



MACQUARIE
BANK

Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2010

Dated: November 15, 2010

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2010 (“2011 Interim U.S. Disclosure Report” or this “Report”), unless otherwise specified or the context otherwise requires:

- “*2010 Annual U.S. Disclosure Report*” means our Disclosure Report (U.S. Version) for the Fiscal Year ended March 31, 2010;
- “*2010 Interim Directors’ Report and Financial Report*” means our 2010 Interim Directors’ Report and Financial Report;
- “*2010 interim financial statements*” means our unaudited financial statements for the half year ended September 30, 2009 contained in our 2010 Interim Directors’ Report and Financial Report;
- “*2011 Interim Directors’ Report and Financial Report*” means our 2011 Interim Directors’ Report and Financial Report; and
- “*2011 interim financial statements*” means our unaudited financial statements for the half year ended September 30, 2010 contained in our 2011 Interim Directors’ Report and Financial Report.

In addition, you should refer to “Certain Definitions” beginning on page ii of our 2010 Annual U.S. Disclosure Report, which is posted on MBL’s U.S. investors’ website at www.macquarie.com/usinvestors (“MBL’s U.S. Investors’ Website”).

Our fiscal year ends on March 31, so references to years such as “2011” or “Fiscal Year” 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 the applicable year; and, in connection with our interim financial statements, results of operation and financial condition, references such as “half year” and like references are to the six months ending on September 30 of the preceding year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- macroeconomic conditions in the global debt and equity markets;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulty;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy;
- changes in market liquidity and investor confidence;
- our ability to complete, integrate or process acquisitions and dispositions;
- our ability to effectively manage our growth;
- the performance of funds and other assets we manage;
- the performance and financial condition of MGL, our indirect parent company;
- demographic changes and changes in political, social and economic conditions in any of the major markets in which we operate or enter in the future;
- changes in consumer spending and saving and borrowing habits in Australia and the other countries in which we conduct our operations or enter in the future;
- the effects of competition in the geographic and business areas in which we conduct operations or enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the timely development of and acceptance of new products and services, the perceived overall value of these products and services by users and the extent to which products and services previously sold by us require us to incur liabilities or absorb losses not contemplated at their initiation or origin;
- technological changes instituted by MBL, its counterparties or competitors;
- the ability of MBL to attract and retain employees; and

- various other factors beyond our control.

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

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

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

Significant risk factors applicable to MBL Group are described under “Risk Factors” beginning on page 7 of our 2010 Annual U.S. Disclosure Report. Other factors are discussed under “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition” in this Report and in the “Management’s Discussion and Analysis of Results of Operation and Financial Condition” in the 2010 Annual U.S. Disclosure Report.

EXCHANGE RATES

MBL Group publishes its consolidated financial statements in Australian dollars and its fiscal year ends on March 31 of each year. For your convenience, the following table sets forth, for MBL Group's Fiscal Years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in 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. 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 September 30, 2010, which was US\$0.9640 per A\$1.00. The noon buying rate at the close of business on November 5, 2010, was US\$1.0162 per A\$1.00.

Fiscal Year	Period End	Average Rate ¹	High	Low
2006	0.7165	0.7515	0.7834	0.7056
2007	0.8104	0.7652	0.8104	0.7177
2008	0.9132	0.8683	0.9463	0.7860
2009	0.6925	0.7948	0.9797	0.6073
2010	0.9169	0.8507	0.9369	0.6941
Month	Period End		High	Low
June 2010	0.8480		0.8818	0.8192
July 2010	0.9051		0.9051	0.8380
August 2010	0.8910		0.9170	0.8807
September 2010	0.9640		0.9714	0.9093
October 2010	0.9714		0.9943	0.9666
November 2010 (through November 5)	1.0162		1.0162	0.9859

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

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under “Financial Information Presentation” beginning on page x of our 2010 Annual U.S. Disclosure Report.

Recent changes to operating groups and reporting segments

During the half year ended September 30, all real estate lending activities carried out by the Real Estate Banking division were transferred to Corporate & Asset Finance and has remained part of the Banking Group and Corporate & Asset Finance became MBL Group’s fifth operating group. The results of our operating groups for the half year ended September 30, 2010 are presented to give effect to these internal reorganizations effective April 1, 2010, with the comparative information for the half years ended March 31, 2010 and September 30, 2009 presented on a consistent basis.

These internal reorganizations of our operating groups and reporting segments have been internal to the Banking Group and the net contributions of the real estate lending activities of the Real Estate Banking division of a loss of A\$11 million for the half year ended March 31, 2010 and a profit of A\$2 million for the half year ended September 30, 2009 were not material to the presentation of Real Estate Banking’s segment results for the half year ended September 30, 2010 or prior periods. Other than as described above, our operating groups and reporting segments remained the same.

For further information on the rationale for the internal reorganizations of our operating groups during the half year ended September 30, 2010, see “Recent Developments” in this Report. All acquisitions and reorganizations of operating groups within MBL Group during the 2010 Fiscal Year are described under “Financial Information Presentation” beginning on page ix of our 2010 Annual U.S. Disclosure Report.

Investors should note that while the financial information for the half year ended September 30, 2010 included in this Report presents our current operating segments in accordance with AASB 8 “Operating Segments” following these internal reorganizations, and while in our 2011 interim financial statements we restated the comparative information for the half year ended September 30, 2009 to reflect these internal reorganizations, 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 2010 annual financial statements, our 2010 interim 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 2011 interim 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” in our 2010 Annual U.S. Disclosure Report, 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.

For further detail on our segment reporting, see Note 3 to our 2011 interim financial statements.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 41 to our 2010 annual financial statements.

The significant risk factors applicable to MBL Group are described under “Risk Factors” beginning on page 7 of our 2010 Annual U.S. Disclosure Report.

CAPITALIZATION, INDEBTEDNESS AND CAPITAL ADEQUACY

The following table sets forth our capitalization as at September 30, 2010.

The information relating to MBL Group in the following table is based on our 2011 interim financial statements, which were prepared in accordance with AGAAP, and should be read in conjunction therewith.

	As at	
	Sep 10 US\$m ³	Sep 10 A\$m
CAPITALIZATION		
Borrowings		
Debt issued ¹ — due greater than 12 months	20,533	21,300
Subordinated debt — due greater than 12 months	1,899	1,970
Total borrowings ²	22,432	23,270
Equity		
Ordinary share capital	6,871	7,128
Equity contribution from ultimate parent entity	104	108
Macquarie Income Securities	377	391
Reserves	(330)	(342)
Retained earnings	1,328	1,377
Macquarie Income Preferred Securities	64	66
Non-controlling interests	19	20
Total equity	8,433	8,748
TOTAL CAPITALIZATION	30,865	32,018

¹ At September 30, 2010, we had A\$8.1 billion of secured indebtedness due in greater than 12 months compared to A\$7.1 billion at March 31, 2010.

² 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\$6.8 billion as at September 30, 2010 and securitizations totaled A\$13.0 billion as at September 30, 2010 compared to A\$8.4 billion and A\$14.8 billion, respectively, as at March 31, 2010.

³ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which was US\$0.9640 per A\$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

For details on our short-term debt position as at September 30, 2010, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Liquidity — Funding Profile for Banking Group” in this Report.

Capital Adequacy

The following table sets forth our capital adequacy and risk weighted assets as at September 30, 2010.

	As at	
	Sep 10 US\$m ¹	Sep 10 A\$m
Tier 1 capital		
Paid-up ordinary share capital.....	6,975	7,235
Reserves	(248)	(257)
Retained earnings.....	975	1,011
Innovative Tier 1 capital	441	457
Gross Tier 1 capital.....	8,142	8,446
Deductions from Tier 1 capital		
Goodwill.....	186	193
Deferred tax assets.....	367	381
Net unrealized fair value gains (losses) from changes in the ADI's own creditworthiness	64	66
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	588	610
Loan and lease origination fees and commissions paid to mortgage originators and brokers.....	126	131
Capitalized costs associated with debt raisings	—	—
Other Tier 1 capital deductions.....	243	252
Deductions from Tier 1 capital only	1,574	1,633
Other 50/50 deductions from Tier 1 capital		
Non-subsidiary entities exceeding prescribed limited (50%)	301	312
Non-consolidated subsidiaries (50%).....	265	275
All other deductions relating to securitization (50%).....	159	165
Shortfall in provisions for credit losses (50%).....	149	155
Other 50/50 deductions from Tier 1 capital (50%).....	120	124
50/50 deductions from Tier 1 capital.....	994	1,031
Total Tier 1 capital only deductions	2,568	2,664
Net Tier 1 capital.....	5,574	5,782
Tier 2 capital		
Upper Tier 2 capital:		
Excess Tier 1 capital instruments	—	—
Other upper Tier 2 capital.....	174	180
Lower Tier 2 capital:		
Term subordinated debt.....	1,888	1,959
Gross Tier 2 capital	2,062	2,139
Deductions from Tier 2 capital		
Total 50/50 deductions from Tier 2 capital.....	994	1,031
Total Tier 2 capital deductions	994	1,031
Net Tier 2 capital.....	1,068	1,108
Total capital base	6,642	6,890

¹ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which is US\$0.9640 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	
	Sep 10 US\$m ¹	Sep 10 A\$m
Credit risk — Risk weighted assets (RWA)		
Subject to FIRB approach:		
Corporate ²	18,932	19,639
Sovereign	834	865
Bank	2,632	2,730
Residential mortgage.....	1,485	1,540
Other retail	1,239	1,285
	25,121	26,059
Total RWA subject to FIRB³ approach	2,704	2,805
Specialized lending exposures subject to slotting criteria ³	3,424	3,552
Subject to Standardized approach:		
Corporate.....	77	80
Residential mortgage.....	531	551
Other retail	3,361	3,487
Other	2,541	2,636
	9,906	10,276
Total RWA subject to Standardized approach	969	1,005
Credit risk RWA for Securitization exposures.....	38,700	40,145
Total Credit risk RWA	38,700	40,145
Equity exposures RWA.....	1,858	1,927
Market risk RWA.....	2,962	3,073
Operational risk RWA.....	6,733	6,984
Interest rate risk in the banking book RWA.....	—	—
APRA scaling factor (6%) applied to IRB exposures	1,508	1,564
	51,760	53,693
Total RWA	51,760	53,693
Capital ratios		
MBL Group Tier 1 capital ratio (%)	10.8	10.8
MBL Group Total capital ratio (%).....	12.8	12.8

¹ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which is US\$0.9640 per A\$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

² Corporate includes A\$330 million for exposures to the Non-Banking Group (March 31, 2010: A\$393 million; September 30, 2009: A\$500 million).

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

SELECTED FINANCIAL INFORMATION

Half years ended September 30, 2010 and 2009

The summary consolidated balance sheet data as at September 30, 2010 and 2009 and income statement data for the half years ended September 30, 2010 and 2009 presented in this Report have been derived from our 2011 interim financial statements which PricewaterhouseCoopers has reviewed but not audited and which, in the opinion of our management, have been prepared on the same basis as our audited consolidated historical financial statements and include all adjustments necessary for a fair statement of our operating results and financial position for those periods and as of those dates. See “Financial Information Presentation” in this Report for further information. In addition, investors should read the following selected financial information together with the discussion under “Selected Financial Information” beginning on page 19 of our 2010 Annual U.S. Disclosure Report and “Management’s Discussion and Analysis of Results of Operation and Financial Condition” beginning on page 33 in this Report and page 56 of our 2010 Annual U.S. Disclosure Report. The summary unaudited financial data for the half year ended September 30, 2010 is not necessarily indicative of our results for the fiscal year ending March 31, 2011 and our historical results are not necessarily indicative of our results for any future period.

The historical interim financial information in the following tables has been extracted from our 2011 interim financial statements.

Income Statements

	Half year ended		
	Sep 10 US\$m ¹	Sep 10 A\$m	Sep 09 A\$m
Interest and similar income	2,433	2,524	2,021
Interest expense and similar charges	(1,697)	(1,760)	(1,492)
Net interest income	736	764	529
Fee and commission income	727	754	436
Net trading income	610	633	573
Share of net profits of associates and joint ventures using the equity method ...	18	19	5
Other operating income	169	175	73
Net operating income	2,261	2,345	1,616
Employment expenses	(776)	(805)	(502)
Brokerage and commission expenses	(374)	(388)	(280)
Occupancy expenses	(65)	(67)	(54)
Non-salary technology expenses	(48)	(50)	(35)
Other operating expenses	(618)	(641)	(458)
Total operating expenses	(1,881)	(1,951)	(1,329)
Operating profit before income tax	380	394	287
Income tax (expense)/benefit	(80)	(83)	(12)
Profit from ordinary activities after income tax	300	311	275
Distributions paid or provided on:			
Macquarie Income Preferred Securities	(2)	(2)	(6)
Other non-controlling interests	(2)	(2)	(2)
Profit attributable to non-controlling interests	(4)	(4)	(8)
Profit attributable to equity holders of Macquarie Bank Limited	296	307	267
Distributions paid or provided on Macquarie Income Securities	(13)	(13)	(10)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	283	294	257

¹ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which is US\$0.9640 per A\$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

Balance Sheets

	As at		
	Sep 10 US\$m ¹	Sep 10 A\$m	Sep 09 A\$m
ASSETS			
Cash and balances with central banks.....	9	9	3
Due from banks	7,313	7,586	7,204
Cash collateral on securities borrowed and reverse repurchase agreements	7,974	8,272	3,577
Trading portfolio assets	14,635	15,182	13,582
Loan assets held at amortized cost.....	43,094	44,703	41,882
Other financial assets at fair value through profit or loss	9,107	9,447	2,962
Derivative financial instruments — positive values ...	22,587	23,431	21,365
Other assets.....	7,457	7,735	6,104
Investment securities available-for-sale.....	15,538	16,118	21,441
Intangible assets.....	917	951	301
Life investment contracts and other unit holder assets.....	4,870	5,052	5,069
Due from related body corporate entities	2,250	2,334	2,525
Interest in associates and joint ventures using the equity method	821	852	1,155
Property, plant and equipment.....	237	246	86
Deferred income tax assets	365	379	462
Non-current assets and assets of disposal groups classified as held-for-sale.....	—	—	73
Total assets	137,174	142,297	127,791
LIABILITIES			
Due to banks	2,552	2,647	2,571
Cash collateral on securities lent and repurchase agreements	5,627	5,837	5,093
Trading portfolio liabilities.....	5,303	5,501	6,986
Derivative financial instruments — negative values ...	23,410	24,284	21,443
Deposits	33,575	34,829	20,504
Debt issued at amortized cost	34,969	36,275	42,706
Other financial liabilities at fair value through profit and loss	1,944	2,017	2,868
Other liabilities	6,777	7,030	5,261
Current tax liabilities	65	67	44
Life investment contracts and other unit holder liabilities	4,887	5,069	5,062
Provisions	81	84	65
Due to related body corporate entities	7,364	7,639	6,637
Deferred income tax liabilities.....	300	311	184
Total liabilities excluding loan capital	126,853	131,590	119,424

¹ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which is US\$0.9640 per A\$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the US dollar.

Loan capital			
Subordinated debt at amortized cost.....	1,419	1,472	1,005
Subordinated debt at fair value through profit or loss.....	469	487	522
Total liabilities	128,741	133,549	120,951
Net assets	8,433	8,748	6,840
EQUITY			
Contributed equity			
Ordinary share capital.....	6,871	7,128	5,178
Equity contribution from ultimate parent entity	104	108	72
Macquarie Income Securities	377	391	391
Reserves.....	(330)	(342)	(51)
Retained earnings	1,327	1,377	1,162
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	8,350	8,662	6,752
Non-controlling interests	83	86	88
Total equity	8,433	8,748	6,840

Other Financial Data

	As at / Half year ended	
	Sep 10	Sep 09
Ratios		
Net loan losses as a percentage of loan assets (annualized %) ²	0.5	1.1
Ratio of earnings to fixed charges ³	1.2	1.2x
Expense/income ratio (%) ⁴	83.2	82.2
Tier 1 regulatory capital ratio (%)	10.8	11.7
Total regulatory capital ratio (%)	12.8	13.6

¹ Conversions of Australian dollars to US dollars have been made at the noon buying rate at the close of business on September 30, 2010, which is US\$0.9640 per A\$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the US dollar.

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

³ For the purpose of computing the ratio of earnings to fixed charges, earnings consist of net profit before interest costs, operating lease rental payments, income tax and non-controlling interest. Fixed charges consist of interest costs plus rental payments under operating leases.

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

RECENT DEVELOPMENTS

The following are significant recent developments for MBL Group that have occurred since the release of our 2010 Annual U.S. Disclosure Report on May 18, 2010. Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under “Risk Factors” beginning on page 7 and under “Macquarie Bank Limited” beginning on page 23 of our 2010 Annual U.S. Disclosure Report and other information posted on MBL’s U.S. Investors’ Website.

Internal Reorganizations of Operating Groups

During the half year ended September 30, 2010, the following changes were made to MBL’s operating groups and divisions and their respective activities:

- All real estate lending activities carried out by the Real Estate Banking division were transferred to and incorporated within Corporate & Asset Finance; and
- Corporate & Asset Finance became MBL’s fifth operating group as a result of its recent growth.

Trading Conditions and Market Update

Operating conditions

During the half year ended September 30, 2010, equity market trading conditions weakened, affecting market volumes and investor confidence in our key markets. Market turnover was generally higher than in the prior period, however, it remained below the level in the prior corresponding period, particularly in Asia, the United States and Canada.

Metal prices, and in particular, the price of gold, continued to rise during the half year ended September 30, 2010, with the weaker US dollar putting pressure on U.S. bond yields, leading to a more speculative environment with money moving into real assets. Foreign exchange volumes remained subdued, with lower client term hedging activity resulting from the higher Australian dollar. While trading conditions in energy markets remained difficult, activity levels improved in agricultural commodity markets as a result of increased volatility and higher prices due to a series of globally significant weather events. However, activity levels still remained below levels in the prior corresponding period.

In Australia and the United States, margins on primary and secondary market corporate credits continued to contract, as increased liquidity continued to flow to credit markets. Acquisition opportunities in loan and lease portfolios continued to appear as competitors reduced participation, exited, retracted or realigned strategies, particularly in the United States and Europe, however an increased number of potential buyers started entering the market, particularly in the United States. Primary financing opportunities also emerged, as corporate activity increased during the period, particularly in Europe and Asia.

Impact on MBL Group

During the half year ended September 30, 2010, operating conditions affected activity across a number of our businesses, in particular, Fixed Income, Currencies & Commodities and Macquarie Securities.

Lower demand for structured products and arbitrage trading impacted Macquarie Securities’ results, while lower client term hedging in foreign exchange and commodity trading affected Fixed Income, Currencies & Commodities. More favorable operating conditions and benefits from recent investment in domestic businesses and global platforms resulted in improved performances for Macquarie Funds, Corporate & Asset Finance and Banking & Financial Services. See “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2010” for a detailed analysis on MBL’s financial performance for the half year ended September 30, 2010.

Since March 31, 2010, MBL Group has continued to grow its global platform by selectively deploying surplus capital and funding to make strategic acquisitions across its operating groups and divisions. Acquisitions announced by MBL in the half year ended September 30, 2010 included:

- GMAC Australia's retail auto leases and loans portfolio. For further details of this acquisition, see "Macquarie Bank Limited — Operating Groups — Corporate & Asset Finance" beginning on page 36 of our 2010 Annual U.S. Disclosure Report.
- International Lease Finance Corporation's (ILFC's) aircraft operating lease portfolio. For further details of this acquisition, see "Macquarie Bank Limited — Operating Groups — Corporate & Asset Finance" beginning on page 36 of our 2010 Annual U.S. Disclosure Report.

Subsequent to September 30, 2010, MBL Group also announced the acquisition of INNOVEST Kapitalanlage AG, an Austrian asset manager that is expected to further enhance MBL Group's funds management business in Europe. For further details of these acquisitions, see "— Recent Developments within MBL Group — Macquarie Funds" in this Report. For a description of certain risks faced by MBL Group when acquiring businesses, see "Risk Factors — Our business may be adversely affected by our failure to adequately manage the risks associated with certain strategic opportunities and new businesses, including acquisitions" and "Risk Factors — Future growth, including through acquisitions, may place significant demands on our managerial, administrative, IT, risk management, operational and financial resources and may expose us to additional risks" on pages 9 and 11, respectively, of the 2010 Annual U.S. Disclosure Report.

Despite improving trends in a number of major markets, MBL Group continued to maintain a conservative approach to funding and capital. During the half year ended September 30, 2010, MBL completed €600 million (approximately A\$900 million) of subordinated debt issuances and increased its retail deposits from March 31, 2010 by A\$11 billion, largely due to the conversion of the CMT accounts to the CMA (see "— Recent Developments within MBL Group — Banking & Financial Services") and further organic growth in retail deposits. As at September 30, 2010, MBL Group had a Tier 1 capital ratio of 10.8% and a total capital ratio of 12.8%.

Organizational Structure

MBL is an indirect subsidiary of MGL and forms part of the Banking Group. At September 30, 2010, MBL Group's business, known as the Banking Group, was conducted through the following operating groups and division:

- Fixed Income, Currencies & Commodities;
- Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group);
- Banking & Financial Services;
- Macquarie Funds (excluding the Macquarie Infrastructure & Real Assets division, which forms part of the Non-Banking Group);
- Corporate & Asset Finance; and
- the Real Estate Banking division.

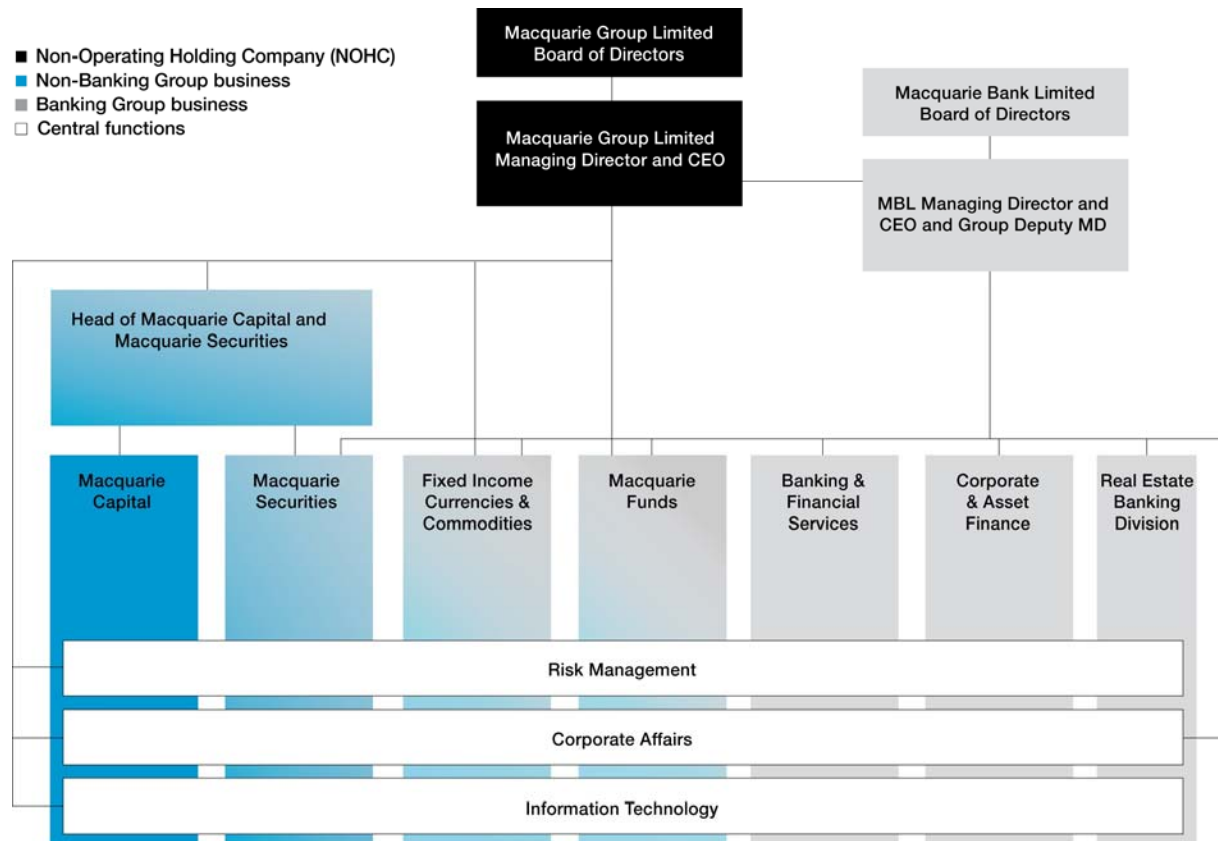
As at September 30, 2010, the Non-Banking Group consisted of Macquarie Capital; the Macquarie Infrastructure & Real Assets division of Macquarie Funds; the Cash division of Macquarie Securities and certain less financially significant assets and businesses of Fixed Income, Currencies & Commodities.

In addition, the Banking Group and Non-Banking Group are supported by shared services provided by Corporate Affairs, Risk Management and Information Technology Groups that form part of the Corporate segment. The Corporate segment provides head office and central support functions and is not considered an operating group.

For a description of shared services, see “Macquarie Bank Limited — Relationship between MBL and MGL — Shared Services” on page 40 of our 2010 Annual U.S. Disclosure Report.

See “Macquarie Bank Limited — Our Business” beginning on page 28 of our 2010 Annual U.S. Disclosure Report, for further information.

The following diagram shows the organizational structure of MGL Group and reflects the composition of the Banking and Non-Banking Groups as at September 30, 2010, following the changes described in this Report under “— Internal Reorganizations of Operating Groups”:



Our Strategy

Our strategy is set out under “Macquarie Bank Limited — Our Strategy” on page 27 of our 2010 Annual U.S. Disclosure Report. We continually examine investment opportunities and have undertaken a number of strategic acquisitions in response to changing market conditions and opportunities that have been presented to us. These acquisitions include Constellation Energy in 2009 and Delaware Investments, Blackmont, the Ford Credit lease portfolio and Sal. Oppenheim’s equity derivatives and structured products business in 2010. Since March 31, 2010, MBL Group has acquired the GMAC loan and lease portfolio, ILFC’s aircraft operating lease portfolio and INNOVEST Kapitalanlage AG as further described under “— Recent Developments within MBL Group — Corporate & Asset Finance”. As a consequence of these acquisitions, MBL Group’s North American business has grown substantially, particularly in the asset management, asset finance and oil and gas trading sectors. We expect to continue to assess strategic acquisition opportunities as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MBL Group in the medium term.

Our Key Strengths

For a description of our key strengths, see “Macquarie Bank Limited — Our Key Strengths” on page 25 of our 2010 Annual U.S. Disclosure Report. At September 30, 2010, our Tier 1 Capital ratio was 10.8% and our total regulatory capital ratio was 12.8%. For further information on our regulatory capital position as at September 30, 2010, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Capital” in this Report.

Overview of MBL Group

At September 30, 2010, we had total assets of A\$142.3 billion and total equity of A\$8.7 billion. For the half year ended September 30, 2010, our net operating income was A\$2.3 billion and profit after tax attributable to ordinary equity holders was A\$294 million.

The tables below show the relative revenues from external customers and profit contribution from each of our current operating groups in the half years ended September 30, 2010 and 2009. Our results for the half years ended September 30, 2010 and 2009 included a number of significant and one-off items which should be taken into account when assessing the performance of each operating group. As such, the figures in the following tables should be read in conjunction with the discussion under “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009” in this Report.

Revenues from external customers of MBL Group by operating group for the half years ended September 30, 2010 and 2009¹

	Half year ended		Movement
	Sep 10	Sep 09	
	A\$m	A\$m	%
Fixed Income, Currencies & Commodities ...	743	848	(12)
Macquarie Securities ²	143	256	(44)
Banking & Financial Services	1,205	1,109	9
Macquarie Funds ³	610	706	(14)
Corporate & Asset Finance	724	446	62
Real Estate Banking	23	75	(69)
Macquarie Capital ⁴	8	(7)	214
Total revenues from external customers by operating group	3,456	3,433	1
Corporate ⁵	858	442	94
Total revenue from external customers	4,314	3,875	11

¹ For further information on our segment reporting, see “Management’s Discussion and Analysis of Interim Results of Operations and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview” and Note 3 to our 2011 interim financial statements.

² Macquarie Securities as reported for MBL Group excludes the Cash division that remains part of the Non-Banking Group.

³ Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

⁴ Macquarie Capital as reported for MBL Group comprises certain less financially significant businesses of Macquarie Capital that were not transferred to the Non-Banking Group in connection with the Restructure.

⁵ The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment-related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

*Profit contribution of MBL Group by operating group for the half years ended
September 30, 2010 and 2009¹*

	Half year ended		Movement
	Sep 10	Sep 09	
	A\$m	A\$m	
Fixed Income, Currencies & Commodities	158	323	(51)
Macquarie Securities ²	(67)	50	(234)
Banking & Financial Services	139	143	(3)
Macquarie Funds ³	131	33	297
Corporate & Asset Finance.....	233	128	82
Real Estate Banking.....	(25)	(37)	(32)
Macquarie Capital ⁴	5	(55)	109
Total contribution to profit by operating group	574	585	(2)
Corporate ⁵	(280)	(328)	(15)
Net profit after tax	294	257	14

¹ For further information on our segment reporting, see “Management’s Discussion and Analysis of Interim Results of Operations and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview” and Note 3 to our 2011 interim financial statements.

² Macquarie Securities as reported for MBL Group excludes the Cash division that remains part of the Non-Banking Group.

³ Macquarie Funds as reported for MBL Group excludes the Macquarie Infrastructure & Real Assets division that remains part of the Non-Banking Group.

⁴ Macquarie Capital as reported for MBL Group comprises certain less financially significant businesses of Macquarie Capital that were not transferred to the Non-Banking Group in connection with the Restructure.

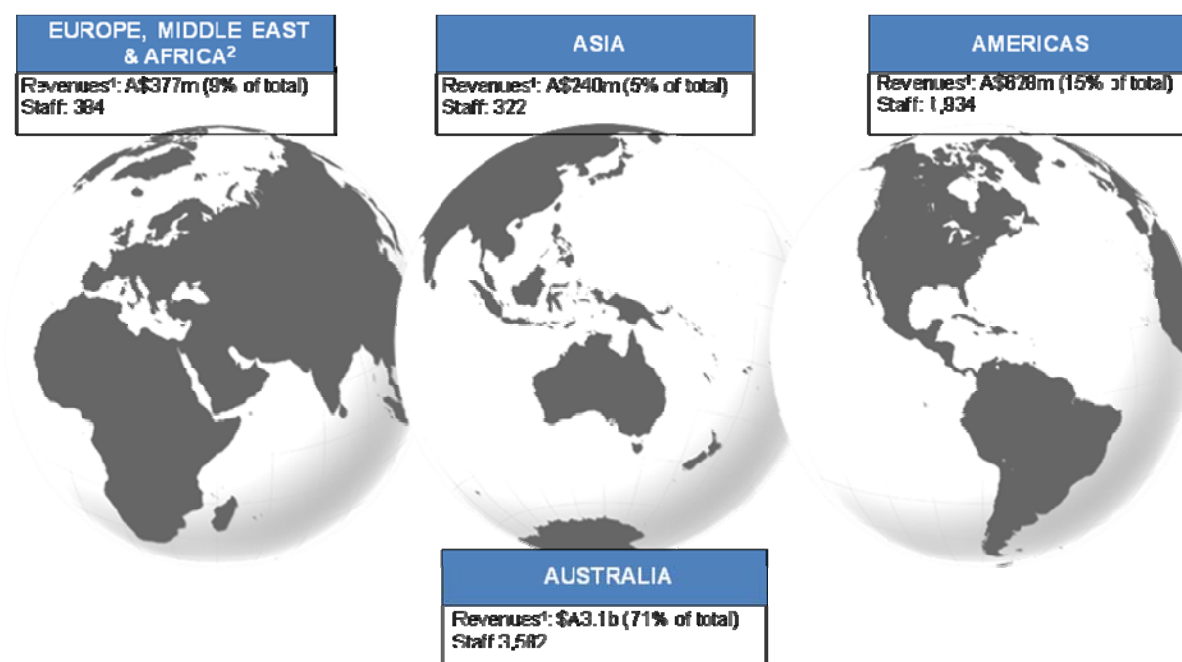
⁵ The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment-related costs, options expense, income tax expense, profit attributable to non-controlling interests and internal management accounting adjustments and charges. Revenues from external customers reflected above for the Corporate segment represent net interest income on deposits held with external banks.

Regional Activity

At September 30, 2010, MBL Group employed 6,222 staff globally and conducted its operations in 18 countries.

The chart below shows MBL Group's revenues from external customers by region in the half years ended September 30, 2010 and 2009.

Revenues from external customers of MBL Group¹ by region for the half year ended September 30, 2010



¹ For further information on our segment reporting, see “Management’s Discussion and Analysis of Interim Results of Operations and Financial Condition — Half year ended September 30, 2010 compared to the half year ended September 30, 2009 — Segment Overview” and Note 3 to our 2011 interim financial statements.

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

Australia. MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only 3 staff. As at September 30, 2010, MBL Group employed 3,582 staff across Australia. In the half year ended September 30, 2010, Australia contributed A\$3.1 billion (71%) of our revenues from external customers as compared to A\$2.4 billion (62%) in the half year ended September 30, 2009.

The Americas. MBL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994. As at September 30, 2010, MBL Group employed 1,934 staff across the United States, Canada, Mexico, Brazil and Argentina. In the half year ended September 30, 2010, the Americas contributed A\$628 million (15%) of our revenues from external customers as compared to A\$497 million (13%) in the half year ended September 30, 2009.

Asia. MBL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at September 30, 2010, MBL Group employed 322 staff across China, Hong Kong, New Zealand, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. In the half year ended September 30, 2010, Asia contributed A\$240 million (5%) of our revenues from external customers as compared to A\$386 million (10%) in the half year ended September 30, 2009.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2010, MBL Group employed 384 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the half year ended September 30, 2010, Europe, Middle East & Africa contributed A\$377 million (9%) of our revenues from external customers as compared to A\$594 million (15%) in the half year ended September 30, 2009.

For further information on our segment reporting, see “Management’s Discussion and Analysis of Interim Results of Operations and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview” and Note 3 to our 2011 interim financial statements.

Recent Developments within MBL Group

Fixed Income, Currencies & Commodities

Fixed Income, Currencies & Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialization in interest rate, commodity or foreign exchange related institutional trading, marketing, lending, clearing or platform provision.

Fixed Income, Currencies & Commodities contributed A\$158 million to net profit for the half year ended September 30, 2010 and, as at September 30, 2010, had 744 staff operating across 7 countries, with locations in Australia, Asia Pacific, the Middle East, North and South America and the United Kingdom. For further information on Fixed Income, Currencies & Commodities’ results of operation and financial condition for the half year ended September 30, 2010, see “Management’s Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Fixed Income, Currencies & Commodities” in this Report.

Since March 31, 2010, Fixed Income, Currencies & Commodities has established an Asian Markets business based in Singapore as part of its strategy of expanding its presence in Asian interest rate, credit and foreign exchange products. In addition, Fixed Income, Currencies & Commodities also operates from offices in Korea and Hong Kong.

Fixed Income, Currencies & Commodities’ United States based credit trading business continues to expand its activities with the addition of a commercial mortgage finance and CMBS team in New York and the establishment of client sales and trading into Europe. Fixed Income, Currencies & Commodities’ United States based Emerging Markets business has also expanded its offering into Europe.

For further information and a description of the divisions within Fixed Income, Currencies & Commodities and their respective activities, see “Macquarie Bank Limited — Operating Groups — Fixed Income, Currencies & Commodities” beginning on page 30 of our 2010 Annual U.S. Disclosure Report.

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

Macquarie Securities’ activities that form part of the Banking Group include sales of institutional and retail derivatives, structured equity finance, arbitrage trading, development and sales of synthetic products, capital management, collateral management and securities borrowing and lending.

Macquarie Securities contributed a net loss of A\$67 million for the half year ended September 30, 2010 and as at September 30, 2010, had 70 staff operating across four countries. For further information on Macquarie

Securities' results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group)" in this Report.

On April 6, 2010, Macquarie Securities completed its acquisition of Sal. Oppenheim's equity derivatives and structured products business.

The acquisition has grown Macquarie Securities' derivatives coverage to include market making and issuance operations on exchanges in Germany, Switzerland and Italy. The business commenced issuing products in September 2010. For further information on these acquisitions, see "Macquarie Bank Limited — Operating Groups — Macquarie Securities (excluding the Cash division)" beginning on page 32 of our 2010 Annual U.S. Disclosure Report.

For further information and a description of divisions within Macquarie Securities and their respective activities, see "Macquarie Bank Limited — Operating Groups — Macquarie Securities (excluding the Cash division)" beginning on page 32 of our 2010 Annual U.S. Disclosure Report.

Banking & Financial Services

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.

Banking & Financial Services contributed A\$139 million to net profit for the half year ended September 30, 2010 and as at September 30, 2010, had 3,340 staff operating across 10 countries. For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Banking & Financial Services" in this Report. For further information on Banking & Financial Services' Assets under Management, see "— Funds Management Business — MBL Group — Assets under Management" in this Report.

Cash deposits continued to be a major focus of Banking & Financial Services, with retail cash deposits growing from A\$13.9 billion as at September 30, 2009 to A\$26.5 billion at September 30, 2010. This was primarily due to the conversion of the A\$9.6 billion CMT accounts to the CMA in July 31, 2010 following a meeting of unitholders who voted to transition their holdings to take advantage of the security of a bank account, a higher interest rate, the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme and the convenience of maintaining their same account numbers. The CMA had a balance of A\$14.6 billion at September 30, 2010.

The division also offers the Macquarie Wrap platform, which had A\$21.8 billion in funds under administration at September 30, 2010. See "— Funds Management Business — MBL Group — Banking & Financial Services."

In October 2009, Banking & Financial Services resumed substantial mortgage origination with the launch of the Macquarie Bank Mortgage Solution product in Australia. This is the first time mortgage origination in Australia has been offered publicly by MBL since origination was wound back in March 2008.

For further information and a description of divisions within Banking & Financial Services and their respective activities, see "Macquarie Bank Limited — Operating Groups — Banking & Financial Services" beginning on page 33 of our 2010 Annual U.S. Disclosure Report.

Macquarie Funds (excluding the Macquarie Infrastructure & Real Assets division, which forms part of the Non-Banking Group)

Macquarie Funds is MBL Group's funds management business. Macquarie Funds is a full service asset manager, providing clients with access to a broad suite of products including securities investment management, infrastructure and real asset management and fund and equity based structured products.

Macquarie Funds contributed A\$131 million to net profit for the half year ended September 30, 2010 and, as at September 30, 2010, had 1,073 staff operating across ten countries. For further information on Macquarie Funds' results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview— Macquarie Funds (excluding the Macquarie Infrastructure & Real Assets division, which forms part of the Non-Banking Group)" in this Report. For further information on Macquarie Funds' Assets under Management, see "— Funds Management Business — MBL Group — Assets under Management" in this Report.

In July 2010, MGL announced that Macquarie Capital Funds, formerly a part of Macquarie Capital, would consolidate with and become an operating division of Macquarie Funds. This division remains part of the Non-Banking Group. The consolidation created Australia's largest asset manager and placed Macquarie Funds in the top 40 asset managers globally. The combined operating group will allow clients to access a full suite of investment products through a single group.

As part of the consolidation, Macquarie Funds was restructured into the following three divisions: Macquarie Investment Management, Macquarie Infrastructure & Real Assets (formerly Macquarie Capital Funds), and Macquarie Specialised Investment Solutions. Macquarie Investment Management and Macquarie Specialised Investment Solutions form part of the Banking Group while Macquarie Infrastructure & Real Assets forms part of the Non-Banking Group. Further details of the divisions forming part of the Banking Group are contained below:

Macquarie Investment Management: Macquarie Investment Management comprises the following former divisions of Macquarie Funds: Listed Equities; Fixed Income, Currency and Commodities; Infrastructure Securities; Funds of Funds and Affiliated Managers. The division offers securities investment management across all major asset classes to retail and institutional clients in Australia and the United States, with selective offerings elsewhere.

Macquarie Specialised Investment Solutions: Macquarie Specialised Investment Solutions comprises the former Investment Solutions and Sales division of Macquarie Funds. The division continues to offer the full spectrum of funds and equities based structured solutions to retail, private bank and institutional clients.

In October 2010, MGL Group announced that it had entered into an agreement with Siemens AG Australia to acquire INNOVEST Kapitalanlage AG ("*INNOVEST*"), an Austrian securities asset management firm serving institutional clients in Austria and Germany. INNOVEST manages over €3.5 billion, with a specialized focus towards risk-budgeting and asset allocation strategies for long term investors such as pension funds. MBL expects that following financial close of the acquisition in December 2010, INNOVEST will further enhance Macquarie Funds' securities asset management business in Europe.

For further information and a description of the former divisions of Macquarie Funds and the former Macquarie Capital Funds, see "Macquarie Bank Limited — Operating Groups — Macquarie Funds" and "Macquarie Bank Limited — Operating Groups — Macquarie Capital" beginning on pages 35 and 36, respectively, of our 2010 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance is MBL Group's balance sheet, lending and leasing business and became MBL's fifth operating group as a result of its recent growth.

Corporate & Asset Finance contributed A\$233 million to net profit for the half year ended September 30, 2010 and as at September 30, 2010, had 814 staff operating across 10 countries. For further information on Corporate & Asset Finance's results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Corporate & Asset Finance" in this Report.

In April 2010, Corporate & Asset Finance acquired GMAC's auto finance portfolio (approximately A\$1 billion) and entered into an agreement to purchase a portion of ILFC's aircraft leasing portfolio (approximately A\$1.7 billion). At September 30, 2010, Corporate & Asset Finance had purchased 24 of the aircraft in the ILFC portfolio, representing over 50% of the total, with the remaining aircraft likely to be acquired by the end of 2010. For further information on the ILFC and GMAC acquisitions, see "Macquarie Bank Limited — Divisions within MBL Group — Corporate & Asset Finance" beginning on page 36 of our 2010 Annual U.S. Disclosure Report.

At September 30, 2010, Corporate & Asset Finance managed a funded lease and loan portfolio of A\$16 billion, representing a 12% increase since March 31, 2010. This growth was due to the acquisition of the motor vehicle portfolio from GMAC, the aircraft portfolio from ILFC as well as the expanded corporate lending activities.

The lending business specializes in bridging, term lending and asset backed finance to mid to large corporate clients and also invests in select debt assets trading in secondary debt markets. The funded loan portfolio amounted to A\$7 billion at September 30, 2010, with a further \$3.1 billion of committed funding facilities acquired which, combined, shows a growth of 11% since March 31, 2010.

On July 2, 2010 MGL announced that all real estate lending activities (formerly part of Real Estate Banking division) were consolidated within Corporate & Asset Finance.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Bank Limited — Divisions within MBL Group — Corporate & Asset Finance" beginning on page 36 of our 2010 Annual U.S. Disclosure Report.

Real Estate Banking

Real Estate Banking contributed a net loss of A\$25 million for the half year ended September 30, 2010 and, as at September 30, 2010, had 63 staff operating across five countries. For further information on Real Estate Banking's results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Real Estate Banking" in this Report. For further information on Real Estate Banking's Assets under Management, see "— Funds Management Business — MBL Group — Assets under Management" in this Report.

In July 2010, MGL announced the restructure of some of its operating businesses, including the Real Estate Banking division, which transferred the real estate lending and development finance business to Corporate & Asset Finance. As a result of these changes, Real Estate Banking now comprises the following activities:

Real Estate Investment. The Real Estate Banking portfolio includes investment in a number of specialist listed REITs. Real Estate Banking also provides services in the sponsorship, establishment and management of real estate platforms.

Development & Asset Management. Real Estate Banking is involved in real estate development projects around the world. In Australia, it owns the developer Urban Pacific Limited and participates in the Medallist joint venture

with Great White Shark Enterprises. The Medallist joint venture also extends to operations in the US and South Africa.

For further information on Real Estate Banking's activities, see "Macquarie Bank Limited — Divisions within MBL Group — Real Estate Banking" beginning on page 38 of our 2010 Annual U.S. Disclosure Report.

Corporate

Corporate contributed a net loss of A\$280 million for the half year ended September 30, 2010 and as at September 30, 2010, had 118 staff operating across 6 countries. For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Corporate" in this Report.

The Corporate segment includes earnings on capital, group treasury operations, certain corporate costs not recharged to operating businesses, employment related costs, share based payments expense, income tax expense, amounts attributable to non-controlling interests and internal management accounting adjustments and charges.

Funds Management Business — MBL Group

For a description of MBL Group's funds management businesses, see "Macquarie Bank Limited — Funds Management Business — MBL Group" beginning on page 41 of our 2010 Annual U.S. Disclosure Report.

Assets under Management

MBL Group had an aggregate A\$220 billion of Assets under Management as at September 30, 2010, from which it derived an aggregate of A\$315 million of funds management base fees from continuing operations for the half year ended September 30, 2010, which amounts are included in the figures noted above in respect of MGL Group.

The table below illustrates MBL Group's aggregate Assets under Management by operating group, region and industry sector as at September 30, 2010, March 31, 2010 and September 30, 2009.

Assets under Management by operating group, region and industry sector for the half years ended September 30, 2010, March 31, 2010 and September 30, 2009

	As at			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Assets under Management by operating group					
Macquarie Funds ²	211,354	209,894	57,956	1	265
Banking & Financial Services ³	4,077	14,318	16,992	(72)	(76)
Real Estate Banking.....	5,032	5,045	10,663	nm	(53)
Total Assets under Management	220,463	229,257	85,611	(4)	158
Assets under Management by region					
Australia.....	50,986	63,726	66,168	(20)	(23)
Americas.....	154,562	149,977	2,400	3	nm
Europe, Africa and Middle East.....	7,144	6,898	10,296	4	(31)
Asia Pacific.....	7,771	8,656	6,747	(10)	15
Total Assets under Management	220,463	229,257	85,611	(4)	158
Assets under Management by industry sector					
Investment funds.....	215,431	224,213	74,948	(4)	187
Commercial real estate.....	2,832	2,791	7,997	1	(65)
Retail real estate.....	854	871	1,167	(2)	(27)
Tourism/leisure and residential real estate.....	1,031	1,041	933	(1)	11
Industrial real estate.....	315	341	566	(8)	(44)
Total Assets under Management	220,463	229,257	85,611	(4)	158

¹ "nm" indicates that the percentage change was less than 1% and therefore not meaningful.

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

³ The decrease in Assets under Management in Banking & Financial Services is principally the result of the conversion in July 2010 of the A\$9.6 billion CMT (which was off-balance sheet) to the CMA (which are accounted as on-balance sheet deposits and not Assets under Management). See "— Recent Developments within MBL Group — Banking & Financial Services".

Assets under Management at September 30, 2010 were A\$220 billion, a 158% increase from A\$86 billion at September 30, 2009. The overall net increase in Assets under Management was due to the acquisition of Delaware Investments which added A\$151.1 billion to Assets under Management at March 31, 2010 (A\$156.9 billion at September 30, 2010). The impact of this acquisition was partially offset by the sale or internalization of management rights of a number of MBL Group's listed funds, which decreased Assets under Management in Australia and in certain industry sectors, including, in particular, roads, airports and real estate, and the conversion of the A\$9.6 billion CMT accounts to the CMA as described in footnote 3 to the table above.

Macquarie Funds. Assets under Management of A\$211.4 billion of Macquarie Funds increased 265% at September 30, 2010 from A\$58.0 billion at September 30, 2009. The increase in Assets under Management was primarily due to the acquisition of Delaware Investments which added A\$151.1 billion to Assets under Management at March 31, 2010.

For further information on Macquarie Funds' results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Macquarie Funds" in this Report.

Banking & Financial Services. Banking & Financial Services' Assets under Management decreased 76% to A\$4.1 billion at September 30, 2010 from A\$17.0 billion at September 30, 2009. The decrease was primarily due to the conversion of A\$9.6 billion of CMT accounts to the CMA on July 31, 2010.

For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Banking & Financial Services" in this Report.

Real Estate Banking. Real Estate Banking's Assets under Management decreased 53% to A\$5.0 billion at September 30, 2010 from A\$10.7 billion at September 30, 2009. This was largely due to the sale of the management rights of the Macquarie Office Trust to Charter Hall and the strengthening of the Australian dollar, which resulted in lower offshore asset values as well as write downs and disposals by some funds.

For further information on Real Estate Banking's results of operation and financial condition for the half year ended September 30, 2010, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Segment Overview — Real Estate Banking" in this Report.

The table below show total Assets under Management by fund type. For an explanation of Assets under Management see “Financial Information Presentation — Non-GAAP financial measures” beginning on page xii of our 2010 Annual U.S. Disclosure Report.

MBL Group Assets under Management for the half years ended September 30, 2010, March 31, 2010 and September 30, 2009

	As at			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Macquarie Funds²					
Macquarie Investment Management ³	209,200	207,331	55,588	1	276
Macquarie Specialised Investment Solutions	2,154	2,563	2,368	(16)	(9)
Total Macquarie Funds	211,354	209,894	57,956	nm	63
Banking & Financial Services					
CMT ⁴	—	9,960	12,589	(100)	(100)
Macquarie Pastoral Fund	569	509	521	12	9
Other unlisted Banking & Financial Services	3,508	3,849	3,882	(9)	(10)
Total Banking & Financial Services	4,077	14,318	16,992	(72)	(76)
Real Estate Banking					
Macquarie Office Trust ⁵	—	—	5,155	—	(100)
J-REP managed funds ⁶	226	218	245	4	(8)
Macquarie Central Office Corporate Restructuring REIT	—	—	211	—	(100)
Unlisted Real Estate funds	4,806	4,837	5,052	nm	(5)
Total Real Estate Banking	5,032	5,045	10,663	nm	(53)
Total Assets under Management	220,463	229,257	85,611	(4)	158

¹ “nm” indicates that the percentage change was less than 1% and therefore not meaningful.

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

³ Macquarie Investment Management division includes the Assets under Management of Delaware Investments which were A\$156.9 billion at September 30, 2010 (March 31, 2010: A\$151.1 billion; September 30, 2009: nil).

⁴ The balance of the CMT of A\$9.6 billion was moved to the CMA effective July 31, 2010 following a meeting of unitholders who voted to transition their holdings.

⁵ Macquarie Office Trust formed part of the Australian real estate management platform that was sold to Charter Hall effective March 1, 2010.

⁶ J-REP Co. Limited is a listed fund manager on the Tokyo Stock Exchange. Through a joint venture with Goodman Group, MBL Group acquired an interest in J-REP in June 2007, and therefore its funds management activities.

The table below shows MBL Group's total performance and base fees for the half years ended September 30, 2010 and 2009.

MBL Group performance and base fees for 2010 and 2009

	Year ended		Movement
	Sep 10	Sep 09	
	A\$m	A\$m	%
MBL Group			
Base fees	315	199	58
Performance fees.....	7	40	(83)
Total MBL Group Funds Management Fees	322	239	35

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

MBL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks. 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. Unlisted performance fees are generally payable upon the occurrence of a "liquidity event", such as asset sale or fund listing, and are therefore unpredictable. During the half year ended September 30, 2010, performance fees for MBL Group decreased 83% to A\$7 million from A\$40 million in the prior corresponding period. The prior corresponding period included a A\$34 million performance fee from the sale of the Kukdong building by Macquarie Central Office CR-REIT.

For further detail on MBL Group's income from funds management, see "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition — Half year ended September 30, 2010 compared to half year ended September 30, 2009 — Results Analysis — Fee and commission income — Base and performance fees" in this Report.

Legal and Regulatory Matters

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

Regulatory and Supervision Developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group and its businesses and the funds it manages in, and outside of, Australia, is set out under "Regulation and Supervision — Australia — APRA" beginning on page 46 of our 2010 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk Factors — We may incur losses as a result of ineffective risk management processes and strategies", "Risk Factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events" and "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations, regulatory policy and by compliance requirements, particularly for financial institutions, in markets in which we operate" on pages 11, 13 and 8, respectively, of our 2010 Annual U.S. Disclosure Report.

Significant regulatory changes that may affect our businesses are expected in various markets in which we operate. For example, in the United Kingdom, increased regulation is expected in such areas as liquidity requirements and remuneration. The U.K. government has also published draft legislation on a new bank levy tax, which will apply to certain U.K. banks and building societies and the U.K. operations of non-U.K. banks from January 1, 2011. As the draft provisions are subject to change, we are not presently able to determine how and to what extent the above changes, or the bank levy tax, may affect our businesses. The following is a summary of significant regulatory and supervision developments in Australia and the United States for MBL Group that have occurred since the release of our 2010 Annual U.S. Disclosure Report on May 18, 2010.

Australia

APRA

In August 2010, the Basel Committee on Banking Supervision ("*BCBS*" or "*Basel Committee*") released a further consultative document in respect of its proposals to revise capital requirements commonly referred to as "Basel III" entitled "Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability". The document outlines a proposal to enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market.

On September 12, 2010, the Group of Governors and Heads of Supervision ("*GHOS*"), the oversight body of the Basel Committee, released a further press release with respect to its recommendations on global minimum capital standards, reinforcing their commitment to a substantial strengthening of the existing capital requirements for banking institutions. The proposals are intended to be presented to the G20 Leaders Summit to be held in Seoul in November 2010, with the Basel Committee expected to publish its final package of reforms in December 2010. The recommendations relate only to capital requirements. Enhanced liquidity requirements are also expected to be released in the near term.

Subsequently, APRA has written to all ADIs in Australia:

- on September 17, 2010, stating it gave full support for the package of reforms announced by the GHOS. APRA informed ADIs that it has begun work on developing draft prudential standards, practice guides and reporting requirements to give effect to these reforms in Australia. APRA anticipates that it will begin

consultation on the reforms in 2011, which are expected to continue into 2012, including with respect to appropriate transitional arrangements for ADIs;

- on October 7, 2010, seeking industry comments by November 5, 2010 on the two main adjustments to the market risk framework announced in “Revisions to the Basel II market risk framework” by the BCBS on June 18, 2010; and
- on November 4, 2010, requesting all locally incorporated ADIs that are currently subject to scenario analysis requirements under Australian Prudential Standard 210 (Liquidity), including MBL, to undertake a self-assessment against practice standards for liquidity risk management and supervision set out in the “Principles for Sound Liquidity Risk Management and Supervision” published by the BCBS in September 2008. The self-assessment results should be submitted to APRA by February 28, 2011.

MBL currently expects that if APRA implements the Basel III reforms as proposed, the key implications for MBL would be more conservative risk-weighting of assets and a stricter capital deduction regime, increased minimum capital ratios, additional capital conservation and countercyclical buffers and a revised definition of eligible capital. It is likely that MBL will operate with a reduced capital surplus over minimum requirements under Basel III, however, it is impossible to predict the final impact of the reforms that will be adopted by APRA and, in particular, their impact on the capital structure or businesses of MBL.

Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) Act 2010

The Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) Act 2010 of Australia, among other things, amended section 13A of the Australian Banking Act and section 86 of the Reserve Bank Act with effect from July 27, 2010. Under the amended section 13A of the Australian Banking Act, the priority under which the assets of an ADI (including MBL) are made available to meet certain obligations, was amended as follows:

- first, certain obligations of the 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 ADI. A “protected account” is either (i) an account where the 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 ADI in connection with the Financial Claims Scheme;
- third, the ADI’s liabilities (if any) in Australia in relation to protected accounts that account-holders keep with the ADI;
- fourth, the ADI’s debts (if any) to the RBA;
- fifth, the ADI’s liabilities (if any) under an industry support contract that is certified under section 11CB of the Australian Banking Act; and
- sixth, the ADI’s other liabilities (if any) in the order of their priority apart from section 13A of the Australian Banking Act.

Under the amended section 16(2) of the Australian Banking Act, certain other debts due to APRA shall in a winding-up of an ADI have, subject to section 13A(3) of the Australian Banking Act, priority over all other unsecured debts of that ADI. Further, under section 86 of the Reserve Bank Act, debts due by a bank (which includes MBL) to the RBA shall, in a winding-up of that bank, have, subject to section 13A(3) of the Banking Act, priority over all other debts of that bank.

For further information on the Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme, see “Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme - Guarantee of deposits” on page 59 of our 2010 Annual U.S. Disclosure Report.

United States

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “*Dodd-Frank Act*”). Many of the provisions of the Dodd-Frank Act require rulemaking by the applicable U.S. regulatory agency, such as the Federal Reserve Board (“*FRB*”), the SEC and the Commodity Futures Trading Commission (“*CFTC*”) before the related provisions of the Dodd-Frank Act becomes effective. The Dodd-Frank Act will result in significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. MBL’s businesses may be affected by a variety of new regulations under the Dodd-Frank Act including, but not limited to: (i) greater regulation of over-the-counter derivatives, including stricter capital and margin requirements, the central clearing of standardized over-the-counter derivatives, and heightened supervision of all over-the-counter swap dealers and major swap participants, and (ii) increased regulation of investment advisers. In addition, if MBL’s future growth results in MBL being determined by U.S. regulators to be a “systemically important” nonbank financial company which poses a threat to the financial stability of the United States, U.S. regulators may have increased regulatory authority over MBL and may impose stricter capital and quantitative limits around certain activities. The Dodd-Frank Act will likely increase compliance and execution costs for derivative trading in the U.S. and have an impact on certain MBL businesses, such as on its U.S. derivatives business. It is not possible at this point in time to determine the extent of that impact because many important details of the Dodd-Frank Act will be formulated during the process of proposing and adopting implementing rules and regulations. The reaction of market participants to these regulatory developments over the next several years will also be an important determinant of the final content and impact of the rules and regulations implementing the Dodd-Frank Act.

Competition

For a description of the competition MBL Group faces in the markets in which it operates, see “Macquarie Bank Limited — Competition” beginning on page 44 of our 2010 Annual U.S. Disclosure Report.

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

Investors should be aware that the discussion set forth in this Report is not complete and should be read in conjunction with the discussion under "Management's Discussion and Analysis of Results of Operations and Financial Condition" beginning on page 56 of our 2010 Annual U.S. Disclosure Report.

During the half year ended September 30, 2010, MGL Group implemented a number of changes to its internal operating groups. In particular, all real estate lending was consolidated into Corporate & Asset Finance. As a result of these changes, the businesses that comprised certain operating segments of MBL Group (including MBL Group) for financial reporting purposes were also changed. In this Report, the results of our operating groups for the half year ended September 30, 2010, are presented to give effect to these internal reorganizations effective April 1, 2010, with the comparative information for the half years ended March 31, 2010 and September 30, 2009 presented based on the results of the businesses that comprise our current operating groups and division.

Investors should note that while the financial information for the half year ended September 30, 2010 included in this Report presents our current operating segments in accordance with AASB 8 "Operating Segments" following these internal reorganizations, and while in our 2011 interim financial statements we restated the comparative information for the half year ended September 30, 2009 to reflect these internal reorganizations, 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 2010 annual financial statements, our 2010 interim 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 2011 interim 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" in our 2010 Annual U.S. Disclosure Report, 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.

For further information on the preparation of our 2011 interim financial statements, see "Financial Information Presentation" in this Report.

Critical Accounting Policies and Significant Judgments

Note 1 to our 2010 annual financial statements provides a list of our significant accounting policies. While we regard all of our significant accounting policies as important to consider in evaluating our financial statements, further information on policies involving critical accounting estimates and requiring management's exercise of judgment is set out in detail under "Management's Discussion and Analysis of Results of Operations and Financial Condition" beginning on page 56 of our 2010 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments for the half year ended September 30, 2010 are consistent with those referred to above. These critical accounting policies should be read in conjunction with the discussion set out in our 2010 Annual U.S. Disclosure Report and Note 1 to our 2010 annual financial statements.

Half year ended September 30, 2010 compared to half year ended September 30, 2009

Results Overview

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 00
	A\$m	A\$m	A\$m	%	%
Income statement					
Net interest income.....	764	796	529	(4)	44
Fee and commission income.....	754	600	436	26	73
Net trading income	633	664	573	(5)	10
Share of net profits of associates and joint ventures.....	19	2	5	large	280
Other operating income and charges ²	175	(26)	73	large	140
Total operating income	2,345	2,036	1,616	15	45
Employment expenses	(805)	(587)	(502)	37	60
Brokerage and commission expenses	(388)	(268)	(280)	45	39
Occupancy expenses.....	(67)	(68)	(54)	(1)	24
Non-salary technology expenses	(50)	(53)	(35)	(6)	43
Other operating expenses.....	(641)	(585)	(458)	10	40
Total operating expenses.....	(1,951)	(1,561)	(1,329)	25	47
Operating profit before income tax.....	394	475	287	(17)	37
Income tax expense	(83)	(53)	(12)	57	large
Profit from ordinary activities after income tax	311	422	275	(26)	13
Profit attributable to non-controlling interest	(4)	(5)	(8)	(20)	(50)
Profit attributable to equity holders of Macquarie Bank Limited	307	417	267	(26)	15
Distributions paid or provided on Macquarie Income Securities.....	(13)	(11)	(10)	18	30
Profit attributable to ordinary equity holders of Macquarie Bank Limited	294	406	257	(28)	14

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

² "Other operating income and charges" includes A\$108 million in impairment charges (March 31, 2010: A\$150 million, September 30, 2009: A\$253 million).

Consolidated net profit after income tax attributable to ordinary equity holders for the half year ended September 30, 2010 of A\$294 million increased 14% from A\$257 million in the prior corresponding period. The half year ended September 30, 2010 included increased net interest income and reduced charges for impairments and writedowns, which were offset by increased costs arising from headcount growth, including staff in recently acquired businesses, as well as continued investment in MBL Group's global platform.

Total operating income for the half year ended September 30, 2010 of A\$2,345 million increased by 45% from A\$1,616 million in the prior corresponding period. This was largely driven by:

- a 44% increase in net interest income of A\$764 million for the half year ended September 30, 2010 from A\$529 million in the prior corresponding period, which was primarily driven by growth in lending activities in higher yielding lending portfolios and the acquisitions of the Ford Credit and GMAC lease portfolios in Corporate & Asset Finance;

- a 73% increase in fee and commission income to A\$754 million for the half year ended September 30, 2010 from A\$436 million in the prior corresponding period, primarily due to the acquisition of Delaware Investments in January 2010; and
- a 140% increase in other operating income to A\$175 million for the half year ended September 30, 2010 from A\$73 million in the prior corresponding period, primarily due to an overall reduction in the level of writedowns and impairment charges (net expense of A\$108 million decreased 57% from net expense of A\$253 million in the prior corresponding period, primarily due to lower impairment charges on investments held-for-sale, on investments in associates and joint ventures and specific provisions due to a lower level of impairment charges); and a 280% net gain from equity accounting of investments in associates and joint ventures of A\$19 million in the half year ended September 30, 2010 from A\$5 million in the prior corresponding period, primarily due to an improvement in the underlying results of investments.

Our results for the half year ended September 30, 2010 continued to be affected by trading and market conditions. See “Recent Developments — Trading Conditions and Market Update” in this Report for further information.

- Total operating expenses of A\$1,951 million for the half year ended September 30, 2010 increased 47% from A\$1,329 million in the prior corresponding period. This was largely driven by: a 60% increase in employment expenses to A\$805 million in the half year ended September 30, 2010 from A\$502 million in the prior corresponding period, primarily due to a 22% increase in headcount from recent acquisitions as well as continued investment in MBL Group’s global platform;
- a 39% increase in brokerage and commission expenses to A\$388 million in the half year ended September 30, 2010 from A\$280 million in the prior corresponding period, primarily due to the acquisition of Delaware Investments and growth in futures execution and clearing volumes; and
- a 40% increase in other operating expenses to A\$641 million in the half year ended September 30, 2010 from A\$458 million in the prior corresponding period, primarily due to the contribution of recent acquisitions.

Income tax expense of A\$83 million in the half year ended September 30, 2010 increased significantly from A\$12 million in the prior corresponding period, as a result of lower levels of writedowns and impairment charges. See “— Results Analysis — Income tax expense” in this Report for further information. See “— Results Analysis — Income tax expense” in this Report for further information.

Results Analysis

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

Net Interest Income

	Half year ended			Movement	
	Sep10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net interest income					
Interest revenue	2,524	2,332	2,021	8	25
Interest expense	(1,760)	(1,536)	(1,492)	15	18
Net interest income (as reported)	764	796	529	(4)	44
Adjustment for accounting for swaps ¹	(68)	(139)	(79)	(51)	(14)
Adjusted net interest income	696	657	450	6	55

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

Adjusted net interest income of A\$696 million for the half year ended September 30, 2010 increased 55% from A\$450 million in the prior corresponding period after adjusting for amounts relating to the accounting for swaps that are classified as trading income for statutory purposes. This result was primarily driven by continued growth of the higher yielding lending and leasing portfolio, including the acquisitions of the Ford Credit and GMAC portfolios within Corporate & Asset Finance, combined with an increase in earnings on capital mainly due to higher interest rates.

Net interest income is derived primarily from mortgage assets and other lending areas. Net interest income from mortgage assets was broadly in line with the prior corresponding period. Average mortgage volumes decreased due to the continued run-off of the Australian portfolio and the impact of the strengthening Australian dollar on the Canadian mortgage portfolio. This was partially offset by growth in the Corporate & Asset Finance loan and lease portfolio, including the acquisitions of the Ford Credit and GMAC portfolios.

Fee and commission income

	Half year ended			Movement	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Fee and commission income					
Base fee income.....	315	265	199	19	58
Performance fee income	7	5	40	40	(83)
Mergers and acquisitions, advisory and underwriting fees	24	15	22	60	9
Brokerage and commissions	172	152	136	13	26
Other fee and commission income	193	131	23	47	large
Income from life investment contracts and other unit holder investment assets	43	32	16	34	169
Total fee and commission income	754	600	436	26	73

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

Total fee and commission income of A\$754 million for the half year ended September 30, 2010 increased 73% from A\$436 million in the prior corresponding period primarily due to a significant increase in other fee and commission income and a 58% increase in base fees, which were partially offset by a 83% decrease in performance fees.

Base and performance 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 of A\$315 million for the half year ended September 30, 2010 increased 58% from A\$199 million in the prior corresponding period. This increase was primarily due to the acquisition of Delaware Investments, which contributed A\$157 billion at September 30, 2010 (approximately 71% of total Assets under Management). This was offset by the conversion of CMT accounts into CMA in the current period, which reduced Assets under Management by A\$9.6 billion. Total Assets under Management increased 158% to A\$220.5 billion for the half year ended September 30, 2010 from A\$85.6 billion in the prior corresponding period. For further details of Assets under Management, see “Recent Developments — Funds Management Business — MBL Group — Assets under Management”.

Performance fees of A\$7 million for the half year ended September 30, 2010 decreased 83% from A\$40 million in the prior corresponding period. The reduction is largely as a result of one-off transactions in the prior corresponding period, including A\$34 million from the sale of the Kukdong building by Macquarie Central Office CR-REIT.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A\$24 million was broadly in line with A\$22 million in the prior corresponding period. There was no significant change in the level of deal flow compared to the prior corresponding period.

Brokerage and commissions

Brokerage and commission income of A\$172 million increased 26% for the half year ended September 30, 2010 from A\$136 million in the prior corresponding period largely as a result of by Banking & Financial Services’ acquisition of Macquarie Private Wealth Canada in December 2009, which increased advisor numbers.

Other fee and commission income

Other fee and commission income of A\$193 million for the half year ended September 30, 2010 increased significantly from A\$23 million in the prior corresponding period. This increase was largely due to the newly acquired distribution service fee in the Delaware Investments business that was offset with associated expenses that, for accounting purposes, are recognized in brokerage and commission expenses. Platform fees also increased as a result of higher average Wrap Funds under Administration compared to the prior corresponding period. The average Australian Wrap platform volumes during the half year ended September 30, 2010 increased 10% from the prior corresponding period.

Income from life investment contracts and other unit holder investment assets

Income from life investment contracts and other unit holder investment assets includes income from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds. Income from this category was A\$43 million for the half year ended September 30, 2010, compared to A\$16 million in the prior corresponding period, which was a 169% increase predominately due to improved returns from True Index products and growth in the insurance inforce book from A\$42 million as at September 30, 2009 to A\$76 million as at September 30, 2010. The inforce book is the aggregate annualized life insurance premium payable for policies issued by the life company, and still paying premiums, at the balance date.

Net trading income

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

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net trading income (as reported)	633	664	573	(5)	10
Adjustment for swaps ¹	68	139	79	(51)	(14)
Net trading income (adjusted)	701	803	652	(13)	8

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

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net trading income					
Equities	149	150	405	nm	(63)
Commodities					
Trading income	189	301	320	(37)	(41)
Fair value adjustments relating to leasing contacts ²	(32)	9	33	large	(197)
Interest rate products					
Trading income	307	307	81	—	279
Fair value adjustments on fixed rate issued debt	6	(3)	(252)	large	102
Foreign exchange products	82	39	65	110	26
Net trading income (adjusted) ³	701	803	652	(13)	8

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

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

³ Australian Accounting Standards require internal derivatives hedging interest rate risk to be carried at fair value through trading income so that both sides are eliminated and only external derivatives can form part of a qualifying hedge relationship. This distorts the analysis of net interest income and trading income in each operating group. To assist in the analysis of net interest margins, the impact of accounting for swaps used to economically hedge interest rate risk that is included in trading income for statutory purposes, has been adjusted against net interest income and shown separately above.

Total adjusted trading income in the half year ended September 30, 2010 of A\$701 million increased 8% from A\$652 million in the prior corresponding period after adjusting for amounts relating to the accounting for swaps that are classified as trading income for statutory purposes. The prior corresponding period included fair value adjustments on fixed rate issued debt (recognized in interest rate products) and fair value adjustments relating to leasing contracts (recognized in commodities). Excluding these fair value adjustments, adjusted net trading income decreased 17% from A\$871 million in the prior corresponding period to A\$727 million in the half year ended September 30, 2010, primarily due to challenging market conditions which particularly impacted equities and commodities related trading income.

Equities

Trading income from equity products in the half year ended September 30, 2010 was A\$149 million, a decrease of 63% from A\$405 million in the prior corresponding period. The decrease was driven by challenging market conditions impacting revenue throughout the period.

Equity trading income in Corporate & Asset Finance decreased significantly from A\$30 million in the prior corresponding period to a A\$2 million loss in the half year ended September 30, 2010. The income in the prior corresponding period was mainly related to unrealized gains on options as a result of a one-off transaction in that period.

Derivative revenues were especially impacted by continued weak demand for retail and structured products in Asia, Europe and Australia as market conditions remained weak across most markets. Arbitrage Trading activities were impacted by low market volatility and volumes, in contrast with the higher levels of volatility experienced in the prior corresponding period. See “Recent Developments — Trading Conditions and Market Update” for further information.

Commodities

Commodity trading income for the half year ended September 30, 2010 of A\$157 million decreased 56% from A\$353 million in the prior corresponding period. The decrease in commodities trading income (including metals, energy and agricultural products) was primarily driven by challenging trading conditions and lower client term hedging activity in some commodity markets during the half year ended September 30, 2010, which impacted trading. In metals and agricultural markets, the propensity of clients to enter into term hedging was sporadic and freight market volatility fell, impacting income for the half year ended September 2010. Energy markets also experienced more difficult trading conditions with periods when the market moved away from fundamentals, resulting in a reduction of income compared to the prior corresponding period.

Foreign exchange products

Trading income on foreign exchange products of A\$82 million for the half year ended September 30, 2010, increased 26% from A\$65 million in the prior corresponding period. The decrease was primarily due to the impact of suppressed global volatility in currency markets and the higher Australian dollar on the level of client term hedging combined with margin compression due to competition.

Interest rate products

Trading income from interest rate products increased significantly to A\$313 million in the half year ended September 30, 2010 from a loss of A\$171 million in the prior corresponding period. The increase was primarily due to the prior corresponding period including a net loss of A\$252 million relating to fair value adjustment on fixed rate issued debt. The remaining increase in interest rate products income compared to the prior corresponding period reflected the development and substantial growth of the credit trading and emerging markets businesses since the prior corresponding period.

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

	Half year ended			Movement	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Share of net profits/(losses) of associates and joint ventures	19	2	5	large	280

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

Share of net equity accounted profits of associates and joint ventures was A\$19 million for the half year ended September 30, 2010, compared to A\$5 million in the prior corresponding period. The increase was primarily driven by improved underlying performance of associates and joint ventures.

Other operating income and charges

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Other operating income and charges					
Net gains on sale of investment securities available for sale	99	18	24	large	large
Net gains on sale of associates (including associates held-for-sale) and joint ventures	2	9	—	(78)	—
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	8	7	131	14	(94)
Impairment charge on investment securities available for sale	(3)	(32)	(69)	(91)	(96)
Impairment charge on investments in associates (including associates held-for-sale) and joint ventures	(38)	(20)	(49)	90	(22)
Impairment charge on non-financial assets	(3)	(9)	(14)	(67)	(79)
Gain on repurchase of subordinated debt	—	—	55	—	(100)
Net operating lease income	46	35	37	31	24
Dividends/distributions received/receivable from investment securities available-for-sale	8	4	19	100	(58)
Management fees, group service charges and cost recoveries	(10)	(12)	(15)	(17)	33
Collective allowance for credit losses during the period	9	(2)	1	large	large
Specific provisions	(73)	(87)	(122)	(16)	(40)
Other income	130	63	75	106	73
Total other operating income and charges	175	(26)	73	large	140

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

Total other operating income and charges increased to A\$175 million for the half year ended September 30, 2010, compared to A\$73 million in the prior corresponding period largely due to improving market conditions, which resulted in a significant decrease in impairment charges this period. See “— Operating Expenses” for further detail on impairment charges, including specific provisions and of collective allowance for credit losses.

Net gains on sale of equity investments (including available-for-sale, associates and joint venture investments) increased significantly to A\$101 million for the half year ended September 30, 2010 from A\$24 million in the prior corresponding period. Gains recognized in the half year ended September 30, 2010 included gains on the sale of liquid assets by Group Treasury and the sale of investments in energy and mining companies. The gain on acquiring,

disposing and change in ownership interest in subsidiaries and businesses held-for-sale for the half year ended September 30, 2010 of A\$8 million decreased 94% from A\$131 million in the prior corresponding period. The half year ended September 30, 2010 included no individually significant items.

Total impairment charges and provisions contributed a loss of A\$89 million in aggregate for the half year ended September 30, 2010, a 67% decrease from a loss of A\$269 million in the prior corresponding period. The half year ended September 30, 2010 comprised:

- a 96% decrease in impairments and equity accounted losses of A\$25 million in the half year ended September 30, 2010 from A\$127 million in the prior corresponding period. The half year ended September 30, 2010 included an impairment charge on equity investments in the real estate sector; and
- a 48% decrease in loan impairments of A\$64 million compared to A\$121 million in the prior corresponding period. The decrease reflects the improved condition of the loan portfolios compared to the prior corresponding period.

Operating expenses

	Half year ended			Movement	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Operating expenses					
Employment expenses:					
Salary, commissions, superannuation and performance-related profit share	(742)	(531)	(481)	40	54
Share based payments	(49)	(51)	(15)	(4)	227
Provision for annual leave.....	(11)	(3)	(5)	267	120
Provision for long service leave	(3)	(2)	(1)	50	200
Total employment expenses	(805)	(587)	(502)	37	60
Brokerage and commission expenses	(388)	(268)	(280)	45	39
Occupancy expenses.....	(67)	(68)	(54)	(1)	24
Non-salary technology expenses	(50)	(53)	(35)	(6)	43
Professional fees.....	(70)	(64)	(57)	9	23
Travel and entertainment.....	(34)	(33)	(22)	3	55
Advertising and communication.....	(36)	(34)	(22)	6	64
Other expenses.....	(501)	(454)	(357)	10	40
Total operating expenses	(1,951)	(1,561)	(1,329)	27	47

Operating expenses of A\$1,951 million for the half year ended September 30, 2010 increased 47% from A\$1,329 million in the prior corresponding period, primarily due to increased costs arising from headcount growth, including staff in recently acquired businesses as well as continued investment in MBL Group's global platform.

Employment expenses increased 60% to A\$805 million for the half year ended September 30, 2010 from A\$502 million in the prior corresponding period. The main driver was a 38% increase in headcount to 6,104 at September 30, 2010 from 4,514 at September 30, 2009 as a result of recent acquisitions combined with organic growth.

Brokerage and commission expense for the half year ended September 30, 2010 of A\$388 million increased 39% from A\$280 million, primarily due to the increased volumes as a result of the acquisition of Delaware Investments in January 2010. The brokerage and commission expenses for Delaware Investments largely offsets with related items that for accounting purposes are required to be recognized in other fee and commission income. For further information regarding brokerage and commission expenses, see "— Fee and commission income".

Non-salary technology expenses increased 43% to A\$50 million for the half year ended September 30, 2010 from A\$35 million in the prior corresponding period due to increased investment in new and upgraded systems.

Other expenses of A\$482 million for the half year ended September 30, 2010 increased 35% from A\$357 million in the prior corresponding period largely due to recent acquisitions.

Headcount

Total headcount at September 30, 2010 of 6,104 increased 35% from 4,514 at September 30, 2009 largely due to acquisitions since September 30, 2009, including Delaware Investments (534 staff) and Macquarie Private Wealth Canada (433 staff). Australian headcount of 3,582 at September 30, 2010 increased 10% from 3,256 as at September 30, 2009. The increase was primarily due to organic growth, particularly in Corporate & Asset Finance to service the asset portfolios acquired during the last twelve months and in Fixed Income, Currencies & Commodities as part of the growth experienced in those businesses, which was partially offset by a reduction of approximately 80 staff as part of the sale of the majority of the Australian real estate management platform to Charter Hall.

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

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
				%	%
Headcount by operating group					
Banking & Financial Services	3,340	3,261	2,621	2	27
Macquarie Securities	70	97	97	(28)	(28)
Fixed Income, Currencies & Commodities	744	696	593	7	25
Macquarie Funds	1,073	1,074	538	nm	99
Real Estate Banking.....	63	73	78	(14)	(19)
Corporate & Asset Finance.....	814	688	587	18	39
Total headcount	6,104	5,889	4,514	6	38

¹ "nm" indicates that the percentage change was less than 1% and therefore not meaningful.

Income tax expense

	Half year ended		
	Sep 10	Mar 10	Sep 09
	A\$m	A\$m	A\$m
Reconciliation of income tax (expense)/credit to prima facie tax payable			
Prima facie income tax expense on operating profit ¹	(118)	(143)	(86)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	37	140	60
Distribution provided on Macquarie Income Preferred Securities and related distributions.....	1	—	2
Non-deductible share based payments expense	(5)	(4)	(5)
Other items	2	(46)	17
Total income tax (expense)/credit	(83)	(53)	(12)

¹ Prima facie income tax on operating profit is calculated at the rate of 30% (Half year ended March 31, 2010: 30%; Half year ended September 30, 2009: 30%). The consolidated entity has a tax year ending on September 30.

Total income tax expense 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.

Income tax expense increased significantly to A\$83 million for the half year ended September 30, 2010 from A\$12 million in the prior corresponding period. The increase in income tax expense was driven by:

- a A\$32 million increase in prima facie income tax expense for the half year ended September 30, 2010 compared to the prior corresponding period, which was driven by a A\$107 million increase in operating profit before income tax for the half year ended September 30, 2010 compared to the prior corresponding period; and
- a A\$23 million decrease in permanent differences relating to tax rate differentials on some of the income earned offshore.

Segment Overview

Summary of segment results

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

	Macquarie Funds	Banking & Financial Services	Real Estate Banking	Fixed Income, Currencies & Commodities	Macquarie Securities	Macquarie Capital	Corporate & Asset Finance	Corporate	Total
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Half year ended September 30, 2010									
Net interest income/(expense)	12	345	(9)	(71)	(23)	(4)	284	230	764
Fee and commission income	389	380	2	29	(53)	2	7	(2)	754
Trading income	1	(1)	(2)	396	149	—	(2)	92	633
Share of net profits (losses) of associates and joint ventures accounted for using the equity method	(1)	—	(5)	15	—	6	6	(2)	19
Other operating income and charges	59	(7)	—	91	(6)	—	57	(19)	175
Internal revenue	1	2	2	27	(7)	2	11	(38)	—
Total operating income	461	719	(12)	487	60	6	363	261	2,345
Total operating expenses	(331)	(575)	(13)	(329)	(127)	(1)	(130)	(445)	(1,951)
Profit before tax	130	144	(25)	158	(67)	5	233	(184)	394
Tax expense	—	—	—	—	—	—	—	(83)	(83)
Profit attributable to non-controlling interests	1	(5)	—	—	—	—	—	(13)	(17)
Net Profit/(loss) contribution	131	139	(25)	158	(67)	5	233	(280)	294
Half year ended March 31, 2010									
Net interest income/(expense)	13	297	(18)	86	(24)	(5)	223	224	796
Fee and commission income	228	367	6	10	(24)	2	(6)	17	600
Trading income	—	4	—	528	226	—	9	(103)	664
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	2	(9)	7	—	8	(6)	(2)	2
Other operating income and charges	9	(14)	(73)	44	—	(5)	(9)	22	(26)
Internal revenue	2	7	5	52	10	5	12	(93)	-
Total operating income	254	663	(89)	727	188	5	223	65	2,036
Total operating expenses	(202)	(535)	(16)	(314)	(122)	—	(100)	(272)	(1,561)
Profit before tax	52	128	(105)	413	66	5	123	(207)	475
Tax expense	—	—	—	—	—	—	—	(53)	(53)
Profit attributable to non-controlling interests	—	(3)	—	—	—	—	(1)	(12)	(16)
Net Profit/(loss) contribution	52	125	(105)	413	66	5	122	(272)	406

	Macquarie Funds	Banking & Financial Services	Real Estate Banking	Fixed Income, Currencies & Commodities	Macquarie Securities	Macquarie Capital	Corporate & Asset Finance	Corporate	Total
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Half year ended September 30, 2009									
Net interest income/(expense)	24	254	(25)	43	(26)	(5)	163	101	529
Fee and commission income	116	360	61	3	(38)	2	6	(74)	436
Trading income	5	4	—	494	275	(1)	30	(234)	573
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	5	—	(7)	3	—	4	1	(1)	5
Other operating income and charges	3	(28)	(49)	(10)	—	(62)	12	207	73
Internal revenue	2	4	—	28	11	6	17	(68)	—
Total operating income	155	594	(20)	561	222	(56)	229	(69)	1,616
Total operating expenses	(123)	(448)	(17)	(238)	(172)	1	(100)	(232)	(1,329)
Profit before tax	32	146	(37)	323	50	(55)	129	(301)	287
Tax expense	—	—	—	—	—	—	—	(12)	(12)
Profit attributable to non-controlling interests	1	(3)	—	—	—	—	(1)	(15)	(18)
Net Profit /(loss) contribution	33	143	(37)	323	50	(55)	128	(328)	257

Basis of preparation

MBL Group segments

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 used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information is produced using different measures to that used in preparing the income statement.

For internal reporting and risk management purposes, MBL Group is divided into five operating groups and one division. The operating groups are:

- Fixed Income, Currencies & Commodities (formerly Treasury & Commodities);
- Macquarie Securities (excluding the Cash division, which forms part of the Non-Banking Group);
- Banking & Financial Services;
- Macquarie Funds (excluding the Macquarie Infrastructure & Real Assets division, which forms part of the Non-Banking Group); and
- Corporate & Asset Finance.

The division is:

- Real Estate Banking

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

MBL operating group restructures

Effective from April 1, 2010, all real estate lending activities carried out by the Real Estate Banking division were transferred to and incorporated within Corporate & Asset Finance. See “Financial Information Presentation” in this Report for further information and “Financial Information Presentation” beginning on page x of our 2010 Annual U.S. Disclosure Report on restructures that have occurred in prior periods.

In this Report, the results of our operating groups for the half year ended September 30, 2010, are presented to give effect to these internal reorganizations effective April 1, 2010, with the comparative information for the half years ended March 31, 2010 and September 30, 2009 presented based on the results of the businesses that comprise our current operating groups and division. These internal reorganizations of our operating groups and reporting segments have been internal to the Banking Group and the contributions of real estate lending activities and Real Estate Structured Finance were not material to the presentation of Real Estate Banking’s segment results for the half year ended September 30, 2010 or prior periods.

Internal transactions

Any transfers or transactions between segments have been determined on what MBL believes is an arm’s-length basis and 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.

The following is a summary of the key policies applied to internal transactions:

Internal funding arrangements. Group Treasury has the responsibility for maintaining the funding for MBL Group, and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the types of assets being funded and the term of the funding, and are fully costed. Operating groups may only source funding directly from external sources generally when there is recourse only to the assets being funded and not to MBL Group.

Transactions between operating groups. Operating groups that enter into arrangements with other operating groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions, and a profit in one operating group must be offset with an equal and opposite loss in the other operating group.

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

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

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

Macquarie Funds (excluding the Macquarie Infrastructure & Real Assets division, which forms part of the Non-Banking Group)

	Half year ended			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Net interest income	12	13	24	(8)	(50)
Fee and commission income					
Base fees	261	162	72	61	263
Performance fees	7	4	5	75	40
Other fee and commission income	121	62	39	95	210
Total fee and commission income	389	228	116	71	235
Net trading income	1	—	5	100	(80)
Share of net profits/(losses) of associates and joint ventures using the equity method	(1)	2	5	nm	nm
Other operating income and charges					
Impairment (charge)/write-back on equity investments	5	(1)	(6)	nm	nm
Specific provisions and collective allowance for credit losses	(2)	1	(2)	nm	—
Other income	56	9	11	large	large
Total other operating income and charges	59	9	3	large	large
Internal revenue ²	1	2	2	(50)	(50)
Total operating income	461	254	155	81	197
Operating expenses					
Employment expenses	(102)	(71)	(45)	44	127
Brokerage and commission expenses	(82)	(42)	(27)	95	204
Other operating expenses	(147)	(89)	(51)	65	188
Total operating expenses	(331)	(202)	(123)	64	169
Non-controlling interests ³	1	—	1	100	—
Net profit/(loss) contribution	131	52	33	152	297
Non-GAAP metrics					
Assets under Management ⁴ (A\$ billion)	211.3	209.9	58.0	nm	264
Headcount ⁵	1,073	1,074	538	nm	99

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

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

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

⁴ The balance of the CMT of A\$9.6 billion was moved on to the CMA in July 31, 2010 following a meeting of unitholders who voted to transition their holdings.

⁵ The acquisition and consolidation of fund managers in the United States during 2009, as well as the internal transfer of a European distribution business from Macquarie Securities, contributed 66 staff members to the headcount increase in the prior period.

Macquarie Fund’s net profit contribution of A\$131 million for the half year ended September 30, 2010 increased 297% from A\$33 million in the prior corresponding period primarily due to increased base fee income following the acquisition of Delaware Investments.

Net interest income

Net interest income of A\$12 million for the half year ended September 30, 2010 decreased 50% from A\$24 million in the prior corresponding period. The decrease was largely driven by lower interest income due to the maturity of part of the retail loan book in Macquarie Funds’ specialist investment offerings and higher interest expense due to funding of the Delaware Investments acquisition.

Fee and commission income

Base fees

Base fee income of A\$261 million for the half year ended September 30, 2010 increased 263% from A\$72 million in the prior corresponding period. Base fee income was higher due to the significant growth in Assets under Management from A\$58.0 billion in the prior corresponding period to \$211.3 billion for the half year ended September 30, 2010, primarily due to the acquisition of Delaware Investments, which contributed A\$151 billion of the total of A\$209.9 billion in Assets under Management at March 31, 2010.

See “Recent Developments — Funds Management Business — MBL Group” for further information on Assets under Management by operating group.

Performance fees

Performance fee income of A\$7 million for the half year ended September 30, 2010 increased 40% from A\$5 million in the prior corresponding period.

Other fee and commission income

Other fee and commission income includes structuring fees, capital protection fees, wholesale threshold management fees, fees from True Index products and internal fees received for managing and administering investment products on behalf of Banking & Financial Services.

Other fee and commission income of A\$121 million for the half year ended September 30, 2010 increased 210% from A\$39 million in the prior corresponding period, primarily as a result of the distribution service fee in Delaware Investments, as well as net True Index gains and fees in the structured finance business. The newly acquired distribution service fee in Delaware Investments offsets with associated expenses that, for accounting purposes, are recognized in brokerage and commission expenses.

Net trading income

There was no material amount of net trading income for the half year ended September 30, 2010. Net trading expense of A\$5 million in the prior corresponding period related to the performance of seed capital positions and increased income from some derivative products offered by the Investment Solutions and Sales division.

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

Net equity accounted losses of A\$1 million for the half year ended September 30, 2010 compared to A\$5 million profits in the prior corresponding period, primarily due to the write-down of unlisted funds.

Other operating income and charges

Impairment charge/(write-back) on equity investments

The impairment write-back on equity investments for the half year ended September 30, 2010 of A\$5 million related to two unlisted funds. The impairments of A\$6 million in the prior corresponding period was primarily due to impairments on unlisted investments.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A\$2 million for the half year ended September 30, 2010 was in line with A\$2 million in the prior corresponding period. The charges in each period primarily related to specific provisions booked in Specialised Investment Solutions.

Other income

Other income of A\$56 million for the half year ended September 30, 2010 increased significantly from A\$11 million in the prior corresponding period. The increase predominantly related to a gain on the derecognition of equity investments and the consolidation of portfolios of debt securities within the Banking Group upon the transfer of a portfolio of equity investments and associated total return swaps from the Non-Banking Group to the Banking Group in September 2010. The gain in the Banking Group on recognition of these debt securities was \$45 million.

Operating expenses

Total operating expenses of A\$331 million for the half year ended September 30, 2010 increased 169% from A\$123 million in the prior corresponding period, primarily due to additional employment, integration and distribution service fee expenses in the Delaware Investments business and, to a lesser extent, structured finance fee expenses.

Employment expenses

Employment expenses of A\$102 million for the half year ended September 30, 2010 increased 127% from A\$45 million in the prior corresponding period, in line with the increase in headcount from 538 at September 30, 2009 to 1,073 at September 30, 2010, primarily as a result of the acquisition of Delaware Investments in January 2010.

Brokerage and commission expenses

Brokerage and commission expenses increased 204% to A\$82 million for the half year ended September 30, 2010 from A\$27 million in the prior corresponding period. The increase in brokerage and commission expenses was primarily related to the acquisition of Delaware Investments and, to a lesser extent, structured finance fees.

Other operating expenses

Other operating expenses of A\$147 million for the half year ended September 30, 2010 increased 188% from A\$51 million in the prior corresponding period. The increase in other operating expenses was primarily due to the acquisition of Delaware Investments.

Banking & Financial Services

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
			A\$m		
Net interest income	345	297	254	16	36
Fee and commission income					
Base fees	54	98	102	(45)	(47)
Brokerage and commissions	130	119	105	9	24
Other fee and commission income	170	128	135	33	26
Income from life insurance business and other unitholder businesses	26	22	18	18	44
Total fee and commission income	380	367	360	4	6
Net trading income/(expense)	(1)	4	4	(125)	(125)
Share of net profits of associates and joint ventures using the equity method	—	2	—	(100)	—
Other operating income and charges					
Net gains on sale of equity investments	2	2	—	—	—
Impairment charge on equity investments	(5)	(4)	(1)	25	large
Impairment charge on non-financial assets	(2)	(1)	(2)	100	—
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	1	3	—	(66)	—
Specific provisions and collective allowance for credit losses.	(15)	(16)	(29)	(6)	(48)
Other income	12	2	4	large	200
Total other operating income and charges	(7)	(14)	(28)	(50)	(75)
Internal revenue ²	2	7	4	(71)	(50)
Total operating income	719	663	594	8	21
Operating expenses					
Employment expenses	(250)	(225)	(181)	11	38
Brokerage and commission expenses	(74)	(56)	(65)	32	14
Other operating expenses	(251)	(254)	(202)	(1)	25
Total operating expenses	(575)	(535)	(448)	7	28
Non-controlling interests ³	(5)	(3)	(3)	67	67
Net profit/(loss) contribution	139	125	143	12	(2)
Non-GAAP metrics					
Assets under Management ⁴ (A\$ billion)	4.1	14.3	17.0	(71)	(76)
Funds under management/advice/administration ⁵ (A\$ billion).	119.2	120.0	115.3	nm	12
Loan portfolio ⁶ (A\$ billion)	26.0	26.4	26.3	(2)	(1)
Deposits (A\$ billion)	26.5	15.5	13.9	71	91
Headcount	3,340	3,261	2,621	2	27

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

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

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

⁴ The balance of the CMT of A\$9.6 billion was moved on to the CMA in July 31, 2010 following a meeting of unitholders who voted to transition their holdings.

⁵ Funds under management/advice/administration includes Assets under Management plus items such as funds on Banking & Financial Services platforms (e.g. Wrap Funds under Administration), total Banking & Financial Services loan and deposit portfolios, CHESS holdings of Banking & Financial Services clients, and funds under advice (e.g. assets under advice of Macquarie Private Bank).

⁶ The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products and credit cards.

Banking & Financial Services' net profit contribution of A\$139 million for the half year ended September 30, 2010 decreased 2% from A\$143 million in the prior corresponding period.

Net interest income

Net interest income of A\$345 million for the half year ended September 30, 2010 increased 36% from A\$254 million in the prior corresponding period primarily due to increased retail deposits, which increased 91% to A\$26.5 billion as at September 30, 2010 from A\$13.9 billion as at September 30, 2009, predominately due to the conversion of A\$9.6 billion of CMT accounts into CMA on July 31, 2010. Banking & Financial Services receives a premium for providing internal funding to Group Treasury from these deposits.

The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, loans to Australian and Canadian businesses, loans on capital protected products and credit cards. The loan portfolio of A\$26 billion at September 30, 2010 was broadly in line with the balance at September 30, 2009.

The Canadian mortgages business continued to participate in the Canadian Mortgage Bond program. Canadian mortgage originations increased 42% during the half year ended September 30, 2010 compared to the prior corresponding period. The Canadian loan portfolio, which includes mortgages, insurance premium funding, margin loans and capital protected products, closed at A\$8.2 billion as at September 30, 2010, an increase of 61% from A\$5.1 billion as at September 30, 2009. The United States mortgages business has been closed and the book is being run down.

The size of the Australian mortgage portfolio of A\$12.9 billion at September 30, 2010 remained lower compared to A\$15.9 billion at September 30, 2009 as runoff continued to exceed new mortgage origination. At September 30, 2010, A\$10.3 billion of the Australian mortgage portfolio was funded by third parties through external securitizations.

Fee and commission income

Base fees

Base fee income of A\$54 million for the half year ended September 30, 2010 decreased 47% from A\$102 million in the prior corresponding period, as a result of a 76% decrease in Assets under Management to A\$4.1 billion at September 30, 2010 from A\$17.0 billion at September 30, 2009. The decrease was predominantly due to the conversion of A\$9.6 billion of CMT accounts into CMA. CMA do not form part of Assets under Management and income from these accounts is reported in net interest income.

Brokerage and commissions

Brokerage and commission income of A\$130 million for the half year ended September 30, 2010 increased 24% from A\$105 million in the prior corresponding period as a result of growth in the number of advisors from 420 at September 30, 2009 to 593 at September 30, 2010. The increase in advisor numbers was due to organic growth in Australia and Asia, as well as the acquisition of Macquarie Private Wealth Canada in December 2009.

Other fee and commission income

Other fee and commission income of A\$170 million for the half year ended September 30, 2010 increased 26% from A\$135 million in the prior corresponding period. The main contributor was an increase in platform and other administration fee income received. Funds under Administration on the Australian Wrap platform closed at A\$21.8 billion at September 30, 2010, which was an increase of 1% from September 30, 2009. Average volumes of Funds under Administration on the Australian Wrap platform increased 10% to A\$21.6 billion in the half year ended September 30, 2010 from A\$19.6 billion in the prior corresponding period, primarily due to improved inflows and market movements.

Fees received for administering the Macquarie Professional Series of funds also increased. Funds under administration in the Macquarie Professional Series grew by 39%, from A\$2.3 billion as at September 30, 2009 to A\$3.2 billion as at September 30, 2010.

Income from life insurance business and other unitholder businesses

Income from life insurance business and other unitholder business of A\$26 million increased 44% from A\$18 million in the prior corresponding period, primarily due to growth in the insurance inforce book, which grew to A\$76 million at September 30, 2010 from A\$42 million at September 30, 2009. The inforce book is the aggregate annualized life insurance premium payable for policies issued by the life company and still paying premiums, at the balance date.

Other operating income and charges

Impairment charge on equity investments and disposal groups held-for-sale

Impairment charges on equity investments and disposal groups held-for-sale of A\$5 million during the half year ended September 30, 2010 were higher than the impairment charge of A\$1 million in the prior corresponding period. The A\$5 million charge in the half year ended September 30, 2010 related to a writedown on an unlisted investment.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A\$15 million for the half year ended September 30, 2010 decreased 48% from A\$29 million in the prior corresponding period, due to lower provisions charges required for the capital protected products in Australia as a result of improving equity markets, loans approaching maturity and product redemptions. Specific provisions and allowance for credit losses on the United States mortgage portfolio decreased 44% in the half year ended September 30, 2010 compared to the half year ended September 30, 2009.

Other income

Other income of A\$12 million for the half year ended September 30, 2010 increased 200% from \$4 million in the prior corresponding period, primarily due to payments made by Macquarie Securities in relation to trading products offered to retail clients.

Operating expenses

Total operating expenses of A\$575 million for the half year ended September 30, 2010 increased 28% from A\$448 million in the prior corresponding period.

Employment expenses

The increase was mainly in employment expenses, which increased 38% from the prior corresponding period to A\$250 million as a result of growth in headcount, which grew by 27% from 2,621 as at September 30, 2009 to 3,340 at September 30, 2010, mainly as a result of the Macquarie Private Wealth Canada acquisition, which occurred on December 31, 2009. At September 30, 2010, there were 426 staff at Macquarie Private Wealth Canada. Headcount has also grown organically.

Other operating expenses

Other operating expenses for the half year ended September 30, 2010 of A\$251 million increased 25% from \$202 million in the prior corresponding period, as a result of increased other operating expenses associated with the integration of Macquarie Private Wealth Canada.

Real Estate Banking

	Half year ended			Movement	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net interest expense	(9)	(18)	(25)	50	64
Fee and commission income					
Base fees	1	5	25	(80)	(96)
Performance fees	—	—	35	—	(100)
Other fee and commission income	1	1	1	—	—
Total fee and commission income	2	6	61	(66)	(97)
Net trading income/(expense)	(2)	—	—	100	100
Share of net profits/(losses) of associates and joint ventures using the equity method	(5)	(9)	(7)	(44)	(29)
Other operating income and charges					
Net gains/(losses) on sale of equity investments	3	(24)	(8)	113	138
Impairment charge on equity investments	(3)	(45)	(40)	(93)	(93)
Impairment charge on non-financial assets	—	(3)	—	(100)	—
Specific provisions and collective allowance for credit losses	(10)	(8)	(17)	25	(41)
Other income	10	7	16	43	(38)
Total other operating income and charges	—	(73)	(49)	(100)	(100)
Internal revenue ¹	2	5	—	(60)	—
Total operating income	(12)	(89)	(20)	(87)	(40)
Operating expenses					
Employment expenses	(5)	(5)	(6)	—	(17)
Other operating expenses	(8)	(11)	(11)	(27)	(27)
Total operating expenses	(13)	(16)	(17)	(19)	(24)
Net profit/(loss) contribution	(25)	(105)	(37)	(76)	(32)
Non-GAAP metrics					
Assets under Management (A\$ billion)	5.0	5.0	10.7	—	(53)
Headcount	63	73	78	(14)	(19)

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

Real Estate Banking’s net loss contribution of A\$25 million for the half year ended September 30, 2010 decreased 32% from a net loss contribution of A\$37 million in the prior corresponding period, driven mainly by a 93% decrease in impairment charges on equity investments due to a reduction in its investment portfolio.

Net interest expense

Net interest expense of A\$9 million for the half year ended September 30, 2010 decreased 64% from A\$25 million in the prior corresponding period. The expense for the half year ended September 30, 2010 reflected a net reduction in the investment portfolio following disposals and writedowns, including the sale of Australian listed REIT unit holdings to Charter Hall in March 2010.

Fee and commission income

Base fees

Base fee income of A\$1 million for the half year ended September 30, 2010 decreased 96% from A\$25 million in the prior corresponding period. Base income for the prior corresponding period related to one-off transactions including A\$16 million received from Macquarie Central Office CR-REIT on the sale of the Kukdong building and

A\$8 million from Macquarie Office Trust (renamed as Charter Hall Office REIT as at March 1, 2010). MGL's interest in the manager of Macquarie Office Trust was sold to Charter Hall in March 2010.

Performance fees

There were no performance fee income earned for the half year ended September 30, 2010. Performance fee income for the prior corresponding period included A\$35 million of fees earned from the disposal of Macquarie Central Office CR-REIT's Kukdong building in Korea.

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

Equity accounted losses of A\$5 million for the half year ended September 30, 2010 decreased 29% from an equity accounted loss of A\$7 million in the prior corresponding period. The half year ended September 30, 2010 included equity accounted losses relating to the investment in Medallist, which was partially offset by equity accounted profits from an investment in MGPA (a real estate investment advisory company). The loss in the prior corresponding period was driven by losses in Real Estate Banking's associates, including investments in Medallist, Australian listed REIT holdings and Macquarie Goodman Japan, which was partially offset by profits from MGPA.

Other operating income and charges

Net gains/(losses) on sale of equity investments

A net gain on sale of equity investments of A\$3 million for the half year ended September 30, 2010 increased significantly from a net loss of A\$8 million in the prior corresponding period. The gain in the current period included profit on the disposal of the US manager for MDT. Losses for the half year ended September 30, 2009 mainly related to the sale of offshore investments.

Impairment charge on equity investments

The impairment charge on equity investments of A\$3 million for the half year ended September 30, 2010 related to Australian investments, a 93% decrease from A\$40 million in the prior corresponding period. The prior corresponding period included impairments for offshore investments of A\$16 million, Australian listed and unlisted REIT investments of A\$11 million and Australian investments of A\$16 million.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A\$10 million for the half year ended September 30, 2010 decreased 41% from A\$17 million in the prior corresponding period. Provisions for the half year ended September 30, 2010 were primarily attributable to amounts provided for loans extended to Medallist.

Other income

Other income of A\$10 million for the half year ended September 30, 2010 decreased 38% from A\$16 million in the prior corresponding period. This mainly related to a reduction in sales from Australian residential projects.

Operating expenses

Total operating expenses of A\$13 million for the half year ended September 30, 2010 decreased 24% from A\$17 million in the prior corresponding period. The decrease reflected a net reduction in the investment portfolio following disposals and writedowns and therefore the cost of operating the business.

Corporate & Asset Finance

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net interest income	284	223	163	27	74
Fee and commission income/(expenses)	7	(6)	6	217	17
Net trading income/(expense)	(2)	9	30	(122)	(107)
Share of net profits/(losses) of associates and joint ventures using the equity method	6	(6)	1	200	large
Other operating income and charges					
Impairment charge on non-financial assets.....	(1)	(4)	(12)	(75)	(92)
Impairment charge on equity investments.....	(4)	(1)	(6)	300	(33)
Net operating lease income.....	41	35	33	17	24
Specific provisions and collective allowance for credit losses	(19)	(63)	(27)	(70)	(30)
Other income	40	24	24	67	67
Total other operating income and charges	57	(9)	12	large	large
Internal revenue ²	11	12	17	(8)	(35)
Total operating income	363	223	229	63	59
Operating expenses					
Employment expenses	(68)	(52)	(42)	31	62
Other operating expenses.....	(62)	(48)	(58)	29	7
Total operating expenses	(130)	(100)	(100)	30	30
Non-controlling interests ³	—	(1)	(1)	(100)	(100)
Net profit/(loss) contribution	233	122	128	91	82
Non-GAAP metrics					
Loan and lease portfolio (A\$ billion)	15.9	14.2	12.2	12	30
Headcount.....	844	717	614	18	37

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

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

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

Corporate & Asset Finance’s net profit contribution of A\$233 million for the half year ended September 30, 2010 increased 82% from A\$128 million in the prior corresponding period, primarily due to growth of the loan and finance lease portfolio principally from the acquisitions of the A\$1 billion Ford Credit portfolio in October 2009 and the A\$1 billion GMAC portfolio in April 2010 driving increased net interest income.

Net interest income

Net interest income of A\$284 million for the half year ended September 30, 2010 increased 74% from A\$163 million in the prior corresponding period. The increase in net interest income was primarily due to higher margins resulting from the purchase of new portfolios at a discount and a 30% increase in the loan and finance lease portfolios to A\$15.9 billion for the half year ended September 30, 2010 from A\$12.2 billion in the prior corresponding period, mainly due to increased corporate lending and the acquisitions of the A\$1 billion Ford Credit portfolio in October 2009 and the A\$1 billion GMAC portfolio in April 2010. See “Recent Developments — Recent Developments within MGL Group” for more information.

Fee and commission income

Fee and commission income of A\$7 million for the half year ended September 30, 2010 increased 17% from A\$6 million for the prior corresponding period primarily due to other lending and leasing fees associated with the loan and lease portfolio.

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

Net equity accounted profits of A\$6 million for the half year ended September 30, 2010 increased significantly compared to A\$1 million in prior corresponding period, primarily due to equity accounted profits from an investment in a residential property development.

Net trading income/(expense)

Net trading expense of A\$2 million for the half year ended September 30, 2010 decreased significantly from a net trading income of A\$30 million in the prior corresponding period. The income in the prior corresponding period related to changes to the fair value of options and equity securities which were sold in the prior period.

Other operating income and charges

Impairment charge on equity investments

The impairment charge on equity investments of A\$4 million for the half year ended September 30, 2010 decreased 33% from A\$6 million in the prior corresponding period. The impairment charge for both periods related to real estate investments.

Net operating lease income

Net operating lease income of A\$41 million (net of depreciation) for the half year ended September 30, 2010 increased 24% from A\$33 million in the prior corresponding period, primarily due to the acquisition of 24 aircraft assets and associated leases from ILFC.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A\$19 million for the half year ended September 30, 2010 decreased 30% from A\$27 million in the prior corresponding period primarily as a result of a reduction in the collective allowance for credit losses as underlying loss rates reduced compared to the prior corresponding period.

Other income

Other income of A\$40 million for the half year ended September 30, 2010 increased 67% from A\$24 million in the prior corresponding period, primarily as a result of increased sales of assets that have come off lease and inventory largely from the Electronics business.

Operating expenses

Total operating expenses of A\$130 million for the half year ended September 30, 2010 increased 30% from A\$100 million in the prior corresponding period, primarily due to increased costs arising from headcount growth as a result of the recent acquisitions.

Employment expenses

Employment expenses of A\$68 million for the half year ended September 30, 2010 increased 62% from A\$42 million in the prior corresponding period. The increase was mainly driven by an increase in average headcount due to recent acquisitions as well as continued investment in MBL Group's global platform.

Other operating expenses

Other operating expenses of A\$62 million for the half year ended September 30, 2010 increased 7% from A\$58 million in the prior corresponding period.

Fixed Income, Currencies & Commodities

	Half year ended			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Net trading income (including net interest income)²					
Commodities.....	196	325	345	(40)	(43)
Foreign exchange products.....	14	35	58	(60)	(76)
Interest rate products.....	147	245	101	(40)	46
Fair value adjustments relating to leasing contracts..	(32)	9	33	large	(197)
Net trading income (including net interest income)..	325	614	537	(47)	(40)
Fee and commission income.....	29	10	3	190	large
Share of net profits of associates and joint ventures using the equity method.....	15	7	3	114	large
Other operating income and charges					
Impairment charge on equity investments.....	(2)	(1)	(2)	100	—
Net gains/(losses) on sale of equity investments.....	52	38	26	37	100
Specific provisions and collective allowance for credit losses.....	12	(3)	(45)	large	127
Other income.....	29	10	11	190	164
Total other operating income and charges.....	91	44	(10)	107	large
Internal revenue³.....	27	52	28	(48)	(4)
Total operating income.....	487	727	561	(33)	(13)
Operating expenses					
Employment expenses.....	(92)	(85)	(71)	8	30
Brokerage and commission expenses.....	(90)	(103)	(54)	(13)	67
Other operating expenses.....	(147)	(126)	(113)	17	30
Total operating expenses.....	(329)	(314)	(238)	5	38
Net profit/(loss) contribution.....	158	413	323	(62)	(51)
Non-GAAP metrics					
Headcount.....	744	696	593	7	25

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

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

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

Fixed Income, Currencies & Commodities’ net profit contribution of A\$158 million for the half year ended September 30, 2010 decreased 51% from A\$323 million in the prior corresponding period primarily due to challenging trading conditions and subdued client activity. In addition, increased operating expenses resulted in a lower net profit contribution, primarily due to investment over the past 12 months in new capabilities in credit sales and trading and emerging markets, the extension of these new platforms from the United States into Europe and the establishment of new capabilities in rates, currencies and credit sales and trading in Asia.

Net trading income

Commodities trading income

Commodities trading income of A\$196 million for the half year ended September 30, 2010 decreased 43% from A\$345 million in the prior corresponding period. In line with the broader market, Fixed Income, Currencies & Commodities experienced challenging trading conditions and lower client term hedging activity in some of its commodity markets during the half year ended September 30, 2010.

In metals and agricultural markets, clients' propensity to enter into term hedging was sporadic during the half year ended September 30, 2010 and freight market volatility fell, impacting income. Energy markets occasionally experienced more difficult trading conditions with periods when the market moved away from the fundamentals of supply and demand resulting in a reduction of income compared to the prior corresponding period. In addition, northern hemisphere energy revenues were down on the prior period reflecting the seasonal nature of the energy market.

Foreign exchange products trading income

Trading income on foreign exchange products of A\$14 million for the half year ended September 30, 2010 decreased 76% from A\$58 million in the prior corresponding period. The decrease was primarily due to the impact of suppressed volatility in global currency markets and the higher Australian dollar on the level of client term hedging, combined with margin compression due to competition.

Interest rate products trading income

Trading income on interest rate products of A\$147 million for the half year ended September 30, 2010 increased 46% from A\$101 million in the prior corresponding period, primarily due to the development of the credit trading and emerging markets businesses since the prior corresponding period.

Fee and commission income

Fee and commission income of A\$29 million for the half year ended September 30, 2010 increased significantly from A\$3 million in the prior corresponding period, primarily due to improved volumes in the futures execution and clearing markets.

Other operating income and charges

Impairment charge on equity investments

Impairment charges on equity investments of A\$2 million were recognized for the half year ended September 30, 2010 and was in line with the impairment charges of A\$2 million in the prior corresponding period. The charges in both periods related to equity investments in the resources sector.

Net gains/(losses) on sale of equity investments

Net gains on sale of equity investments of A\$52 million for the half year ended September 30, 2010 increased significantly from A\$26 million in the prior corresponding period due to stronger resource equity markets, particularly in the gold sector.

Specific provisions and collective allowance for credit losses

Net loan provision releases of A\$12 million for the half year ended September 30, 2010, increased significantly from net loan provision charges of A\$45 million in the prior corresponding period, primarily due to improved conditions in resource equity markets.

Other income

Other income of A\$29 million for the half year ended September 30, 2010 increased 164% from A\$11 million in the prior corresponding period. This increase reflected net profit interests and royalties from participations in the metals and energy sector.

Operating expenses

Total operating expenses of A\$329 million for the half year ended September 30, 2010 increased 38% from A\$238 million in the prior corresponding period.

Employment expenses

Employment expenses of A\$92 million for the half year ended September 30, 2010 increased 30% from A\$71 million in the prior corresponding period, mainly driven by an increase in employment costs per head attributable to the continued expansion of the credit trading and emerging markets businesses in the United States and their expansion into Europe, as well as the establishment of the new Asian Markets business in Singapore.

Brokerage and commissions

Brokerage and commission expenses of A\$90 million increased 67% from A\$54 million in the prior corresponding period, largely as a result of the growth in futures execution and clearing volumes in the Futures division.

Other operating expenses

Other operating expenses of A\$147 million for the half year ended September 30, 2010 increased 30% from A\$113 million in the prior corresponding period, mainly as a result of the cost of additional support headcount in risk, operations and information technology and the expansion of Fixed Income, Currencies & Commodities' business platforms.

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

	Half year ended			Movement	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Net trading income (including net interest income)¹	126	202	249	(38)	(49)
Total fee and commission income	(53)	(24)	(38)	121	39
Total other income	(6)	—	—	—	—
Internal revenue²	(7)	10	11	170	164
Total operating income	60	188	222	(68)	(73)
Operating expenses					
Employment expenses	(6)	(13)	(10)	(54)	(40)
Brokerage and commission expenses	(73)	(54)	(113)	35	(35)
Other operating expenses	(48)	(55)	(49)	(13)	(2)
Total operating expenses	(127)	(122)	(172)	4	(26)
Net profit/(loss) contribution	(67)	66	50	(202)	(234)
Non-GAAP metrics					
Headcount	70	97	97	(28)	(28)

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

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

Macquarie Securities' net loss contribution of A\$67 million for the half year ended September 30, 2010 decreased 234% from a net profit contribution of A\$50 million in the prior corresponding period, primarily due to reduced levels of both institutional and retail client activity globally.

Net trading income (including net interest income)

Net trading income from equity products (including net interest income) of A\$126 million for the half year ended September 30, 2010 decreased 49% from A\$249 million in the prior corresponding period. Derivatives revenues were down on the prior corresponding period, reflecting continued weak product demand for retail and structured products in Asia, Europe and Australia as market conditions remained weak across most markets. Arbitrage Trading activities were impacted by low market volatility and volumes, in contrast to the higher levels of volatility experienced in the prior corresponding period.

Fee and commission income

Fee and commission income for the half year ended September 30, 2010 was a loss of A\$53 million, an increased loss of 39% from a loss of A\$38 million in the prior corresponding period. This category mainly consists of internal transfer pricing charges paid as compensation for services provided to MBL by non-bank service entities. The gain in the prior corresponding period was due to an adjustment to transfer pricing relating to the prior year.

Operating expenses

Employment expenses

Employment expenses of A\$6 million for the half year ended September 30, 2010 decreased 40% from A\$10 million in the prior corresponding period, which was in line with the decrease in headcount during the period.

Brokerage and commission expenses

Brokerage and commission expenses of A\$73 million for the half year ended September 30, 2010 decreased 35% from A\$113 million in the prior corresponding period. The decrease in brokerage and commission expenses was primarily driven by lower trading volumes and reduced brokerage rates that resulted in decreased trading income.

Other operating expenses

Other operating expenses of A\$48 million for the half year ended September 30, 2010 was broadly in line with A\$49 million in the prior corresponding period.

Macquarie Capital

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net interest income	(4)	(5)	(5)	(20)	(20)
Fee and commission income	2	2	2	—	—
Net trading income	—	—	(1)	—	(100)
Share on net profits of associates and joint ventures using the equity method	6	8	4	(25)	50
Other operating income and charges	—	(5)	(62)	(100)	(100)
Internal revenue ²	2	5	6	(60)	(67)
Total operating income	6	5	(56)	20	111
Total operating expenses	(1)	—	1	nm	(200)
Net profit/(loss) contribution	5	5	(55)	—	109

¹ “nm” indicates that the percentage change was less than 1% and therefore not meaningful.

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

Macquarie Capital’s net profit contribution of A\$5 million for the half year ended September 30, 2010, increased 109% from a net loss contribution of A\$55 million in the prior corresponding period, largely due to reduced impairment charges on asset backed securities held as available-for-sale. Income generated by Macquarie Capital in the Banking Group is driven by legacy assets that were not transferred as part of the Restructure.

Net interest income

Net interest expense of A\$4 million for the half year ended September 30, 2010 was broadly in line with A\$5 million in the prior corresponding period, which reflects interest expense on borrowings for principal investments.

Fee and commission income

Fee and commission income of A\$2 million for the half year ended September 30, 2010 was in line with income of A\$2 million in the prior corresponding period.

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

Net equity accounted gains of A\$6 million for the half year ended September 30, 2010 increased 50% from A\$4 million in the prior corresponding period, driven by improvements in the underlying results of investments due to improved market conditions.

Other operating income and charges

There were no other operating income and charges in the half year ended September 30, 2010. Other operating income and charges of A\$62 million expense in the prior corresponding period primarily related to writedowns of asset-backed securities held as available-for-sale.

Operating expenses

Operating expenses of A\$1 million for the half year ended September 30, 2010 were in line with A\$1 million income in the prior corresponding period.

Corporate

	Half year ended			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Net interest income	230	224	101	3	128
Fee and commission income/(expense)	(2)	17	(74)	(111)	(97)
Net trading income/(expense)	92	(103)	(234)	189	139
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(2)	(2)	(1)	—	100
Other operating income and charges					
Net gains on sale of debt and equity investments	45	9	7	large	large
Impairment charge on equity investments	(31)	—	—	—	—
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held-for-sale	(1)	8	74	(113)	(101)
Gain on repurchase of debt	—	—	55	—	(100)
Specific provisions and collective allowance for credit losses	(29)	6	1	large	large
Other income	(3)	—	70	—	(104)
Total other operating income and charges	(19)	22	207	(186)	(109)
Internal revenue ²	(38)	(93)	(68)	(59)	(44)
Total operating income/(expense)	261	65	(69)	large	large
Operating expenses					
Employment expenses	(284)	(135)	(148)	110	92
Brokerage and commission expenses	(63)	(10)	(15)	large	large
Other operating expenses	(98)	(127)	(69)	(23)	42
Total operating expenses	(445)	(272)	(232)	64	92
Tax expense	(83)	(53)	(12)	57	large
Macquarie Income Preferred Securities	(1)	(2)	(6)	(50)	(83)
Macquarie Income Securities	(13)	(11)	(10)	18	30
Other non-controlling interests	1	1	1	—	—
Net profit/(loss) contribution	(280)	(272)	(328)	3	(15)

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

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

The Corporate segment includes Group Treasury, head office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to non-controlling interests. The Corporate segment also includes the impact of changes in credit spreads that are classified as fair value through the profit or loss statement.

Corporate’s net loss contribution of A\$280 million for the half year ended September 30, 2010 decreased 15% from a net loss contribution of A\$328 million in the prior corresponding period. This was primarily due to negative fair value adjustments on fixed rate issued debt of A\$252 million in the prior corresponding period compared to positive fair value adjustments on fixed rate issued debt for the half year ended September 30, 2010.

Net interest income

Net interest income for the half year ended September 30, 2010 was A\$230 million, an increase of 128% from A\$101 million in the prior corresponding period due to higher interest rates in the half year ended September 30,

2010 compared to the prior corresponding period. Interest income was mainly generated through the investment of MBL's capital, offset by funding costs not passed on to businesses through Group Treasury.

Fee and commission income/(expense)

Fee and commission expense of A\$2 million for the half year ended September 30, 2010 decreased 97% from expenses of A\$74 million in the prior corresponding period, primarily due to income that offsets with a related item that for accounting purposes is required to be recognized in brokerage and commission expenses described below.

Fee and commission expense in all periods primarily related to internal transactions with operating groups that net to nil on aggregation across MBL Group.

Net trading income/(expense)

Net trading income of A\$92 million for the half year ended September 30, 2010 increased significantly from net trading expense of A\$234 million in the prior corresponding period, primarily related to negative fair value adjustments on fixed rate issued debt of A\$252 million.

Other operating income and charges

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of A\$45 million for the half year ended September 30, 2010 increased significantly from a net gain of A\$7 million in the prior corresponding period due to profits from the sale of debt securities by Group Treasury.

Impairment charge on equity investments

The impairment charge on equity investments of A\$31 million for the half year ended September 30, 2010 related to the real estate sector. There were no impairment charges on equity investments in the prior corresponding period.

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

The gain of A\$127 million for the half year ended September 30, 2009 in the prior corresponding period related to gains from financing the acquisition of MIPS. No such transactions were undertaken in the half year ended September 30, 2010.

Gain on repurchase of debt

In the half year ended September 30, 2009, MGL Group undertook a buy-back of a portion of MGL Group's outstanding subordinated debt carried at amortized cost at a discount to face value that realized a profit of A\$55 million. No such transactions were undertaken in the half year ended September 30, 2010.

Specific provisions and collective allowance for credit losses

The charge for specific provisions and collective allowance for losses of A\$29 million for the half year ended September 30, 2010 primarily related to an asset in the residential property development sector and an increase in the collective allowance provision due to growth in MGL's loan and lease portfolios over the period.

Other income

Other income was a net expense of A\$3 million for the half year ended September 30, 2010, which had decreased by 104% from \$70 million in the prior corresponding period. No single material item drives this change.

Operating expenses

Employment expenses

Employment expenses in the Corporate segment were largely driven by headcount, staff profit share and the impact of mark-to-market adjustments of Directors' profit share plan liabilities. For the half year ended September 30, 2010, employment expenses increased 92% to A\$284 million from A\$148 million in the prior corresponding period. The driver of the increase was increases in support function headcount growth due to the integration task relating to the recently acquired businesses as well as ongoing investment in systems and technology.

Brokerage and commission expenses

Brokerage and commission expenses of A\$63 million for the half year ended September 30, 2010 increased significantly from A\$15 million from the prior corresponding period due to amounts that offset with other fee and commission income. Brokerage and commission expenses in the Corporate segment related to fees and commissions paid on the issuance of debt instruments by Group Treasury.

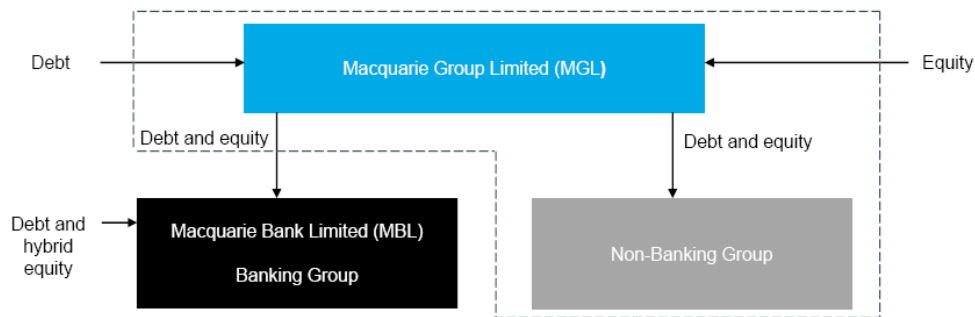
Macquarie Income Preferred Securities (MIPS)

The reduction in the net distributions under the MIPS from A\$6 million in the prior corresponding period to A\$1 million in the half year ended September 30, 2010 was due to the acquisitions of the MIPS financed in June 2009.

Liquidity

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

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



Liquidity Management

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

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

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

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 funding markets and with only a limited impact on franchise businesses.

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

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL 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 funding markets and with only a limited impact on franchise businesses. MBL is funded mainly by capital, long-term liabilities and deposits.

MBL can provide debt funding to MGL (or the Non-Banking Group) up to a regulatory limit that is determined by APRA's non ELE rules. MBL's ability to return capital to MGL for use by MGL (or the Non-Banking Group) is limited by MBL's existing capital requirements as an ADI. See "Recent Developments — Regulatory and

Supervision Developments — Australia — APRA” beginning on page 30 of this Report and “Regulation and Supervision — Australia — APRA” beginning on page 46 of our 2010 Annual U.S. Disclosure Report. As a result, MGL’s liquidity modeling and 12 month scenarios separately test MGL Group, MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business.

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

Liquidity and Funding Management

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

Liquidity Limits

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

Scenario Analysis

Scenario analysis is central to MGL Group’s liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modeling is to ensure MGL Group and MBL Group’s ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modeling includes 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 and a range of conservative assumptions are used 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, 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 significant loss of deposits and contingent funding outflows resulting

from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be repo-eligible with a central bank. The remainder must be approved by Group Treasury and Risk Management before inclusion in the liquid asset portfolio. As at September 30, 2010, 97% of the liquid asset portfolio was eligible for repurchase with central banks.

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

MGL Group had A\$26.5 billion cash and liquid assets at September 30, 2010 (September 30, 2009: A\$26.7 billion), of which A\$24.1 billion was held by MBL Group (September 30, 2008: A\$23.7 billion).

Liquidity Contingency Plan

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

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high-level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and 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 September 30, 2010, the credit ratings for each of MGL Group's funding vehicles were as follows:

Rating Agency¹	Macquarie Group Limited			Macquarie Bank Limited		
	Short-term	Long-term	Long-term Rating Outlook	Short-term	Long-term	Long-term Rating Outlook
Fitch Ratings.....	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Service....	P-1	A2	Negative	P-1	A1	Negative
Standard & Poor's	A-2	A-	Stable	A-1	A	Stable

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

Funding Transactions

The table below sets out MGL Group's term funding transactions in the half year ended September 30, 2010:

Funding Source	Half year ended		
	Sep 10		
	Banking Group	Non-Banking Group	Total
	A\$bn	A\$bn	A\$bn
Secured finance			
Term secured finance.....	2.9	—	2.9
Issued paper			
Subordinated debt.....	0.9	—	0.9
Senior debt.....	—	0.5	0.5
Total	3.8	0.5	4.3

Since March 31, 2010 MGL and MBL have continued to raise term wholesale funding.

In the half year ended September 30, 2010, MBL Group raised \$2.9 billion of term secured finance, A\$1.7 billion through the Canadian Mortgage Bonds program, A\$0.7 billion through issuance of PUMA Masterfund P-16 RMBS, which are used for the securitization of Australian residential housing loans, and A\$0.5 billion through issuance of SMART 2010-2 bonds, which are used for the securitization of motor vehicle and equipment leases.

In addition, MBL issued A\$0.9 billion of subordinated debt on September 14, 2010 and MGL issued A\$0.5 billion of senior unguaranteed bonds on August 4, 2010.

Regulatory Developments

In response to the recent events of the global financial crisis, regulators worldwide are proposing to enhance their prudential standards for liquidity risk management relevant to banks. The proposed changes include more stringent qualitative and quantitative requirements to enhance the resilience of financial institutions under stressed market conditions. See "Recent Developments — Regulatory and Supervision Developments" beginning on page 30 of this Report and "Regulation and Supervision" on page 46 of our 2010 Annual U.S. Disclosure Report for further information.

The Basel Committee has proposed increased reporting requirements and two main liquidity metrics, the Liquidity Coverage Ratio ("*LCR*") and the Net Stable Funding Ratio ("*NSFR*").

Liquidity Coverage Ratio

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

MBL Group estimates that it comfortably meets the overall quantum of liquid assets required by the LCR. However, while MBL Group's liquid asset portfolio is comprised almost entirely of RBA eligible securities, as with other ADIs, this includes assets that do not meet the definition proposed by the Basel Committee; effectively lower yielding cash and government bonds. Australia has insufficient government bonds on issue to meet the combined liquid asset requirement for local banks. The Basel Committee has indicated that for countries in this position, it will provide scope within the proposals to facilitate compliance with the regulations.

Net Stable Funding Ratio

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

MBL Group does not currently rely on short term funding and has sufficient cash and liquid assets to repay all short term wholesale funding. In addition, MBL Group’s internal liquidity policy requires that term assets are funded with term liabilities.

MBL Group continues to monitor developing liquidity regulations. See “Recent Developments — Regulatory and Supervision Developments — Australia — APRA” beginning on page 30 of this Report and “Regulation and Supervision — Australia — APRA” on page 46 of our 2010 Annual U.S. Disclosure Report for further information.

Explanation of Funded Balance Sheet

MGL and MBL's statutory balance sheets are prepared based on AGAAP and do not always represent actual funding requirements. For example, the statutory balance sheet includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of MGL or MBL.

The tables below have been prepared to reconcile the reported assets of the consolidated MGL Group to the net funded assets at September 30, 2010. This MGL Group funding requirement is then split between the Banking Group and Non-Banking Group to assist in the analysis of each of the separate funding profiles of MGL and MBL.

MGL Group	<u>As at</u>
	<u>Sep 10</u>
	<u>A\$b</u>
Total assets per MGL Statutory Balance Sheet	158.1
Accounting deductions:	
Self funded trading assets ¹	(16.6)
Derivative revaluation accounting gross-ups ²	(21.8)
Life investment contracts and segregated assets ³	(8.3)
Broker settlement balances ⁴	(7.4)
Short term working capital assets ⁵	(6.0)
Non-recourse funded assets:	
Securitized assets and non-recourse warehouses ⁶	(13.0)
Net funded assets	<u>85.0</u>

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

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

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

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

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

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

Funded Assets and Funding Sources of MGL Group

The following table represents the funded balance sheet of MGL Group at September 30, 2010:

	<u>As at</u>
	<u>Sep 10</u>
	A\$b
MGL Group	
Funding sources	
Wholesale issued paper: ¹	
Negotiable certificates of deposits.....	1.4
Commercial paper	1.0
Structured notes ²	3.1
Secured funding ³	9.6
Bonds ⁴	17.5
Other loans ⁵	0.3
Senior Credit Facility ⁶	6.7
Deposits ⁷	
Retail deposits.....	26.5
Corporate and wholesale deposits.....	4.7
Loan Capital ⁸	2.6
Equity and hybrids ⁹	11.6
Total	<u>85.0</u>
Funded assets	
Cash and liquid assets ¹⁰	26.5
Net trading assets ¹¹	14.4
Loan assets less than one year ¹²	7.9
Loan assets greater than one year ¹²	24.2
Assets held-for-sale ¹³	0.1
Debt investment securities ¹⁴	3.4
Co-investment in MGL Group-managed funds and equity investments ¹⁵	5.8
Property, plant and equipment and intangibles.....	2.1
Net trade debtors ¹⁶	0.6
Total	<u>85.0</u>

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

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

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

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

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

⁶ *Senior Credit Facility.* MGL's Senior Credit Facility is provided by a syndicate of wholesale lenders. As at September 30, 2010, the facility limit was A\$7.3 billion, of which A\$0.6 billion was undrawn. For a description of the Senior Credit Facility, see "— Funding Profile for Non-Banking Group" in this Report.

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 includes the MIPS and MIS security issues.

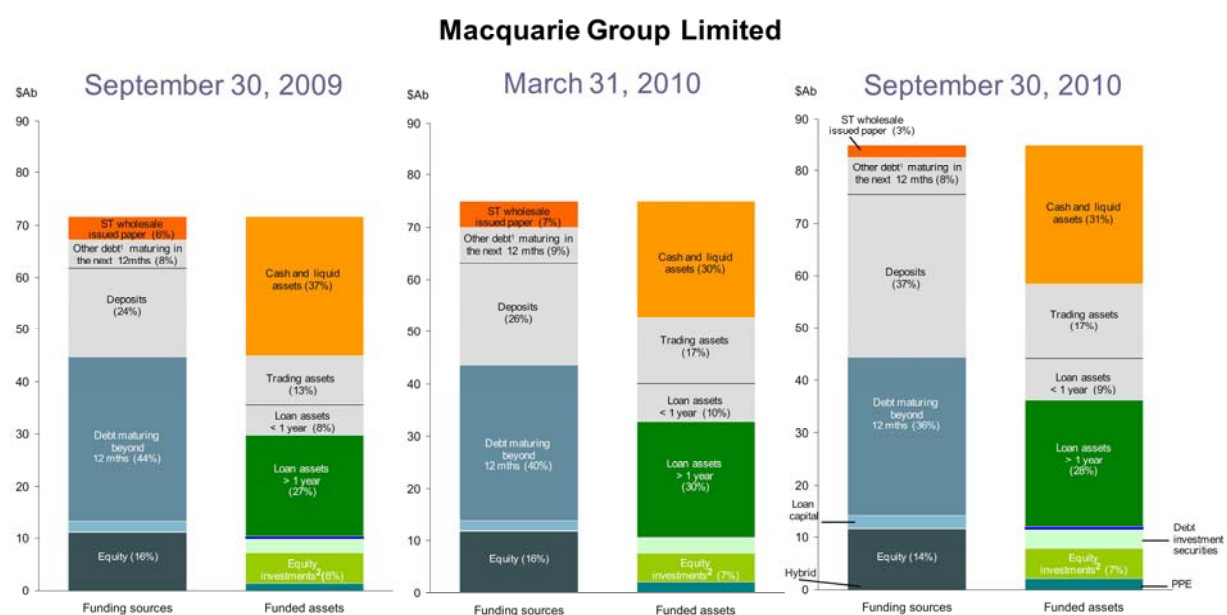
¹⁰ *Cash and liquid assets.* Funded cash and liquid assets generally consist of amounts due from banks and short-term debt investment securities available-for-sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

¹¹ *Net trading assets.* The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

¹² *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan assets" in this Report 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 MGL Group-managed funds and equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in MGL Group-managed funds.
- ¹⁶ *Net trade debtors.* Short-term working capital balances (debtors and creditors) are created through the day-to-day operations of MGL Group. A net funding use (or source) will result due to timing differences in cash flows.

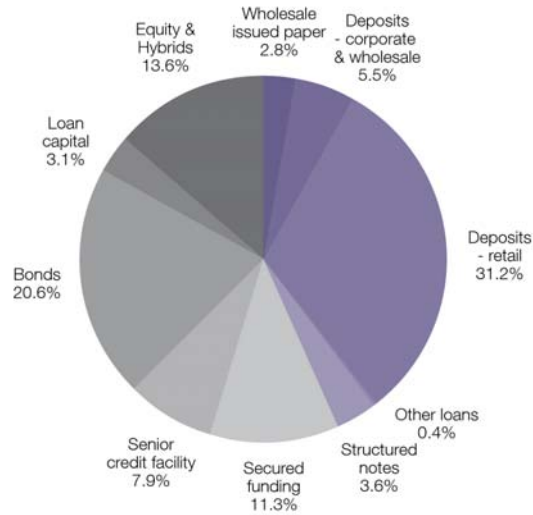
The funded balance sheet of MGL has continued to strengthen due to the term funding raised in the half year ended September 30, 2010, as described in this Report under “— Funding Transactions”. The graph below illustrates the change in composition of the funded balance sheet over this period, which primarily grew due to the conversion of CMT accounts into at-call deposits in the CMA. For a description of deposit growth over the period, see “— Deposit Strategy” in this Report.



¹ Includes structured notes, secured funding, bonds, other bank loans maturing within the next 12 months and net trade creditors.

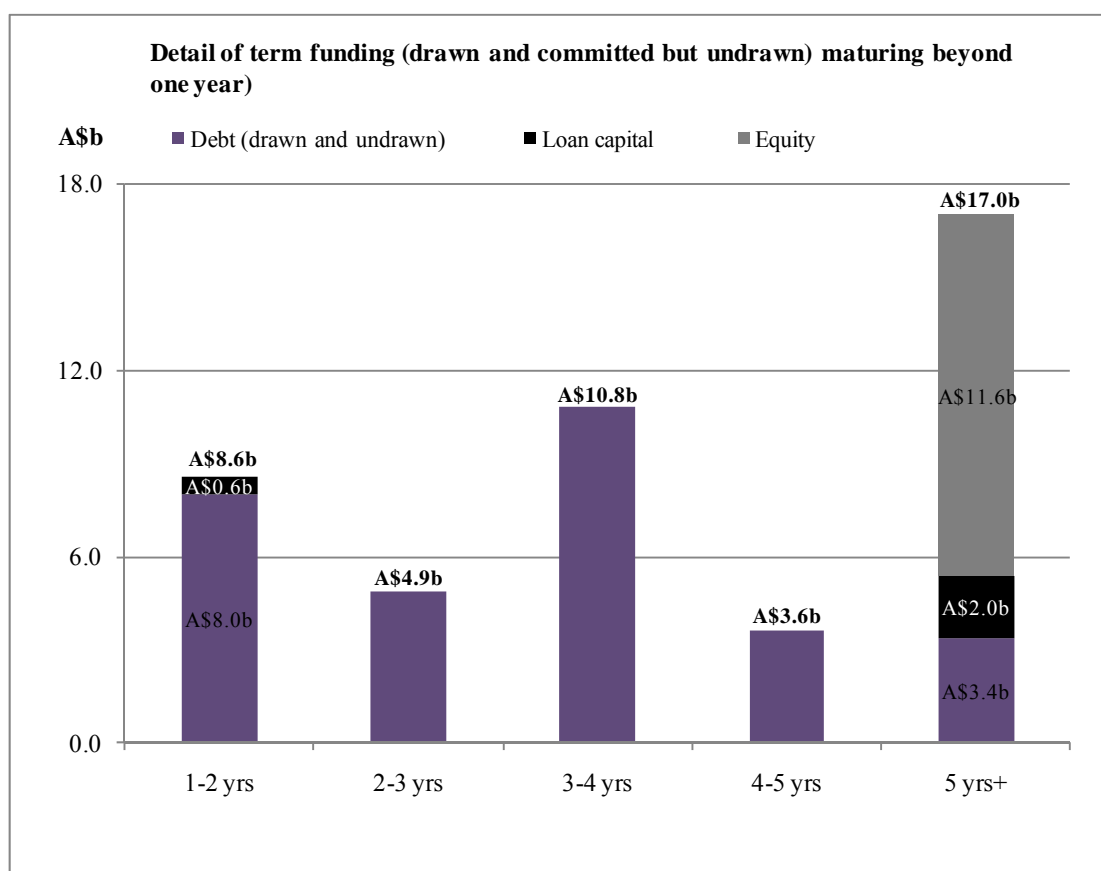
² This represents MGL’s co-investment in MGL Group-managed funds and equity investments.

Diversity of funding sources of MGL Group, as at September 30, 2010



As at September 30, 2010, deposits represented A\$31.2 billion, or 36.7% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A\$2.4 billion, or 3% of total funding and other debt funding maturing within twelve months represented A\$7.1 billion or 8% of total funding.

The following chart and table provide detail of MGL Group's term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2010:



	As at Sep 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
	A\$b	A\$b	A\$b	A\$b	A\$b
MGL Group					
Structured notes.....	0.3	0.2	0.2	0.2	0.4
Secured funding.....	0.9	2.2	1.6	3.1	0.8
Bonds.....	4.4	0.1	9.0	0.1	2.1
Other loans.....	—	—	—	0.2	0.1
Senior Credit Facility ¹	2.2	2.1	—	—	—
Total debt	7.8	4.6	10.8	3.6	3.4
Loan capital.....	0.6	—	—	—	2.0
Equity and hybrid.....	—	—	—	—	11.6
Total funding sources drawn	8.4	4.6	10.8	3.6	17.0
Undrawn.....	0.2	0.3	—	—	—
Total funding sources drawn and undrawn	8.6	4.9	10.8	3.6	17.0

¹ MGL's Senior Credit Facility is provided by a syndicate of wholesale lenders. As at September 30, 2010, the facility limit was A\$7.3 billion, of which A\$0.6 billion was undrawn. For a description of the Senior Credit Facility, see "— Funding Profile for Non-Banking Group" in this Report.

At September 30, 2010, MGL Group's term funding (including undrawn facilities) maturing beyond one year of A\$44.9 billion, which comprised the funding sources described above, exceeded term assets. In addition, at September 30, 2010 MGL Group's cash and liquid assets of A\$26.5 billion exceeded short term wholesale issued paper of A\$2.4 billion.

Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short term funding) decreased from 3.9 years at March 31, 2010 to 3.7 years at September 30, 2010.

Funding Profile for Banking Group

The funded balance sheet of the Banking Group as at September 30, 2010:

	As at Sep 10 A\$b
Banking Group	
Funding sources	
Wholesale issued paper: ¹	
Negotiable certificates of deposit.....	1.4
Commercial paper	1.0
Structured notes ²	2.7
Secured funding ³	9.0
Bonds ⁴	14.0
Other loans ⁵	—
Deposits ⁶	
Retail	26.5
Corporate and wholesale	4.7
Loan capital ⁷	2.0
Equity and hybrids ⁸	8.7
Total	70.0
Funded assets	
Cash and liquid assets ⁹	24.1
Net trading assets ¹⁰	13.4
Loan assets less than one year ¹¹	7.7
Loan assets greater than one year ¹¹	23.3
Assets held-for-sale ¹²	—
Debt investment securities ¹³	3.2
MBL Intra Group Loan to MGL ¹⁴	1.2
Non-Banking Group deposit with MBL.....	(6.4)
Co-investment in MGL Group-managed funds and equity investments ¹⁵	1.8
Property, plant and equipment and intangibles.....	1.2
Net trade debtors ¹⁷	0.5
Total	70.0

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

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

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

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

⁵ *Other 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 *Loan capital.* Long-term subordinated debt and Convertible Preference Securities.

⁸ *Equity and hybrids.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIPS and MIS security issues.

⁹ *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.

¹⁰ *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.

¹¹ *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See “— Capital Analysis — Loan assets” in this Report for further information.

¹² *Assets held-for-sale.* These are the net assets/liabilities of the held-for-sale categories on the balance sheet.

¹³ *Debt investment securities.* These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

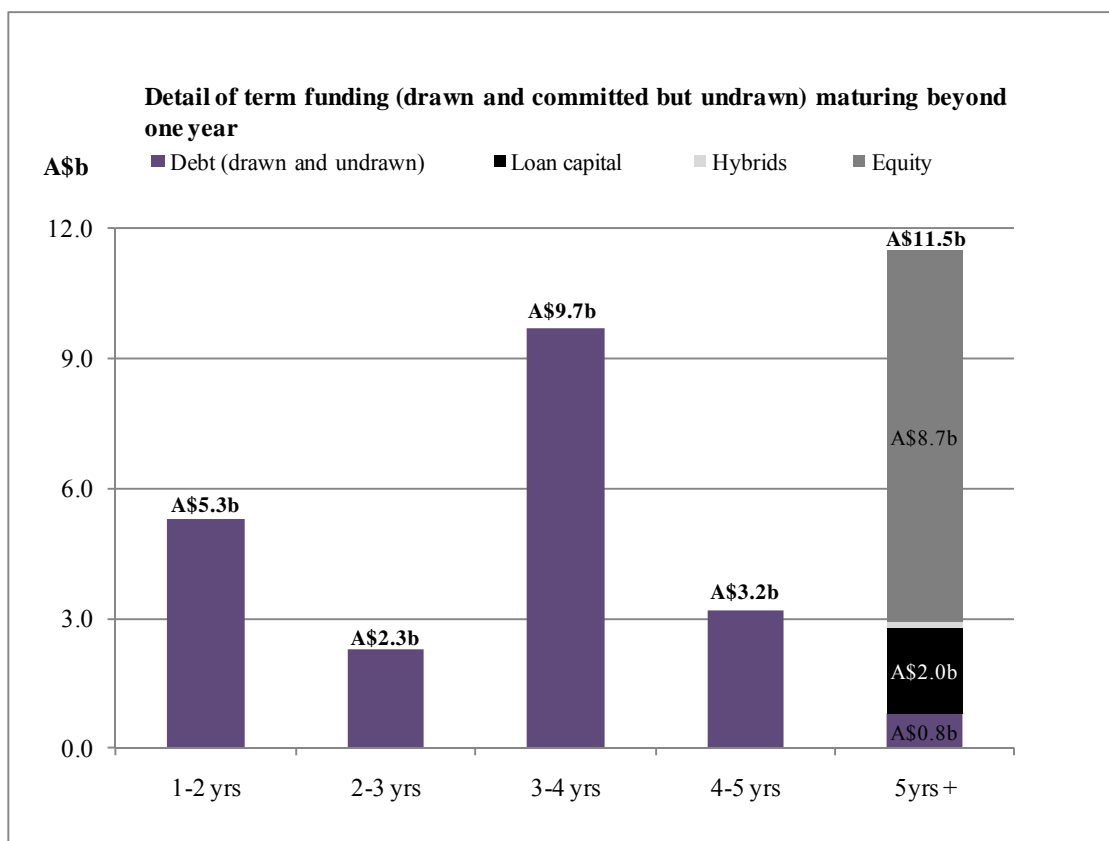
¹⁴ *Intra Group Loan.* For a description of the Intra Group Loan, see “Macquarie Bank Limited — Relationship between MBL and MGL — Intra Group Loan” on page 41 of our 2010 Annual U.S. Disclosure Report.

¹⁵ *Co-investment in MGL Group-managed funds and equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in MGL Group-managed funds.

¹⁶ *Net trade debtors.* Short-term working capital balances (debtors and creditors) are created through the day-to-day operations of MBL Group. A net funding use (or source) will result due to timing differences in cash flows.

As at September 30, 2010, deposits represented A\$31.2 billion, or 44.6% of total funding, short-term wholesale funding represented A\$2.4 billion, or 3.4% of total funding and other debt funding maturing within twelve months represented A\$4.4 billion, or 6.2% of total funding.

The following chart and table provides detail of the Banking Group’s term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2010:



	As at				
	Sep 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
Banking Group	A\$b	A\$b	A\$b	A\$b	A\$b
Structured notes.....	0.3	0.2	0.2	0.2	—
Secured funding.....	0.8	2.0	1.5	3.0	0.8
Bonds.....	4.2	0.1	8.0	—	—
Total debt	5.3	2.3	9.7	3.2	0.8
Loan capital.....	—	—	—	—	2.0
Equity and hybrid.....	—	—	—	—	8.7
Total funding sources drawn	5.3	2.3	9.7	3.2	11.5
Undrawn.....	—	—	—	—	—
Total funding sources drawn and undrawn	5.3	2.3	9.7	3.2	11.5

The Banking Group has diversity of funding by both source and maturity. As at September 30, 2010, the Banking Group's term funding (including undrawn facilities) maturing beyond one year was A\$32.0 billion, which comprised primarily of the funding sources described above. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.7 years.

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

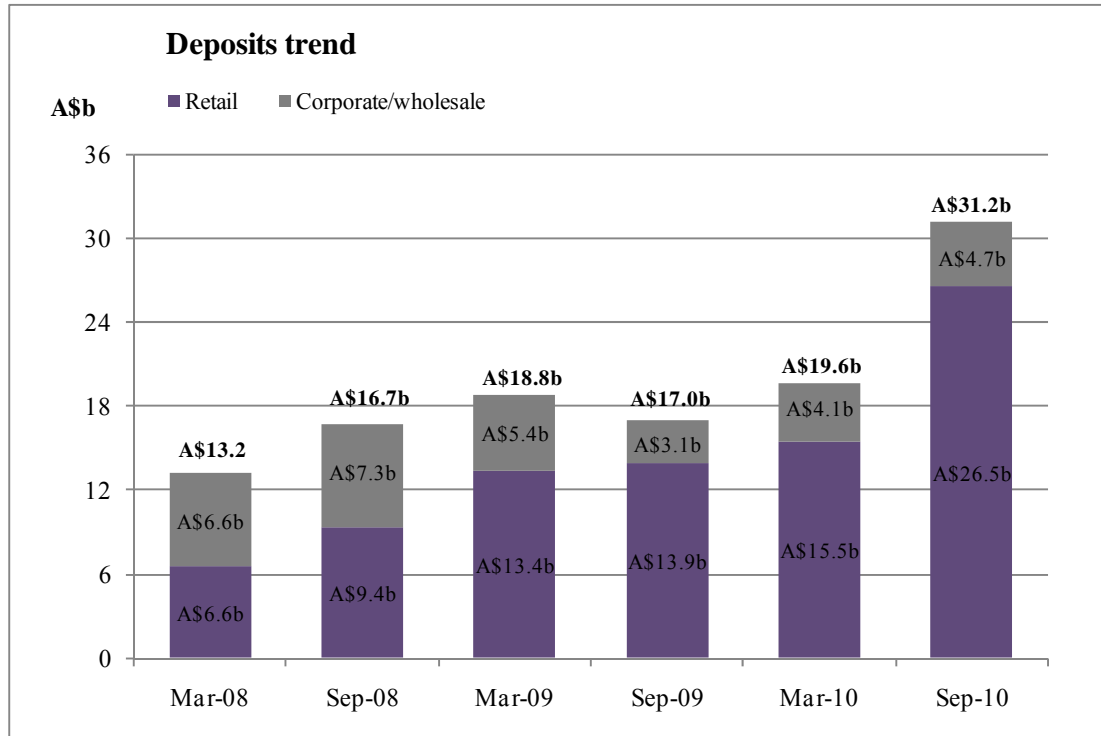
- US\$25 billion multi-instrument Regulation S Debt Instrument Program, under which securities that may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had US\$8.0 billion of debt securities outstanding at September 30, 2010;
- US\$10 billion Commercial Paper Program, under which US\$0.8 billion of debt securities were outstanding at September 30, 2010; and
- US\$20 billion Rule 144A/Regulation S Medium Term Note Program. At September 30, 2010, issuance amounted to US\$7.5 billion under the Rule 144A/Regulation S Medium Term Note Program.

Furthermore, MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At September 30, 2010, MBL Group had A\$1.4 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the RBA's daily market operations. At September 30, 2010, MBL Group had internally securitized A\$1.8 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Deposit Strategy

The chart below illustrates MBL Group’s strong retail deposit growth since March 2008.



	<u>Mar 08</u>	<u>Sep 08</u>	<u>Mar 09</u>	<u>Sep 09</u>	<u>Mar 10</u>	<u>Sep 10</u>
	A\$b	A\$b	A\$b	A\$b	A\$b	A\$b
Deposits						
Retail	6.6	9.4	13.4	13.9	15.5	26.5
Corporate/Wholesale	6.6	7.3	5.4	3.1	4.1	4.7

MBL continued to pursue a deposit strategy that was consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy was focused on growing the retail deposit base, which generally represents a more stable and reliable source of funding. On July 31, 2010, unitholders in the CMT converted their units into at-call deposits in the CMA. This resulted in an increase of A\$9.6 billion of MBL Group retail deposits.

MBL is an ADI, and therefore the provisions of the financial claims scheme apply to MBL. See “Recent Developments — Regulatory and Supervision Developments — Australia — APRA” beginning on page 30 of this Report and “Regulation and Supervision” on page 46 of our 2010 Annual U.S. Disclosure Report for further information.

Funding Profile for Non-Banking Group

The funded balance sheet of the Non-Banking Group as at September 30, 2010:

	As at Sep 10 A\$b
Non-Banking Group	
Funding sources	
MBL Intra Group Loan to MGL ¹	1.2
Structured notes ²	0.4
Secured funding ³	0.6
Bonds ⁴	3.5
Other loans ⁵	0.3
Senior Credit Facility ⁶	6.7
Deposits ⁷	—
Loan capital ⁸	0.6
Equity and hybrids ⁹	2.9
Total	16.2
Funded assets	
Cash and liquid assets ¹⁰	2.4
Non-Banking Group deposit with MBL	6.4
Net trading assets ¹¹	1.0
Loan assets less than one year ¹²	0.2
Loan assets greater than one year ¹²	0.9
Assets held-for-sale ¹³	0.1
Debt investment securities ¹⁴	0.2
Co-investment in MGL Group-managed funds and equity investments ¹⁵	4.0
Property, plant and equipment and intangibles	0.9
Net trade debtors ¹⁶	0.1
Total	16.2

¹ *Intra Group Loan.* For a description of the Intra Group Loan, see “Macquarie Bank Limited — Relationship between MBL and MGL — Intra Group Loan” on page 41 of our 2010 Annual U.S. Disclosure Report.

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

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

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

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

⁶ *Senior Credit Facility* MGL’s Senior Credit Facility is provided by a syndicate of wholesale lenders. As at September 30, 2010, the facility limit was A\$7.3 billion, of which A\$0.6 billion was undrawn. For a description of the Senior Credit Facility, see the description of MGL’s debt funding below.

⁷ *Deposits.* Unsecured funding from retail, corporate and wholesale depositors. The Australian Government guarantee is made available on eligible deposits in MBL.

⁸ *Loan capital.* Long-term subordinated debt and Convertible Preference Securities.

⁹ *Equity and hybrids.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIPS security issues.

¹⁰ *Cash and liquid assets.* Funded cash and liquid assets generally consist of amounts due from banks and short-term debt investment securities available-for-sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

¹¹ *Net trading assets.* The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

¹² *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See “— Capital Analysis — Loan assets” in this Report for further information.

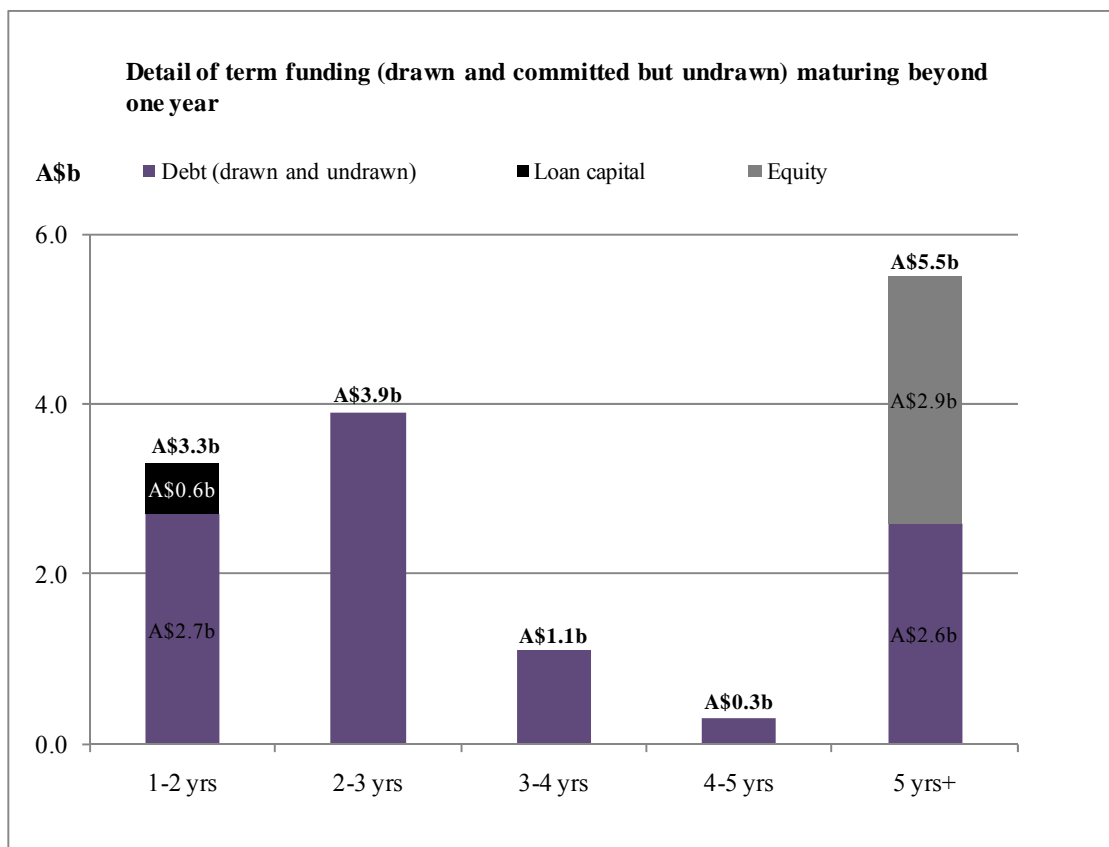
¹³ *Assets held-for-sale.* These are the net assets/liabilities of the held-for-sale categories on the balance sheet.

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 MGL Group-managed funds and equity investments.* These equity securities are held with a long-term investment horizon, and include co-investments in Macquarie Infrastructure & Real Assets-managed funds.

¹⁶ *Net trade debtors.* Short-term working capital balances (debtors and creditors) are created through the day-to-day operations of MGL Group. A net funding use (or source) will result due to timing differences in cash flows.

The following chart and table provides detail of the Non-Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at September 30, 2010:



	As at				
	Sep 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
	A\$b	A\$b	A\$b	A\$b	A\$b
Non-Banking Group					
Structured notes.....	—	—	—	—	0.4
Secured funding.....	0.1	0.2	0.1	0.1	—
Bonds.....	0.2	0.1	1.0	—	2.1
Other bank loans.....	—	—	—	0.2	0.1
Senior Credit Facility ¹	2.2	2.1	—	—	—
Intra-group loan.....	—	1.2	—	—	—
Total debt	2.5	3.6	1.1	0.3	2.6
Loan capital.....	0.6	—	—	—	—
Equity.....	—	—	—	—	2.9
Total funding sources drawn	3.1	3.6	1.1	0.3	5.5
Undrawn ¹	0.2	0.3	—	—	—
Total funding sources drawn and undrawn	3.3	3.9	1.1	0.3	5.5

¹ MGL's Senior Credit Facility is provided by a syndicate of wholesale lenders. As at September 30, 2010, the facility limit was A\$7.3 billion, of which A\$0.6 billion was undrawn. For a description of the Senior Credit Facility, see the description of MGL's debt funding below.

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.5 years.

Debt funding of MGL, which primarily funds the activities of the Non-Banking Group, includes:

- Senior Credit Facility, of which at September 30, 2010 was A\$6.7 billion drawn and A\$0.6 billion undrawn. Subsequent to September 30, 2010, as a result of a repayment of maturing tranches, the Senior Credit Facility was reduced to A\$5.2 billion and now comprises two revolving credit facilities maturing November 2011 and November 2012, respectively, and three term facilities maturing May 2011, November 2011 and November 2012, respectively.
- US\$1.1 billion Intra Group Loan from MBL. This facility is an unsecured term loan to be repaid by December 2012. As at September 30, 2010, the balance outstanding was US\$1.1 billion. This facility provided funding to MGL following the Restructure. For a description of the Intra Group Loan, see "Macquarie Bank Limited — Relationship between MBL and MGL — Intra Group Loan" on page 41 of our 2010 Annual U.S. Disclosure Report.

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

- US\$10 billion Rule 144A/Regulation S Medium Term Note Program. US\$3.0 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at September 30, 2010; and
- US\$10 billion multi-instrument Regulation S Debt Instrument Program, under which securities may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits and MGL Wholesale Notes. The Debt Instrument Program had US\$0.4 million debt securities outstanding at September 30, 2010.

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

As detailed in Note 38 “Capital and other expenditure commitments” and Note 39 “Lease commitments” to our 2010 annual financial statements, we do not expect our capital and other expenditure commitments and our lease commitments to have a significant effect on our liquidity needs. Lease, capital and other expenditure commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at September 30, 2010, MBL Group had A\$6.8 billion of contingent liabilities and commitments, including A\$719 million of contingent liabilities and A\$6.1 billion of commitments under undrawn credit facilities and in respect of forward asset purchases. See Note 18 “Contingent liabilities and commitments” to our 2011 interim financial statements which shows MBL Group’s contingent liabilities and commitments at September 30, 2010.

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 41 “Financial risk management” to MBL Group’s 2010 annual financial statements for a quantitative and qualitative discussion of these risks.

Capital Analysis

In January 2008, the capital requirement guidelines developed by the Basel Committee on Banking Supervision, known as the Basel II Framework, was implemented in Australia by APRA.

MBL is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk, which is the standard approach applied for specific risk on debt securities, and the internal model approach for interest rate risk in the banking book.

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

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8% at both Level 1 (ELE Group) and Level 2 (Consolidated Banking Group), with at least half of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios that may be higher than these levels. MBL Group's internal capital policy set by the Board requires capital floors above the minimum regulatory required levels.

Tier 1 capital

MBL Group's Tier 1 capital consists of ordinary share capital, retained earnings, certain reserves, plus eligible hybrid capital instruments. Reserves included in Tier 1 capital are the share based payment reserve and foreign currency translation reserve. The innovative Tier 1 capital includes Macquarie Income Securities (MIS) and Macquarie Income Preferred Securities (MIPS). MBL periodically pays dividends to MGL and is recapitalized by MGL as required to support projected business growth.

MIS are perpetual instruments with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) on October 19, 1999 and became redeemable (in whole or in part) at MBL's discretion on November 19, 2004. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of MBL.

MIPS were issued when the London branch of MBL issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020. As at September 30, 2010, MBL had £42.5 million of MIPS on issue which are held by parties not associated with MGL Group.

Tier 2 capital

MBL Group's Upper Tier 2 capital consists of the portion of MIS and MIPS not eligible for inclusion in Tier 1 capital and a portion of equity reserves. MBL Group's Lower Tier 2 capital consists of subordinated debt issued to financial institutions, subject to limits imposed by APRA based on Tier 1 capital. Repayment of this debt is subordinated to the claims of depositors and other creditors but ranks ahead of equity instruments.

Pillar 3

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

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

Capital Adequacy

MBL Group's regulatory capital supply and capital ratios are detailed in the following table.

	As at			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Sep 10 %	Sep 09 %
Tier 1 capital					
Paid-up ordinary share capital	7,235	6,595	5,250	10	38
Reserves.....	(257)	(86)	186	199	large
Retained earnings	1,011	962	1,070	5	(6)
Innovative Tier 1 capital.....	457	459	465	nm	(2)
Gross Tier 1 capital	8,446	7,930	6,971	7	21
Deductions from Tier 1 capital					
Goodwill.....	193	193	135	—	43
Deferred tax assets.....	381	434	426	(12)	(11)
Changes in the ADI's own creditworthiness on banking book liabilities	66	49	21	35	214
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities.....	610	621	139	(2)	large
Loan and lease origination fees and commissions paid to mortgage originators and brokers	131	132	142	(1)	(8)
Holdings of own Tier 1 capital instruments agreed with APRA	—	—	—	—	—
Other Tier 1 capital deductions.....	252	283	197	(11)	28
Deductions from Tier 1 capital only	1,633	1,712	1,060	(5)	54
Other 50/50 deductions from Tier 1 capital:					
Non-subsidiary entities exceeding prescribed limits (50%)	312	151	119	107	162
Non-consolidated subsidiaries (50%).....	275	255	283	8	(3)
All other deductions relating to securitization (50%).....	165	43	70	284	136
Shortfall in provisions for credit losses (50%)	155	171	256	(9)	(39)
Other 50/50 deductions from Tier 1 capital (50%).....	124	134	137	(7)	(9)
Total 50/50 deductions from Tier 1 capital	1,031	754	865	37	19
Total Tier 1 capital deductions	2,664	2,466	1,925	8	38
Net Tier 1 capital	5,782	5,464	5,046	6	15
Tier 2 capital					
Upper Tier 2 capital:					
Excess Tier 1 capital instruments	—	—	—	—	—
Other Upper Tier 2 capital instruments	180	168	126	7	43
Lower Tier 2 capital:					
Term subordinated debt.....	1,959	1,404	1,527	40	28
Gross Tier 2 capital	2,139	1,572	1,653	36	29
Deductions from Tier 2 capital:					
Holdings of own Tier 2 capital instruments agreed with APRA.....	—	—	—	—	—
50/50 deductions from Tier 2 capital.....	1,031	754	865	37	19
Total Tier 2 capital deductions	1,031	754	865	37	19
Net Tier 2 capital	1,108	818	788	35	41
Total capital base	6,890	6,282	5,834	10	18

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

Risk Weighted Assets

	As at			Movement ³	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Credit risk — Risk weighted assets (RWA)					
Subject to Foundation Internal Ratings Based (FIRB) approach ¹ :					
Corporate.....	19,639	15,254	12,919	29	52
Sovereign.....	865	730	598	18	45
Bank.....	2,730	2,324	2,860	17	(5)
Residential mortgage.....	1,540	1,897	1,927	(19)	(20)
Other retail.....	1,285	1,006	869	28	48
Total RWA subject to FIRB approach.....	26,059	21,211	19,173	23	36
Specialized lending exposures subject to slotting criteria²	2,805	3,002	2,019	(7)	39
Subject to standardized approach:					
Corporate.....	3,522	3,270	4,160	8	(15)
Bank.....	80	49	3	63	large
Residential mortgage.....	551	462	198	19	178
Other retail.....	3,487	3,376	2,640	3	32
Other.....	2,636	2,728	2,654	(3)	(1)
Total RWA subject to standardized approach....	10,276	9,885	9,655	4	6
Credit risk RWA for securitization exposures.....	1,005	1,019	1,199	(1)	(16)
Total credit risk RWA.....	40,145	35,117	32,046	14	25
Equity risk exposures RWA.....	1,927	1,715	1,323	12	46
Market risk RWA.....	3,073	2,480	1,976	24	56
Operational risk RWA.....	6,984	6,748	6,565	3	6
Interest rate risk in banking book RWA.....	—	—	—	—	—
APRA scaling factor (6%) applied to IRB exposures.....	1,564	1,273	1,150	23	36
Total RWA.....	53,693	47,333	43,060	13	25
Capital ratios					
MBL Group Tier 1 capital ratio (%).....	10.8	11.5	11.7	(6)	(8)
MBL Group Total capital ratio (%).....	12.8	13.3	13.6	(4)	(6)

¹ MGL Group 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.

³ “large” indicates that actual movement was greater than 300%.

Statutory consolidated balance sheet

	As at			Movement ¹	
	Sep 10 A\$m	Mar 10 A\$m	Sep 09 A\$m	Mar 10 %	Sep 09 %
Assets					
Cash and balances with central banks.....	9	—	3	—	200
Due from banks.....	7,586	6,490	7,204	17	5
Cash collateral on securities borrowed and reverse repurchase agreements.....	8,272	6,084	3,577	36	131
Trading portfolio assets.....	15,182	11,324	13,582	34	12
Loan assets held at amortized cost.....	44,703	43,794	41,882	2	7
Other financial assets at fair value through profit or loss.....	9,447	7,125	2,962	33	219
Derivative financial instruments – positive values.....	23,431	21,540	21,365	9	10
Other assets.....	7,735	7,321	6,104	6	27
Investment securities available-for-sale.....	16,118	16,761	21,441	(4)	(25)
Intangible assets.....	951	948	301	nm	216
Life investment contracts and other unitholder assets.....	5,052	4,854	5,069	4	nm
Due from related body corporate entities.....	2,334	2,391	2,525	(2)	(8)
Interests in associates and joint ventures using the equity method.....	852	915	1,155	(7)	(26)
Property, plant and equipment.....	246	139	86	77	186
Deferred income tax assets.....	379	373	462	2	(18)
Non-current assets and assets of disposal groups classified as held-for-sale.....	—	51	73	nm	nm
Total assets	142,297	130,110	127,791	9	11
Liabilities					
Due to banks.....	2,647	2,167	2,571	22	3
Cash collateral on securities lent and repurchase agreements.....	5,837	7,201	5,093	(19)	15
Trading portfolio liabilities.....	5,501	4,921	6,986	12	(21)
Derivative financial instruments – negative values.....	24,284	21,634	21,443	12	13
Deposits.....	34,829	22,288	20,504	56	70
Debt issued at amortized cost.....	36,275	39,408	42,706	(8)	(15)
Other financial liabilities at fair value through profit or loss.....	2,017	2,625	2,868	(23)	(30)
Other liabilities.....	7,030	6,727	5,261	5	34
Current tax liabilities.....	67	76	44	(12)	52
Life investment contracts and other unitholder liabilities.....	5,069	4,864	5,062	4	nm
Provisions.....	7,639	71	65	large	large
Due to related body corporate entities.....	84	8,008	6,637	(99)	(99)
Deferred income tax liabilities.....	311	273	184	14	69
Liabilities of disposal groups classified as held-for-sale.....	—	9	—	(100)	—
Total liabilities excluding loan capital	131,590	120,272	119,424	9	10
Loan capital					
Subordinated debt at amortized cost.....	1,472	905	1,005	63	46
Subordinated debt at fair value through profit or loss.....	487	499	522	(2)	(7)
Total loan capital	1,959	1,404	1,527	40	28
Total liabilities	133,549	121,676	120,951	10	10
Net assets	8,748	8,434	6,840	4	28
Equity					
Contributed equity:					
Ordinary share capital.....	7,128	6,508	5,178	10	38
Equity contribution from ultimate parent entity.....	108	87	72	24	50
Macquarie Income Securities.....	391	391	391	—	—
Reserves.....	(342)	(170)	(51)	101	large
Retained earnings.....	1,377	1,533	1,162	(10)	19
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	8,662	8,349	6,752	4	28

	As at			Movement ¹	
	Sep 10	Mar 10	Sep 09	Mar 10	Sep 09
	A\$m	A\$m	A\$m	%	%
Non-controlling interests.....	86	85	88	1	(2)
Total equity	8,748	8,434	6,840	4	28

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

Total assets of A\$142.3 billion at September 30, 2010 increased 11% from A\$127.8 billion at September 30, 2009, an increase of A\$14.5 billion as a result of the items listed below.

Cash collateral on securities borrowed and reverse repurchase agreements of A\$8.3 billion at September 30, 2010 increased 131% from A\$3.6 billion at September 30, 2009, primarily as a result of activities to manage the interest rate and liquidity requirements of MBL Group.

Loan assets of A\$44.7 billion at September 30, 2009 increased 7% to A\$41.9 billion, primarily due to an increase in loan and lease volumes in Corporate & Asset Finance, including the acquisition of the A\$1 billion Ford Credit (October 2009) and A\$1 billion GMAC (April 2010) lease portfolios, combined with growth in the Canadian Mortgages portfolio. These increases were partially offset by the impact of the strengthening Australian dollar since September 30, 2010. See “— Loan assets” in this Report for further information.

Other financial assets at fair value through profit or loss of A\$9.4 billion at September 30, 2010 increased 219% from A\$3.0 billion at September 30, 2009, primarily due to an increase in fixed rate securities that are classified as other financial assets at fair value through profit or loss.

Investment securities available-for-sale of A\$16.1 billion at September 30, 2010 decreased 25% from A\$21.4 billion at September 30, 2009, primarily due to a reduction in debt securities held for liquidity purposes. The reduction in these securities is due to funding of the increase in the loan and lease portfolio, as well as an increase in fixed rate securities that are classified as other financial assets at fair value through profit or loss. The reduction of debt securities available-for-sale is partially offset by the above mentioned reclassification of some interests in associates and joint ventures to equity investments available-for-sale when MBL Group lost significant influence over the investments.

Total liabilities (excluding loan capital) increased 10% from A\$119.4 billion at September 30, 2009 to A\$131.6 billion at September 30, 2010. The most notable change in the composition of liabilities has been the growth in deposits from A\$20.5 billion at September 30, 2009 to A\$34.8 billion at September 30, 2010 primarily due to the transition of the CMT accounts to CMA in July 2010.

Total equity increased A\$1.9 billion since the prior corresponding period to A\$8.7 billion at September 30, 2010. The main drivers of this change was share capital issued since September 30, 2010.

Loan assets

This analysis is based on the funded balance sheet classification of loan assets and not the statutory balance sheet classification.

For the half year ended September 30, 2010, funded loan assets of MBL Group consisted of:

	Half year ended
	MBL Group
	Sep 10
	A\$b
Mortgages	
Australia.....	1.9
United States.....	0.9
Canada.....	8.0
Structured investments.....	3.2
Banking.....	3.6
Real estate.....	0.5
Debt market warehouses.....	—
Resources and commodities.....	1.5
Corporate & Asset Finance leasing.....	5.9
Corporate & Asset Finance lending.....	5.2
Other lending.....	0.3
Total.....	31.0

Our funded loan asset portfolio comprises diverse, secured assets:

<u>Loan Category</u>	<u>Asset Security</u>
Mortgages	Secured by residential mortgages and supported by mortgage insurance. <ul style="list-style-type: none"> • 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 lending ..	Conservative loan to value ratio is set on individual listed equity security; full recourse to listed equity securities.
Structured investments ...	Retail loans to invest in various investment funds. Secured by investments with value protected by capital guarantees at maturity. Underlying assets primarily include direct and indirect equities and cash.
Banking	Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other consumer lending of A\$0.4 billion including credit cards.
Real estate	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.
Resources and commodities	Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets. Secured by gold, base metals and oil resources and supported by price hedging.
Corporate & Asset Finance leasing	Secured by underlying leased assets (motor vehicles and specialized equipment), diversified portfolio by geography and security asset class.
Corporate & Asset Finance lending	Diversified secured corporate lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.
Other lending	MGL Group includes: <ul style="list-style-type: none"> • A\$0.5 billion aircraft operating lease portfolio to a single counterparty with average aircraft life of less than 3 years, all aircraft residual values insured. • A\$0.4 billion deposits with financial institutions as collateral for trading positions • A\$0.3 billion other secured lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities. MBL Group includes: <ul style="list-style-type: none"> • A\$0.4 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 investments. 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 MGL Group-managed funds; other investments not held-for-sale or that are not investments in MGL Group-managed funds and held-for-sale investments.

Equity investments reconciliation

	As at		
	Sep 10 A\$m	Mar 10 A\$m	Sep 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	2,034	1,190	1,068
Equity investments within investment securities available-for sale	762	661	614
Interests in associates and joint ventures using the equity method	852	915	1,155
Total equity investments per statutory balance sheet	3,648	2,766	2,837
Adjustment for funded balance sheet			
Equity hedge positions ¹	(1830)	(1,023)	(967)
Total funded equity investments	1,818	1,743	1,870
Adjustments for equity investments analysis			
Available-for-sale reserves ²	(226)	(172)	(132)
Associate reserves ³	(1)	(1)	20
Total adjusted equity investments⁴	1,591	1,570	1,758
Held-for-sale investments			
Net assets of disposal groups classified as held-for-sale	—	42	73
Total equity investments including held-for-sale investments	1,591	1,612	1,831

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

² Available-for-sale reserves that will be released to income upon realization of the investment.

³ Associates reserves that will be released to income upon realization of the investment.

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



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