into MBL and on April 1, 2009 a further A$200 million was injected. Also, during 2009 MBL recognized dividends and distributions of A$747 million to Banking Holdco which was paid to MGL, and has declared further dividends of A$395 million to be paid on July 3, 2009.

Tier 2 capital

MBL Group Upper Tier 2 capital consists of the portion of Macquarie Income Securities and Macquarie Income Preferred Securities not eligible for inclusion in Tier 1 capital and a portion of equity reserves. MBL Group 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.

Capital Adequacy

MBL Group's regulatory capital supply and capital ratios as at March 31, 2009 are detailed in the tables on the following pages.

Pillar 3

The APRA Prudential Standard APS 330 "Capital Adequacy: Public Disclosure of Prudential Information" details the market discipline (Pillar 3) requirements for Australian domiciled banks. APS 330 was effective from September 30, 2008, requiring qualitative and quantitative disclosure of risk management practices and capital adequacy. The March 31, 2009 disclosures, which were publicly released by MBL on May 1, 2009, have been posted to MBL's US investors' website.

	As at		
	Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Tier 1 capital			
Paid-up ordinary share capital	4,560	3,604	27
Reserves	190	170	12
Retained earnings	882	1,025	(14)
Innovative Tier 1 capital	915	955	(4)
Gross Tier 1 capital	6,547	5,754	14
Deductions from Tier 1 capital			
Goodwill	162	62	161
Deferred tax assets	53	68	(22)
Net unrealized fair value gains (losses) from changes in the ADI's own creditworthiness	340	72	large
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	128	48	167
Loan and lease origination fees and commissions paid to mortgage originators and brokers	170	252	(33)
Capitalized costs associated with debt raisings	127	1	large
Other Tier 1 capital deductions	357	97	268
Deductions from Tier 1 capital only	1,337	600	123
Other 50/50 deductions from Tier 1 capital			
Non-subsidiary entities exceeding prescribed limited (50%)	112	60	87
Non-consolidated subsidiaries (50%)	274	254	8
All other deductions relating to securitization (50%)	74	13	large
Shortfall in provisions for credit losses (50%)	294	89	230
Other 50/50 deductions from Tier 1 capital (50%)	172	191	(10)
Total 50/50 deductions from Tier 1 capital	926	607	53
Total Tier 1 capital only deductions	2,263	1,207	87
Net Tier 1 capital	4,284	4,547	(6)
Tier 2 capital			
Upper Tier 2 capital:			
Excess Tier 1 capital instruments	204	188	9
Other upper Tier 2 capital	86	109	(21)
Lower Tier 2 capital:			
Term subordinated debt	1,941	2,275	(15)
Gross Tier 2 capital	2,231	2,572	(13)
Deductions from Tier 2 capital			
Holding of own Tier 2 capital instruments agreed with APRA	204	-	n/a
Total 50/50 deductions from Tier 2 capital	926	607	53
Total Tier 2 capital deductions	1,130	607	86
Net Tier 2 capital	1,101	1,965	(44)
Total capital base	5,385	6,512	(17)

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

Risk Weighted Assets

	As at		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Credit risk — Risk weighted assets (RWA)			

	As at		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Subject to Foundation Internal Ratings Based (F-IRB) approach[1]:			
Corporate	9,901	7,928	25
Sovereign	36	30	20
Bank	1,134	1,208	(6)
Residential mortgage	1,952	955	104
Other retail	680	367	85
Total RWA subject to F-IRB approach	13,703	10,488	31
Specialized lending exposures subject to slotting criteria[2]	3,101	4,382	(29)
Subject to Standardized approach:			
Corporate	3,504	3,662	(4)
Residential mortgage	197	1,345	(85)
Other retail	2,496	1,847	35
Other	3,540	4,335	(18)
Total RWA subject to Standardized approach	9,737	11,189	(13)
Credit risk RWA for Securitization exposures	1,074	1,244	(14)
Total credit risk RWA	27,615	27,303	1
Equity exposures RWA	1,189	1,370	(13)
Market risk RWA	2,082	2,213	(6)
Operational risk RWA	5,761	5,215	10
Interest rate risk in the banking book RWA	6	–	n/a
APRA Scaling factor (6%) applied to IRB exposures	822	629	31
Total RWA	37,475	36,730	2
Capital ratios			
MBL Group Tier 1 capital ratio (%)	11.4	12.4	(8)
MBL Group Total capital ratio (%)	14.4	17.7	(19)

1 MBL has adopted the Foundation Internal Rating Based approach for credit risk capital. This approach revolves around the Probability of Default and internal rating assigned to the obligor. The exposure is weighted using this internal Probability of Default and a Loss Given Default value set by APRA. Credit Conversion Factors are applied based on the nature of the exposure.

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

Statutory balance sheet

	As at Mar 09 A$m	As at Mar 08 A$m	Movement[1] %
Assets			
Cash and balances with central banks	141	7	large
Due from banks	10,169	7,169	42
Cash collateral on securities borrowed and reverse repurchase agreements	4,534	21,278	(79)
Trading portfolio assets	8,772	15,225	(42)
Loan assets held at amortized cost	43,922	46,848	(6)
Other financial assets at fair value through profit or loss	5,541	3,635	52
Derivative financial instruments — positive values	27,335	20,952	30
Other assets	4,341	3,925	11
Investment securities available for sale	14,544	14,736	(1)
Intangible assets	337	133	153
Life investment contracts and other unit holder assets	4,314	5,705	(24)
Due from related body corporate entities	4,647	10,568	(56)
Interests in associates and joint ventures using the equity method	1,571	1,956	(20)
Property, plant and equipment	88	44	100
Deferred income tax assets	93	78	19
Non-current assets and assets of disposal groups classified as held for sale	56	35	60
Total assets	130,405	152,294	(14)
Liabilities			
Due to banks	3,264	3,749	(13)
Cash collateral on securities lent and repurchase agreements	3,881	13,469	(71)
Trading portfolio liabilities	1,980	10,716	(82)
Derivative financial instruments — negative values	27,273	21,154	29
Deposits	21,603	15,565	39
Debt issued at amortized cost	48,270	54,763	(12)
Other financial liabilities at fair value through profit or loss	3,878	6,271	(38)
Other liabilities	4,001	4,120	(3)
Current tax liabilities	111	27	311
Life investment contracts and other unit holder liabilities	4,312	5,689	(24)
Provisions	76	87	(13)
Due to related body corporate entities	3,332	7,769	(57)
Deferred income tax liabilities	72	193	(63)
Total liabilities excluding loan capital	122,053	143,572	(15)
Loan capital			
Convertible preference securities			
Subordinated debt at amortized cost	1,491	1,691	(12)
Subordinated debt at fair value through profit or loss	451	646	(30)
Total loan capital	1,942	2,337	(17)
Total liabilities	123,995	145,909	(15)
Net assets	6,410	6,385	<1
Equity[2]			
Contributed equity:			
Ordinary share capital	4,503	3,586	26
Equity contribution from ultimate parent entity	57	18	217
Reserves	(201)	182	(210)
Retained earnings	1,250	1,374	(9)
Total capital and reserves attributable to equity holders of MGL Group	5,609	5,160	9
Minority interest:			
Macquarie Income Securities	391	391	-
Other minority interests	410	834	(51)
Total equity	6,410	6,385	<1

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

2 During the year ended March 31, 2009, a A$700 million dividend was paid to Macquarie B.H. Pty Limited. Since March 31, 2009, the directors have proposed a dividend of A$345 million be paid to Macquarie B.H. Pty Limited on July 3, 2009. This A$345 million dividend has not been recognized as a liability as at March 31, 2009.

During the year ended March 31, 2009, our total assets decreased 14% to $130.4 billion and total liabilities decreased 15% to A$124.0 billion. Total equity at March 31, 2009 was A$6.4 billion, unchanged from March 31, 2008.

A reduction in short stock trading during the year decreased cash collateral on securities borrowed and reverse repurchase agreements from A$21.3 billion at March 31, 2008, to A$4.5 billion at March 31, 2009, and a decrease in long stock trading increased cash collateral on securities lent and reverse repurchase agreements from A$13.5 billion at March 31, 2008, to A$3.9 billion at March 31, 2009.

Trading portfolio assets and liabilities reduced by 42% to A$8.8 billion and 82% to A$2.0 billion at March 31, 2009 respectively, reflecting maturing of positions and lower level of activity due to current market conditions.

Derivative financial instruments positive values and negative values increased by 30% to A$27.3 billion and 29% to A$27.3 billion at March 31, 2009 respectively, mainly due to volatility in commodity prices.

Loan assets held at amortized cost totaled A$43.9 billion at March 31, 2009, down 6% on the prior year, primarily due to the reduction in the Mortgages Australian portfolio and the sale of our Italian Mortgages Business and margin lending portfolios. Information regarding impairments and provisions of our loan assets is discussed in Note 12 to our 2009 financial statements.

Debt issued at amortized cost decreased 12% from A$54.8 billion to A$48.3 billion as a result loan asset reductions, and deposits increased 39% from A$15.6 to A$21.6 billion due to clients increasing their cash exposures. These funding sources assisted the effective management of our funding needs throughout the year, despite more challenging credit market conditions.

Our liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. In October 2008, the Commonwealth established a program to guarantee deposits and wholesale funding of Australian. Since the introduction of the program, MBL has issued A$14.0 billion of term wholesale funding under the guarantee. Cash and liquid assets increased from A$18.7 billion at March 31, 2008, to A$25.5 billion at March 31, 2009. Cash and liquid assets now represent over 40% of MBL Group's net funded assets.

Loan assets

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 MGL Group."

For the year ended March 31, 2009 funded loan assets of MGL Group and MBL Group consisted of:

	Year ended	
	MGL Group Mar 09	**MBL Group Mar 09**
	A$b	**A$b**
Mortgages		
Australia	1.9	1.9
United States	1.3	1.3
Canada	4.0	4.0
Italy	-	-
Margin loans	0.3	0.3
Structured investment loans	5.2	5.0
Banking loans	3.3	3.2
Real estate loans	1.4	1.4
Debt market warehouses	0.4	0.4
Commodity loans	1.5	1.5

	Year ended	
	MGL Group Mar 09	**MBL Group Mar 09**
	A$b	**A$b**
Leasing business	3.7	3.0
Corporate & Asset Finance lending	1.4	1.3
Other lending	0.9	0.2
Total	**25.3**	**23.5**

Our funded loan asset portfolio comprises diverse, secured assets:

Loan Category	**Asset Security**
Mortgages	Secured by residential mortgages and supported by mortgage insurance. • Australia: most loans are fully mortgage insured. • United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured. • Canada: most loans are fully insured with underlying government support. • Italian Mortgages: portfolio sold in October 2008.
Margin loans	Conservative loan to value set on individual listed equity security; full recourse to listed equity securities.
Structured investment loans	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 loans	Secured relationship portfolio of A$2.9 billion to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The Portfolio also includes other consumer lending of A$0.4 billion including credit cards.
Real estate loans	Loans secured against real estate assets, generally subject to regular independent valuations.
Debt markets warehouses	Fully secured loans with contractual maturity no greater than 12 months. Secured by residential mortgages, car loans and other receivables.
Commodity loans	Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets. Secured by gold, base metals and oil resources and supported by price hedging.
Leasing Business	Secured by underlying leases assets (motor vehicles and specialised equipment), diversified portfolio by geography and security asset class.
Corporate & Asset Finance lending	Diversified secured corporate lending (including BrisConnections bridge loan), subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.

Loan Category	**Asset Security**
Other lending.................	MGL Group • A$0.5 billion aircraft operating lease portfolio to a single counterparty with average aircraft life < 3 years, all aircraft residual value insured. • A$0.2 billion deposit with financial institutions as collateral for trading positions. • A$0.2 billion other secured lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities. MBL Group • A$0.2 billion deposits with financial institutions as collateral for trading positions.

Equity investments

Equity investments are reported in the following categories in the statutory balance sheet: other financial assets at fair value through profit or loss, investment securities available for sale, investment in associates, assets and disposal groups held for sale. The classification is driven by a combination of the level of influence MBL Group has over the investment and management's intention with respect to the holding of the asset in the short term.

Other financial assets at fair value through profit or loss include those financial assets that contain embedded derivatives which must be otherwise separated and carried at fair value if it is part of a group of financial assets managed and evaluated on a fair value basis.

Available for sale assets are investments where MBL Group does not have significant influence or control and are intended to be held for an indefinite period. These assets are initially recognized at cost and revalued in subsequent periods to recognize changes in the assets' fair value with these revaluations included in the available for sale reserve in equity. If and when the available for sale asset is sold or impaired, the cumulative unrealized gain or loss will be recognized in the income statement.

Associates are entities over which MBL Group has significant influence, but not control. Investments in associates may be further classified as held for sale associates. Held for sale investments are those that have a high probability of being sold within twelve months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. MBL Group's share of the investment's post-acquisition profits or losses is recognized in the income statement and its share of post-acquisition movements in reserves is recognized within equity.

For the purpose of analysis, equity investments have been re-grouped into the following categories: investments in Macquarie-managed funds, other investments not held for sale or which are not investments in Macquarie-managed funds and held for sale investments.

Equity investments reconciliation

	As at Mar 09 A$m
Equity investments (excluding held for sale)	
Statutory balance sheet	
Equity investments within Other financial assets at fair value through profit or loss	2,086
Equity investments within Investment securities available for sale	411
Interests in associates and joint ventures using the equity method	1,571
Total equity investments per statutory balance sheet	**4,068**
Adjustment for funded balance sheet	
Equity hedge positions[1]	(1,951)
Total funded equity investments per statutory balance sheet	**2,117**
Adjustments for equity investments analysis	
Available for sale and Associates reserves[2]	(62)
Total adjusted equity investments[3]	**2,055**
Held for sale investments	
Net assets of disposal groups classified as held for sale	56
Total equity investments (including held for sale) investments	**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. Associates reserves that will be released to income upon realization of the investment.

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

Equity investments by category

	As at Mar 09 Adjusted book value A$m
Macquarie-managed funds	
Macquarie Office Trust	234
Macquarie Countrywide Trust	164
Macquarie Central Office CR-REIT	30
Macquarie Leisure Trust Group	24
Macquarie DDR Trust	7
Total listed Macquarie-managed funds	**459**
Other Macquarie-managed funds	**235**
Total Macquarie-managed funds	**694**
Other investments	
Debt investment entities	283
Energy and resources	187
Finance, investment, funds management and exchanges	488
Real Estate	401
Telecommunications, internet, media and entertainment	2
Total Other investments	**1,361**
Held for sale assets	56
Total equity investments including held for sale assets	**2,111**

Year ended March 31, 2008 compared to restated year ended March 31, 2007

Our historical financial statements for 2008 and 2007 incorporated by reference in the offering memorandum reflect our historical consolidated results from ordinary activities for 2008 and 2007 as we now operate post-Restructure; the pre-Restructure results of the Non-Banking Group are presented as discontinued operations. See "Financial Information Presentation — Impact of the Restructure — Our 2008 and 2009 Annual Financial Statements" for further information.

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

For the year ended March 31, 2008, MBL Group was divided into the following operating groups for internal reporting and risk management purposes: Treasury & Commodities, Real Estate, Equity Markets, Banking & Securitization, Financial Services, Funds Management and Macquarie Capital. These operating segments are different from our operating segments for the year ended March 31, 2009. In the discussion of our financial results for the year ended March 31, 2009 compared to the year ended March 31, 2008, our financial results for our segments for the 2008 fiscal year have been re-presented and discussed on a comparable basis to our financial results for the 2009 fiscal year and, therefore, the results discussed below under " — Year ended March 31, 2008 compared to year ended March 31, 2007 — Segment Reporting" are presented on a different basis, and reflect different businesses, than the discussion under " — Year ended March 31, 2009 compared to year ended March 31, 2008 — Segment Reporting". See "Financial Information Presentation."

Overview

Results Overview

	Year ended		
	Mar 08	Mar 07	Movement[1]
	A$m	A$m	%
Net interest income	853	611	40
Funds management	487	323	51
Other fee and commission income	605	532	14
Fee and commission income	1,092	855	28
Equity products	1,375	671	105
Commodity products	417	295	41
Foreign exchange products	182	108	69
Interest rate products	49	(145)	(134)
Net trading income	2,023	929	118
Share of net profits of associates and joint ventures using the equity method	160	198	(19)
Other operating income and charges	17	682	(98)
Total operating income	**4,145**	**3,275**	**27**
Employment expenses	(2,028)	(1,709)	19
Brokerage and commission expenses	(570)	(335)	70
Other operating expenses	(737)	(511)	44
Total operating expenses	**(3,335)**	**(2,555)**	**31**
Operating profit before income tax	810	720	13
Income tax expense	(60)	(63)	(5)
Profit from ordinary activities after income tax	**750**	**657**	**14**
Profit from discontinued operations (net of income tax)	15,030	894	large
Profit from ordinary activities and discontinued operations after income tax	15,780	1,551	large
Profit attributable to minority interest	(50)	(57)	(12)

	Year ended		
	Mar 08	Mar 07	Movement[1]
	A$m	A$m	%
Profit attributable to equity holders of MBL Group	15,730	1,494	large
Distribution paid or provided on Macquarie Income Securities	(34)	(31)	10
Profit attributable to ordinary equity holders of MBL Group	15,696	1,463	large

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

Our consolidated net profit after income tax from continuing operations for the year ended March 31, 2008 was A$750 million, a 14% increase on the prior year. The result was achieved after a A$293 million write-down of holdings in listed real estate investments that are managed by MGL Group entities, which we wrote down in the second half of 2008 to reflect losses on the market values of these vehicles on global markets.

The first half of the fiscal year benefited from good equity and commodity market conditions. In addition, we also profited from the realization of our investments in Macquarie-IMM, a Korean funds management joint venture, and Macquarie ProLogis Management. The second half of the year was negatively impacted by impairment write-downs recognized in the second half of the year on investments in our holdings in listed real estate investments. Assets realizations were also lower in the second half of the year.

Our results for the year were negatively impacted by the strengthening of the Australian dollar over the course of the year, which decreased the Australian dollar value of non-Australian dollar denominated income and assets. During 2008, the Australian dollar strengthened significantly as the US dollar to Australian dollar exchange rate increased from US$0.8104 at March 31, 2007 to US$0.8855 at September 30, 2007 and US$0.9132 at March 31, 2008.

The decline in income in the second half of 2008 was also due to challenging market conditions. Our second half was impacted by:

- Lower profit from asset realizations than the first half of the year due to the timing of asset divestment, including the sale of our investments Macquarie-IMM and Macquarie ProLogis Management; and

- Impairment write-downs recognized in the second half of the year on investments in associates and joint ventures were significantly higher than the first half, mainly on our holdings in listed real estate investments.

The impact of lower second half income was partially offset by lower employee compensation costs.

Uncertainty in the global markets has continued to have an impact on our results of operations since March 31, 2008 and may have a negative effect on our results over the short-term.

Total operating income from continuing operations for the year ended March 31, 2008 was A$4,145 million, a 27% increase on the prior year. Strong income growth in our equity related businesses continued during 2008, particularly in Asia, despite the more challenging market conditions in the second half of 2008. Commodity market volatility was high, resulting in good customer flows. A 160% increase in performance fees to A$78 million and an increase in Assets under Management from continuing operations at March 31, 2008 to A$86.5 billion led to a 51% increase in funds management fee income.

Operating expenses from continuing operations increased 31% on the prior year to A$3,335 million. Employment costs, the largest contributor to operating expenses, increased 19% on the prior year to A$2,028 million. The increase in employment costs was mainly driven by headcount growth which grew 25% from March 31, 2007.

MBL Group's liquidity risk management framework is also important in ensuring funding requirements are met. Higher levels of liquid and trading assets, as well as a diverse range of funding sources, assisted us in managing our funding needs throughout the year despite more challenging credit market conditions.

The Restructure became effective on November 13, 2007. The Restructure was completed to enable us to continue to pursue the strategies responsible for our strong growth. Both MGL and MBL are regulated by APRA. Under the Restructure, and after MBL became 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 2008 annual financial statements and is described in more detail below.

Discontinued Operations

Our 2008 Annual Report includes restated 2007 financial information to show the discontinued operations of MBL post-Restructure. See "Financial Information Presentation — Impact of the Restructure — Our 2008 and 2009 Annual Financial Statements" for further information.

A discontinued operation is a component of the 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, if earlier. 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.

Under the Restructure, MBL became a subsidiary of MGL, and 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. The majority of MBL's profit on sale of these controlled entities was distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by A$3.0 billion. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and assisted in financing the acquisition of the controlled entities and assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of A$2.25 billion and MGL simultaneously contributed the same amount to MBL as a capital injection. These transactions occurred on November 16, 2007. On November 19, 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL.

Financial performance and cash flow information for discontinued operations

The financial performance and cash flow information presented are for the seven months ended October 31, 2007 (October 2007) and the year ended March 31, 2007.

	7 months ended Oct 07 A$m	Year ended Mar 07 A$m
Operating income	2,708	3,904
Operating expenses	(1,663)	(2,696)
Profit before income tax	1,045	1,208
Income tax expense	(178)	(314)
Profit after income tax of discontinued operations	**867**	**894**
Gain on sale of the division before income tax	14,163	–
Income tax expense	–	–
Gain on sale of the division after income tax	14,163	–
Profit from discontinued operations	**15,030**	**894**
Net cash inflow from operating activities	1,478	732
Net cash inflow/(outflow) from investing activities	16,329	(842)
(2008 includes an inflow of A$16,131 million from the sale of the division)		
Net cash inflow/(outflow) from financing activities	(335)	(926)
Net increase in cash generated by the discontinued operation	**17,472**	**(1,036)**

	Year end	
	Mar 08	Mar 07
	A$m	A$m
Assets		
Cash and balances with central banks	–	–
Due from banks	2,058	1,954
Cash collateral on securities borrowed and reverse repurchase agreements	1,445	462
Trading portfolio assets	457	236
Loan assets held at amortized cost	3,590	2,802
Other financial assets at fair value through profit or loss	575	253
Derivative financial instruments — positive values	208	63
Other financial assets	6,507	5,417
Investment securities available for sale	1,315	892
Intangible assets	12	10
Life investment contracts and other unit holder assets	–	–
Interest in associates and joint ventures using the equity method	3,276	2,334
Property, plant and equipment	218	310
Investments in controlled entities	–	–
Deferred tax assets	898	424
Assets and disposal groups classified as held for sale	653	951
Total assets	**21,212**	**16,108**
Liabilities		
Due to banks	1,322	1,049
Cash collateral on securities lent and repurchase agreements	75	54
Trading portfolio liabilities	1,055	54
Derivative financial instruments — negative values	–	66
Deposits	–	232
Debt issued at amortized cost	2,100	1,674
Other financial liabilities at fair value through profit or loss	19	16
Other financial liabilities	7,926	5,368
Current tax liabilities	201	47
Due from/(to) controlled entities	6,209	4,121
Provisions	24	60
Deferred tax liabilities	46	45
Liabilities of disposal groups classified as held for sale	267	170
Total liabilities	**19,244**	**12,956**
Net assets	**1,968**	**3,152**
Details of the sale of the division		
Total disposal consideration	16,131	
Carrying amount of net assets sold	(1,968)	
Gain on sale before income tax	14,163	
Income tax expense	–	
Gain on sale after income tax	14,163	

Results Analysis

Net Interest Income

Interest income was up 40% to A$853 million for the year ended March 31, 2008.

Net interest income is derived from lending activities including investment lending, leasing, real estate structured finance, relationship banking and residential mortgages.

Loan volumes (including balances due from MGL Group) are up from A$45.8 billion at March 31, 2007 (after adjusting for balances in discontinued operations) to A$57.4 billion at March 31, 2008. This growth in the lending portfolio is the primary driver in the increase in net interest income.

Net interest income can be categorized into Mortgages and Other Loan Areas.

Mortgages. Net interest income on mortgage assets of A$115 million was broadly in line with 2007. Average mortgages loan volumes in 2008 increased 21% from 2007 to A$27.0 billion. The overall increase is largely due to strong growth in the offshore portfolios, especially in Italy and Canada. The growth in the Canadian portfolio was assisted by the acquisition of Cervus Financial Corp in Canada (July 2006). During 2008, the Australian mortgages portfolio grew 7% from A$22.1 billion at March 31, 2007 to A$23.7 billion at March 31, 2008.

During 2008, the impact of growth in the mortgages portfolio was offset by a 9 basis point reduction in the net interest margin to 43 basis points, mainly due to a reduction in the net interest margin on the Australian portfolio which decreased 14 basis points over the year. This decrease was mainly due to competitive margin pressures in the first half, and an increase in the cost of funding in the second half. As a result, there was not a significant difference in net interest income between the first half and second half of 2008.

In March 2008, we announced that we would commence winding back our Australian residential mortgage origination services for both retail and wholesale customers due to the significant increase in the cost of funding mortgages and current conditions in the global mortgage securitization market. Mortgage origination in the United States business has also ceased.

Other Loan Areas. Net interest from other loan areas in 2008 was up on the prior year to A$738 million from A$495 million in 2007, driven by growth in loan volumes. Many areas achieved strong growth in average loan volumes, including investment lending and relationship banking.

Our results in the first half of 2008 were impacted by increased competition, followed by the increased cost of funding in the second half. See " — Liquidity — Funding Transactions and Recent Developments" for details on additional funding initiatives and costs in the second half of 2008. The increase in the cost of funding in the second half of 2008 was partially offset by increased real estate structured finance risk participation fees. For accounting purposes, these items form part of the effective yield on relevant transactions.

For a description of our loan assets, see " — Loan asset quality" below.

Fee and commission income

	Year ended		
	Mar 08	**Mar 07**	**Movement**
	A$m	**A$m**	**%**
Funds management	487	323	51
Other fee and commission income	605	532	14
Fee and commission income	**1,092**	**855**	**28**

Our total fee and commission income for 2008 was A$1,092 million, up 28% from the prior year. A large component of this increase was derived from funds management fees; base fees and performance fees for 2008 were A$409 million and A$78 million, respectively, compared to A$293 million and A$30 million, respectively, for 2007.

Funds management fees

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 from non-specialist funds were the greatest contributor to overall base management fee income in 2008, which was primarily driven by higher Assets under Management during the year, although the sale of our investment in Macquarie-IMM in September 2007 combined with a fall in equity indices in the second half of 2008 resulted in a net reduction in non-specialist Assets under Management from A$65.9 billion at March 31, 2007 to A$59.6 billion at March 31, 2008. In addition, we experienced significant growth in base fees from specialist funds as of result of a 38% increase in Assets under Management in our specialist funds, particularly the MQ Funds managed by Equity Markets. Total performance fees for 2008 were A$78 million, up 160% from 2007 due to significantly increased contributions from the MQ funds. Base and performance fee by fund type is shown in the table below.

	Year ended		
	Mar 08	**Mar 07**	**Movement**
	A$m	**A$m**	**%**
Base fees			
Specialist funds and assets	87	31	181
Funds management and financial services	322	262	23
Total base fees	409	293	40
Performance fees			
Specialist funds and assets	52	17	206
Funds management and financial services	26	13	100
Total performance fees	78	30	160
Total funds management fees	**487**	**323**	**51**

Other fee and commission income

Other fee and commission income includes brokerage income from Macquarie Private Wealth, which increased from A$201 million in 2007 to A$249 million in 2008, primarily driven by increased market turnover volumes and an increase in funds under administration fees for Financial Services, which were A$144 million in 2008 (up from A$104 million in 2007). The Macquarie Wrap platform experienced significant inflows in funds under management for most of the year, particularly in June 2007 following changes to Australian superannuation law. However, the equity markets downturn toward the end of 2008 resulted in a net A$700 million decrease in Macquarie Wrap funds under management from A$23.2 billion at March 31, 2007 to A$22.5 billion at March 31, 2008.

Net Trading Income

Total trading income for the year ended March 31, 2008 increased 118% on the prior year to A$2,023 million. A substantial portion of trading income was generated from client transactions and arbitrage activities, rather than proprietary trading.

	Year ended		
	Mar 08	**Mar 07**	**Movement**
	A$m	**A$m**	**%**
Equity products	1,375	671	105
Commodity products	417	295	41
Foreign exchange products	182	108	69
Interest rate products	49	(145)	(134)
Net trading income	**2,023**	**929**	**118**

A complete representation of our trading activities is not shown by the composition of trading income set out above 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 Analysis — Equity Markets" and " — Segment Analysis — Treasury & Commodities".

Equity products

Equities trading income for the year ended March 31, 2008 increased 105% on the prior year to A$1,375 million. Trading conditions in Australian and international equity markets were favorable during the first half of 2008 but became more challenging in the second half as the global credit market disruption spread to the equity markets.

Commodity products

Commodities trading income for the year ended March 31, 2008 for MBL Group was A$417 million up 41% from 2007. Strong trading performances were delivered by Treasury & Commodities, primarily from the Agricultural Commodities division, the Investor Products divisions and the Metals and Energy Capital division. This was primarily due to increased customer flows as a result of higher volatility across a broad number of commodity markets and greater interest in agricultural commodities, particularly in the second half of 2008.

Foreign exchange products

Foreign exchange trading income for the year ended March 31, 2008 was up 69% on the prior year to A$182 million. Volatile currency markets lead to increased customer demand for foreign exchange products and increased volumes transacted through Treasury & Commodities' Foreign Exchange division.

Interest rate products

The interest rate products category of trading income is impacted by current Australian Accounting Standards that require internal derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income so that both sides are being eliminated and only external derivatives can form part of a hedge relationship. This has the effect of distorting the analysis of both net interest margins and trading income, especially interest rate products.

In addition, under Australian Accounting Standards, all derivatives must be carried at fair value. The revaluations and cash flows on derivatives that do not qualify as a hedge under Australian Accounting Standards are included within trading income. The main impact of this relates to derivatives used to hedge the Macquarie Income Preferred Securities hybrid instrument, which do not have an offsetting revaluation of the hedged securities as they are treated as equity for accounting purposes and carried at historic cost.

These impacts have been reported separately from other trading related income to remove the distortion created by the accounting treatment from the analysis of our trading operations.

Profit and loss volatility on derivatives used to hedge the Macquarie Income Preferred Securities hybrid instrument for the year ended March 31, 2008 was income of A$18 million compared with an expense of A$47 million in the prior year. These amounts are recognized in interest rate products income.

The main contributor to interest rate products trading income was the Treasury & Commodities Debt Markets division. The division returned a solid result for 2008 despite difficult market conditions in the second half of the year.

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

This category includes equity accounted income from investments in specialist funds where MBL Group is both the fund manager and has an equity investment in the fund, as well as other equity investments where MBL Group has significant influence.

Equity accounted income for 2008 decreased 19% for 2008 to A$160 million largely due to the loss of equity accounted income from Goodman Group and Macquarie ProLogis Management, and the decrease in equity accounted income from listed real estate trusts including Macquarie Office Trust and Macquarie CountryWide Trust.

Other operating income and charges

	Year ended		
	Mar 08	**Mar 07**	**Movement[1]**
	A$m	**A$m**	**%**
Net gain on sale of investment securities available for sale	107	74	45
Net gain on sale of associates and joint ventures	94	385	(76)
Gain on deconsolidation of previously controlled entities and businesses held for sale	99	33	200
Dividends/distributions received/receivable from equity investments and investment securities available for sale	59	67	(12)
Net operating loss from disposal groups held for sale	(16)	—	—
Other income	122	163	(25)
Impairment on associates (including associates held for sale) and joint ventures	(280)	(2)	large
Impairment charge on investment securities available for sale	(84)	(3)	large
Specific credit provisions	(52)	(25)	108
Collective allowance for credit losses provided for during the fiscal year	(32)	(10)	220
Total	**17**	**682**	**(98)**

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

Other operating income and charges includes gains from the sale or deconsolidation of equity investments, dividends and distributions received from equity investments, impairment charges and other sundry income items.

Gains from the sale or deconsolidation of equity investments from continuing operations amounted to A$300 million for the year ended March 31, 2008. This was significantly down on the prior year's gains of

A$492 million, which included the A$302 million profit on the sale of the investment in Goodman Group. The 2008 result includes profits on the sale of investments in Macquarie-IMM, Macquarie ProLogis Management and a number of small interests in resources entities.

Dividends and distributions received were A$59 million in 2008, a slight decrease on the A$67 million received in the prior year. Other income for the year was A$122 million, down from A$163 million in the prior year, which included the profit on the realization of a large oil and gas interest in the United States.

Offsetting these gains in 2008 were A$364 million of impairment charges on our holdings in associates and joint ventures and investment securities held for sale, of which A$293 million represents write-downs on holdings in listed real estate investments. The majority of this amount is included in impairment on associates and joint ventures, with the remainder recognized as an impairment charge on investment securities available for sale. These are investments that we hold for strategic alignment of our interests with those of investors in the listed entities and are considered long-term investments. Impairment charge on investment securities available for sale also includes A$56 million of provision raised against debt investment securities available for sale, largely as a result of our writedown of certain securities in investment vehicles that hold US subprime mortgages.

Our risk management practices and policies are reflected in the low level of net loan losses for 2008 which were A$52 million, or 0.22% of loan assets (excluding securitization vehicles and segregated futures funds) as at March 31, 2008. The collective allowance for credit losses provided during 2008 is up from A$10 million at March 31, 2007 to A$32 million at March 31, 2008 due to the increase in asset volumes. Specific credit provisions of A$52 million largely relate to the write-down of non-performing loans to one commodities counterparty.

Operating expenses

Total operating expenses for the year ended March 31, 2008 were A$3,335 million, up 31% on the prior year.

The largest component of operating expenses was employment expenses which increased 19% to A$2,028 million. This was mainly due to the increase in staff numbers in those areas not transferred to the Non-Banking Group which was up 25% on the prior year, offset by a favorable impact from the strengthening Australian dollar on the employment costs of offshore employees.

Headcount

Headcount includes both permanent staff (full-time, part-time and fixed-term hires) and contractors (consultants, contractors and secondees). It excludes temporary staff, staff on leave without pay and staff on parental leave. Headcount figures include employees of MBL Group’s controlled entities, except where the entity is acquired with the intention of disposal (*i.e.* businesses held for sale).

The March 31, 2007 balances have been restated to show the number of staff that would have been in MBL Group under the current MBL Group structure.

Headcount at March 31, 2008 has increased 25% to over 4,500 staff.

Headcount by group

	Year ended		
	Mar 08	Mar 07	Movement %
Financial Services	1,798	1,381	30
Banking & Securitization	1,254	989	27
Equity Markets	199	178	12
Treasury & Commodities	483	445	9
Real Estate	598	475	26
Funds Management	236	205	15
Total headcount — operating groups	4,568	3,673	24
Total headcount — service areas	24	14	71
Total headcount	**4,592**	**3,687**	**25**

A breakdown of headcount by region is shown below:

Headcount by region

	Year ended		
	Mar 08	Mar 07	Movement %
Australia	3,641	2,994	22
International Americas	462	322	43
Asia-Pacific	182	162	12
Europe, Africa and Middle East	307	209	47
Total headcount — International	951	693	37
Total headcount	4,592	3,687	25
International headcount/total headcount (%)	**21**	**19**	

Brokerage and commission expenses

Brokerage and commission expenses are driven by our trading activities and brokerage operations. For the year ended March 31, 2008, brokerage and commission expenses increased 70% to A$570 million. Increased market turnover in Asian markets due to increased market volatility generated strong growth in the Asian warrants trading desks, and was the main driver of the increase in brokerage expenses. The addition of two new trading books in Equity Markets also contributed to the increase.

Other operating expenses

Other operating expenses increased significantly due to a number of one-off costs in relation to the Restructure, including stamp duty costs and professional fees. In particular, other operating expenses includes the recharges from Macquarie Group Service Pty Limited which provides administration and central support functions. Travel and entertainment expenses also increased due to an increase in offshore activity.

The overall expense to income ratio increased from 78% in 2007 to 80.5% in 2008, largely as a result of the one-off expenses of the Restructure, lower operating costs as a result of reduced income from asset realizations and the write-downs of our holdings in listed real estate investments.

Income Tax Expense

	Year ended Mar 08	Year ended Mar 07
	A$m	A$m
Profit before income tax	810	720
Less Macquarie Income Securities	(34)	(31)
Less Macquarie Income Preferred Securities	(50)	(57)
Profit before income tax attributable to ordinary equity holders	**726**	**632**
Income tax expense	(60)	(63)
Effective tax rate	**8.3%**	**10.0%**

The effective tax rate differs from the Australian company income tax rate due to permanent differences arising from the income tax treatment of certain income and expenses, as well as tax rate differentials on some of the income earned offshore, and the non-deductibility of certain expenses, including employee options expense and interest payments made under the Macquarie Income Securities.

Our offshore activities were the main reason that the effective tax rate was below the Australian corporate income tax rate. The growth in offshore income during 2008 was driven by increased international income, especially from the Asia-Pacific region, which had a lower effective tax rate. In addition, some offshore capital gains, including the profit on the sale of Macquarie-IMM, also contributed to the reduction in the effective tax rate.

Segment Analysis

	Year ended Mar 08	Contribution	Year ended Mar 07	Contribution	Movement
	A$m	%	A$m	%	%
Equity Markets	639	35	417	20	53
Treasury & Commodities	653	35	635	31	3
Real Estate	(79)	(4)	507	25	(116)
Financial Services	187	10	141	7	33
Banking and Securitization	51	3	143	7	(64)
Funds Management	178	10	59	3	202
Macquarie Capital[1]	192	11	141	7	36
Total contribution to profit by operating group	**1,821**	**100**	**2,043**	**100**	**(11)**
Corporate[2]	(1,155)		(1,474)		(22)
Total profit after tax from continuing operations[3]	**666**		**569**		**17**

1 Being certain less financially significant assets and businesses of Macquarie Capital Products and Macquarie Capital Finance that were not transferred to the Non-Banking Group in connection with the Restructure.

2 The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, staff profit share, options expense, income tax and internal management accounting adjustments and charges.

3 Total profit after tax for the year ended March 31, 2008 from continuing operations is presented after allowing for profit attributable to minority interests of A$50 million and distributions paid or provided on Macquarie Income Securities of A$34 million

Basis of preparation

In the year ended March 31, 2008, we made a formal election to early adopt AASB 8 “Operating Segments” which requires the application of the “management approach” to disclosing information about reportable segments. The financial information will be reported on the same basis as it is used internally by our Chief Executive Officer for evaluating operating segment performance and deciding how to allocate resources to operating segments. Such information will be prepared using different measures to that used in preparing the income statement and balance sheet, with reconciliations of certain items to the consolidated income statement and consolidated balance sheet.

For internal reporting and risk management purposes, the economic entity is divided into seven operating groups (the "groups") as listed in the table above. Transfers between segments are determined on an arm's-length basis and eliminate on consolidation.

We report certain items in the Corporate segment, which includes Group Treasury division and Head Office and central support functions. Costs within the Corporate segment include unallocated head office costs, employment-related costs, earnings on capital, derivative volatility, income tax expense and profits attributable to minority interests. The costs 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 less the costs included in the Corporate segment equates to our total profit after tax. This measure of profit contribution is consistent with the profit contribution MBL Group reported for prior fiscal years; however, prior to our early adoption of AASB 8 "Operating Segments", it was considered a non-GAAP measure.

Equity Markets

Equity Markets' contribution to profit for the year ended March 31, 2008 was A$639 million, a 53% increase on the prior year. Equity Markets' strong results were largely driven by the strong performance of its Equity Products division, with less significant contributions to growth being derived from its Funds Products and Global Equity Finance divisions. Strong growth in trading income due to increased customer flows was the key contributor to the result, partially offset by increased brokerage and commission expense due to increased transaction volumes.

Trading conditions in international equity markets were particularly favorable during the first half of 2008. However, they became more challenging in the second half as the global debt crisis spread to equity markets depressing global trading volumes.

Equity Products. Equity Products offers equity-linked investment, trading and risk management products to clients in Australia, Asia, Europe, the United States and Latin America.

Equity Products performed well, benefiting from the favorable market conditions in the first half of the year and maintaining strong market positions in Australia and key Asian markets. Operations in most other international markets made an increased contribution because of increased trading volumes as volatility remained high, although our presence in the European and United States regions is small relative to our Asian and Australian businesses.

Equity Products continued to invest in new product development and the risk management systems necessary to expand the range of products it offers to clients.

Fund Products. Equity Markets' fund management business manages single strategy hedge funds, fund of hedge funds and structured fund products. Fund Products experienced a record level of inflows into its single strategy funds, which led to a profit increase of 83% in 2008 on the prior year. At March 31, 2008, funds under management (excluding funds provided by MBL Group) had grown 163% from March 31, 2007 to over A$3.2 billion.

In addition, funds under risk management (funds of external managers over which Fund Products provides hedging or risk management services) had grown 7% from March 31, 2007 to approximately A$3.1 billion at March 31, 2008.

Global Equity Finance. Global Equity Finance's contribution to profit in 2008 was slightly up on 2007 due to growth in securities borrowing and lending volumes and structured equity finance activities in Australia, Asia and Europe.

Alternative Strategies. Established in April 2007, Alternative Strategies is a joint venture with Macquarie Capital Securities. It offers equity derivatives, market-access products and financing to hedge fund clients.

Treasury & Commodities

Treasury & Commodities' contribution to profit for the year ended March 31, 2008 was A$653 million, a slight increase on the prior year which included the profit on sale of a large US oil and gas interest. While all divisions in Treasury & Commodities performed well in 2008, the increase in profit contribution in 2008 was largely driven by growth from Metals and Energy Capital (excluding the effect of the disposition of US oil and gas interests in 2007), Foreign Exchange and Agriculture and Investor Products.

Metals and Energy Capital. Metals and Energy Capital's contribution to 2008 profit decreased 28% in 2008 from 2007. This decrease was due to a significant one-off realization of a large oil and gas interest in the United States in 2007. Metals and Energy Capital experienced continued growth in the oil and gas financing business and strong trading and project finance results.

Energy Markets. Energy Markets is an active provider of risk management solutions across the energy sector from production, transportation and refining to storage, utilities and end consumers. Energy Markets' contribution to profit increased substantially in 2008 through its financing activities and trading in global energy products including crude, distillates, natural gas, coal, power and emissions for clients throughout North America, Australia, Asia, Europe and Africa.

Agriculture and Investors Products. Agriculture and Investor Products' contribution to profit increased substantially in 2008, as Agriculture and Investor Products benefited from the increasing interest in agricultural commodities and strong market conditions.

Foreign Exchange. Foreign Exchange's contribution to profit increased 65% from 2007 to 2008 due to the positive effect on foreign exchange volumes from increased market volatility.

Futures. Futures provides a full range of broking and clearing services for Australian and international exchange traded derivatives 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' contribution to profit in 2008 was 39% higher than the prior year reflecting continued growth both domestically and offshore.

Debt Markets. Debt Markets arranges and places primary market debt for clients and provides 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.

Debt Markets' contribution to profit in 2008 was 9% lower than the prior year due to difficult debt market conditions and low transaction volumes.

Group Treasury. Group Treasury is responsible for the management of our balance sheet, liquidity and interest rate exposure. These activities are now part of Shared Services.

Real Estate

Real Estate's loss for the year ended March 31, 2008 was A$79 million. The key contributor to the loss was the A$293 million write-down of holdings in listed real estate investments. The 2007 result also included a A$302 million profit on sale from the investment in Goodman Group, which was not duplicated in 2008.

Real Estate's result was supported by strong activity levels across the business. Key events included the profitable disposals of Japanese residential and Korean office portfolios. The sale of Macquarie ProLogis Trust realized significant value for investors along with Real Estate. Macquarie MEAG Prime REIT announced a strategic review aimed at enhancing value for unit holders.

There was a continued focus on unlisted equity raisings with over A$5 billion raised by Macquarie Global Property Advisers during 2008. Assets under Management (including assets managed by associates) increased 37% to A$32.3 billion at March 31, 2008 from A$23.6 billion at March 31, 2007 with new assets acquired in Singapore, Japan, Poland and Germany, which resulted in an increase in base funds management fees and the accrual of certain performance fees from funds managed by Real Estate.

The global REIT sector has experienced significant volatility during 2008 as result of the credit market disruption. As described above, a writedown of A$293 million was taken against our managed and associated listed real estate investments at March 31, 2008.

Financial Services

Financial Services' contribution to profit for the year ended March 31, 2008 was A$187 million, a 33% increase on the prior year. The increase was due to increased broking levels and strong inflows into superannuation funds we manage and the Macquarie Cash Management Trust.

Financial Services also continued to develop international initiatives during 2008. During the year it signed a joint venture agreement with the Indian wealth management company, Religare, and launched an Asian Private Wealth business based in Singapore. It also actively pursued domestic opportunities to expand adviser numbers and grow core service business.

Total assets under administration, advice and management grew 15% from A$70.5 billion at March 31, 2007 to A$80.9 billion at March 31, 2008. This was a key driver of the increase in MBL Group's Wrap and other administration fees from A$109 million in 2007 to A$146 million in 2008.

Financial Services and Banking & Securitization were integrated in the second half of 2008 to form Banking & Financial Services. The merged group will integrate banking and wealth product offerings to provide better client service and opportunities for growth.

Macquarie Adviser Services. Macquarie Adviser Services' had a good result for 2008 as both profit and client numbers increased substantially. The Cash Management Trust increased 25% from A$14.1 billion at March 31, 2007 to A$17.6 billion at March 31, 2008. Funds under administration in the Macquarie Wrap, at A$22.5 billion at March 31, 2008 were slightly down on the prior year end due to negative market movements. The superannuation portfolio increased 20% from A$20.4 billion at March 31,2007 to A$24.5 billion at March 31, 2008 with significant inflows in June 2007 as clients took advantage of superannuation reforms in Australia. The growth of the Macquarie Adviser Services Futurewise Insurance platform added to Macquarie Adviser Services' performance.

The Macquarie Adviser Services-owned Coin financial planning software business continued to expand its service offering to advisers. It acquired a 50% stake in outsourced paraplanning company Outplan and financial planning practice management company Olicc.

Macquarie Private Wealth. Macquarie Private Wealth maintained its leading position as a full service retail stockbroker in Australia in terms of volume and market share. Macquarie Private Wealth also acquired 50% of Financial Index, a scalable advice business complementary to our other advice offerings. Macquarie Private Wealth's profit contribution was up 26% from 2007 to 2008.

Macquarie Private Wealth's Private Bank launched its first Asian private wealth service based in Singapore which will form the hub of Macquarie Private Wealth's Asian ultra-high-net-worth advice operations.

Macquarie Global Investments. Macquarie Global Investments was established during 2008 to focus on the development of products for retail and wholesale investors globally. During 2008 Macquarie Global Investments launched the institutional boutique investment firm Queen St Partners. It also took responsibility for Financial Services' interests in New Zealand fund manager Brook Asset Management, and acquired the 51% of the company not already owned. In 2008, the Macquarie Pastoral Fund was moved to Macquarie Global Investments where commitments from investors increased by more than A$500 million. The contribution of Macquarie Global Investments during the year was not significant.

Banking & Securitization

Banking & Securitization's contribution to profit for the year ended March 31, 2008 was A$51 million, a 64% decrease on the prior year which included the profits from the divestment of the Australian and New Zealand childcare businesses and related property portfolios. Net interest income from increased loan and deposit volumes during 2008 was partially offset by a reduction in net interest margins.

The 2008 contribution to profit of Banking increased on the prior year due to a 23% increase in performances from Relationship Banking and growth in deposits of 37% on the prior year. The Investment Lending portfolio grew 25% from A$4.8 billion at March 31, 2007 to A$6.0 billion at March 31, 2008, despite deteriorating market conditions in the second half of 2008.

Difficult credit market conditions and increased cost of funding significantly affected the mortgage businesses in 2008. As a result, in March 2008, we announced the decision to wind back residential mortgage origination services in Australia. We also ceased new mortgage business in the United States. Both businesses intend to continue to provide full service to existing customers, who hold approximately 98,500 loan facilities.

Global mortgage securitization markets have effectively closed, except in Canada where our Canadian mortgages business, acquired in July 2006, continues to be supported by local government-backed securitization through the Canadian Mortgage Bond program. Credit quality in the group's mortgage portfolio remains high across all countries, default rates are low and there is no direct exposure to subprime loans.

Investment in new Banking & Securitization businesses continued in 2008 with the launch of credit cards in Australia in April 2007 and the establishment of a start-up business in the United Kingdom providing business lending services to the United Kingdom insurance broking industry in May 2007.

Banking & Securitization merged with Financial Services in February 2008 to form Banking & Financial Services.

Funds Management

Funds Management's contribution to profit for the year ended March 31, 2008 was A$178 million, a 202% increase on the prior year. The profit from the sale of the investment in Macquarie-IMM was the key contributor to the result. Fee and commission income growth was attributable to strong performance fee revenue from equity funds, with the equities business profit contribution up 65% from 2007 to 2008.

Assets under Management declined by 9% during 2008 to A$57.4 billion at year end largely due to the sale of Macquarie-IMM and some significant redemptions from global property and currency strategy funds during the year.

Australia. Many of Funds Management's flagship equities funds continued to perform strongly during 2008, particularly the Macquarie Long Short Equitised Fund and the Macquarie High Conviction Fund.

The group increased retail sales and inflows into key products. The Macquarie Master Diversified Fixed Interest Fund, the Macquarie International Infrastructure Securities Fund and the Macquarie Australian Small Companies Fund all experienced strong inflows.

During 2008, the group made significant investments in information technology infrastructure, upgrading its core investment administration and accounting infrastructure.

International. During 2008, Funds Management sold its 65% interest in the Korean joint venture Macquarie-IMM, which was established in 2000 and provided a full array of investment solutions to Korean institutions and distributors. The company had Assets under Management of over A$5.4 billion at March 31, 2008.

Funds Management commenced distributing retail funds in Taiwan during 2008. It was appointed investment advisor to funds offered by three of Taiwan's leading investment trust firms.

Funds Management's Alternative Investments division and Real Estate Securities division also established a presence in London in 2008, joining the global fixed income team which moved to London in 2007.

The Macquarie Clean Technology Fund, managed through its United States operation in Carlsbad, California, held its final close in December 2007, concluding a successful fund-raising with over A$228 million in commitments.

Macquarie Capital

The operating profit before income tax of MBL Group operating group entitled "Macquarie Capital" (which is not part of the Non-Banking Group which is also called Macquarie Capital and includes certain less financially significant assets and businesses of Macquarie Capital Products and Macquarie Capital Finance that were not transferred to the Non-Banking Group as part of the Restructure) for the year ended March 31, 2008 was A$192 million, a 36% increase on the prior year.

Macquarie Capital Products. Macquarie Capital Products' underlying profit was strong during 2008 primarily due to expansion across most businesses and products. Macquarie Capital Products achieved record raisings in its Australian retail products, launched new funds in Germany and Austria and also launched listed infrastructure and resources hedge funds.

The joint ventures with MD Sass and Globalis were further developed in 2008. At March 31, 2008, total Assets under Management had grown by 3% from A$8.9 billion at March 31, 2007 to A$9.1 billion (including assets managed by associates).

Macquarie Capital Finance. Macquarie Capital Finance's profit was strong in 2008 with lending and other assets increasing by 34% from A$5.4 billion at March 31, 2007 to A$7.3 billion at March 31, 2008.

In December 2007, Macquarie Capital Finance completed the acquisition of CIT Systems Leasing. With approximately US$750 million of leased assets, it is one of the largest independent lessors of technology equipment in North America.

Balance Sheet Analysis

	Year ended		
	Mar 08[1]	**Mar 07**[2]	**Movement**
	A$m	**A$m**	**%**
Assets			
Cash and balances with central banks	7	3	133
Due from banks	7,169	4,166	72
Cash collateral on securities borrowed and reverse repurchase agreements	21,278	25,447	(16)
Trading portfolio assets	15,225	15,282	(<1)
Loan assets held at amortized cost	46,848	42,994	9
Other financial assets at fair value through profit or loss	3,635	2,526	44
Derivative financial instruments — positive values	20,952	11,850	77
Other assets	3,925	5,027	(22)
Investment securities available for sale	14,736	5,168	185

	Year ended		
	Mar 08[1]	Mar 07[2]	Movement
	A$m	A$m	%
Intangible assets	133	90	48
Life investment contracts and other unit holder assets	5,705	5,847	(2)
Due from related MGL entities	10,568	4,121	156
Interest in associates and joint ventures using the equity method	1,956	1,737	13
Property, plant and equipment	44	68	(35)
Deferred income tax assets	78	33	136
Assets and disposal groups classified as held - for - sale	35	43	(19)
Total assets	**152,294**	**124,402**	**22**
Liabilities			
Due to banks	3,749	3,078	22
Cash collateral on securities lent and repurchase agreements	13,469	7,435	81
Trading portfolio liabilities	10,716	15,868	(32)
Derivative financial instruments — negative values	21,154	11,003	92
Deposits	15,565	12,171	28
Debt issued at amortized cost	54,763	49,691	10
Other financial liabilities at fair value through profit or loss	6,271	5,536	13
Other liabilities	4,120	6,590	(37)
Current tax liabilities	27	85	(68)
Life investment contracts and other unit holder liabilities	5,689	5,781	(2)
Due to related MGL entities	7,769	–	n/a
Provisions	87	93	(6)
Deferred income tax liabilities	193	33	large
Total liabilities excluding loan capital	**143,572**	**117,364**	**22**
Loan capital			
Subordinated debt at amortized cost	1,691	1,783	(5)
Subordinated debt at fair value through profit or loss	646	888	(27)
Total liabilities	**145,909**	**120,035**	**22**
Net assets	**6,385**	**4,367**	**46**
Equity			
Contributed equity Ordinary share capital	3,586		
Equity contribution from ultimate parent	18		
Treasury shares	–		
Macquarie Income Securities	391		
Reserves	182		
Retained earnings	1,374		
Total capital and reserves attributable to equity holders	5,551		
Minority interest	834		
Total equity	6,385		

[1] The balance sheet as at March 31, 2008 does not include the assets and liabilities of the businesses that we transferred to the Non-Banking Group as part of the Restructure, as the Restructure became effective as of November 19, 2007.

[2] The March 31, 2007 balance sheet included above has been represented to exclude the discontinued operations balance sheet items as disclosed in Note 7 to our 2008 annual financial statements and is not in accordance with AASB 5. The equity section has not been included as the discontinued operations balance sheet does not include this information. The balance sheet has been presented in this format to provide more meaningful year on year disclosure of our continuing operations.

Overview

During the year ended March 31, 2008, and after adjusting for balances relating to discontinued operations, our total assets increased 22% to A$152.3 billion at year end. Total equity was A$6.4 billion at March 31, 2008.

The increase in total assets for 2008 was largely driven by a 185% increase in investment securities available for sale to A$14.7 billion at year end, and a 156% increase in amounts due from related MGL Group entities to A$10.6 billion at year end. The growth in investment securities available for sale was due to increased investment in money market instruments used for currency and liquidity management purposes. The increase in amounts due from related MGL Group entities largely represented amounts outstanding under the Intra Group Loan. Derivative financial instruments — positive values increased by 77% to A$21.0 billion, which was largely offset by the 92% increase in negative values to A$21.2 billion, in each case, principally due to movements in commodity prices and foreign exchange rates.

A reduction in short stock trading during the second half of 2008 was the primary cause of a decrease in cash collateral on securities borrowed and reverse repurchase agreements from A$25.5 billion at March 31, 2007 to A$21.3 billion at March 31, 2008, while an increase in long stock trading — derivative financial instruments was the primary cause of the increase in cash collateral on securities lent and reverse repurchase agreements from A$7.4 billion at March 31, 2007 to A$13.5 billion at March 31, 2008.

Loan assets (excluding mortgage securitization vehicles) totaled A$25.1 billion at March 31, 2008, representing a slight decrease over the prior year.

Debt issued at amortized cost increased 10% to A$54.8 billion and deposits increased 28% to A$15.6 billion. These funding sources assisted the effective management of our funding needs throughout 2008, despite more challenging credit market conditions.

Balances due from related MGL Group entities of A$10.6 billion increased by A$6.4 billion on the prior year, largely due to the Intra Group Loan. Balances due to related MGL Group entities of A$7.8 billion relate to the funding of Macquarie International Finance Limited and deposits placed by the Non-Banking Group with MBL.

Total equity at March 31, 2008 was A$6.4 billion. Under the Restructure, MBL became a subsidiary of MGL and 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$14.16 billion. The majority of MBL's profit on sale of these controlled entities was distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by A$3 billion. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and assisted in financing the acquisition of the controlled entities and assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of A$2.25 billion and MGL simultaneously contributed the same amount to MBL as a capital injection. These transactions occurred on November 16, 2007. On November 19, 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL.

Other significant items impacting total equity prior to the Restructure included the A$750 million raised in the institutional private placement in May 2007, the A$79 million raised in the Share Purchase Plan in June 2007, and shares issued under the dividend reinvestment plan and the exercise of employee share options.

Loan asset quality

	Year ended		
	Mar 08	Mar 07	Movement
	A$m	A$m	%
Loan assets			
Loan assets including mortgage securitization special purpose vehicles	46,848	45,796	2
Less securitization special purpose vehicles[1] and segregated futures funds[2]	(23,360)	(23,888)	(2)
Total	23,488	21,908	7
Impaired assets[3] with specific provisions for impairment	244	166	47
Less specific provisions	(105)	(78)	35
Net impaired assets	139	88	58
Net loan losses (net provision release)	52	25	108
Net impaired assets/loan assets(%)	0.59	0.40	
Net loan losses/loan assets(%)	0.22	0.11	

	Year ended		
	Mar 08	Mar 07	Movement
	A$m	A$m	%
Net loan losses (profit or loss impact) provided during the period	71	32	122
recovery of loans previously provided for	(34)	(13)	162
loan losses written-off	20	9	122
recovery of loans previously written-off	(5)	(3)	67
Total net charge for loan losses	**52**	**25**	**108**

1 Includes mortgage and lease securitization vehicles. In relation to the mortgage securitization special purpose vehicles, our exposure is largely mitigated by credit insurance. Loan losses in these vehicles are immaterial.

2 We are not at risk for segregated futures funds.

3 Impaired assets have been reported in accordance with AASB 139 "Financial Instruments: Recognition and Measurement" and include loan assets and impaired items in respect of derivative financial instruments and unrecognized contingent commitments.

Our strong risk management practices and policies are reflected in the low level of net loan losses for 2008 which were A$52 million, or 0.22% of loan assets (excluding securitization vehicles and segregated futures funds), as at March 31, 2008. The collective allowance for credit losses provided during 2008 is up from A$10 million at March 31, 2007 to A$32 million at March 31, 2008 primarily due to the increase in asset volumes. Specific credit provisions of A$52 million largely relate to their write-down of nonperforming loans to one commodities counterparty.

While global credit markets suffered significant disruptions during 2008, which affected the mortgages businesses and reduced volumes in debt markets, we had no unusual trading exposures, provisions or writedowns as our main business focus is providing services to clients rather than principal trading. Furthermore, credit quality in our mortgage portfolio remained high across all countries, with no exposure to subprime loans.

Capital Analysis

MBL Capital Analysis

MBL is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. MBL reports to APRA under Basel II capital requirements effective from January 1, 2008. MBL has been granted accreditation by APRA to adopt the Basel II

Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. Prior to January 1, 2008, the Bank reported to APRA under the prudential requirements referred to as Basel I.

	Year ended Mar 08 A$m
Capital Adequacy	
Ordinary share capital	3,604
Retained earnings	1,024
Reserves	164
Macquarie Income Securities	391
Macquarie Income Preferred Securities	752
Basel II limitation on innovative capital	(188)
Outside equity interests	7
Total Tier 1 Capital before Tier 1 Capital Deductions	**5,754**
Tier 1 Capital Deductions:	
Intangibles	(367)
Net future income tax benefit	(67)
Deductions from Tier 1 & Tier 2 Capital (50% /50%)	
Equity and capital investments	(352)
Other Tier 1 & Tier 2 capital deductions	(256)
Other Tier 1 Capital Deductions	(165)
Total Tier 1 Capital	**4,547**
Tier 2 Capital	
Term subordinated debt	2,275
Addback from Tier 1 allowed for innovative capital	188
Other Upper Tier 2 Capital	109
Total Tier 2 Capital	**2,572**
Total Capital Deductions	
Deductions from Tier 1 & Tier 2 Capital (50% /50%)	
Equity and capital investments	(352)
Other Tier 1 & Tier 2 capital deductions	(256)
Total Capital Deductions	**(608)**
Total Capital	**6,511**
Risk-Weighted Assets	**36,730**
Tier 1 Capital Ratio(%)	12.4
Total Capital Ratio(%)	17.7

The above table is based on MBL Group Basel II capital calculations as at March 31, 2008. No comparative has been included as prior period calculations were prepared on the different framework of Basel I.

The Tier 1 ratio has decreased from 15.0% at March 31, 2007 (under Basel I) to 12.4% at March 31, 2008 due to the following:

- The Restructure resulted in MBL reducing its capital by A$3 billion, which reduction was split between ordinary share capital (A$750 million reduction) and retained earnings (through the payment of a A$2.25 billion dividend to MGL);

- The transition to Basel II has increased the quantum of Tier 1 capital deductions as certain total capital deductions under Basel I are now deducted 50% from Tier 1 and 50% from total capital. These include certain equity and capital investments, certain guarantees and securitization exposures; and

- Innovative Tier 1 capital declined due to the Basel II limitation on the amount of these instruments that can be included in Tier 1 capital and a reduction in the Australian dollar value of Macquarie Income Preferred Securities as a result of the movements in the exchange rate. Innovative capital is limited to 15% of net Tier 1 capital, with any excess amount being included as Upper Tier 2 capital.

Funds Management Businesses (MBL Group and the Non-Banking Group)

MGL Group's funds management businesses are conducted by both the Non-Banking Group and MBL Group. We manage the real estate specialist funds and the funds management and financial services funds, which are described below.

Assets under Management

	Year ended		
	Mar 08	**Mar 07**	**Movement**
	A$m	**A$m**	**%**
Specialist funds			
Real Estate	23,532	18,297	29
Other	3,453	1,300	166
Total specialist funds	26,985	19,597	38
Funds management and financial service			
Retail	20,739	17,204	21
Wholesale	38,813	48,680	(20)
Total funds management and financial services	59,552	65,884	(10)
Total assets under management	**86,537**	**85,481**	**1**

Assets under Management provides a consistent basis for measuring the scale of our funds management activities. Assets under Management is calculated as the proportional ownership interest in the underlying assets of our managed funds plus other assets managed on behalf of third parties that are not our managed funds. This calculation is adjusted to exclude cross-holdings between our managed funds, and is further adjusted to reflect our proportional ownership interest in the relevant fund manager. The March 2007 balances have been restated to show the Assets under Management that would have been in MBL Group under the current group structure.

MBL Group's Assets under Management are categorized across specialist and non-specialist activities:

- Specialist funds, which concentrate on one particular sector of investment or asset class, for example real estate; and

- Non-specialist funds, which are traditional managed investments for retail and wholesale clients.

Total Assets under Management was A$86.5 billion at March 31, 2008, broadly in line with the prior year end. Asset acquisitions in Asia contributed to the growth in real estate Assets under Management to A$23.5 billion at March 31, 2008 and other specialist Assets under Management more than doubled over the year to A$3.5 billion at March 31, 2008, largely due to the launch of new classes of investments in the MQ funds. Growth in real estate and other specialist Assets under Management was partially offset by the decrease in the wholesale non-specialist Assets under Management due to the outflows relating to negative market movements and the sale of Macquarie-IMM.

Real Estate funds

Real Estate Assets under Management at March 31, 2008 increased 29% over the year to A$23.5 billion. The increase was largely due to the purchase of new assets by existing real estate funds, particularly in Asia. During 2008, the acquisition with Goodman Group of Japanese-listed logistics property specialist, J-REP, and the launch of Macquarie Real Estate Equity Funds No. 6 and 7, Macquarie NPS REIT and St Hilliers Enhanced Property Funds also contributed to the increase in real estate Assets under Management. This was partially offset by the sale of Macquarie ProLogis Trust to ProLogis in July 2007. The impact of tougher credit conditions during the second half of the year reduced the level of acquisition activity by real estate funds and increased the gains on the sale of mature assets to strengthen the balance sheets of funds. The major acquisitions during 2008 included:

- Macquarie Global Property Advisers' managed funds — made several acquisitions across Asia and Europe, in the office, residential, industrial and retail sectors. The most significant acquisition involved the purchase of two parcels of land at Marina View, Singapore in December 2007 and March 2008 for a combined tender price of US$1.96 billion.

- Macquarie Office Trust — acquired three properties in Tokyo, Japan for ¥8.2 billion (A$86 million), and completed acquisitions in Europe (in Milan, Italy for €151.9 million and in Frankfurt, Germany for €49 million). In the US, Macquarie Office Trust acquired the remaining interests in Promenade II, Atlanta for US$122 million, Pasadena Towers, Pasadena and SunTrust Centre, Orlando for a combined US$109.7 million. Acquisitions in Australia included Eastpoint Plaza, Perth for A$56.8 million and 59 Goulburn Street, Sydney for A$92.5 million.

- Macquarie CountryWide Trust — acquired seven European shopping centers for €350 million in July 2007 and in August 2007, acquired a 60% share of a portfolio of 32 grocery anchored shopping centers around the United States for approximately US$238 million.

- Macquarie Leisure Trust Group — acquired Goodlife Health Club chain in September 2007 for A$60 million.

- Macquarie Direct Property Fund — acquired its first direct property investments in Asia, including 72 Anson Road, Singapore, and purchased several properties throughout Australia for approximately A$50 million.

- J-REP — acquired a portfolio of 14 high quality Japan logistics assets for ¥63.5 billion (approximately A$6.1 billion).

During the year, Macquarie NPS REIT was established with South Korea's National Pension Service with Assets under Management of KRW237 billion.

Other specialist funds

Other specialist Assets under Management at March 31, 2008 was A$3.5 billion, up 166% from March 31, 2007. The significant growth was largely due to the launch of several new funds over the year, including Macquarie Pastoral Fund, the Tong Yang Global IPO and new classes of investments in the MQ funds.

Funds management and financial services funds

During 2008, there was a decrease in non-specialist Assets under Management to A$59.6 million at year end largely due to the sale of our 65% interest in the Korean joint venture, fund manager, Macquarie-IMM, to Goldman Sachs Asset Management in September 2007. Non-specialist Assets under Management was also affected by negative market movements impacting the value of assets and outflows in relation to Asian and Global REITs. This was partially offset by the acquisition of the remaining 51% of Brook Asset Management Limited in February 2008 and inflows into the Cash Management Trust. The Cash Management Trust closed at A$17.6 billion at March 31, 2008, up 25% from A$14.1 billion in 2007.

Regional growth

At March 31, 2008, we managed assets located in over 25 countries. At that date 76% of all Assets under Management (by value) were located in Australia with the balance being spread across Asia-Pacific (11%), the Americas (11%) and Europe (2%). Excluding non-specialist Assets under Management which are mainly located in Australia, 68% of Assets under Management were located offshore in Asia-Pacific (27%), the Americas (33%) and Europe (8%). The geographical distribution of specialist Assets under Management at March 31, 2008 remained broadly in line with the prior year end, with the exception of Asia-Pacific which increased from 15% at March 31, 2007 to 27% at March 31, 2008 due to assets acquisitions in the region by various real estate funds.

Assets under Management

The table below shows the Assets under Management by fund category for each listed fund and total for all unlisted funds.

	Ownership of Management Company (%)	Listing Date	Stock Exchange/ ASX Code	Holding (%)[1]	As at Mar 08 A$m	As at Mar 07 A$m
Specialist funds						
Real Estate						
J-REP Co. Limited[2]	26	Jun 06	Listed on TSE	26	433	–
Macquarie Central Office Corporate Restructuring REIT	100	Jan 04	Listed on KRX	20	191	226
Macquarie CountryWide	100	Nov 95	MCW	10	5,688	5,064
Macquarie DDR	50	Nov 03	MDT	2	1,276	1,349
Macquarie Leisure	100	Jul 98	MLE	6	832	611
Macquarie MEAG Prime REIT	50	Sep 05	Listed on SGX	26	904	621
Macquarie Office	100	Nov 93	MOF	7	6,940	5,705
Macquarie ProLogis[3]	–	Jun 02	MPR	–	–	1,098
Total listed Real Estate					16,264	14,674
Total unlisted Real Estate					7,268	3,623
Total Real Estate					**23,532**	**18,297**
Other						
Macquarie Private Capital Group	100	Mar 05	MPG	<1	61	59
Total listed Other					61	59
Total unlisted Other					3,392	1,241
Total Other					**3,453**	**1,300**
Funds management and financial services						
Retail	100	Unlisted			20,739	17,204
Wholesale						
Macquarie Funds Management	100	Unlisted			37,753	42,668
Macquarie-IMM Investment Mgt Co. Ltd.[4]	–	Unlisted			–	5,414

	Ownership of Management Company (%)	Listing Date	Stock Exchange/ ASX Code	Holding (%)[1]	As at Mar 08 A$m	As at Mar 07 A$m
Brook Asset Management[5]	100	Unlisted			1,060	598
Total Funds management and financial services.......................					**59,552**	**65,884**
Total Assets under Management					**86,537**	**85,481**

[1] Holding at March 31, 2008 represents our participating interest in the fund, excluding amounts held through True Index funds and their controlled entities.

[2] J-REP Co. Limited is a listed fund manager on the Tokyo stock exchange. Through a joint venture with Goodman Group, we acquired an interest in J-REP, and therefore, its fund management activities in June 2007.

[3] Investment in joint venture fund manager was sold to ProLogis in July 2007.

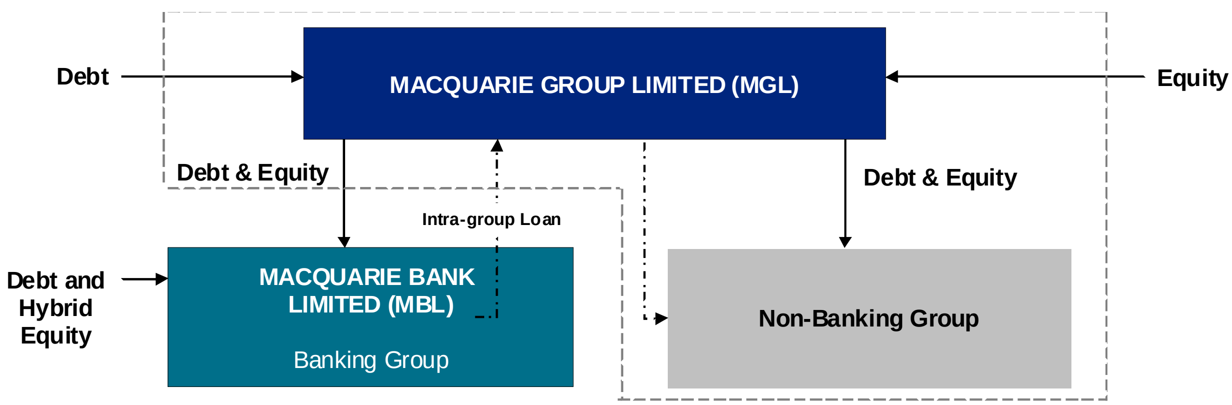
[4] Investment in Macquarie-IMM was sold in September 2007.

[5] In February 2008, MBL Group acquired the remaining 51% of Brook Asset Management.

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

Liquidity management is performed centrally by Group Treasury, with oversight from MGL Group's Asset and Liability Committee the MGL and MBL Boards 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. 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.

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 Group is able to meet all of its repayment obligations for the next twelve months (measured on a rolling twelve-month basis) with no access to wholesale funding markets.

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 Group is able to meet all of its repayment obligations for the next twelve months (measured on a rolling twelve-month basis) through a period of constrained access to wholesale funding markets. MBL is funded mainly by capital, long-term liabilities and deposits.

The ability of MBL to fund MGL or the Non-Banking Group is limited by MBL's regulatory requirements. MBL's ability to return capital to MGL for use by MGL or the Non-Banking Group is limited by MBL's capital requirements as an ADI and MBL's ability to provide debt funding to MGL and the Non-Banking Group is limited by regulatory limits on non-ELE exposures. 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 plan is prepared annually and the funding position is monitored throughout the year
- 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 months 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 twelve-month liquidity 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 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 held, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a twelve month timeframe. This scenario assumes no access to new funding sources, a rapid 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 must be repo-eligible 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, 2009, 97% of the liquid assets 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 has increased its cash and liquid assets to A$30.3 billion at March 31, 2009 (March 31, 2008: A$20.8 billion), of which A$25.5 billion was held by MBL Group (March 31, 2008: A$18.7 billion).

Liquidity Contingency Plan

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

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high-level checklist 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.

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 out, and credits are made to business units that provide long-term stable funding.

Credit Ratings

As at March 31, 2009, 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	Outlook	Short-term	Long-term	Outlook
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Service	P-1	A2	Negative	P-1	A1	Negative
Standard & Poor's	A-2	A-	Negative	A-1	A	Negative

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.

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 which do not represent a funding requirement of MGL or MBL.

The tables below have been prepared to reconcile the reported assets of MGL Group to its total funding requirement as at March 31, 2009. This MGL Group funding requirement is then split between the Banking and Non-Banking Group to assist in the analysis of each of the separate funding requirements of MBL and MGL.

MGL Group	**As at Mar 09**
	A$b
Total assets per MGL Statutory Balance Sheet	**149.1**
Accounting Deductions:	
Self funded trading assets[1]	(10.5)
Derivative revaluation accounting gross-ups[2]	(26.1)
Life investment contracts and segregated assets[3]	(6.9)
Broker settlement balances[4]	(5.5)
Short term working capital assets[5]	(5.1)
Non-recourse funded assets:	
Securitized Assets and non-recourse warehouses[6]	(20.4)
Net funded assets	74.6

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 clients. They typically represent both sides of a transaction. The entries off-set each other as both the bought and sold 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 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 do 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 requires 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, 2009:

MGL Group	As at Mar 09 A$b
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	4.7
Commercial paper	3.0
Net trade creditors[2]	0.4
Structured notes[3]	4.0
Secured funding[4]	6.6
Bonds[5]	16.9
Other bank loans[6]	0.7
Senior credit facility[7]	7.4
Deposits[8]	
Retail	13.4
Corporate and wholesale	5.4
Loan capital[9]	2.5
Equity and hybrids[10]	9.6
Total	74.6
Funded assets	
Cash and liquid assets[11]	30.3
Net trading assets[12]	9.1
Loan assets less than one year[13]	5.8
Loan assets greater than one year[13]	19.5
Assets held for sale[14]	0.2
Debt investment securities[15]	1.2
Co-investment in Macquarie-managed funds and equity investments[16]	7.2
Property, plant and equipment and intangibles	1.3
Total	74.6

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

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

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

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

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

6 *Other bank loans.* Unsecured loans provided by financial institutions.

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.8 billion facility, of which A$0.4 billion is undrawn.

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 " — Year ended March 31, 2009 compared to year ended March 31, 2008 — Loan Assets" above for further information

[14] *Assets held for sale.* These are the net assets/liabilities of the held for sale categories on the balance sheet.

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

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

As at March 31, 2009, deposits represented A$18.8 billion, or approximately 25.2% of total funding, short-term wholesale paper represented A$7.7 billion, or approximately 10.3% of total funding and other debt funding maturing within twelve months represented A$6.7 billion or approximately 9.0% of total funding.

The following table provides detail of MGL Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2009:

	As at Mar 09				
	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	1.2	0.4	0.5	0.2	0.3
Secured funding	0.4	0.3	1.5	2.4	1.5
Bonds	1.3	4.1	1.2	6.2	–
Other bank loans	0.1	–	0.2	–	–
Senior credit facility	2.4	2.5	2.4	–	–
Total debt	5.4	7.3	5.8	8.8	1.8
Loan capital	–	–	–	0.6	1.9
Equity and hybrid	–	–	–	–	9.6
Total funding sources drawn	5.4	7.3	5.8	9.4	13.3
Undrawn	0.2	0.1	0.1	–	–
Total funding sources drawn and undrawn	5.6	7.4	5.9	9.4	13.3

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$19.5 billion or 26.1% of total funded assets) and equity investments (A$7.2 billion or 9.7% of total funded assets). In addition, at March 31, 2009 our cash and liquid assets of A$30.3 billion exceeded short term wholesale issued paper of A$7.7 billion. Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short term funding) increased from 3.5 years at March 31, 2008 to 3.7 years at March 31, 2009.

Funding Profile for Banking Group

The funded balance sheet of the Banking Group as at March 31, 2009:

Banking Group	As at Mar 09 A$b
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	4.7
Commercial paper	3.0
Net trade creditors[2]	0.2
Structured notes[3]	3.7
Secured funding[4]	5.8
Bonds[5]	16.9
Other bank loans[6]	0.4
Deposits[7]	
Retail	13.4
Corporate and wholesale	5.2
Loan capital[8]	1.9
Equity and hybrids[9]	6.4
Total	61.6
Funded assets	
Cash and liquid assets[10]	25.5
Net trading assets[11]	8.1
Loan assets less than one year[12]	5.6
Loan assets greater than one year[12]	17.9
Assets held for sale[13]	0.1
Debt investment securities[14]	0.6
Non-Banking Group deposit with MBL	(2.5)
MBL Intra Group Loan to MGL[15]	3.8
Co-investment in Macquarie-managed funds and equity investments[16]	2.1
Property, plant and equipment and intangibles	0.4
Total	61.6

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

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

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

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

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

6 *Other bank loans.* Unsecured loans provided by financial institutions.

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 “ — Year ended March 31, 2009 compared to year ended March 31, 2008 — Loan Assets” above 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 " — Funding Transactions and Recent Developments" for details.

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

As at March 31, 2009, deposits represented A$18.6 billion, or approximately 30.2% of total funding, short-term wholesale funding represented A$7.7 billion, or approximately 12.5% of total funding and other debt funding maturing within twelve months represented A$6.4 billion, or approximately 10.4% of total funding.

The following table provides detail of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2009:

	As at				
	Mar 09				
	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	1.0	0.4	0.5	0.2	0.3
Secured funding	0.4	0.2	1.4	2.3	1.0
Bonds	1.3	4.1	1.2	6.2	–
Total debt	2.7	4.7	3.1	8.7	1.3
Loan capital	–	–	–	–	1.9
Equity and hybrid	–	–	–	–	6.4
Total funding sources drawn	2.7	4.7	3.1	8.7	9.6
Undrawn	–	–	–	–	–
Total funding sources drawn and undrawn	2.7	4.7	3.1	8.7	9.6

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 4.1 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$7.7 billion of debt securities outstanding at March 31, 2009;

- US$10 billion Commercial Paper Program incorporating Government guaranteed and unguaranteed securities under which US$50 million of debt securities were outstanding as at March 31, 2009; and

- US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government guaranteed and unguaranteed securities. As at March 31, 2009, Government guaranteed issuance amounted to US$7.6 billion under the Rule 144A/Regulation S Medium Term Note 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, 2009, MBL Group had A$4.7 billion of these securities outstanding.

Furthermore, MBL Group as an ADI has access to liquidity from the RBA's daily market operations. At March 31, 2009, MBL Group had internally securitized A$822 million of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Over the course of 2009 MBL has pursued a deposit strategy to further diversify its funding sources. The focus has been on attracting deposits which represent more stable and reliable sources of funding. MBL's total deposit base has grown from A$13 billion at March 2008 to A$18.6 billion at March 2009. In particular, the retail deposit base experienced significant growth during this period, having grown by A$6.8 billion to A$13.4 billion as at March 31, 2009.

MBL is an Australian ADI, and therefore the provisions of the financial claims scheme apply to MBL. MBL is also eligible for the large deposit and wholesale funding guarantees implemented by the Australian Government on November 20, 2008. See "Regulation and Supervision — Australia — Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme".

Funding Profile for Non-Banking Group

The funded balance sheet of the Non-Banking Group as at March 31, 2009:

	As at Mar 09 A$b
Non-Banking Group	
Funding sources	
MBL Intra Group Loan to MGL[1]	3.8
Net trade creditors[2]	0.2
Structured notes[3]	0.3
Secured funding[4]	0.8
Other bank loans[5]	0.3
Deposits[6]	0.2
Senior credit facility[7]	7.4
Loan capital[8]	0.6
Equity and hybrids[9]	3.2
Total	16.8
Funded assets	
Cash and liquid assets[10]	4.8
Non-Banking Group deposit with MBL	2.5
Net trading assets[11]	1.0
Loan assets less than one year[12]	0.2
Loan assets greater than one year[12]	1.6
Assets held for sale[13]	0.1
Debt investment securities[14]	0.6
Co-investment in Macquarie-managed funds and equity investments[15]	5.1
Property, plant and equipment and intangibles	0.9
Total	16.8

1 *Intra Group Loan*. Subsequent to March 31, 2009, MBL and MGL agreed to vary the Intra Group Loan, see " — Funding Transactions and Recent Developments" for details.

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

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

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

5 *Other bank loans.* Unsecured loans provided by financial institutions.

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

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.8 billion facility, of which A$0.4 billion is undrawn.

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.

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 " — Year ended March 31, 2009 compared to year ended March 31, 2008 — Loan Assets" above 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 *Co-investment in Macquarie-managed funds and equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in Macquarie-managed funds.

The following table provides detail of the Non-Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2009:

	As at				
	Mar 09				
	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	0.2	–	–	–	–
Secured funding	–	0.1	0.1	0.1	0.5
Other bank loans	0.1	–	0.2	–	–
Senior credit facility	2.4	2.5	2.4	–	–
Intra Group Loan[1]	–	–	–	–	–
Total debt	2.7	2.6	2.7	0.1	0.5
Loan capital	–	–	–	0.6	–
Equity	–	–	–	–	3.2
Total funding sources drawn	2.7	2.6	2.7	0.7	3.7
Undrawn[2]	0.2	0.1	0.1	–	–
Total funding sources drawn and undrawn	2.9	2.7	2.8	0.7	3.7

1 MBL Intra Group Loan to MGL has been profiled in this chart based on the contractual maturity at March 2009.

2 Undrawn term facilities for the Non-Bank include A$0.4 billion undrawn on the Senior Credit Facility.

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 2.9 years.

Funding of MGL, which primarily funds the activities of the Non-Banking Group, is principally the refinancing package associated with the Restructure of November 2007, which includes:

- Senior Credit Facility, of which at March 31, 2009 was $7.4 billion drawn and A$0.4 billion undrawn. In March 2009 MGL reduced its senior credit facility by A$1.0 billion through early unwind of the standby facility. The facility was due to mature in May 2009. A further A$0.2 billion of the standby facility matured in November 2008. For a description of the Senior Credit Facility entered into by MGL on November 13, 2007, see "Macquarie Bank Limited — Relationship between MBL and MGL Group — Senior Credit Facility" in this Report; and

- A$3.8 billion Intra Group Loan from MBL. At March 31, 2009, this facility was an unsecured amortizing two-year committed term loan, providing funding to MGL. This facility provided transitional funding to MGL following the Restructure and is described under "Macquarie Bank Limited — Relationship between

MBL and MGL Group — Intra Group Loan" in this Report. Subsequent to March 31, 2009, MBL and MGL varied the Intra Group Loan agreement, see " — Funding Transactions and Recent Developments" below for details.

In addition to the above facilities, the other key tools used for accessing wholesale debt funding markets for MGL:

- 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. No amounts were outstanding under the Debt Instrument Program at March 31, 2009; and

- US$10 billion Rule 144A/Regulation S Medium Term Note Program. No amounts were outstanding under the Rule 144A/Regulation S Medium Term Note Program at March 31, 2009.

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

As at March 31, 2009, MBL Group had A$33 million of capital and other expenditure commitments, of which A$6 million is payable within one year, and A$348 million of lease commitments, of which A$72 million was payable within one year. We do not expect these commitments to have a significant effect on our liquidity needs. See Note 41 "Capital and other expenditure commitments" and Note 42 "Lease commitments" to our 2009 annual financial statements for more detail about our capital and other expenditure commitments and our lease commitments.

As at March 31, 2009, MBL Group had A$4.4 billion of contingent liabilities and commitments, including A$1.1 billion of contingent liabilities and A$3.3 billion of commitments under undrawn credit facilities, of which A$0.5 billion could be revocable at any time. See Note 40 to our 2009 annual financial statements which shows MBL Group's contingent liabilities and commitments at March 31, 2009.

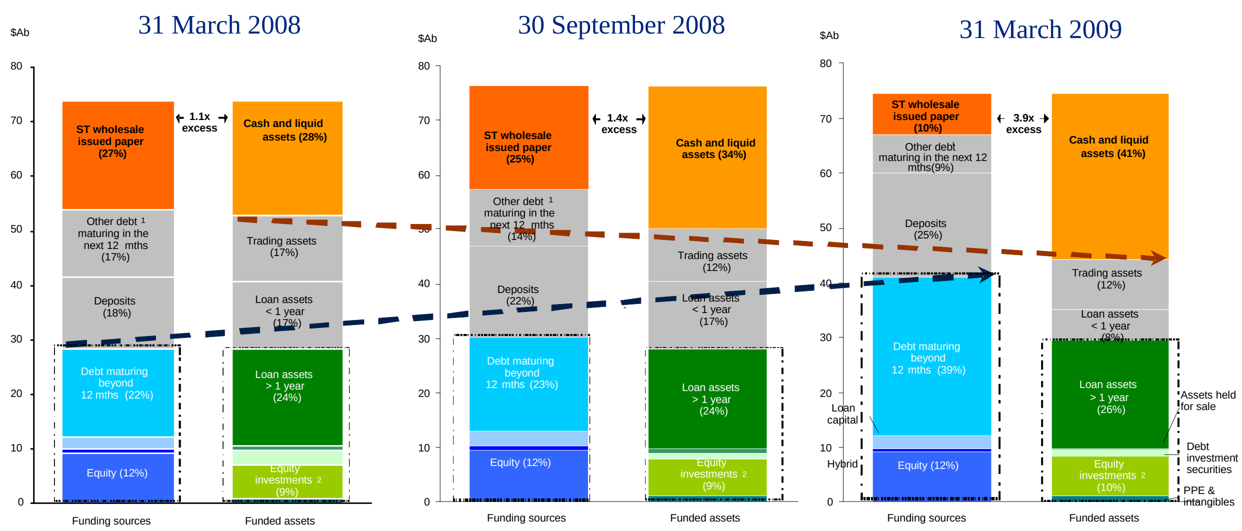
Quantitative and Qualitative Disclosures about Market Risk

Each year we prepare a detailed analysis of market risk as it applied 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 44 to MBL Group's 2009 annual financial statements for a quantitative and qualitative discussion of these risks.

Balance Sheet Initiatives

During the year ended March 31, 2009, MGL Group implemented a number of initiatives that reduced low-yielding funded balance sheet assets. These initiatives totaled A$15.0 billion and included the winding down of the Australian and US mortgages divisions, sale of the majority of the investment lending business, the sale of the Italian Mortgages portfolio and some Asian real estate assets. The completion of these initiatives, combined with additional balance sheet growth, resulted in a funded asset reduction of approximately A$8.6 billion.

The graph below illustrates the change in composition of the funded balance sheet over this period:



Funding Transactions and Recent Developments

As with other global financial institutions, MGL Group continues to find that access to non-government guaranteed funding markets remains exceptionally challenging. Although the Commonwealth Guarantee has been successful in reopening credit markets, the cost of funding for issuances under this scheme has generally been significantly higher than that obtained prior to the global financial crisis.

The table below sets our term funding transactions in the year ended March 31, 2009:

Funding Source	Year ended Mar 09		
	Banking Group A$b	Non-Banking Group A$b	Total A$b
Secured finance			
Term securitization (PUMA and SMART) as well as other secured finance	5.8	0.5	6.3
Issued paper			
Commonwealth Guaranteed	14.0	-	14.0
Unguaranteed	0.1	-	0.1
Hybrid			
Convertible Preference Securities	-	0.6	0.6
Senior credit facility			
Conversion to term funding of part of the Standby Facility in the Senior Credit Facility		0.3	0.3
Other	0.2	–	0.2
Total	**20.1**	**1.4**	**21.5**

On May 4, 2009, MGL priced an 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. See "Macquarie Bank Limited — Trading Conditions and Market Update — Recent Developments — Capital Raisings" for further information.

MGL and MBL varied the Intra Group Loan agreement, with effect from May 13, 2009, such that MGL made a repayment of A$1.9 billion on May 15, 2009, and extended the term of the remaining A$1.9 billion so that the balance will be repaid in three equal installments in June, September and December 2012. For further details see "Macquarie Bank Limited – Relationship between MBL and MGL Group – Intra Group Loan".

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