Macquarie Group Limited

(ABN 94 122 169 279)

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

Dated: May 18, 2010

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CERTAIN DEFINITIONS

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

- "*AASB*" means the Australian Accounting Standards Board;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means Australian Competition and Consumer Commission and its successors;
- "*ADI*" means an institution that is an authorised deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*AGAAP*" means Australian GAAP that also ensures compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "*alternative asset funds*" means specific asset class investor funds, which are listed or unlisted in different regions and span such sectors as: (i) infrastructure and related sectors (toll roads, airports, communications infrastructure, energy utilities and other asset classes); (ii) sector-specific real estate assets (retail, office, industrial and commercial); and (iii) private equity and development capital;
- "*AML-CTF Act*" means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of Australia;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*Asset and Liability Committee*" means the committee established by the Executive Committee with responsibility for oversight of asset and liability management, liquidity policy compliance, liquidity scenario analysis and contingency planning;
- "*Assets under Management*" is a non-GAAP financial measure we use that calculates the value of the proportional ownership interest in assets of funds managed by entities in MBL Group or the Non-Banking Group, as applicable, plus other assets managed on behalf of third parties, see "Financial Information Presentation — Non-GAAP financial measures";
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited and its successors;
- "*Australian Banking Act*" means the Banking Act 1959 of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of Australia;
- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the US dollar;
- "*Bank*" and "*MBL*" each means Macquarie Bank Limited (ABN 46 008 583 542) (an ADI) and includes its predecessors and successors, and "*MBL Group*" means MBL and its controlled entities;
- "*Banking Group*" means Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary, including the Bank, that constitutes the Banking Group as described herein;
- "*Banking Holdco*" means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- "*Macquarie Capital*" means, following the reorganization of operating groups within MGL Group described below under "Macquarie Group Limited — Operating Groups — Macquarie Capital", the Macquarie Capital Advisers division which includes Macquarie Capital Funds and certain activities of Fixed Income, Currencies & Commodities that transferred to the Non-Banking Group as part of the Restructure;

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

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

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

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

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

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

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

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

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

- "*MIS*" means Macquarie Income Securities;

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

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

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

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

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

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

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

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

- “*RBA*” means the Reserve Bank of Australia;

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

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

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

- “*Senior Credit Facility*” means the A$7.6 billion senior credit facilities provided to MGL comprising A$2.4 billion revolving credit facilities and A$5.2 billion term facilities, as more fully described under “Macquarie Group Limited — Senior Credit Facility”;

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

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

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

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

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

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

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- various other factors beyond our control.

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

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

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

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

EXCHANGE RATES

MGL 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 MGL Group’s fiscal years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in US dollars per A$1.00.

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

Fiscal Year	Period End	Average Rate[1]	High	Low
2006	0.7165	0.7515	0.7834	0.7056
2007	0.8104	0.7652	0.8104	0.7177
2008	0.9132	0.8683	0.9463	0.7860
2009	0.6925	0.7948	0.9797	0.6073
2010	0.9169	0.8507	0.9369	0.6941
Month	**Period End**		**High**	**Low**
November 2009	0.9131		0.9396	0.8958
December 2009	0.8979		0.9265	0.8777
January 2010	0.8873		0.9306	0.8873
February 2010	0.8961		0.8994	0.8617
March 2010	0.9169		0.9225	0.8997
April 2010	0.9306		0.9359	0.9170
May 2010 (through May 7, 2010)	0.8890		0.9255	0.8890

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

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into US dollars at freely floating rates. However, the Banking (Foreign Exchange) Regulations promulgated under the Australian Banking Act, the AML-CTF Act and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism which is available to the public at the Department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html.

FINANCIAL INFORMATION PRESENTATION

Our historical financial statements

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

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

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

Impact of acquisitions on the 2010 fiscal year

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

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

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

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

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

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

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

For further information on acquisitions and disposals of subsidiaries and businesses during the 2010 fiscal year, see Note 45 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2010 annual financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

Impact of the Restructure in the 2008 fiscal year

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

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

The accounting policies adopted by entities within MGL Group are as reported in Note 1 included in our 2010 annual financial statements.

Certain differences between AGAAP and US GAAP

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

Non-GAAP financial measures

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

These measures include:

Assets under Management

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

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

Equity under Management

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

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

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

International income

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

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

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

Earnings on capital and other corporate income items

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

SUMMARY

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

Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of banking, financial, advisory, investment and funds management services, MGL is a client-driven business which generates income by providing a diversified range of products and services to clients. MGL Group acts on behalf of institutional, corporate and retail clients and counterparties around the world. MGL's market capitalization as at the close of business on May 7, 2010 was A$15.7 billion (approximately US$14.0 billion based on the noon buying rate at the close of business on May 7, 2010 of US$0.8890 per A$1.00).

At March 31, 2010, MGL employed over 14,600 staff, had total assets of A$145.9 billion and total equity of A$11.8 billion. For the 2010 fiscal year, our total operating income was A$6.6 billion and profit after tax attributable to ordinary equity holders was A$1.1 billion.

As at March 31, 2010, MGL conducted its operations directly and through approximately 1,270 subsidiaries in more than 70 office locations in 28 countries, with 45% of MGL Group's revenues from external customers derived from regions outside Australia. See "Macquarie Group Limited — Our Business — Regional Activity" below for further information.

MGL was incorporated in the State of Victoria on October 12, 2006. MGL's registered office is Level 7, 1 Martin Place, Sydney, New South Wales, 2000 Australia. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

Trading Conditions and Market Update

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

The environment for mergers and acquisitions across most industry classes remained subdued during the 2010 fiscal year compared to historical standards, which resulted in substantially lower global deal value in the 2010 fiscal year than in the prior year. Asia, Australia, and Canada experienced increased equity capital markets activity in the 2010 fiscal year, compared to the prior fiscal year.

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

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

Recent Developments

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

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

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

Our Key Strengths

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

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

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

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

  - *Fee and commission income*, including:

    - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital Advisers as well as fee income from mortgage securitization vehicles, lending activities and transaction fees;

    - Brokerage and commission income from institutional cash equities services provided to retail and institutional clients by Macquarie Securities as well as brokerage fee income from Banking & Financial Services;

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

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

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

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

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

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

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

- *Geographic diversity*. As at March 31, 2010, we employed over 14,600 people in 28 countries. Of those staff, approximately 50% were located in offshore markets. As MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

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

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

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

- *Business focus on fee income.* Our main business consists of providing services to our clients rather than engaging in principal activities. While Macquarie Capital has and expects to continue to undertake principal investments as part of its M&A and funds management strategies, our main focus is on generating management and advisory fees, not assuming significant principal exposure.

- *Strong Capital Position*. As at March 31, 2010, MGL had total regulatory capital of A$11.8 billion including approximately A$4.0 billion surplus capital in excess of MGL Group's minimum APRA regulatory requirement.

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

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

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

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

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

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

Our Strategy

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

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

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

Our Business

Overview of MGL Group

For the 2010 fiscal year, our total operating income was A$6.6 billion with 45% of MGL Group’s revenues from external customers derived from regions outside Australia. Our profit after tax attributable to ordinary equity holders for the 2010 fiscal year was A$1.1 billion.

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

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

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Macquarie Capital	2,725	2,529	8
Fixed Income, Currencies & Commodities[2]	1,977	1,902	4
Macquarie Securities	1,515	1,611	(6)
Banking & Financial Services	2,233	3,443	(35)
Macquarie Funds	1,142	726	57
Corporate & Asset Finance[3]	1,029	733	40
Real Estate Banking[4]	155	299	(48)
Total revenues from external customers by operating group	**10,776**	**11,243**	(4)
Corporate[5]	952	1,675	(43)
Total revenue from external customers	**11,728**	**12,918**	(9)

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

	Year ended		
	Mar 10	**Mar 09**	**Movement[6]**
	A$m	**A$m**	**%**
Macquarie Capital	657	257	156
Fixed Income, Currencies & Commodities [2]	827	509	62
Macquarie Securities	580	275	111
Banking & Financial Services	261	(99)	large
Macquarie Funds	95	45	111
Corporate & Asset Finance[3]	264	66	300
Real Estate Banking[4]	(152)	(362)	(58)
Total contribution to profit by operating group	**2,532**	**691**	266
Corporate[5]	(1,482)	180	large
Net profit after tax	**1,050**	**871**	21

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

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

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

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

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

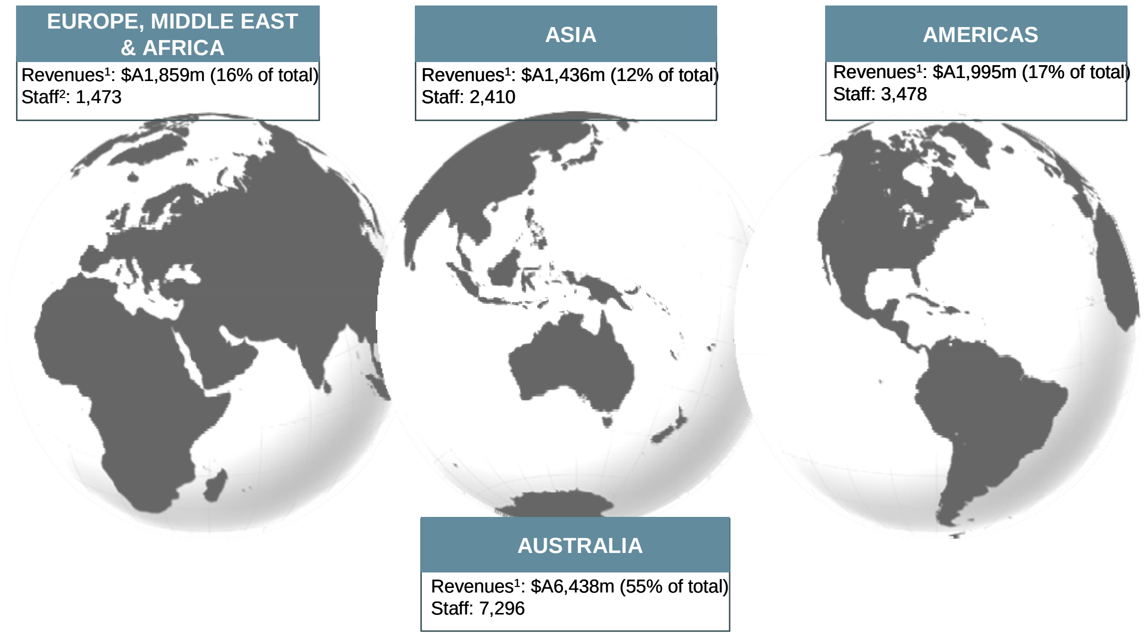
6 "large" indicates that actual movement was greater than 300%.

Regional Activity

At March 31, 2010, MGL Group employed over 14,600 staff globally and conducted its operations in more than 70 office locations in 28 countries.

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

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



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

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

Australia. MGL Group was founded in Australia in 1969 and began operations in Sydney in January 1970 with only 3 staff. As at March 31, 2010, MGL Group employed over 7,200 staff across Australia. In the 2010 fiscal year, Australia contributed A$6.4 billion (55%) of our revenues from external customers as compared to A$7.1 billion (55%) in the 2009 fiscal year.

The Americas. MGL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994 and has grown rapidly over the last two years, principally through acquisitions of FPK, Delaware Investments, Blackmont and Tristone and the growth of our Energy Trading and Credit Trading businesses. As at March 31, 2010, MGL Group employed over 3,400 staff across the United States, Canada, Mexico, Brazil and Argentina. In the 2010 fiscal year, the Americas contributed A$2.0 billion (17%) of revenues from external customers as compared to A$2.0 billion (16%) in the 2009 fiscal year.

Asia. MGL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2010, MGL Group employed over 2,400 staff across China, Hong Kong, New Zealand, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. In the 2010 fiscal year, Asia contributed A$1.4 billion (12%) of our revenues from external customers as compared to A$1.3 billion (10%) in the 2009 fiscal year.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2010, MGL Group employed over 1,400 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2010 fiscal year, Europe, Middle East & Africa contributed A$1.9 billion (16%) of revenues from external customers as compared to A$2.5 billion (19%) in the 2009 fiscal year.

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

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 41 to our 2010 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, results of operation or financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business is substantially dependent on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MGL use the Macquarie name. Our reputation and, as a result, our business and business prospects could be adversely affected if any of the entities using the Macquarie name take actions that bring negative publicity on MGL Group.

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

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

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

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

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

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

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

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

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

In addition, we have historically derived a portion of our income from M&A advisory fees which are typically paid upon completion of a transaction. Our clients that engage in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit and the increased cost of credit may adversely affect the size, volume and timing of our clients' merger and acquisition transactions – particularly large transactions – and may also adversely affect our financial advisory and underwriting businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long-term underperformance can have negative implications for incentive income. If the return of a fund is negative in any period (quarterly, semi-annually or annually, depending on the fund) then the amount of the performance deficit must be carried forward until eliminated. In the last twelve months, the market values of our listed funds have experienced substantial declines and, as a result, we recognized lower performance fees in the year ended March 31, 2010, compared to the prior year. See "— Macquarie Group Limited — Funds Management Business — MBL Group and the Non-Banking Group" herein.

The business model of Macquarie Capital includes revenue it generates from management of alternative asset funds and transactions with the alternative asset funds it manages.

As at March 31, 2010, Macquarie Capital had A$96.5 billion in Assets under Management, and for the year ended March 31, 2010 derived A$220 million of income from base fees income derived from the funds it managed. In addition to risks relating to fee income (as described above) and any credit exposure we may have to funds or assets owned by funds, Macquarie Capital's funds model exposes it to such risks as:

- *Equity at risk*: Macquarie Capital maintains an equity interest in a number of the funds that it manages. The market value of MGL Group's assets is directly affected by the value of the funds managed by Macquarie Capital to the extent of its equity interest in those funds.

- *Reputation risk*: The Macquarie name is attached to many of the funds managed by MGL Group. Any adverse developments at any of the funds we manage or the assets managed by those funds could have an adverse impact on our reputation and public image which could adversely affect our business and financial condition.

- *Contingent liabilities*: In some instances entities in MGL Group have sold assets to funds managed by Macquarie Capital, mostly in circumstances when Macquarie Capital is seeding a newly-formed fund with assets, or Macquarie Capital has sold its interest in such assets to third parties. Under the terms of some of the agreements pursuant to which those assets have been sold we may have contingent liabilities as a result of the representations and warranties, covenants, indemnities or other provisions of those agreements.

- *Conflicts of interest*: Macquarie Capital manages and advises a large number of funds, many of which compete for assets and investors. We have policies in place designed to manage conflicts of interest within MGL Group, but no assurance can be given that those policies will be adequate to prevent actual or perceived conflicts of interest.

If we are unable to effectively manage these risks, our funds management business and reputation could be materially harmed or we could be exposed to claims or other liabilities to investors in the funds.

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

MGL Group recorded A$854 million of one-off costs and provisions for the year ended March 31, 2010, including A$618 million of impairment and equity accounted losses on funds management assets and other co-investments, A$216 million of loan impairment provisions and A$20 million of impairments recognized against selected trading asset positions. Further writedowns and provisions may be required in future periods if the market value of assets similar to those held were to decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are restrictions on the ability of subsidiaries, such as MBL, to make payments to MGL.

MGL is a holding company and many of its subsidiaries, including its broker-dealer, bank and insurance subsidiaries, such as MBL, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to MGL. Restrictions or regulatory action of that kind could impede access to funds that MGL needs to make payments on its obligations, including debt obligations, or dividend payments. In particular, the availability of MBL's funding to meet the obligations of MGL or the Non-Banking Group is subject to regulatory restrictions.

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

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

We are subject to risks in using custodians.

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

CAPITALIZATION AND INDEBTEDNESS

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

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

	As at	
	Mar 10	**Mar 10**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	27,324	29,800
Subordinated debt — due greater than 12 months	1,297	1,415
Total borrowings[3]	**28,621**	**31,215**
Equity		
Contributed equity		
Ordinary share capital	6,409	6,990
Treasury shares	(406)	(443)
Exchangeable shares	126	137
Reserves	257	280
Retained earnings	3,913	4,268
Macquarie Income Preferred Securities	61	67
Macquarie Income Securities	359	391
Other minority interests	72	79
Total equity	**10,791**	**11,769**
TOTAL CAPITALIZATION	**39,412**	**42,984**

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

2 At March 31, 2010, we had A$7.7 billion of secured indebtedness due in greater than 12 months compared to A$6.0 billion at March 31, 2009.

3 Total borrowings does not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$11.7 billion as at March 31, 2010 and securitizations totaled A$14.8 billion as at March 31, 2010 compared to A$14.6 billion and A$20.4 billion, respectively, as at March 31, 2009.

For details on our short-term debt position as at March 31, 2010 see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Funded Assets and Funding Sources of MGL Group" in this Report.

SELECTED FINANCIAL INFORMATION

The summary consolidated balance sheet data as at March 31, 2010, 2009, 2008, 2007 and 2006 and income statement data for the fiscal years ended March 31, 2010, 2009, 2008, 2007 and 2006 presented below have been derived from our audited financial statements for 2010, 2009, 2008 and 2007. These financial statements have been prepared in accordance with AGAAP, which also complied with International Financial Reporting Standards as issued by the International Accounting Standards Board. See "Financial Information Presentation" in this Report for further information.

Our historical financial statements for 2007 and prior fiscal years reflect the income and assets of MBL Group on a pre-Restructure basis. See "Financial Information Presentation — Impact of the Restructure in the 2008 fiscal year" for further information.

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

Income Statements

	Year ended					
	Mar 10	**Mar 10**	**Mar 09**	**Mar 08**	**Mar 07**	**Mar 06**
	US$m[1]	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
Net interest income	990	1,080	938	817	728	592
Fee and commission income	3,412	3,721	4,045	4,645	3,540	2,842
Net trading income	1,191	1,299	1,157	1,835	1,047	876
Share of net profits of associates and joint ventures using the equity method	(211)	(230)	74	156	242	172
Other operating income	704	768	(688)	795	1,624	350
Net operating income	**6,086**	**6,638**	**5,526**	**8,248**	**7,181**	**4,832**
Employment expenses	(2,843)	(3,101)	(2,359)	(4,177)	(3,733)	(2,407)
Brokerage and commission expenses	(591)	(645)	(685)	(702)	(421)	(366)
Occupancy expenses	(442)	(482)	(393)	(264)	(226)	(139)
Non-salary technology expenses	(259)	(283)	(263)	(214)	(163)	(128)
Other operating expenses	(764)	(833)	(837)	(686)	(710)	(505)
Total operating expenses	**(4,900)**	**(5,344)**	**(4,537)**	**(6,043)**	**(5,253)**	**(3,545)**
Operating profit before income tax	**1,186**	**1,294**	**989**	**2,205**	**1,928**	**1,287**
Income tax (expense)/benefit	(184)	(201)	(15)	(317)	(377)	(290)
Profit from ordinary activities after income tax	**1,002**	**1,093**	**974**	**1,888**	**1,551**	**997**
Profit attributable to minority interest	(7)	(8)	(70)	(51)	(57)	(52)
Profit attributable to equity holders of Macquarie Group Limited	**963**	**1,050**	**904**	**1,837**	**1,494**	**945**
Distributions paid or provided on Macquarie Income Securities	(32)	(35)	(33)	(34)	(31)	(29)
Profit attributable to ordinary equity holders of Macquarie Group Limited	**963**	**1,050**	**871**	**1,803**	**1,463**	**916**

Balance Sheets

	As at					
	Mar 10	**Mar 10**	**Mar 09**	**Mar 08**	**Mar 07**	**Mar 06**
	US$m[1]	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
ASSETS						
Cash and balances with central banks	—	—	141	7	3	5
Due from banks	7,565	8,251	12,271	10,110	6,120	6,394
Cash collateral on securities borrowed and reverse repurchase agreements	6,555	7,149	5,096	22,906	25,909	13,570
Trading portfolio assets	11,129	12,138	9,260	15,807	15,518	14,246
Other securities	-	-	-	–	–	–
Loan assets held at amortized cost	40,588	44,267	44,751	52,407	45,796	34,999
Other financial assets at fair value through profit or loss	8,410	9,172	7,910	4,131	2,779	2,104
Derivative financial instruments – positive values	19,769	21,561	27,428	21,136	11,913	10,978
Other assets	12,008	13,096	10,640	10,539	10,444	8,452
Investment securities available for sale	16,707	18,221	18,123	16,454	6,060	3,746
Intangible assets	1,335	1,456	759	494	100	150
Life investment contracts and other unit holder assets	4,443	4,846	4,314	5,699	5,847	5,183
Equity investments	-	-	–	–	–	–
Interest in associates and joint ventures using the equity method	3,601	3,927	6,123	5,500	4,071	3,463
Property, plant and equipment	555	605	605	375	378	292
Deferred income tax assets	1,031	1,124	1,186	718	457	240
Assets and disposal groups classified as held for sale	116	127	537	967	994	2,389
Total assets	**133,812**	**145,940**	**149,144**	**167,250**	**136,389**	**106,211**
LIABILITIES						
Due to banks	9,102	9,927	11,858	10,041	4,127	2,118
Cash collateral on securities lent and repurchase agreements	6,868	7,490	3,953	13,781	7,489	6,995
Trading portfolio liabilities	4,981	5,432	2,161	11,825	15,922	10,057
Derivative financial instruments – negative values	19,902	21,706	27,371	21,399	11,069	10,057
Deposits	20,616	22,484	21,868	15,783	12,403	9,267
Notes payable	-	-	-	–	–	–
Debt issued at amortized cost	39,073	42,614	48,270	57,115	51,365	39,022
Other financial liabilities at fair value through profit or loss	4,046	4,413	6,203	6,288	5,552	5,481
Other liabilities	11,625	12,679	10,342	12,210	11,958	9,553
Current tax liabilities	109	119	187	193	132	97
Life investment contracts and other unit holder liabilities	4,460	4,864	4,312	5,689	5,781	5,130
Provisions	175	191	189	179	153	132
Deferred income tax liabilities	215	235	4	121	78	157
Liabilities of disposal groups classified as held-for-sale	8	9	328	215	170	1,427
Total liabilities excluding loan capital	**121,180**	**132,163**	**137,046**	**154,839**	**126,199**	**99,493**
Loan capital						
Macquarie Convertible Preference Securities	544	593	591	–	–	–
Subordinated debt at amortized cost	840	916	1,496	1,704	1,783	1,115
Subordinated debt at fair value through profit or loss	458	499	451	646	888	266
Total liabilities	**123,021**	**134,171**	**139,584**	**157,189**	**128,870**	**100,874**
Net assets	**10,791**	**11,769**	**9,560**	**10,061**	**7,519**	**5,337**
EQUITY						
Contributed equity						
Ordinary share capital	6,409	6,990	4,906	4,534	3,103	1,916
Treasury shares	(406)	(443)	(2)	(12)	(7)	(2)
Exchangeable securities	126	137	116	133	–	–
Reserves	257	280	17	456	380	250
Retained earnings	3,913	4,268	3,627	3,718	2,795	1,934

	As at					
	Mar 10	Mar 10	Mar 09	Mar 08	Mar 07	Mar 06
	US$m[1]	A$m	A$m	A$m	A$m	A$m
Total capital and reserves attributable to equity holders of Macquarie Group Limited	10,299	11,232	8,664	8,829	6,271	4,098
Minority interest	492	537	896	1,232	1,248	1,239
Total equity	**10,791**	**11,769**	**9,560**	**10,061**	**7,519**	**5,337**

Other Financial Data

	As at				
	Mar 10	Mar 09	Mar 08	Mar 07	Mar 06
Per Share Information					
(Amounts in A$)					
Basic earnings per share (cents per share)	320.2	309.6	670.6	591.6	400.3
Diluted earnings per share (cents per share)	317.4	308.6	653.5	569.8	382.3
(Amounts in US$)[1]					
Basic earnings per share (cents per share)	293.6	163.1	353.4	311.7	210.9
Diluted earnings per share (cents per share)	291.0	162.6	344.3	300.3	201.4
Number of shares on issue (at March 31; millions)	344.2	283.4	274.6	253.9	232.4
Ratios					
Net loan losses as a percentage of loan assets (%)[2]	0.8	1.9	0.3	0.1	0.2
Ratio of earnings to fixed charges[3]	1.4x	1.2x	1.4x	1.2x	1.5x
Expense/income ratio (%)[4]	80.5	82.1	73.3	73.2	73.4
Return on average ordinary shareholders funds (%)[5]	10.0	9.9	23.7	28.1	26.0
Dividend payout ratio (%)	60.4	60.2	52.2	54.3	54.4

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

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

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

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

5 The profit after income tax attributable to ordinary shareholders expressed as an annualized percentage of the average ordinary equity over the relevant period.

MACQUARIE GROUP LIMITED

Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of banking, financial, advisory, investment and funds management services, MGL is a client-driven business which generates income by providing a diversified range of products and services to clients. MGL Group acts on behalf of institutional, corporate and retail clients and counterparties around the world. MGL's market capitalization as at the close of business on May 7, 2010 was A$15.7 billion (approximately US$14.0 billion based on the noon buying rate at the close of business on May 7, 2010 of US$0.8890 per A$1.00).

At March 31, 2010, MGL employed over 14,600 staff, had total assets of A$145.9 billion and total equity of A$11.8 billion. For the 2010 fiscal year, our total operating income was A$6.6 billion and profit after tax attributable to ordinary equity holders was A$1.1 billion.

As at March 31, 2010, MGL conducted its operations directly and through approximately 1,270 subsidiaries in more than 70 office locations in 28 countries, with 45% of MGL Group's revenues from external customers derived from regions outside of Australia. See "— Our Business — Regional Activity" below for further information.

MGL was incorporated in the State of Victoria on October 12, 2006. MGL's registered office is Level 7, 1 Martin Place, Sydney, New South Wales, 2000 Australia. Its principal place of business is Level 7, No. 1 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

Trading Conditions and Market Update

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

The environment for mergers and acquisitions across most industry classes remained subdued during the 2010 fiscal year compared to historical standards, which resulted in substantially lower global deal value in the 2010 fiscal year than in the prior year. Asia, Australia, and Canada experienced increased equity capital markets activity in the 2010 fiscal year, compared to the prior fiscal year.

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

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

Recent Developments

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

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

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

Organizational Structure

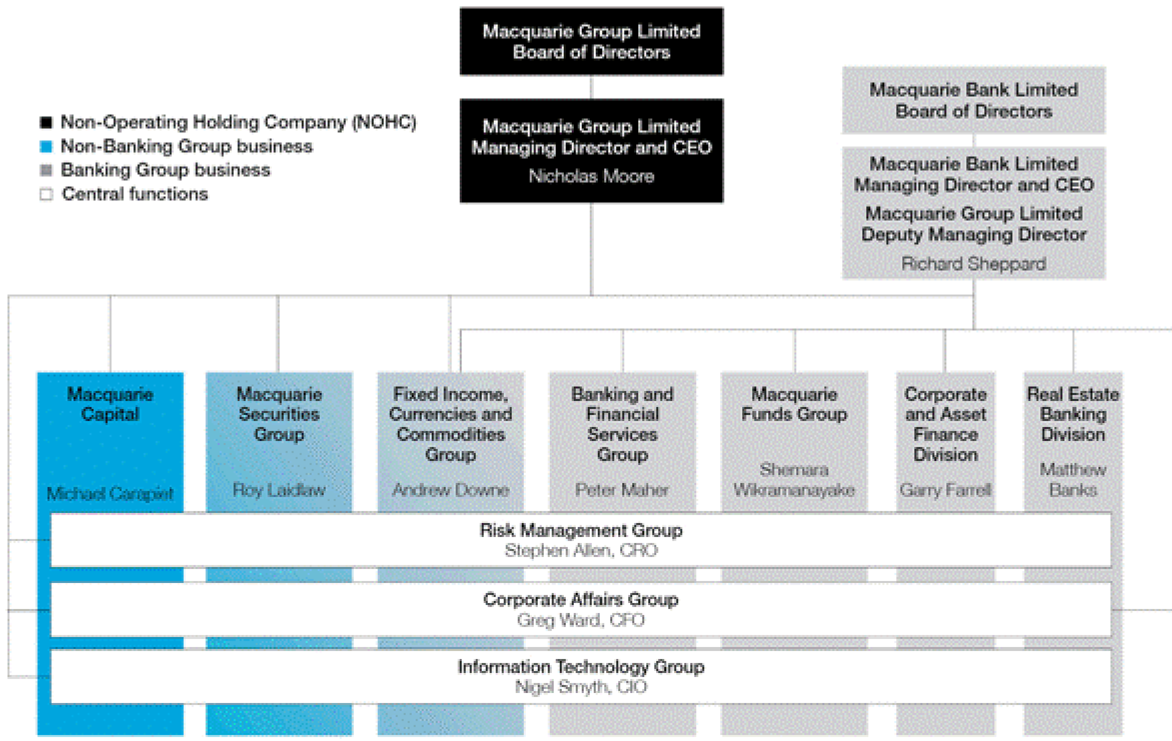
MGL Group's operations are conducted primarily through two groups: the Banking Group and the Non-Banking Group, which include five operating groups and two divisions within which individual businesses operate.

The Banking Group consists of MBL Group and has four operating groups: Fixed Income, Currencies & Commodities, Macquarie Securities (excluding the Cash division), Banking & Financial Services and Macquarie Funds. MBL Group also has two divisions: Corporate & Asset Finance and Real Estate Banking.

The Non-Banking Group consists of Macquarie Capital which incorporates Macquarie Capital Funds, the Cash division of Macquarie Securities and certain less financially significant assets and businesses of Fixed Income, Currencies & Commodities.

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

The following diagram shows the organizational structure of MGL Group, and reflects the composition of the Banking and Non-Banking Groups as at March 31, 2010.



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

Our Key Strengths

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

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

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

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

- *Fee and commission income*, including:
  - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital Advisers as well as fee income from mortgage securitization vehicles, lending activities and transaction fees;
  - Brokerage and commission income from institutional cash equities services provided to retail and institutional clients by Macquarie Securities as well as brokerage fee income from Banking & Financial Services;
  - Funds management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) from Macquarie Capital Funds, Banking & Financial Services, Macquarie Funds and Real Estate Banking;
  - Macquarie Wrap and other administration fee income from Banking & Financial Services; and
  - Structuring fee income from Macquarie Funds' structured financial products;
- *Trading income* generated predominately through client trading activities and products issued by Macquarie Securities and Fixed Income, Currencies & Commodities;
- *Interest income* earned on the loan books and margin and equities lending assets of Banking & Financial Services, interest income on trading assets from Fixed Income, Currencies & Commodities and Macquarie Securities, and leasing and asset financing activities of Corporate & Asset Finance;
- *Equity accounted income* from principal investments in assets and businesses where significant influence is present; and
- *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities and operating lease income.

- *Geographic diversity*. As at March 31, 2010, we employed over 14,600 people in 28 countries. Of those staff, approximately 50% were located in offshore markets. As MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.
- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions, seeking to take advantage of new opportunities as they arise. As a result of the market disruption experienced in late calendar 2008 and through calendar 2009, we have taken advantage of several acquisition opportunities which we believe will strengthen our product offering and global presence. We believe that these acquisitions complement our existing expertise in areas such as energy, financial institutions and funds management. For further details of significant acquisitions see, "— Our History and Evolution" below.
- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.

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

- *Business focus on fee income*. Our main business consists of providing services to our clients rather than engaging in principal activities. While Macquarie Capital has and expects to continue to undertake principal investments as part of its M&A and funds management strategies, our main focus is on generating management and advisory fees, not assuming significant principal exposure.

- *Strong Capital Position*. As at March 31, 2010, MGL had total regulatory capital of A$11.8 billion including approximately A$4.0 billion surplus capital in excess of MGL Group's minimum APRA regulatory requirement.

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

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

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

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

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

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

Our Strategy

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

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

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

Our History and Evolution

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

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

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

- the acquisition of the Bankers' Trust Australia Investment Banking business in the 1999 fiscal year;
- the acquisition of the cash equities business of ING Group (Asia) in the 2004 fiscal year;
- the acquisitions of Orion Financial Inc. in Canada and Giuliani Capital Advisors LLC in the United States in the 2005 fiscal year;
- the acquisition of CIT Systems Leasing in the United States in the 2008 fiscal year;
- the acquisition of Constellation Energy's downstream natural gas trading operations in North America in the 2009 fiscal year;
- the acquisitions of Tristone in North America and Europe, Delaware Investments in the United States, FPK in North America and Europe and Blackmont in Canada in the 2010 fiscal year; and
- Sal. Oppenheim's equity derivatives and structured products business and cash equities sales and research business in Europe in the 2011 fiscal year.

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

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

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

Our Business

Overview of MGL Group

For the 2010 fiscal year, our total operating income was A$6.6 billion with 45% of MGL Group's revenues from external customers derived from regions outside Australia. Our profit after tax attributable to ordinary equity holders for the 2010 fiscal year was A$1.1 billion.

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

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

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Macquarie Capital	2,725	2,529	8
Fixed Income, Currencies & Commodities[2]	1,977	1,902	4
Macquarie Securities	1,515	1,611	(6)
Banking & Financial Services	2,233	3,443	(35)
Macquarie Funds	1,142	726	57
Corporate & Asset Finance[3]	1,029	733	40
Real Estate Banking[4]	155	299	(48)
Total revenues from external customers by operating group	**10,776**	**11,243**	(4)
Corporate[5]	952	1,675	(43)
Total revenue from external customers	**11,728**	**12,918**	(9)

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

	Year ended		
	Mar 10	**Mar 09**	**Movement[6]**
	A$m	**A$m**	**%**
Macquarie Capital	657	257	156
Fixed Income, Currencies & Commodities[2]	827	509	62
Macquarie Securities	580	275	111
Banking & Financial Services	261	(99)	large
Macquarie Funds	95	45	111
Corporate & Asset Finance[3]	264	66	300
Real Estate Banking[4]	(152)	(362)	(58)
Total contribution to profit by operating group	**2,532**	**691**	266
Corporate[5]	(1,482)	180	large
Net profit after tax	**1,050**	**871**	21

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

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

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

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

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

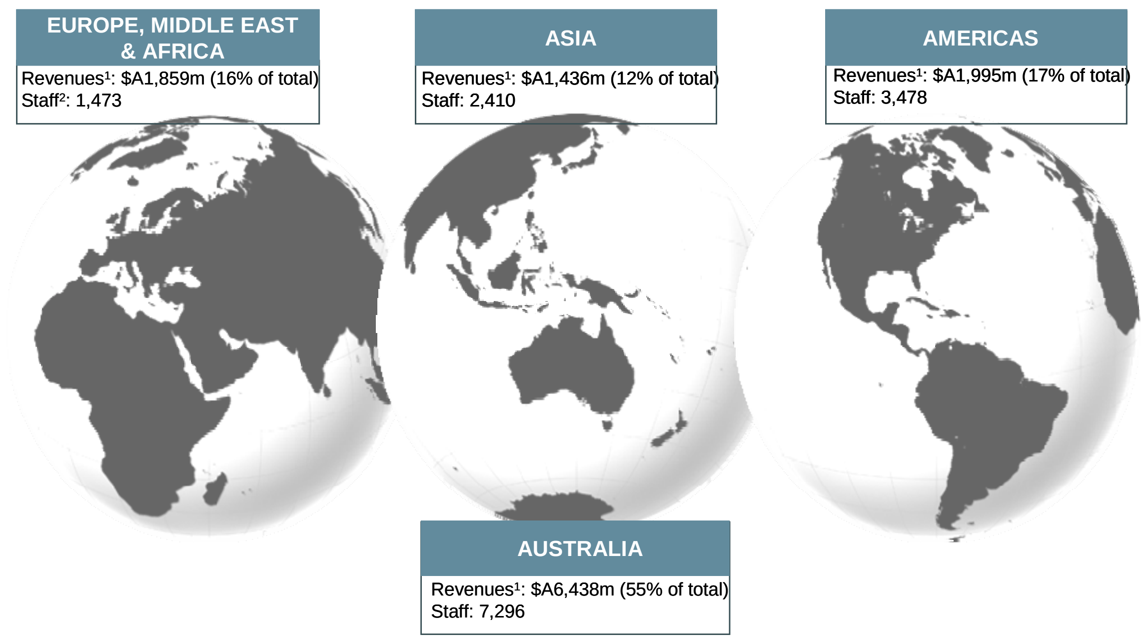
6 "large" indicates that actual movement was greater than 300%.

Regional Activity

At March 31, 2010, MGL Group employed over 14,600 staff globally and conducted its operations in more than 70 office locations in 28 countries.

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

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



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

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

Australia. MGL Group was founded in Australia in 1969 and began operations in Sydney in January 1970 with only 3 staff. As at March 31, 2010, MGL Group employed over 7,200 staff across Australia. In the 2010 fiscal year, Australia contributed A$6.4 billion (55%) of our revenues from external customers as compared to A$7.1 billion (55%) in the 2009 fiscal year.

The Americas. MGL Group has been active in the Americas for over a decade, when we established our first office in New York in 1994 and has grown rapidly over the last two years, principally through acquisitions of FPK, Delaware Investments, Blackmont and Tristone and the growth of our Energy Trading and Credit Trading businesses. As at March 31, 2010, MGL Group employed over 3,400 staff across the United States, Canada, Mexico, Brazil and Argentina. In the 2010 fiscal year, the Americas contributed A$2.0 billion (17%) of revenues from external customers as compared to A$2.0 billion (16%) in the 2009 fiscal year.

Asia. MGL Group has been active in Asia for more than 15 years, when we established our first office in Hong Kong. As at March 31, 2010, MGL Group employed over 2,400 staff across China, Hong Kong, New Zealand, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. In the 2010 fiscal year, Asia contributed A$1.4 billion (12%) of our revenues from external customers as compared to A$1.3 billion (10%) in the 2009 fiscal year.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2010, MGL Group employed over 1,400 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the 2010 fiscal year, Europe, Middle East & Africa contributed A$1.9 billion (16%) of revenues from external customers as compared to A$2.5 billion (19%) in the 2009 fiscal year.

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

Operating Groups

Macquarie Capital

Macquarie Capital is the primary business in the Non-Banking Group and includes MGL Group's corporate advisory, equity underwriting and alternative asset funds management businesses.

In the 2010 fiscal year, Macquarie Capital contributed A$657 million to MGL Group's profit and as at March 31, 2010, had over 2,100 staff operating across 24 countries, including Australia, United States, United Kingdom, Canada, Hong Kong, Korea, Singapore and China.

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

Macquarie Capital provides a variety of services including specialist capabilities in:

- Mergers and acquisitions, takeovers and corporate restructuring advice across the following six core industry sectors: Infrastructure & Utilities, Industrials, Resources, Real Estate, Financial Institutions and Telecommunications, Media, and Entertainment & Technology;
- Equity capital markets, debt capital markets and equity and debt capital management and raising;
- Alternative asset funds management (including infrastructure and real estate funds);
- Debt structuring and distribution;
- Private equity placements; and
- Principal products.

In addition to its advisory capabilities, Macquarie Capital also uses its own balance sheet to invest as principal, either alongside clients or funds, or as a shareholder in its own right. The Principal Investments team within Macquarie Capital works with Risk Management to review the legal and commercial aspects of all principal transactions to ensure that the business' commercial and strategic objectives are satisfied. This team is also responsible for managing the ongoing performance of principal assets on Macquarie Capital's balance sheet.

Significant acquisitions and organic growth

During the 2010 fiscal year, Macquarie Capital continued to pursue strategic growth initiatives and to source quality assets globally. In particular, significant acquisitions during the period included Tristone and FPK.

Tristone. In May 2009, MGL Group announced it had entered into an agreement to acquire global energy advisory firm, Tristone, for approximately C$116 million (approximately US$108 million). The acquisition was completed in August 2009. The business, which comprises corporate finance and technical professionals in 22 cities, is an integrated energy platform, offering advisory, capital markets, research and trading expertise and substantially enhances MGL Group's energy markets capabilities. Tristone's sales, trading and research activities have been integrated into Macquarie Securities, while its advisory and capital markets capabilities were integrated into Macquarie Capital. See the discussion below under "— Macquarie Securities — Significant acquisitions and organic growth — Tristone" for further information.

FPK. The acquisition of FPK, a specialist investment bank focused on financial institutions, with offices in London, New York, Chicago, San Francisco, Hartford, Boston, Hong Kong and Tokyo, for a cash payment of US$130 million in equity value to be paid over four years plus US$16.7 million of long term liabilities, less cash on balance sheet at financial close, was completed on November 30, 2009. The acquisition has enhanced MGL Group's financial services capabilities in the financial institutions sector globally through integration of FPK's equities sales and trading, research, advisory and capital markets teams. FPK's sales, trading and research teams have been integrated into Macquarie Securities, while its advisory and capital markets teams were integrated into Macquarie Capital. See the discussion below under "— Macquarie Securities — Significant acquisitions and organic growth — FPK" for further information.

The impact of the acquisitions on the Macquarie Capital Advisors' result for the 2010 fiscal year was not considered to be material. See "— Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Segment overview — Macquarie Capital" for further information.

During the 2010 fiscal year, Macquarie Capital continued to grow its global corporate finance and advisory business internationally. In the 2010 fiscal year more than 40 new director level hires were made across Macquarie Capital Advisors, new offices were established in Buenos Aires, Mexico City and Moscow, a Debt Capital Markets business was established in the United States and Macquarie Capital continued to work with governments and strong local partners to deliver infrastructure opportunities through new offerings in unlisted alternative asset funds in Mexico, Russia and Africa.

Macquarie Capital Advisers

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

Macquarie Capital Advisers sources deal flow and assets for both third-party clients and the business' funds management vehicles. These assets are then packaged and offered to institutional or public investors or, where the business perceives investor demand, placed in new funds managed by Macquarie Capital Funds.

Macquarie Capital Advisers includes Macquarie Capital Funds, which specializes in the management of a range of alternative asset funds, including infrastructure, real estate and other funds, which constitutes an important part of the overall Macquarie Capital Advisers strategy. For further information on Macquarie Capital Funds, see " — Macquarie Capital Funds" and " — Funds Management Business — MBL Group and the Non-Banking Group".

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

In the 2010 fiscal year, Macquarie Capital Advisors continued to expand its sector knowledge and advisory relationships globally, including its mergers and acquisitions and equity capital markets advisory capabilities in the United Kingdom and United States, as described above under "— Our History and Evolution", the establishment of a debt capital markets team in North America, and new offices in Buenos Aires, Mexico City and Moscow.

In the 2010 fiscal year, Macquarie Capital Advisers was involved in 448 transactions totalling A$121 billion.

Key transactions that Macquarie Capital Advisers was involved in during the 2010 fiscal year included:

- Sponsor, adviser, debt provider and equity underwriter for the A$5.7 billion (Net Present Cost) Victorian Desalination Project;
- Joint lead manager roles on a number of leading Australian IPOs including carsales.com, Myer, Kathmandu and Miclyn Express Offshore;
- Joint lead manager roles for the listing of numerous Chinese companies on the Stock Exchange of Hong Kong, including China Zhongwang, BBMG, Powerlong Real Estate, Shenguan and China Minsheng Bank;
- Adviser and debt arranger to Lion Power Holdings for the S$2.35 billion refinancing of Senoko Power's acquisition debt;
- Advising on numerous cross border transactions including Korea's KEPCO on its C$75.4 million acquisition of Canadian uranium producer, Denison, and Australia's PaperlinX on the sale of its A$760 million paper business to Japan's Nippon Paper Industries;
- Lead manager roles in numerous financings for Canadian resources companies on the Toronto Stock Exchange including Consolidated Thompson Iron Mines, Result Energy (and its predecessor TriStar Oil & Gas), Gleichen Resources, Ivanhoe Energy and Colossus Minerals;
- Joint bookrunner for the IPO of Chinese ceramic producer, Joyou, on the Frankfurt Stock Exchange;
- Adviser to Singapore Technologies Telemedia on the take-private of Eircom Holdings, owner of a 57.1 per cent stake in Eircom, Ireland's incumbent telecommunications provider;
- Adviser to Goodman Group on its recapitalisation including A$4.1 billion debt restructuring, A$1.3 billion equity raising and A$500 million hybrid securities issued to China Investment Corporation;
- Joint global coordinator and joint underwriter for Rio Tinto's global US$15.2 billion renounceable rights issue;
- Financial advisor to Cintra and Meridiam Infrastructure on the US$2 billion North Tarrant Express managed lanes project in Texas, United States;
- Co-financial advisor to Bouygues Construction and Meridiam Infrastructure arranging US$723 million of debt on the Port of Miami Tunnel and Access Improvement Project in Miami, United States;
- Adviser to Bakwena Platinum Corridor Concessionaire on its ZAR3.5 billion toll road refinancing in South Africa;
- Adviser to Inexus, a UK gas and electricity distribution business, on the restructuring of its debt facilities;

- Adviser to Bord Gáis Éireann (BGE), a leading Irish energy provider, on the €500 million acquisition of SWS Natural Resources, one of the largest wind generators in Ireland;
- Adviser to Viterra on its A$1.6 billion acquisition of ABB Grain and underwriter for its A$511 million equity raising;
- Adviser to Transpacific Industries Group on its A$801 million recapitalisation and A$2.26 billion debt refinancing;
- Joint structuring adviser and joint lead manager for the A$2 billion PERLS V hybrid issue by CBA;
- Joint financial adviser, lead manager, underwriter for the A$8.9 billion recapitalisation and restructure of Prime Infrastructure;
- Adviser to Younghwa Engineering on the sale of Younghwa Engineering to MBK Partners in Korea;
- Joint Lead Manager for ANZ's A$2 billion CPS2 capital raising;
- Adviser to Eldorado Gold Corporation on its C$2.4 billion cross-border acquisition of Sino Gold Mining Limited;
- Joint global coordinator and lead arranger on the US$1.6 billion takeover and IDX-listing of BUMA, Indonesia's second largest mining contractor;
- Adviser to TriStar Oil & Gas on its C$2.7 billion strategic combination with Petrobank Energy & Resources;
- Joint lead manager and underwriter to Mirvac Group on its A$1.1 billion capital raising, and joint financial adviser on its acquisition of the A$814 million Mirvac REIT;
- Adviser to Central Pattana Public Company, a leading developer and manager of retail and commercial properties in Thailand, on a THB5.7 billion real estate investment; and
- Adviser to Rio Tinto on the proposed Western Australian iron ore joint venture with BHP Billiton.

As at March 31, 2010, following payment of the third and final installment by investors to BrisConnections on January 29, 2010, which was 50% underwritten by Macquarie Capital Advisors, Macquarie Capital Advisors held approximately 45.6% of the stapled units in BrisConnections. In accordance with the underwriting agreement between BrisConnections Management Company Limited ("*BMCL*") as responsible entity of BrisConnections Investment Trust and BrisConnections Holding Trust, Macquarie Capital Advisers, Deutsche Bank AG Sydney Branch ("*DB*") and others, Macquarie Capital Advisors and DB made payment of the shortfall amount of approximately A$1.285 million (0.33% of third installment) in return for the additional equity in Brisconnections.

Macquarie Capital Funds

Macquarie Capital Funds is a leading global alternative asset manager specializing in infrastructure, real estate and private equity funds including several customized accounts, with total Assets under Management of A$96 billion as at March 31, 2010. For an explanation of Assets under Management, see "Financial Information Presentation — Non-GAAP financial measures — Assets under Management".

Macquarie Capital Funds manages funds that own assets which provide essential community services in infrastructure and related sectors. Within the Macquarie Capital Funds business resides a substantial group of people with operational or industry expertise (many of them being ex-industry or consulting specialists) in the sectors managed by the business. Macquarie Capital Funds applies this operational and industry expertise in the day-to-day management of assets in return for base management fees and performance fees when the funds outperform relevant benchmarks. For a discussion of movements in Assets under Management within Macquarie Capital Funds for the year ended March 31, 2010, see "Management's Discussion and Analysis of Results of

Operation and Financial Condition — Year ended March 31, 2010 compared to year ended March 31, 2009 — Macquarie Capital — Macquarie Capital Funds" and "— Funds Management Business — MBL Group and the Non-Banking Group".

The funds and investment vehicles managed by Macquarie Capital Funds have investments in approximately 100 assets and approximately 110 properties across 24 countries.

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

Provider of essential community services

Airports	Over 44 million passengers per annum
Toll Roads	Over 1.5 million cars per day
Gas Distribution	Over 7.7 million households
Water	Over 6.6 million households
Electricity	Over 4.1 million households
Communications	Over 73 million people reached by television, telephone and radio infrastructure and newspaper services
Rail	Over 39 million passengers per annum
Ferries	Over 6.6 million passengers per annum
Aged care/retirement villages	Over 7,600 beds/over 8,200 units
Buses	Over 350 million passengers per annum
Ports	Over 2.6 million standard container units handled per annum

Macquarie Capital Funds focuses on acquiring quality assets and effectively managing them. At March 31, 2010, Macquarie Capital Funds managed 42 funds and had Equity under Management of A$38.6 billion. For an explanation of Equity under Management, see "Financial Information Presentation — Non-GAAP financial measures — Equity under Management".

Listed Funds. The listed funds managed by Macquarie Capital Funds include:

Funds and Listing	**Fund description**	**Market Capitalization as at March 31, 2010**
Macquarie Atlas Roads (MQA, ASX)	Global toll road developer and operator which has investments in toll roads in the United States, United Kingdom and Europe.	A$0.4 billion
Macquarie Korea Infrastructure Fund (MKIF, LSE and Korea Exchange)[1]	Targets investments in infrastructure projects in Korea, primarily PPI projects, such as toll roads, ports and subways. Investments of MKIF include Incheon Grand Bridge, Cheonan-Nonsan Expressway and Gwangju 2nd Beltway, Section 1	KRW1.6trillion (A$1.5 billion)
Macquarie Power & Infrastructure Income Fund (MPT, TSX)	Portfolio of gas cogeneration, wind, hydro and biomass power businesses	C$0.3billion (A$0.4 billion)
DUET Group (DUE, ASX)[1]	Portfolio of four energy distribution and transmission networks in Australia and one in the United States.	A$1.6 billion
Macquarie Infrastructure Company (MIC, NYSE)	Diversified portfolio of infrastructure businesses in the United States.	US$0.6billion (A$0.7 billion)

Funds and Listing	Fund description	Market Capitalization as at March 31, 2010
Macquarie International Infrastructure Fund (MIIF, Singapore Stock Exchange)	Diversified portfolio of global infrastructure assets, with a focus on Asia	S$0.7billion (A$0.5billion)
Macquarie DDR Trust (MDT, ASX)[1,2].............................	Portfolio of community shopping centers in the United States	A$0.1billion

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

2 MDT entered into trading halt on March 26, 2010 and was subsequently suspended from quotation on March 30, 2010 pending the release of an announcement in respect of negotiations with its lenders.

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

Listed Fund initiatives. In the 2010 fiscal year, the boards of Macquarie Capital managed Australian listed funds completed a range of strategic initiatives such as asset sales, fund privatizations, management internalizations (purchase of fund management by the fund itself), restructures, distribution reductions and debt renegotiations, to close the gap between underlying asset valuations and security market prices. These initiatives included:

- the taking private of Macquarie Communications Infrastructure Group ("*MCG*") in July 2009 by Canada Pension Plan Investment Board ("*CPPIB*");
- management internalizations of Macquarie Airports ("*MAp*" now MAp Airports) and Macquarie Leisure Trust Group ("*MLE*" now Ardent Leisure) in October 2009 and August 2009, respectively;
- the restructure of Macquarie Infrastructure Group ("*MIG*") into two separate ASX listed toll road groups, Intoll Group (a stand alone entity) and Macquarie Atlas Roads Group (Macquarie managed) in February 2010;
- the sale of the majority of Macquarie Capital's Australian core real estate fund management platform to Charter Hall Group ("*Charter Hall*"), including the management entities for the Macquarie CountryWide Trust ("*MCW*" now Charter Hall Retail REIT) and the Macquarie Office Trust ("*MOF*" now Charter Hall Office REIT) in March 2010; and
- the recapitalization, management internalization and corporatization of Macquarie Media Group ("*MMG*" now Southern Cross Media) in March 2010.

In each case, the boards considered the options on their individual merits, with the best interests of shareholders as the key driver for any proposal. As a material shareholder of the listed funds, Macquarie Capital will benefit from any positive impact on share prices following implementation of these initiatives.

Unlisted Funds. In recent years, Macquarie Capital Funds' major source of equity funds has been the unlisted market, with approximately 90% of Macquarie Capital Funds' Equity under Management in unlisted funds, mandated assets and consortia agreements. With the global pension industry investing a relatively large portion of its savings into long duration assets, Macquarie Capital Funds raised A$3.1 billion in equity in the 2010 fiscal year. Of this amount, A$1.7 billion in equity was raised for the establishment of new unlisted funds including Macquarie Renaissance Infrastructure Fund, Macquarie Mexico Infrastructure Fund and African Infrastructure Investment Fund 2, driving Macquarie Capital's regional expansion in Russia, Mexico and Africa respectively. In addition, Macquarie continues to evaluate opportunities to acquire fund management platforms and develop unlisted fund initiatives in new geographies and sectors, including the development of a renewable energy fund. See "— Funds Management Business — MBL Group and the Non-Banking Group" below for a discussion of historical performance of our listed and unlisted funds.

Corporate Governance **-** *Macquarie Capital Funds.* MGL Group has developed and implemented a Funds Management Policy, compliant with the ASX Corporate Governance Principles and Best Practice Recommendations. Where Macquarie Capital enters into any related party transaction with its funds its policies require that the terms be determined on an arm's length basis.

Macquarie Capital listed funds have a majority of directors independent of MGL Group and unlisted funds typically have an investor review committee. Independent directors or investor representative bodies approve related-party transactions such as asset sales and purchases, the provision of financial services or loans. These transactions are required to be on arm's length terms and fee schedules and mandate terms and conditions for related-party transactions are subject to external benchmarking and third-party expert review, unless the independent directors or investor review committee determine otherwise on the basis of appropriate market information or practice. MGL Group directors do not, unless invited to do so by the independent fund directors or investor review committee, participate in any discussions on related-party matters and they do not vote in respect of these matters.

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

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

Where Macquarie Capital enters into financial services transactions with funds it manages and assets or businesses in which it or such funds have an equity interest, Macquarie Capital limits its total exposure to individual assets or businesses. Where Macquarie Capital lends to its managed funds, or assets or businesses in which it or a fund it manages has an interest, its usual policy is to do so only as a member of a syndicate of lenders where Macquarie Capital takes a minority lending position. All debt at each fund is non-recourse to MGL Group. Similarly all debt held at the assets within each fund is non-recourse to the fund itself (with the exception of MDT), and non-recourse to MGL Group.

Although MGL Group retains minority equity interests in its funds to maintain alignment with fund investors, it has not intervened to provide any financial support to distressed funds or their assets.

Fixed Income, Currencies & Commodities

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

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

In the 2010 fiscal year, Fixed Income, Currencies & Commodities contributed A$827 million to MGL Group's profit and as at March 31, 2010, had 884 staff operating across 12 countries, including Australia, the United States, Canada, the United Kingdom, Japan, Singapore and Brazil.

Fixed Income, Currencies & Commodities comprises the following divisions:

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

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

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

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

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

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

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

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

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

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

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

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

- new jurisdictions and branch initiatives; and

- joint-venture alliances.

Significant acquisitions and organic growth

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

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

- continued to consolidate its North American gas and power franchise in Macquarie Energy;
- expanded into physical oil trading in Singapore;
- expanded its physical shipping and freight capabilities;
- added the provision of corporate banking, foreign exchange and other trading services to Korean corporate and institutional clients after MBL obtaining a licence to offer banking services in Korea; and
- extended into client sales and trading in the New York based credit trading business.

Macquarie Securities

Macquarie Securities operates businesses across the Banking Group and Non-Banking Group. As described below, the Derivatives DeltaOne Trading division operates as part of the Banking Group and the Cash division operates as part of the Non-Banking Group.

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

Macquarie Securities contributed A$580 million to MGL Group's profit in the 2010 fiscal year and as at March 31, 2010, had 1,673 staff operating across 18 countries, including Australia, Canada, China, Europe, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, South Africa, Switzerland, Taiwan, Thailand, the United Kingdom and the United States.

Macquarie Securities comprises the following two divisions:

Cash. The Cash division operates as a full service institutional cash equities broker in the Asia Pacific region and South Africa. In the rest of the world, it operates as a specialized institutional cash equities broker. It provides equity capital markets products and services through a joint venture with Macquarie Capital Advisers. The Cash division forms part of the Non-Banking Group.

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

Significant acquisitions and organic growth

During the year, Macquarie Securities continued to grow its global platform both organically and via the acquisitions of FPK, Tristone and Sal Oppenheim.

Tristone. The acquisition of Tristone on September 1, 2009 added 36 sales, research and trading professionals to the Cash division across Canada, the United States and Europe and increased stock coverage by 129 stocks, primarily in the energy industry. Tristone is an energy advisory firm that offers services such as corporate finance, acquisitions and divestitures, equity capital markets and sales, trading and research. See the discussion above under "— Macquarie Capital — Significant acquisitions and organic growth — Tristone" for further information.

FPK. In addition, the acquisition of FPK on December 1, 2009, enhanced Macquarie Securities' global financial institutions specialist group capability and increased Macquarie Securities' relevance to financial institutions and corporates around the world, adding deep sector expertise in North America and Europe to complement MGL Group's well-established financial institutions position in the Asia-Pacific region. The acquisition has added over 110 staff in New York, Hartford, Boston, Chicago and London and increased the access and reach of Macquarie Securities' equity offering to institutional clients, growing financial institutions research to approximately 765 stocks globally, primarily in the financial institutions industry. See the discussion above under "— Macquarie Capital — Significant acquisitions and organic growth — FPK" for further information.

The impact of the Tristone and FPK acquisitions on Macquarie Securities' result for the 2010 fiscal year was not considered to be material.

Sal. Oppenheim. More recently, the acquisition of Sal. Oppenheim's cash equities sales and research business added 50 new staff to the Cash division across Germany, France and Switzerland and increased Macquarie Securities' research coverage to around 2,700 stocks globally. Sal. Oppenheim's cash equities business comprises equities research, sales, trading and execution functions focused on continental Europe. The acquisition places Macquarie Securities in the top 10 in terms of global research coverage, broadens Macquarie Securities' pan-European business and bolsters its presence in key European markets while complementing Macquarie Securities' existing operations. The acquisition was completed post balance sheet date on April 6, 2010.

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

The Sal. Oppenheim acquisitions are in the process of being integrated into the Macquarie Securities platform and as they were completed after the balance sheet date of March 31, 2010, they have not had any impact on Macquarie Securities' results of operation for the 2010 fiscal year.

Macquarie Securities continued to grow its market share and took the opportunity to hire individuals and teams of people, particularly in the United States and Europe bringing both expertise and important regional relationships to Macquarie Securities growing equities franchise. The initiatives resulted in 52 selective director level hires globally, primarily in the Cash division.

Banking & Financial Services

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

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

Banking & Financial Services contributed A$261 million to MGL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 3,268 staff operating across 11 countries, including Australia, Canada, United Kingdom, New Zealand and Singapore.

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

Banking & Financial Services comprises the following seven divisions:

Macquarie Adviser Services. Macquarie Adviser Services manages relationships with external financial, insurance and mortgage intermediaries and provides sales service and product management of in-house and external products including retail superannuation, mortgages, investment lending, Macquarie Life insurance, Coin financial planning software and outsourced paraplanning. The division includes the A$3.6 billion CMA, the A$10 billion

CMT and the Macquarie Wrap administration service which had A$22.5 billion in funds under administration each at March 31, 2010.

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

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

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

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

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

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

Significant acquisitions and organic growth

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

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

In December 2009, MGL Group completed its acquisition of Blackmont, a Canadian wealth management business headquartered in Toronto with retail branches in 12 locations, from CI Financial for a cash payment of C$102.8 million (US$95.6 million). Blackmont was one of the largest independent, full service investment dealers in Canada with approximately 410 employees, including a network of more than 130 investment advisers. Blackmont also operated a capital markets division that provides institutional and corporate clients with capital markets, advisory, equity research, sales and trading services.

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

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

Macquarie Funds

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

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

Macquarie Funds contributed A$95 million to MGL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 1,094 staff operating across 11 countries, including Australia, United States, United Kingdom, and Hong Kong.

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

Macquarie Funds comprises the following seven divisions:

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

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

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

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

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

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

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

Significant acquisitions and organic growth

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

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

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

Divisions within MBL Group

Corporate & Asset Finance

Corporate & Asset Finance provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in leasing and asset finance, asset remarketing, sourcing and trading for long cycle assets (such as manufacturing, transportation and energy) and short cycle assets (including motor vehicles, information technology and medical) as well as offering tailored debt and finance solutions.

Corporate & Asset Finance contributed A$264 million to MGL Group's profit in the 2010 fiscal year and as at March 31, 2010 had 685 staff across 12 countries, including Australia, New Zealand, Korea, United States and the United Kingdom.

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

Corporate & Asset Finance comprises the following eight businesses:

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

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

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

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

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

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

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

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

Significant acquisitions and organic growth

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

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

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

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

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

Real Estate Banking

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

The Real Estate Banking division contributed a loss of A$152 million to MGL Group's profit in the 2010 fiscal year and as at March 31, 2010, had 105 staff operating across 5 countries, including Australia, United States, United Kingdom, China and Korea.

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

Real Estate Banking includes the following activities:

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

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

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

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

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

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

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

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

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

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

On April 22, 2010, as part of the MDT recapitalization, Real Estate Banking sold its ownership interest in MDT. For further information on the recapitalization, see "— Macquarie Capital — Macquarie Capital Funds — Listed Funds".

Corporate

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

Corporate contributed a net loss of A$1,482 million for the year ended March 31, 2010 and as at March 31, 2010, had 4,800 staff across 18 countries.

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

Relationship between MBL and MGL

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

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADI's and NOHC's, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

Relationships among MGL Group members include:

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

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

Shared Services

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

Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Media Relations, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

Intra Group Loan

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

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

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

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

Senior Credit Facility

To finance the Restructure, on November 13, 2007, MGL entered into a A$9 billion Senior Credit Facility. As at March 31, 2010 the facility limit was A$7.6 billion. The facility now comprises three revolving credit facilities totalling A$2.4 billion maturing November 2010, November 2011 and November 2012, respectively and four term facilities totalling A$5.2 billion maturing November 2010, May 2011, November 2011 and November 2012, respectively.

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

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

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

As at March 31, 2010, MGL had drawn down the equivalent of A$6.9 billion in Australian dollars under the Senior Credit Facility in the term and revolving facilities.

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

MGL Group's funds management businesses are conducted by both the Non-Banking Group and the Banking Group.

The Non-Banking Group, through Macquarie Capital Funds is a manager of listed and unlisted funds which invest in infrastructure (including airports, toll roads, communications infrastructure, utilities and related sectors), private equity and real estate (including retail, office, industrial, commercial and development capital). Macquarie Capital Funds has listed funds in Australia, Canada, the United States, Korea and Singapore and unlisted funds in Australia, Korea, Hong Kong, India, Canada, the United States, Mexico, Europe, Russia, South Africa and the Middle East. See "— Operating Groups — Macquarie Capital — Macquarie Capital Funds" for further information.

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

Assets under Management provides a consistent measure for measuring the scale of MGL Group's funds management activities across our operating groups in the Banking and Non-Banking Group, which is discussed in "— Assets under Management" section below. The earnings of base management fees is closely aligned with the Equity under Management measure for Macquarie Capital Funds, which is discussed in the "— Equity under Management" section below. For a further explanation of the distinction between Assets under Management and Equity under Management, see "— Financial Information Presentation — Non-GAAP financial measures" in this Report.

Assets under Management

MGL Group had an aggregate of A$325.7 billion of Assets under Management as at March 31, 2010, from which MGL Group derived an aggregate of A$926 million of funds management base fees for the year ended March 31, 2010. As at March 31, 2010, Macquarie Capital Funds represented A$96.5 billion of Assets under Management, or 30% of MGL Group's total Assets under Management. As at March 31, 2010 MBL Group had A$229.2 billion of Assets under Management or 70% of MGL Group Assets under Management.

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

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

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Assets under Management by group			
Macquarie Funds	209,894	49,656	large
Macquarie Capital	96,452	159,509	(40)
Banking & Financial Services[2]	14,318	19,178	(25)
Real Estate Banking	5,045	14,761	(66)
Total Assets under Management	**325,709**	**243,104**	34
Assets under Management by region			
Australia	68,552	86,032	(20)
Americas	176,818	55,453	219
Europe, Africa and Middle East	64,561	83,113	(22)
Asia	15,808	18,506	(15)
Total Assets under Management	**325,709**	**243,104**	34
Assets under Management by industry sector			
Investment funds	224,213	68,834	226
Energy and utilities	39,396	48,726	(19)
Roads	18,936	32,999	(43)
Communications infrastructure	16,140	21,246	(24)
Other	8,696	14,288	(39)
Transport and related services	8,107	11,537	(30)
Airports	3,908	20,895	(81)
Commercial real estate	2,839	11,626	(76)
Retail real estate	1,740	8,349	(79)
Tourism/leisure and residential real estate	1,352	4,276	(68)
Industrial real estate	382	328	16
Total Assets under Management	**325,709**	**243,104**	34

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

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

Assets under Management at March 31, 2010 were A$325.7 billion, a 34% increase from A$243.1 billion at March 31, 2009. The overall net increase in Assets under Management was driven by Macquarie Funds' acquisition of Delaware Investments, which added A$151.1 billion to Assets under Management at March 31, 2010. This was partially offset by a reduction in Assets under Management due to listed fund initiatives including MAp, Macquarie Infrastructure Group and the sale of the majority of the Real Estate funds management platform to Charter Hall Group. The strengthening of the Australian dollar against major global currencies resulted in lower asset values for offshore assets. See "— Macquarie Capital — Macquarie Capital Funds — Listed Funds" above for more information.

Macquarie Capital. Macquarie Capital's Assets under Management were A$96.5 billion at March 31, 2010 a 40% decrease from A$159.5 billion at March 31, 2009. The decrease was predominantly driven by listed fund initiatives as described under "—Operating Groups—Macquarie Capital Funds—Listed funds initiatives" combined with reduced asset valuations and the strengthening of the Australian dollar. With approximately 95% of Assets under Management are denominated in foreign currencies, the significant appreciation of the Australian dollar (in particular against the Euro, Pound Sterling and the US dollar) has decreased Macquarie Capital's Assets under Management.

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

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

Banking & Financial Services. Banking & Financial Services' Assets under Management decreased 26% to A$14.3 billion at March 31, 2010 from A$19.2 billion at March 31, 2009. The decrease was primarily due to the decrease in Cash Management Trust assets to A$10.0 billion at March 31, 2010, a decrease of 32% from A$14.7 billion at March 31, 2009. This was partially offset by a 17% increase in Assets under Management in the Macquarie Pastoral Fund to A$509 million at March 31, 2010, from A$434 million at March 31, 2009.

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

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

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Macquarie Funds			
Macquarie Delaware	151,129	-	-
Fixed Interest, Currency and Commodities Asset Management	41,529	34,895	19
Listed Equities	9,857	6,842	44
Investment Solutions and Sales	2,226	2,848	(22)
Infrastructure Securities	2,188	1,990	10
Funds of private equity funds	1,362	1,217	12
Real Estate Securities	1,241	1,225	1
Funds of hedge funds	362	459	(21)
Other Macquarie funds	-	180	(100)

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Total Macquarie Funds	**209,894**	**49,656**	large
Banking & Financial Services			
Macquarie Cash Management Trust	9,960	14,692	(32)
Macquarie Pastoral Fund	509	434	17
Other unlisted Banking & Financial Services	3,849	4,052	(5)
Total Banking & Financial Services	**14,318**	**19,178**	(25)
Real Estate Banking			
Macquarie Office Trust[2]	-	6,546	(100)
J-REP managed funds[3]	218	375	(42)
Macquarie Central Office Corporate Restructuring REIT	-	181	(100)
Unlisted Real Estate funds	4,827	7,659	(37)
Total Real Estate Banking	**5,045**	**14,761**	(66)
Macquarie Capital (refer to Equity under Management section)	**96,452**	**159,509**	(40)
Total Assets under Management	**325,709**	**243,104**	34

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

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

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

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

MGL Group performance and base fees for 2010 and 2009

	Year ended		
	Mar 10	Mar 09	Movement
	A$m	A$m	%
MGL Group			
MBL Group			
Base fees	464	403	15
Performance fees	45	15	200
Total MBL Group Funds Management Fees	**509**	**418**	22
Non-Banking Group			
Base fees	462	518	(11)
Performance fees	12	219	(95)
Total Non-Banking Group Funds Management Fees	**474**	**737**	(36)
Total MGL Group Funds Management Fees	**983**	**1,155**	(15)

MGL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks. For listed funds, incentive income is earned for outperformance of a benchmark rate of return. This may be either a widely acknowledged market index, generally either S&P/ASX or MSCI indices, or a pre-determined rate of return, typically 8% per annum. For Macquarie Capital Funds which invest in infrastructure and other sectors, the incentive income is typically 20% of any outperformance and for Macquarie Capital Funds which invest in real estate it is typically 5% of any outperformance and then 15% of any outperformance above 2% per annum. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of performance fee. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return typically 8%. Unlisted performance fees are generally payable upon the occurrence of a "liquidity event", such as asset sale or fund listing, and are therefore unpredictable.

During the year ended March 31, 2010 performance fees of A$57 million for MGL Group declined 76% from A$234 million in the prior year. The result for the year ended March 31, 2010 included A$34 million of performance fees from the sale of the Kukdong building by Macquarie Central Office CR-REIT, while the prior year included a significant performance fee on the termination of the advisory agreement with Bristol Airports Bermuda Limited (formerly MAp).

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

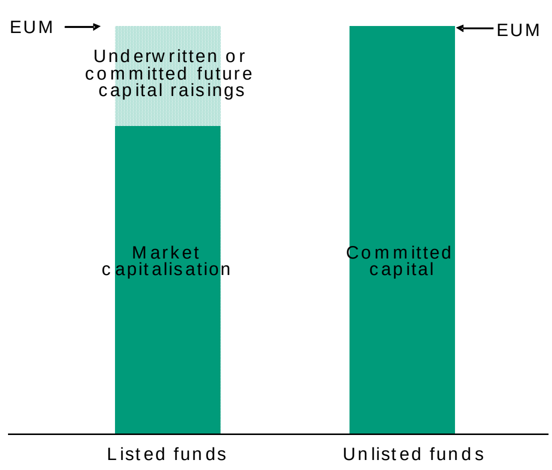
Equity under Management

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

Type of equity investment	Basis of Equity under Management calculation
Listed equity	Market capitalization at the measurement date plus underwritten or committed future capital raisings for listed funds and face value for hybrid instruments[1]
Unlisted equity	Committed capital from investors at the measurement date less called capital subsequently returned to investors for unlisted funds Invested capital at measurement date for managed businesses[2]

1 Hybrid instruments included face value of Tradeable Interest-Bearing Convertible to Equity Trust Securities ("TICkETS") issued by MAp and exchangeable bonds issued by MCG.

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



If the fund is managed through a joint venture with another party, the Equity under Management amount is then weighted based on MGL Group's proportionate economic interest in the joint venture management entity. At March 31, 2010, this applied to Macquarie Korea Infrastructure Fund and DUET Group, which are weighted at 50% as outlined in the following table, and some other funds.

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

The table below shows Equity under Management by listed and unlisted equity and by region for the years ended March 31, 2010 and March 31, 2009.

	As at[1, 2]	
	Mar 10 A$m	Mar 09 A$m
Equity under Management by type		
Listed equity	3,577	9,923
Unlisted equity	35,000	43,340
Total Macquarie Capital Funds Equity under Management	**38,577**	**53,263**
Equity under Management by region[3]		
Australia	4,319	14,277
International:		
Europe, Africa and Middle East	18,336	20,992
Americas	12,376	13,954
Asia	3,546	4,040
Total – International	34,258	38,986
Total Macquarie Capital Funds Equity under Management	**38,577**	**53,263**

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

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

3 By location of fund management team.

The table below shows total Equity under Management by fund type for the years ended March 31, 2010 and 2009.

MGL Group Equity under Management for the years ended March 31, 2010 and 2009

	Ownership of management company	Listing date	Stock ExchangeASX Code	Holding[1]	Equity under Management as at Mar 10	Mar 09
	%			%	A$m	A$m
Listed Macquarie Capital managed funds						
DUET Group	50	Aug 04	DUE:ASX	1	779	534
MAp Airports (formerly Macquarie Airports)[2]	–	Apr 02	MAP:ASX	22	–	3,097
Macquarie Communications Infrastructure Group[3]	–	Aug 02	n/a	n/a	–	1,251
Macquarie Infrastructure Company	100	Dec 04	MIC:NYSE	8	685	89
Intoll Group (formerly Macquarie Infrastructure Group)[4]	–	Dec 96	ITO:ASX	14	–	3,346
Macquarie Atlas Roads Group[4]	100	Jan 10	MQA:ASX	14	425	–
Macquarie International Infrastructure Fund	100	May 05	MIIF:SGX	8	531	356
Macquarie Korea Infrastructure Fund	50	Mar 06	088980:KRX and MKIF:LSE	4	766	772

	Ownership of management company	Listing date	Stock ExchangeASX Code	Holding[1]	Equity under Management as at Mar 10	Mar 09
	%			%	A$m	A$m
Southern Cross Media Group (formerly Macquarie Media Group)[5]	–	Nov 05	SXL:ASX	25	–	207
Macquarie Power & Infrastructure Income Fund[6]	100	Apr 04	MPT.UN:TSE	–	361	271
Maquarie CountryWide Trust[7]	–	Nov 96	CQR:ASX	4	–	352
Macquarie DDR Trust[8]	50	Nov 03	MDT:ASX	2	30	18
Ardent Leisure Group (formerly Macquarie Leisure Trust Group)[9]	–	Jul 98	AAD:ASX	–	–	273
Listed Macquarie Capital managed funds					3,577	10,566
Unlisted Macquarie Capital managed funds						
Australia					2,952	3,494
Americas					8,657	10,543
Asia Pacific					2,044	2,832
Europe, Middle East and Africa					13,263	16,361
Unlisted Macquarie Capital managed funds					**26,916**	**33,230**
Less Macquarie Capital managed funds' investments in other Macquarie Capital managed funds					(92)	(403)
Hybrid instruments					–	1,303
Managed businesses[10]					8,176	8,567
Total Macquarie Capital Funds EUM					**38,577**	**53,263**

1 Holding at March 31, 2010 represents MGL Group's participating interest in the fund.

2 On September 30, 2009, Macquarie Airports security holders voted to internalize management, with internalization becoming effective on October 15, 2009.

3 On July 8, 2009, Macquarie Communications Infrastructure Group was taken private by Canada Pension Plan Investment Board. Following the completion of this transaction MCG delisted.

4 On February 2, 2010 MIG was restructured into two separate ASX listed toll road groups, Intoll Group (a stand alone entity) and Macquarie Atlas Roads Group (Macquarie managed.)

5 On December 17, 2009, Southern Cross Media Group security holders voted to internalize management, with internalization becoming effective on March 10, 2010.

6 Excludes Class B exchangeable units.

7 On March 1, 2010, MGL Group sold the majority of its Australian core real estate funds management platform to Charter Hill Group, including Maquarie CountryWide Trust.

8 On April 22, 2010, Macquarie DDR Trust announced that it had entered into agreements with a new cornerstone investor, EPN GP, LLC (EPN) to recapitalize and stabilize the Trust's balance sheet. To facilitate the proposed recapitalization MGL Group has agreed to, following the completion of the entitlement offer, sell its 50% interest in the US Manager, the owner of MDT's Responsible Entity.

9 On August 27, 2009, Macquarie Leisure Trust Group security holders voted to internalize management, with internalization becoming effective on September 1, 2009.

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

Legal Proceedings

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

Competition

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

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

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

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

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

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

REGULATION AND SUPERVISION

Australia

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

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

APRA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration – Extensions to governance requirements for APRA-regulated institutions

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

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

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

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

Basel Committee on Banking Supervision Discussion Papers

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

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

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

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

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

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

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

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

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

Guarantee of deposits

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

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

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

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

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

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

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

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

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

Guarantee of wholesale term funding

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

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

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

As of March 31, 2010, MBL Group had US$12 billion of Commonwealth guaranteed debt outstanding pursuant to the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme.

Obligations under the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme

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

The provisions of the Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme do not apply to MGL as it is not an ADI.

RBA

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

ASIC

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

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

SFE

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

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

ASX

ASX is Australia's primary securities market. MBL's Macquarie Income Securities and MGL's ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX's listing rules, which have the statutory backing of the Australian Corporations Act. Certain funds that we manage are listed on ASX. The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee compliance with ASX's listing rules by MBL, MGL and funds managed by each of them that are listed on the ASX.

ACCC

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

Anti-Money Laundering and Counter-Terrorism Financing

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

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

Other

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

International

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

United States

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

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

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

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

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

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

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

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

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

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

United Kingdom

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

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

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

Other regulators

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

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

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

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

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

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

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

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

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

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

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

See "Financial Information Presentation" for further information.

Critical Accounting Policies and Significant Judgments

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

Basis of preparation and selection of policies

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

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

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

Fair value of financial instruments

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

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

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

Impairment of loan assets

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

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

Impairment of equity accounted investments

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

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

Impairment of investment securities available for sale

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

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

Impairment of disposal groups classified as held for sale

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

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

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

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

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

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

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

Debt issued at amortised cost

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

Other financial liabilities at fair value through profit or loss

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

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

Loan capital

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

Special purpose entities and securitizations

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

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

Income tax

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

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

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

Pending Accounting Standards Changes

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

Off Balance Sheet Arrangements

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

Special purpose and variable interest entities

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

Assets under Management

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

Post retirement plans

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

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

Results overview

	Year ended		
	Mar 10	Mar 09	Movement[1]
Income statement	A$m	A$m	%
Net interest income	1,080	938	15
Fee and commission income	3,721	4,045	(8)
Net trading income	1,299	1,157	12
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(230)	74	large
Other operating income and charges[2]	768	(688)	large
Net operating income	**6,638**	**5,526**	20
Employment expenses	(3,101)	(2,359)	31
Brokerage and commission expenses	(645)	(685)	(6)
Occupancy expenses	(482)	(393)	23
Non-salary technology expenses	(283)	(263)	8
Other operating expenses	(833)	(837)	nm
Total operating expenses	**(5,344)**	**(4,537)**	18
Operating profit before income tax	1,294	989	31
Income tax benefit/(expense)	(201)	(15)	large
Profit from ordinary activities after income tax	**1,093**	**974**	12
Profit attributable to minority interests	**(43)**	**(103)**	(58)
Profit attributable to ordinary equity holders of MGL	**1,050**	**871**	21
Key Operating Metrics			
Expense to income ratio (%)	80.5	82.1	
Compensation ratio (%)	42.9	40.7	
Effective tax rate (%)	16	2	
Basic earnings per share (cents per share)	320.2	309.6	
Diluted earnings per share (cents per share)	317.4	308.6	
Dividends per share (cents per share)	186.0	185.0	
Dividend payout ratio (%)	60.4	60.2	
Return on equity (%)	10.0	9.9	

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$686 million in total impairment charges and provisions (year ended March 31, 2009: A$1,788 million).

Consolidated net profit after income tax attributable to ordinary equity holders of A$1,050 million for the year ended March 31, 2010 increased 21% from A$871 million in the prior year primarily due to improving market conditions and growth in existing businesses. Contributions from acquired businesses, including Tristone, FPK, Blackmont and Delaware Investments were not material to MGL Group's net profit for the 2010 fiscal year. See "Financial Information Presentation — Impact of acquisitions on the 2010 fiscal year" for further information.

Total operating income of A$6,638 million for the year ended March 31, 2010 increased 20% from A$5,526 million in the prior year. The main drivers of this increase were:

- a significant increase in other operating income to A$768 million for the year ended March 31, 2010 from a net loss of A$688 million in the prior year, primarily due to an overall reduction in the level of write-downs and impairment charges (net expense of A$686 million, decreased 62% from a net expense of A$1,788 million in the prior year) (see "— Results analysis — Details of impairment charges and provisions " below for further information) and income from the sale of management rights of A$428 million related to MAp, Macquarie Infrastructure Group and Macquarie Media Group;

- a 15% increase in net interest income to A$1,080 million for the year ended March 31, 2010 from A$938 million in the prior year, primarily due to growth in the higher yielding lending portfolio in Corporate & Asset Finance, which was partially offset by a reduction in volumes in the Australian mortgage portfolio combined with the sale of the margin lending portfolio in January 2009;

- a 12% increase in net trading income to A$1,299 million for the year ended March 31, 2010 from A$1,157 million in the prior year, primarily due to growth in the cash equities business in Macquarie Securities and Fixed Income, Currencies & Commodities (see "— Segment analysis — Macquarie Securities" and "— Segment analysis — Fixed Income, Currencies & Commodities" below for further information), which was partially offset by negative fair value adjustments on fixed rate issued debt (net expense of A$255 million decreased from net income of A$179 million in the prior year); and

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

These results were partially offset by:

- a share of net equity accounted losses of associates and joint ventures of A$230 million for the year ended March 31, 2010 down from a net profit of A$74 million in the prior year driven by a deterioration in the underlying results of investments due to the significant market disruption experienced in the 2010 fiscal year, termination fees payable in connection with the termination of management agreements with Map, Macquarie Media Group and Macquarie Infrastructure Group, combined with equity accounted losses predominately from investments in other Macquarie-managed funds;

- an 8% decrease in fee and commission income to A$3,721 million for the year ended March 31, 2010 from A$4,045 million in the prior year, primarily due to minimal performance fee income generated during the period combined with lower mergers and acquisitions, advisory and underwriting fees due to challenging market conditions. Minimal performance fees were generated due to the fact that most listed managed funds did not outperform their predetermined performance benchmarks primarily due to market conditions. The prior year included a significant performance fee on the termination of the advisory agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited);

Total operating expenses of A$5,344 million for the year ended March 31, 2010 increased 18% from A$4,537 million in the prior year. The increase was largely driven by:

- a 31% increase in employment expenses to A$3,101 million for the year ended March 31, 2010 from A$2,359 million in the prior year, which was primarily due to a 15% increase in headcount mainly from acquisitions during the year, combined with an increase in performance related profit share; and

- a 23% increase in occupancy expenses to A$482 million from A$393 million in the prior year primarily due to new office space in Sydney, London and the United States and recognition of the cost of future surplus leased space.

Income tax expense of A$201 million increased significantly from A$15 million in the prior year, as a result of increased operating profit before income tax, primarily due to improved market conditions and lower levels of write-downs and impairment charges. See "— Results analysis — Income tax expense" below for further information. As a result, the effective tax rate of 16% for the year ended March 31, 2010 increased from 2% in the prior year.

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

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

The compensation ratio of 42.9% for the year ended March 31, 2010 increased from 40.7% in the prior year due to increased employment expenses as described above.

In May 2009 MGL undertook a A$540 million capital raising via an institutional private placement, and in June 2009 completed a A$669 million share purchase plan. These capital initiatives, combined with the increase in profit attributable to ordinary equity holders, resulted in a return on equity for the year ended March 31, 2010 of 10.0% up from 9.9% in the prior year.

Results analysis

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

Net Interest Income

	Year ended		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Net interest income			
Interest revenue	4,591	6,420	(28)
Interest expense	(3,511)	(5,482)	(36)
Net interest income (as reported)	**1,080**	**938**	15
Adjustment for accounting for swaps[2]	(117)	(9)	large
Net interest income (as adjusted)	**963**	**929**	4

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

2 Australian Accounting Standards require internal derivatives hedging interest rate risk (especially swaps) 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$963 million for the year ended March 31, 2010, increased 4% from A$929 million in the prior year. This increase was primarily driven by the growth of the higher yielding lending portfolio in the Corporate & Asset Finance division which grew 64% in the 2010 fiscal year to A$13.6 billion (March 31, 2009: A$8.3 billion). This was partially offset by a reduction in volumes in the Australian mortgage portfolio combined with the sale of the margin lending portfolio in January 2009.

The table below provides further details of adjusted net interest income.

Analysis of net interest margins

	Year ended Mar 10			Year ended Mar 09		
	Interest	**Average volume**	**Average Spread**	**Interest**	**Average volume**	**Average Spread**
	A$m	**A$m**	**%**	**A$m**	**A$m**	**%**
Mortgages	183	22,399	0.82	185	27,240	0.68
Other lending areas	680	23,113	2.94	621	26,787	2.32
Total net interest margin from interest bearing assets	**863**	**45,512**	1.90	**806**	**54,027**	1.49
Other net interest income/(expense)	100			123		
Total net interest income (as adjusted)[1]	**963**			**929**		

[1] Australian Accounting Standards require internal derivatives hedging interest rate risk (especially swaps) 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. Refer to the table above under "— Net Interest Income".

Mortgages

Net interest income from mortgage assets of A$183 million for the year ended March 31, 2010 decreased 1% from A$185 million in the prior year. This was primarily due to the increase in average margins to 82 basis points in the year ended March 31, 2010 from 68 basis points in the prior year as a result of a decrease in origination costs, which are included in the effective yield, associated with the wind back of the Australian mortgage portfolio. The impact of increased margins was partially offset by a reduction in average mortgage volumes of A$22.4 billion which decreased 18% from A$27.2 billion in the prior year. The main driver of the decrease in average volumes has been a 22% reduction in the size of the Australian mortgage portfolio to A$14.3 billion at March 31, 2010 from A$18.3 billion at March 31, 2009 as a result of the decision in March 2008 to wind back the Australian residential origination business.

Origination volumes and margins on the Canadian mortgage loan portfolio improved significantly during the year ended March 31, 2010, due to increased market share. Canadian mortgage originations increased 75% to A$7.0 billion as at March 31, 2010, an increase of 75% from A$4.0 billion as at March 31, 2009. The business continues to participate in the Canadian government sponsored Mortgage securitization programme. See "— Segment analysis — Banking & Financial Services" below for further information.

Other lending areas

Net interest income from other lending areas of A$680 million for the year ended March 31, 2010 increased 10% from A$621 million in the prior year. Average margins of 294 basis points for the year ended March 31, 2010 increased from 232 basis points in the prior year. The increase in average margins and relatively stable lending volumes can be largely attributed to an increase in higher yielding Corporate & Asset Finance loans. Average other lending volumes of $23.1 billion for the year ended March 31, 2010 decreased 14% from A$26.8 billion in the prior year. Although there was an 87% increase in the Corporate & Asset Finance loan and finance lease portfolios to A$12.9 billion as at March 31, 2010 from A$6.9 billion for the prior year, this has been offset by decreases in other lending portfolios, primarily due to the sale of the margin lending business in January 2009, which, as at September 30, 2008, had a portfolio of A$2.9 billion.

Other net interest income

Other net interest income includes earnings on capital offset by costs associated with excess liquidity and the funding cost of non-interest bearing assets. Other net interest income of A$100 million for the year ended March 31, 2010 decreased 19% from A$123 million in the prior year. This decrease was mainly driven by decreased earnings on capital resulting from lower interest rates in the year ended March 31, 2010 compared to the prior year, combined with the cost of holding excess liquidity which carries a negative spread. The negative spread was a result of the rate at which debt was issued being higher than yields generated by the cash and liquid securities in which the funds are invested. The higher cost of funding includes the cost of the Commonwealth Large Deposit and Wholesale Funding Scheme on certain issued debt and deposits.

Fee and commission income

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Fee and commission income			
Base fee income	926	921	1
Performance fee income	57	234	(76)
Mergers and acquisitions, advisory and underwriting fees	1,085	1,229	(12)
Brokerage and commissions	1,077	1,037	4
Income from life investment contracts and other unit holder investment assets	44	55	(20)
Other fee and commission income	532	569	(7)
Total fee and commission income	**3,721**	**4,045**	(8)

Total fee and commission income of A$3,721 million for the year ended March 31, 2010 decreased 8% from A$4,045 million in the prior year largely due to a 76% decrease in performance fee income to A$57 million for the year ended March 31, 2010 from A$234 million in the prior year, combined with a 12% decrease in mergers and acquisitions, advisory and underwriting fees to A$1,085 million for the year ended March 31, 2010 from A$1,229 million in the prior year.

Base and performance fees

Base fees of A$926 million for the year ended March 31, 2010, increased marginally from A$921 million for the prior year despite a significant increase in Assets under Management to A$326 billion as at March 31, 2010 from A$243 billion as at March 31, 2009. The increase in Assets under Management did not result in a corresponding increase in base fees as the majority of the increase occurred in January 2010 with the acquisition of Delaware Investments, which contributed A$151 billion of Assets under Management as at March 31, 2010 and A$90 million of base fees in the year ended March 31, 2010. The increase in Assets under Management was partially offset by the termination of the management agreements between Macquarie Capital and some of its managed funds, including MAp (October 2009) and Macquarie Infrastructure Group (February 2010). See "Macquarie Group Limited—Funds Management Business—MBL Group and the Non-Banking Group—Assets under Management" for further discussion on the movements in Assets under Management during the period. Base fees from funds in which management agreements were terminated during the 2010 fiscal year included A$20 million from MAp (A$34 million in the prior year), A$26 million from MIG (A$44 million in the prior year) and A$nil from MCG (A$22 million in the prior year).

Performance fees of A$57 million for the year ended March 31, 2010 decreased 76% from A$234 million in the prior year. Market conditions in the year ended March 31, 2010 continued to be difficult and there were few funds which outperformed their benchmarks which led to low performance fees, however, in the year ended March 31, 2009, we also recognized a significant non-recurring performance fee on the termination of the advisory agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited) from MAp, which drove the result in the prior year.

The table below summarizes base and performance fees by operating group and by listed funds, unlisted funds and managed assets. See "— Segment analysis " below for a discussion of base and performance fees by operating group.

A split of base and performance fees received from listed and unlisted funds is provided in the table below.

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement %
Base Fees			
Macquarie Capital			
Listed funds	89	140	(36)
Unlisted funds	357	366	(2)
Managed assets	17	18	(6)
Total Macquarie Capital	**463**	**524**	(12)
Real Estate Banking			
Listed funds	29	23	26
Unlisted funds	1	2	(50)
Managed assets	-	1	(100)
Total Real Estate Banking	**30**	**26**	15
Macquarie Funds	234	142	65
Banking & Financial Services	199	229	(13)
Total base fee income	**926**	**921**	1

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Performance Fees			
Macquarie Capital			
Listed funds	-	29	(100)
Unlisted funds	7	132	(95)
Managed assets	5	57	(91)
Total Macquarie Capital	**12**	**218**	(94)
Real Estate Banking			
Listed funds	34	-	-
Unlisted funds	-	1	(100)
Managed assets	1	1	-
Total Real Estate Banking	**35**	**2**	large
Macquarie Funds	10	14	(29)
Total performance fee income	**57**	**234**	(76)

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

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of A$1,085 million for the year ended March 31, 2010 decreased 12% from A$1,229 million in the prior year largely due to a reduction in the total value of transactions in which Macquarie Capital participated during the year. While deal activity was up (448 deals in the year ended March 31, 2010 from 299 deals in the prior year), the total value of deals transacted was significantly lower (approximately A$121 billion in the year ended March 31, 2010 from approximately A$203 billion in the prior year), resulting in lower fee income for the year ended March 31, 2010 compared to the prior year. Overall equity capital markets activity was strong and significant transactions during the year included the Myer IPO, the Victorian Desalination Project and Rio Tinto's renounceable rights issue. See "— Segment analysis — Macquarie Capital".

Brokerage and commission

Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional and retail clients. Brokerage and commission income of A$1,077 million for the year ended March 31, 2010 increased 4% from A$1,037 million in the prior year as a result of an increase in trading volumes from the Americas and Europe cash equities greenfield businesses, partially offset by a decrease in Australia due to a higher proportion of lower margin electronic execution.

Other fee and commission income

Other fee and commission income, which includes platform and other administration fee income, of A$532 million for the year ended March 31, 2010 decreased 7% from A$569 million in the prior year largely due to one-off income in Macquarie Capital in the year ended March 31, 2009 that was not repeated in the year ended March 31, 2010.

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

Income from life investment contracts and other unit holder investment assets

Income from life investment contracts and other unit holder investment assets includes income from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Funds. Income from this category of A$44 million for the year ended March 31, 2010 decreased 20% from A$55 million in the prior year largely as a result of reduced income from True Index funds within Macquarie Funds, predominantly in the six months ended September 30, 2009. Macquarie True Index delivers clients pre-tax returns (before buy/sell spreads on transactions). Any under-performance is compensated by MGL and conversely, any out-performance is retained by MGL.

Net Trading income

Total adjusted net trading income of A$1,416 million for the year ended March 31, 2010 increased 21% from A$1,166 million in the prior year. The main driver of this increase was significant growth of A$446 million in equities trading income which was partially offset by the impact of negative fair value adjustments on fixed rate issued debt of A$255 million on our trading income from interest rate products for the year ended March 31, 2010.

The composition of trading income set out below excludes interest revenue and expense, brokerage and commission revenue and expense, and operating costs of trading activities. See "— Segment analysis — Macquarie Securities" and "— Segment analysis — Fixed Income, Currencies & Commodities" for further discussion of MGL's trading activities.

	Year ended		
	Mar 10	**Mar 09**	**Movement[1]**
	A$m	**A$m**	**%**
Net trading income (as reported)	1,299	1,157	12
Adjustment for accounting for swaps[2].....	117	9	large
Net trading income (adjusted)	**1,416**	**1,166**	21

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

2 Australian Accounting Standards require derivatives hedging interest rate risk (especially swaps) to be carried at fair value through trading income unless they 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 interest rate products above.

	Year ended		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Equities	590	144	large
Commodities	665	583	14
Foreign exchange products	145	132	10
Interest rate products	16	307	(95)
Net trading income (adjusted)	**1,416**	**1,166**	21

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

Equities

Trading income from equity products of A$590 million for the year ended March 31, 2010 increased significantly from A$144 million in the prior year. The increase is due to improved trading conditions across all regions, particularly in the first half of the 2010 fiscal year. The prior year result was impacted by a number of mark-to-market losses on equity investments carried at fair value through profit or loss, including a A$101 million loss in relation to a US listed investment and a provision for losses on BrisConnections.

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

Commodities

Commodity products income of A$665 million for the year ended March 31, 2010 increased 14% from A$583 million in the prior year. The increase in commodities trading income (including metals, energy and agricultural products) was primarily driven by improved market conditions and a strong contribution from the energy businesses predominately due to the strong performance of energy operations in the United Kingdom and the United States, growth of the global coal business and increased volumes. During the year energy markets experienced generally low volatility together with mixed market liquidity, however more recently market conditions have shown signs of improvement. The Constellation Energy business was acquired in March 2009 and contributed a non-recurring gain in the year ended March 31, 2009. Commodity products income benefitted from a full year trading contribution for the year ended March 31, 2010. Freight markets improved in the year ended March 31, 2010 from the extreme lows experienced in the prior year. The Metals and Energy Capital division was a strong contributor with all major metals prices recovering over the past 12 months, particularly gold.

Foreign exchange products

A significant reduction in both volatility and turnover in global foreign exchange markets during the year ended March 31, 2010 as compared to the prior year impacted all foreign exchange market participants. The strong Australian dollar placed additional downward pressure on foreign exchange revenues resulting in a decreased contribution by Fixed Income, Currencies & Commodities' Foreign Exchange Division. Despite this, trading income from foreign exchange products of A$145 million for the year ended March 31, 2010 increased 10% from A$132 million in the prior year due to the prior year including the negative impact of foreign exchange movements on impairment provisions.

Interest rate products

Trading income from interest rate products of A$16 million for the year ended March 31, 2010 decreased 95% from A$307 million in the prior year. The key driver of the change from the prior year is a net A$255 million expense in the year ended March 31, 2010 relating to the fair value adjustment on fixed rate issued debt, whereas in the prior year a net A$179 million gain was recognized. See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information.

Excluding the fair value adjustment on fixed rate issued debt, income from interest rate products of A$271 million increased 112% from A$128 million in the prior year. The Credit Trading division and, to a lesser extent, the Emerging Markets division made substantial contributions during the year ended March 31, 2010. Credit Trading revenues were driven by selective expansion into underlying high yield and distressed corporate and debt securities, the extension into client sales and trading, and the rally in credit markets which mirrored equity markets and to a lesser extent Emerging Markets division experienced increased client activity and continued broadening of their products and services. Improving Australian debt market conditions supported increased debt market activity in the Debt Markets division.

Share of net profits of associates

	Year ended		
	Mar 10	**Mar 09**	**Movement**[1]
	A$m	**A$m**	**%**
Share of net profits/(losses) of associates and joint ventures using the equity method	**(230)**	**74**	large

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

Share of net equity accounted losses of associates and joint ventures of A$230 million for the year ended March 31, 2010 decreased significantly from a gain of A$74 million in the prior year. The net loss for the year was driven by a deterioration of the underlying results of investments especially since September 2008 due to the significant market disruption experienced in the 18 months to March 31, 2010 and includes A$82 million relating to the equity accounting impact of fees to terminate management agreements with MAp, Macquarie Media Group and Macquarie Infrastructure Group, combined with equity accounted losses predominately from investments in other Macquarie-managed funds. See —Other operating income and charges" and "— Segment analysis — Macquarie Capital" below.

Other operating income and charges

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1]
Net gains on sale of investment securities available for sale	96	143	(33)
Net gains on sale of associates (including associates held for sale) and joint ventures	50	81	(38)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	393	323	22
Impairment charge on investment securities available for sale	(77)	(306)	(75)
Impairment charge on investments in associates (including associates held for sale) and joint ventures	(357)	(714)	(50)
Impairment charge on disposal groups held for sale	-	(192)	(100)
Impairment charge on non-financial assets	(36)	(75)	(52)
Sale of management rights	428	-	-
Gain on repurchase of debt	55	-	-
Net operating lease income	138	183	(25)
Net operating income from disposal groups held for sale	-	91	(100)
Dividends/distributions received/receivable	22	49	(55)
Collective allowance for credit losses during the period	2	(90)	large
Specific provisions	(218)	(411)	(47)
Other income	272	230	18
Total other operating income and charges	**768**	**(688)**	large

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

Total other operating income and charges was a net gain of A$768 million for the year ended March 31, 2010, which increased significantly from a net loss of A$688 million in the prior year. Improving market conditions resulted in a significant decrease in impairment charges in the year ended March 31, 2010 to A$686 million from A$1,788 million in the prior year (see "— Results analysis — Details of impairment charges and provisions " below for further information).

In addition, the year ended March 31, 2010 included income of A$428 million from the sale of management rights relating to MAp, Macquarie Infrastructure Group, Macquarie Communications Infrastructure Group, Macquarie Media Group, Macquarie Leisure Trust and the majority of the Australian real estate funds management platform. See "—Details of impairment charges and provisions" for further detail on impairment charges, including specific loan provisions and collective allowance for credit losses.

Net gains on sale of equity investments (including available for sale, associates and joint venture investments) of A$146 million for the year ended March 31, 2010 decreased 35% from A$224 million in the prior year. Significant gains recognized during the year ended March 31, 2010 were from the sale of investments in Moto Hospitality, Miclyn Express, Puget Energy and RP Data. The prior year included income from the sale of the residual holdings in Boart Longyear and Dyno Nobel, and the sale of Red Bee Media.

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale of A$393 million for the year ended March 31, 2010 increased 22% from A$323 million in the prior year. The result for the year ended March 31, 2010 included a gain of A$127 million from a liability management transaction, income from the sale of Macquarie Communications Infrastructure Management Limited and income from the sale of the majority of the Australian real estate funds management platform to Charter Hall Group.

The gain on sale of management rights of A$428 million related to MAp (A$345 million), Macquarie Infrastructure Group (A$42 million) and Macquarie Media Group (A$41 million).

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

Net operating lease income of A$138 million for the year ended March 31, 2010 decreased 25% from A$183 million in the prior year mainly due to a 35% reduction in the portfolio of operating lease assets to A$1,295 million at March 31, 2010 from A$1,999 million at March 31, 2009 as a result of the expiry of a number of leases.

Other income of A$272 million for the year ended March 31, 2010 increased 18% from A$230 million in the prior year, primarily due to an increase in income from sub-leasing activity.

Reconciliation to the statutory income statement

The table below shows the various income statement categories in which impairment charges, equity accounted losses and provisions were recognized for the years ended March 31, 2010 and March 31, 2009.

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Impairment charge on investment securities available for sale	(77)	(306)	(75)
Impairment charge on investments in associates (including associates held for sale) and joint ventures	(357)	(714)	(50)
Impairment charge on non-financial assets	(36)	(75)	(52)
Collective allowance for credit losses during the period	2	(90)	(102)
Specific provisions	(218)	(411)	(47)
Share of net gains/(losses) of associates and joint ventures using the equity method (excluding MAp, Macquarie Media Group and Macquarie Infrastructure Group)[1]	(148)	74	(300)
Impairment charge on disposal groups held for sale	-	(192)	(100)
Net trading losses[2]	(20)	(309)	(94)
Total impairment charges and provisions	**(854)**	**(2,023)**	(58)

1 Equity accounted losses are included on the basis that impairment write-downs may have been recognized on MGL's co-investments if such losses had not been recognized. The amount shown above excludes equity accounted losses from Map, Macquarie Media Group and Macquarie Infrastructure Group. See "— Operating expenses" for further information.

2 Selected items included above are carried at fair value through profit or loss. Realized gains and losses, and unrealized gains and losses arising from changes in the fair value are recognized as trading income or expense in the income statement in the period in which they arise.

Details of impairment charges and provisions

	Year ended Mar 10								
	Macquarie Capital	Fixed Income, Currencies & Commodities	Macquarie Securities	Banking & Financial Services	Macquarie Funds	Corporate & Asset Finance	Real Estate Banking	Corporate	Total
	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Impairments and equity accounted gains/losses									
Listed MGL Group-managed funds	2	-	-	-	-	-	(13)	(6)	(17)
Real estate equity investments	-	-	-	-	-	-	(143)	(3)	(146)
US portfolios of asset backed securities held as available for sale	(62)	-	-	-	-	-	-	-	(62)
Resources equity investments	-	(3)	-	-	-	-	-	-	(3)
Other equity co-investments (net of equity accountant gains)	(434)	11	2	(6)	3	1	35	(2)	(390)
Total	**(494)**	**8**	**2**	**(6)**	**3**	**1**	**(121)**	**(11)**	**(618)**
Loan impairment									
Real estate loans	-	-	-	-	-	-	(24)	-	(24)
Resources loans	-	(53)	-	-	-	-	-	-	(53)
Corporate & Asset Finance leasing and lending	-	-	-	-	-	(87)	-	-	(87)
Banking & Financial Services business banking	-	-	-	(16)	-	-	-	-	(16)
Other loans	(11)	-	(2)	(29)	(2)	-	-	8	(36)
Total	**(11)**	**(53)**	**(2)**	**(45)**	**(2)**	**(87)**	**(24)**	**8**	**(216)**
Impairments recognized on trading asset positions									
CLO/CDO exposures held in trading portfolio	-	**(20)**	-	-	-	-	-	-	**(20)**
Total impairment charges and provisions[1]	**(505)**	**(65)**	-	**(51)**	**1**	**(86)**	**(145)**	**(3)**	**(854)**

[1] Total impairment charges and provisions includes Impairment charge on investment securities available for sale (A$77 million); Impairment charge on investments in associates and joint ventures (A$357 million); Impairment charge on non-financial assets (A$36 million); Collective allowance for credit losses during the period (A$2 million); Specific provisions A$218 million; Share of net losses of associates and joint ventures (A$148 million); and Net trading losses (A$20 million).

Total impairment charges and provisions contributed a loss of A$854 million in aggregate for the year ended March 31, 2010, a 58% decrease from A$2,023 million in the prior year. The year ended March 31, 2010 included:

- impairments and equity accounted losses of A$618 million predominantly in Macquarie Capital and Real Estate Banking (including in relation to listed Macquarie managed funds of A$17 million, real estate equity investments of A$146 million, United States' portfolio of asset backed securities held as available for sale of A$62 million, resources equity investments of A$3 million and other equity co-investments (net of equity accounted gains) of A$390 million) compared to A$1,213 million in the prior year, which included A$197 million in relation to losses recognized on the sale of the Italian Mortgages portfolio;

- loan impairments of A$216 million (A$218 million specific provisions and A$2 million collective allowance for credit losses) predominantly in Fixed Income, Currencies & Commodities, Banking & Financial Services and Corporate & Asset Finance (including real estate loans of A$24 million, resources loans of A$53 million and other loans of A$36 million) compared to A$501 million in the prior year; and

- impairments recognized on trading asset positions of A$20 million due to CLO/CDO exposures held in our trading portfolio compared to A$309 million in the prior year.

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

Operating expenses

	Year ended		
	Mar 10	Mar 09	Movement
	A$m	A$m	%
Operating expenses			
Employment expenses:			
Salary, commissions, superannuation and performance-related profit share	(2,595)	(2,098)	24
Share based payments	(224)	(128)	75
Provision for annual leave	(21)	(19)	11
Provision for long service leave	(8)	(2)	300
Total compensation expenses	**(2.848)**	**(2,247)**	27
Other employment expenses including on-costs, staff procurement and staff training	(253)	(112)	126
Total employment expenses	**(3.101)**	**(2,359)**	31
Brokerage and commission expenses	(645)	(685)	(6)
Occupancy expenses	(482)	(393)	23
Non-salary technology expenses	(283)	(263)	8
Professional fees	(287)	(325)	(12)
Travel and entertainment	(160)	(204)	(22)
Advertising and communication	(99)	(92)	8
Other expenses	(287)	(216)	33
Total operating expenses	**(5,344)**	**(4,537)**	18

Total operating expenses of A$5,344 million for the year ended March 31, 2010 increased 18% from A$4,537 million in the prior year, predominately due to an increase in employment expenses.

Employment expenses of A$3,101 million for the year ended March 31, 2010 increased 31% from A$2,359 million in the prior year due to:

- a 15% increase in headcount to 14,657 at March 31, 2010 from 12,716 at March 31, 2009 mainly due to acquisitions of businesses during the year;
- increased performance-related profit share expense due to an increase in profits;
- an increase in share based payments expense of A$96 million mainly due to equity awards allocated under the Macquarie Group Employee Retained Equity Plan; and
- an increase in other employment expenses of A$141 million due to increased staff procurement costs as a result of increased recruitment activity during the year.

Brokerage and commission expense of A$645 million for the year ended March 31, 2010 decreased 6% from A$685 million in the prior year and consisted of an increase in brokerage expense of A$35 million, offset by a decrease in other fee and commission expense of A$75 million. The increase in brokerage expense was primarily driven by the growth in volumes over the year for the Credit Trading and Emerging Markets businesses within Fixed Income, Currencies & Commodities. The decrease in other fee and commission expense was due to a one-off transaction expense in Macquarie Capital in the prior year.

Occupancy expense of A$482 million for the year ended March 31, 2010 increased 23% from A$393 million in the prior year mainly due to increased floor space in Sydney, New York and London to support the increased headcount in those cities.

Other expenses of A$287 million for the year ended March 31, 2010 increased 33% from A$216 million in the prior year largely due to integration expenses relating to various businesses acquired during the year, including Blackmont Capital, Delaware Investments, Tristone Capital and Fox-Pitt Kelton Cochran Caronia Waller. See "Macquarie Group Limited—Our History and Evolution".

Headcount

Total headcount of 14,657 as at March 31, 2010 increased 15% from 12,716 as at March 31, 2009. The increase was mainly outside of Australia and was driven by acquisitions during the year, including Delaware Investments (521 staff), Blackmont Capital (410 staff) and Fox-Pitt Kelton Cochran Caronia Waller (267 staff). The increase in the headcount in Australia as at March 31, 2010 was due to organic growth, partially offset by a reduction of approximately 150 staff as part of the sale of the majority of the Australian real estate management platform to Charter Hall Group and a reduction in staff in Macquarie Capital associated with the internalization of management of some of the listed funds during the year.

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

	Year ended		
	Mar 10	**Mar 09**	**Movement**
			%
Headcount by operating group			
Macquarie Capital	2,148	2,617	(18)
Banking & Financial Services	3,268	2,598	26
Macquarie Securities	1,673	1,540	9
Fixed Income, Currencies & Commodities	884	680	30
Macquarie Funds	1,094	583	88
Real Estate Banking	105	136	(23)
Corporate & Asset Finance	685	539	27
Total headcount – operating groups	**9,857**	**8,693**	13
Total headcount – service areas	**4,800**	**4,023**	19
Total headcount	**14,657**	**12,716**	15

	Year ended Mar 10	Mar 09	Movement
			%
Headcount by region			
Australia	7,296	7,243	1
International:			
Americas	3,478	1,931	80
Asia Pacific	2,410	2,207	9
Europe, Africa and Middle East	1,473	1,335	10
Total headcount – International	**7,361**	**5,473**	34
Total headcount	**14,657**	**12,716**	15
International headcount ratio (%)	50	43	

Income tax expense

	Year ended Mar 10	Mar 09
	A$m	A$m
Net profit before tax	**1,294**	**989**
Add back: write-downs and impairment charges	854	2,044
Net profit before impairments and tax	**2,148**	**3,033**
Prima facie tax @ 30%	644	910
Income tax permanent differences	(188)	(282)
Income tax expense (before effect of impairments)	**456**	**628**
Implied effective tax rate (%)[1]	22	21
Prima facie tax of write-downs and impairment charges @ 30%	(256)	(613)
Income tax expense/(benefit)	201	(15)
Actual effective tax rate (%)[1]	16	2

[1] The effective tax rate is calculated on net profit before tax and after minority interests. Minority interests reduce net profit before tax by A$43 million and A$103 million for the year ended March 31, 2010 and March 31, 2009, respectively.

The effective tax rate for the year ended March 31, 2010 was 16%, which increased from 2% in the prior year. The increase was largely due to a lower level of write-downs and impairment charges in the year ended March 31, 2010 compared to the prior year.

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

Segment Overview

Summary of segment results

	Macquarie Capital A$m	Fixed Income, Currencies & Commodities A$m	Macquarie Securities A$m	Macquarie Funds A$m	Banking & Financial Services A$m	Corporate & Asset Finance A$m	Real Estate Banking A$m	Corporate A$m	Total A$m
Year ended March 31, 2010									
Net interest income/(expense)	(255)	107	(46)	45	551	361	(22)	339	1,080
Fee and commission income	1,411	203	977	337	727	6	69	(9)	3,721
Trading income	60	1,042	525	19	1	41	(6)	(383)	1,299
Share of net profits of associates and JVs using the equity method	(218)	11	2	10	2	1	(31)	(7)	(230)
Other operating income and charges	581	37	—	12	(41)	20	(97)	256	768
Internal revenue	110	80	22	4	11	27	(13)	(241)	—
Total operating income	1,689	1,480	1,480	427	1,251	456	(100)	(45)	6,638
Total operating expenses	1,019	(653)	(900)	(333)	(984)	(190)	(52)	(1,213)	(5,344)
Profit before tax	670	827	580	94	267	266	(152)	(1,258)	1,294
Tax expense	—	—	—	—	—	—	—	(201)	(201)
Profit attributable to minority interests	(13)	—	—	1	(6)	(2)	—	(23)	(43)
Net Profit / (Loss) contribution	657	827	580	95	261	264	(152)	(1,482)	1,050
Year ended March 31, 2009									
Net interest income/(expense)	(381)	34	13	65	425	129	(4)	657	938
Fee and commission income	2,078	166	844	285	697	14	49	(88)	4,045
Trading income	(239)	893	362	(10)	(38)	(9)	(6)	204	1,157
Share of net profits of associates and JVs using the equity method	10	69	3	(12)	(7)	(1)	5	7	74
Other operating income and charges	(196)	(191)	1	5	(250)	61	(300)	182	(688)
Internal revenue	256	66	121	4	(22)	17	(12)	(430)	—
Total operating income	1,528	1,037	1,344	337	805	211	(268)	532	5,526
Total operating expenses	(1,240)	(529)	(1,069)	(292)	(898)	(143)	(94)	(272)	(4,537)
Profit before tax	288	508	275	45	(93)	68	(362)	260	989
Tax expense	—	—	—	—	—	—	—	(15)	(15)
Profit attributable to minority interests	(31)	1	—	—	(6)	(2)	—	(65)	(103)
Net Profit / (Loss) contribution	257	509	275	45	(99)	66	(362)	180	871

Basis of preparation

MGL Group segments

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

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

Operating groups:

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

Divisions:

- Corporate & Asset Finance
- Real Estate Banking

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

MGL operating group restructures

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

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

Internal transactions

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

Internal funding arrangements

Group Treasury has the responsibility for maintaining the funding for MGL 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 MGL 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.

Segment analysis

Macquarie Capital

	Year ended Mar 10	Year ended Mar 09	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	(255)	(381)	(33)
Fee and commission income			
Base fees	463	524	(12)
Performance fees	12	218	(94)
Mergers and acquisitions, advisory and underwriting	1,035	1,156	(10)
Brokerage and commissions	66	61	8
Other fee and commission income / (expenses)	(165)	119	large
Total fee and commission income	**1,411**	**2,078**	(32)
Net trading income	**60**	**(239)**	large
Share of net profits of associates and joint ventures using the equity method	**(218)**	**10**	large
Other operating income and charges			
Net gains on sale of equity investments	84	211	(60)
Impairment charge on equity investments	(346)	(696)	(50)
Impairment charge on non-financial assets	(12)	—	-
Net operating income from disposal groups held for sale	—	94	(100)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	257	70	267
Sale of management rights	428	—	-
Net operating lease income	66	70	(6)
Specific provisions and collective allowance for credit losses	(11)	(33)	(67)
Other income	115	88	31
Total other operating income and charges	**581**	**(196)**	large
Internal revenue[2]	**110**	**256**	(57)
Total operating income	**1,689**	**1,528**	11
Operating expenses			
Employment expenses	(514)	(618)	(17)
Brokerage and commission expenses	(38)	(97)	(61)
Other operating expenses	(467)	(525)	(11)
Total operating expenses	**(1,019)**	**(1,240)**	(18)
Minority interests[3]	(13)	(31)	(58)
Net profit /(loss) contribution	**657**	**257**	156
Non-GAAP metrics			
Equity under management (A$ billion)	38.6	53.3	(28)
Assets under Management (A$ billion)	96.5	159.5	(39)
Headcount	2,148	2,617	(18)

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

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

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

Macquarie Capital's net profit contribution of A$657 million for the year ended March 31, 2010 increased 156% from A$257 million in the prior year due to a number of factors discussed in detail below, principally an A$428 million gain on the sale of management rights in Macquarie-managed funds during the year ended March 31, 2010 and a reduction of impairment charges on equity investments from A$696 million in the prior year to A$346 million in the year to March 31, 2010.

Net interest expense

Net interest expense of A$255 million for the year ended March 31, 2010 decreased 33% from A$381 million in the prior year. This reduction mainly reflects interest expense on borrowings for principal investments which decreased in line with lower interest rates during the year ended March 31, 2010 compared to the prior year.

Base fee income

Base fee income of A$463 million for the year decreased 12% from A$524 million in the prior year. Base fee income is driven by Assets under Management and is derived from the management of funds. Base fees from listed funds recognized during the year included Macquarie Infrastructure Group (A$26 million) and MAp (A$20 million).

The decrease in base fees was due to lower Equity under Management resulting from the termination of the MAp Management Limited management resources agreement with Macquarie Capital Group Limited, the disposal of the Macquarie Communications Infrastructure Group manager, lower listed security prices and unfavorable movements in foreign exchange rates.

Performance fee income

Performance fees of A$12 million for the year ended March 31, 2010 decreased 94% from A$218 million in the prior year. Minimal performance fees were generated for the year ended March 31, 2010. A significant contributor to the prior year was the performance fee on the termination of the advisory agreement with Bristol Airports Bermuda Limited (formerly MAp Group Limited).

Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income of A$1,035 million for the year decreased 10% from A$1,156 million in the prior year reflecting the difficult conditions in the Americas and Europe. The volume of deals in which MGL participated for the year ended March 31, 2010 (448 deals valued at approximately A$121 billion) was higher compared to the prior year but lower in total value (299 deals valued at approximately A$203 billion, including two large deals valued at A$78 billion).

For a list of significant advisory deals completed for the year ended March 31, 2010, see "Macquarie Group Limited — Operating Groups — Macquarie Capital".

Other fee and commission income

Other fee and commission losses of A$165 million for the year ended March 31, 2010 compares with a A$119 million profit in the prior year. The loss for the year ended March 31, 2010 was driven by an increase in payments to Macquarie Securities Group on equity underwriting deals. The prior year profit included income from a one-off transaction and the write back of a provision.

Net trading income

Net trading income of A$60 million for the year ended March 31, 2010 increased 125% from a loss of A$239 million in the prior year. The year ended March 31, 2010 included a realized profit of A$8 million in relation to a United States listed investment and unrealized profit on warrants and options of A$55 million. The loss in the prior year included mark-to-market losses in relation to a United States listed investment of A$101 million, a provision for losses on BrisConnectrions and net mark-to-market losses on a number of other listed investments carried at fair value through profit or loss.

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

Net equity accounted losses of A$218 million for the year ended March 31, 2010 increased significantly from a A$10 million net profit in the prior year driven by a deterioration of the underlying results of investments due to the significant market disruption experienced over the past year. Net equity accounted losses of A$87 million were booked for the year ended March 31, 2010 for listed associates. This included a combined equity accounted loss of A$82 million from its investments in MAp Group, Southern Cross Media Group and Macquarie Infrastructure Group arising from the A$428 million of fees paid to MGL to terminate management arrangements. Equity accounted losses recognized in relation to unlisted associates of A$225 million reflected the impairment of some investments held by unlisted associates during the year. This was offset by equity accounted profits in relation to unlisted associates of A$94 million.

Net gains on sale of equity investments

Net gains on sale of equity investments of A$84 million for the year ended March 31, 2010 decreased 60% from A$211 million in the prior year. The net gain for the year ended March 31, 2010 included the sale of investments in listed securities held as available for sale and the sale or partial sale of unlisted equity investments. Contributors to this income included the sale of Moto Hospitality, Miclyn Express, Puget Energy and RP Data. The prior year included income from the sale of the residual holdings in Boart Longyear Limited and Dyno Nobel and the sale of Red Bee Media.

Impairment charges on equity investments

Impairment charges on equity investments of A$346 million for the year ended March 31, 2010 decreased 50% from A$696 million in the prior year. The charges relate to the write-down of equity investments of A$327 million and the write-down of a United States portfolio of asset-backed securities held as available for sale of A$62 million offset by write-backs in relation to Macquarie Infrastructure Company (A$23 million) and Southern Cross Media Group (A$20 million).

The prior year impairment charges related to the write-down of holdings in listed securities of A$355 million (including Macquarie Infrastructure Group, Macquarie Infrastructure Company, Macquarie Media Group and DUET), certain unlisted equity accounted investments (A$286 million), and the write-down of a United States portfolio of asset-backed securities held as available for sale (A$55 million).

Impairment charge on non-financial assets

The impairment charge on non-financial assets of A$12 million for the year ended March 31, 2010 was for the impairment of intangibles relating to a consolidated investment and impairment of management rights. There were no impairment charges on non-financial assets in the prior year.

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

The gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale of A$257 million for the year ended March 31, 2010 increased 267% from A$70 million in the prior year. The gain in the year ended March 31, 2010 related to income from the sale of Macquarie Communications Infrastructure Management Limited, income in relation to the internalization of management of MLT, income from the sale of the majority of the Australian real estate funds management platform (Macquarie CountryWide Trust, Macquarie Office Trust and three unlisted real estate funds) to Charter Hall Group and income from the sale of the Microstar assets. The prior year included the sale of the Longview Oil and Gas assets.

Sale of management rights

Fees to terminate management arrangements of A$428 million were recognized in the year ended March 31, 2010, including A$345 million relating to MAp, A$42 million relating to Macquarie Infrastructure Group and A$41 million relating to Macquarie Media Group. There were no gains on sale of management rights in the prior year.

Operating expenses

Total operating expenses of A$1,019 million for the year ended March 31, 2010 decreased 18% from A$1,240 million in the prior year.

Employment expenses of A$514 million for the year ended March 31, 2010 decreased 17% from A$618 million in the prior year, primarily reflecting an 18% reduction in headcount mainly due to a reduction in staff associated with the internalization of management of some of the listed funds during the year.

Foreign exchange movements had a favorable impact on employment expenses as the Australian dollar strengthened against the currencies in the majority of countries where Macquarie Capital operates, decreasing offshore employment costs.

Brokerage and commission expenses of A$38 million for the year ended March 31, 2010 decreased 61% from A$97 million in the prior year, primarily due to the effect of a one-off transaction expense in the prior year.

Other operating expense of A$467 million for the year ended March 31, 2010 decreased 11% from A$525 million in the prior year, primarily due to a decrease in other direct costs and recoveries driven by the lower average headcount and cost saving initiatives undertaken by Macquarie Capital. This was partially offset by integration costs of acquired businesses during the year including Tristone Capital (August 2009) and Fox-Pitt Kelton Cochran Caronia Waller (November 2009). See “Macquarie Group Limited—Operating groups—Macquarie Capital” for more information. Foreign exchange movements had a favorable impact on other operating expenses as the Australian dollar strengthened against the currencies in the majority of countries where Macquarie Capital operates.

Fixed Income, Currencies & Commodities

	Year ended Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Net trading income (including net interest income)[2]			
Commodities	713	650	10
Foreign exchange products	93	164	(43)
Interest rate products	343	113	204
Net trading income (including net interest income)	**1,149**	**927**	24
Fee and commission income			
Brokerage and commissions	69	86	(20)
Other fee and commission income	134	80	68
Total fee and commission income	**203**	**166**	22
Share of net profits of associates and joint ventures using the equity method	**11**	**69**	(84)
Other operating income and charges			
Net gains/(losses) on sale of equity investments	64	10	large
Impairment charge on equity investments[3]	(3)	(120)	(98)
Specific provisions and collective allowance for credit losses[3]	(53)	(160)	(67)
Other income	29	79	(63)
Total other operating income and charges	37	(191)	large
Internal revenue[4]	80	66	21
Total operating income	**1,480**	**1,037**	43
Operating expenses			
Employment expenses	(209)	(175)	19
Brokerage and commission expenses	(177)	(91)	95
Other operating expenses	(267)	(263)	2
Total operating expenses	**(653)**	**(529)**	23
Minority interests[5]	—	1	(100)
Net profit/(loss) contribution	**827**	**509**	62
Non-GAAP metrics			
Headcount	884	680	30

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 MGL 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. The categories of trading income above are based on business lines within Fixed Income, Currencies & Commodities.

3 See "—Basis of preparation—Internal transactions—Internal management revenue/(charges)". Impairments recognized in trading income totaled A$20 million for the year ended March 31, 2010 (year ended March 31, 2009: A$50 million).

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

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

Fixed Income, Currencies & Commodities' net profit contribution of A$827 million for the year ended March 31, 2010 increased 62% from A$509 million in the prior year, primarily due to a decrease in impairment charges and provisions, combined with improved trading conditions.

Commodities trading income

Commodities trading income of A$713 million for the year ended March 31, 2010 increased 10% from A$650 million in the prior year.

Trading income in the Energy Markets division was up on the prior year, particularly related to the consolidation and growth of the Macquarie Energy franchise in the United States gas and power business. Transaction volumes and trading revenues in the division's Corona and Macquarie Energy businesses benefitted from the cold northern hemisphere winter. During the year the Energy Markets division's primary markets experienced generally low volatility together with mixed market liquidity, however more recently, conditions have shown signs of improvement. The Constellation Energy business was acquired in March 2009 and contributed a non-recurring gain in the year ended March 31, 2009. Commodity products income benefitted from a full year trading contribution for the year ended March 31, 2010.

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

Foreign exchange products trading income

Trading income on foreign exchange products of A$93 million for the year ended March 31, 2010 decreased 43% from A$164 million in the prior year. A significant reduction in both volatility and turnover in global foreign exchange markets during the year impacted results. The strong Australian dollar relative to most major trading currencies placed additional downward pressure on foreign exchange revenues.

Interest rate products trading income

Trading income on interest rate products of A$343 million for the year ended March 31, 2010 increased 204% from A$113 million in the prior year. The Credit Trading division and, to a lesser extent, Emerging Markets division made substantial contributions during the year ended March 31, 2010. Credit Trading revenues were driven by selective expansion into underlying high yield and distressed corporate and debt securities, extension into client sales and trading, and the rally in credit markets which mirrored equity markets. Emerging Market revenues were underpinned by increased client activity, continued broadening of the products and services and its geographical expansion into the United States and Europe. Improving Australian debt market conditions supported increased debt market activity and provided opportunities for the Debt Markets Division.

Fee and commission income

Fee and commission income of A$203 million for the year ended March 31, 2010 increased 22% from A$166 million in the prior year. The development of the client sales and trading business within the Credit Trading Division and the Emerging Markets Division's private capital markets and advisory business have been significant contributors to the growth in other fee income for MGL Group. The Futures division contribution experienced similar levels of activity as the prior year.

Net gains/(losses) on sale of equity investments

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

Impairment charge on equity investments

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

Specific provisions and collective allowance for credit losses

Net loan charges of A$53 million for the year ended March 31, 2010 decreased 67% from A$160 million in the prior year principally due to improved market conditions. There were A$55 million in net specific provisions raised in relation to loans in the energy capital and agricultural commodities sectors, combined with a decrease in the collective allowance for credit losses of A$2 million.

Other income

Other income of A$29 million for the year ended March 31, 2010 decreased 63% from A$79 million in the prior year. Income in the prior year included A$52 million from other asset sales reflecting the gain on sale of a number of resources related net profit interests (a right to a share of the production or the proceeds from production derived from petroleum and natural gas rights without the obligation to pay any of the costs of exploration and development) in the Metals & Energy Capital Division. Net profit interest sales in the year ended March 31, 2010 were negligible.

Operating expenses

Total operating expenses of A$653 million for the year ended March 31, 2010 increased 23% from A$529 million in the prior year. Employment expenses of A$209 million for the year ended March 31, 2010 increased 19% from A$175 million in the prior year. Headcount growth of 30% from 680 at March 31, 2009 to 884 at March 31, 2010 has occurred largely in the United States and the United Kingdom as a result of acquisitions conducted in those areas. Notwithstanding the increased headcount, employment expenses benefited from the strengthening of the Australian dollar in the year ended March 31, 2010.

Brokerage and commission expenses of A$177 million for the year ended March 31, 2010 increased 95% from A$91 million in the prior year. This increase was primarily a result of the growth in volumes over the year for the Credit Trading and Emerging Markets businesses.

Other operating expenses of A$267 million for the year ended March 31, 2010 increased 2% from A$263 million in the prior year. Other operating expenses primarily relate to internal charges for services provided by the central support functions.

Macquarie Securities

	Year ended		Movement
	Mar 10	Mar 09	%
	A$m	A$m	
Net trading income (including net interest income)[1]	**479**	**375**	28
Fee and commission income			
Brokerage and commissions	714	688	4
Other fee and commission income	263	156	69
Total fee and commission income	**977**	**844**	16
Share of net profits of associates and joint ventures using the equity method	**2**	**3**	(33)
Other operating income and charges	**—**	**1**	(100)
Internal revenue[2]	**22**	**121**	(82)
Total operating income	1,480	1,344	10
Operating expenses			
Employment expenses	(278)	(339)	(18)
Brokerage and commission expenses	(218)	(256)	(15)
Other operating expenses	**(404)**	**(474)**	(15)
Total operating expenses	**(900)**	**(1,069)**	(16)
Net profit/(loss) contribution	**580**	**275**	111
Non-GAAP metrics			
Headcount	1,673	1,540	9

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 MGL and its clients. As such, to obtain a more complete view of Macquarie Securities Group's trading activities, net interest income has been combined with trading income above.

2 See "—Basis of preparation—Internal transactions—Internal management revenue/(charges)". There were no impairments taken through trading income for the year ended March 31, 2010 (year ended March 31, 2009: A$35 million).

Macquarie Securities' net profit contribution of A$580 million for the year ended March 31, 2010 increased 111% from A$275 million in the prior year primarily due to improved conditions in a number of markets, especially in the first half of the year, and a lower average headcount.

Net trading income (including net interest income)

Net trading income (including net interest income) of A$479 million for the year ended March 31, 2010 increased 28% from A$375 million in the prior year. Derivatives revenues were up on the prior year due to improved trading conditions, primarily in Asia. Arbitrage Trading activities have continued to contribute strongly to trading profits as a result of favorable markets in exchange traded instruments, particularly in Taiwan, India and Korea. Structured Equity Finance revenues were down significantly on the prior year as a result of lower volumes. The prior year included a provision for losses on BrisConnections of A$35 million.

Brokerage and commissions

Brokerage and commission income of A$714 million for the year ended March 31, 2010 increased 4% from A$688 million in the prior year. Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional clients, including internal clients. The increase is primarily the result of continued growth of the American and European greenfield businesses together with the impact of the recent Fox-Pitt Kelton Cochran Caronia Waller and Tristone Capital Global Inc. acquisitions in these regions and growth in market share, partially offset by the stronger performance of the Australian dollar. See "Macquarie Group Limited—Operating groups— Macquarie Securities" for more information.

In Australia, ASX market turnover increased 3% on the prior year, and across Asia markets (excluding Japan) total turnover increased 11% on the prior year. Growth in market share was achieved in Australia, Hong Kong, Japan, Taiwan, Korea, Canada and South Africa. Average commissions achieved continue to be impacted by the increasing proportion of lower margin electronic trading.

Other fee and commission income

Other fee and commission income of A$263 million for the year ended March 31, 2010 increased 69% from A$156 million in the prior year. Other fee and commission income consists primarily of equity capital markets fees. Capital raising activity was strong during the year ended March 31, 2010 in Australia, Asia and Canada, with notable transactions for the period including Rio Tinto's US$15.2 billion renounceable rights issue featuring Macquarie Securities as joint global co-ordinator, underwriter and bookrunner.

Operating expenses

Total operating expenses of A$900 million for the year ended March 31, 2010 decreased 16% from A$1,069 million in the prior year, benefitting from a stronger Australian dollar and a reduction in average headcount for the year ended March 31, 2010.

Employment expenses of A$278 million for the year ended March 31, 2010 decreased 18% from A$339 million in the prior year. Despite overall headcount increasing by 9% for the year ended March 31, 2010, this increase was primarily incurred towards the end of the year ended March 31, 2010 as a result of the acquisitions of Tristone Capital Global Inc. in August 2009 and Fox-Pitt Kelton Cochran Caronia Waller in November 2009. For more information see "Macquarie Group Limited—Operating groups— Macquarie Securities". During the year ended March 31, 2010, average headcount was down 4% on the prior year.

Brokerage and commission expenses of A$218 million for the year ended March 31, 2010 decreased 15% from A$256 million in the prior year. The decrease in brokerage and commission expenses was driven mainly by lower trading volumes and reduced brokerage rates during the year ended March 31, 2010.

Other operating expenses of A$404 million for the year ended March 31, 2010 decreased 15% from A$474 million in the prior year. The decrease was predominantly driven by lower average headcount and expense rationalization.

Banking & Financial Services

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Net interest income/(expense)	**551**	**425**	30
Fee and commission income			
Base fees	199	229	(13)
Brokerage and commissions	224	198	13
Other fee and commission income	264	240	10
Income from life insurance business and other unit holder businesses	40	30	33
Total fee and commission income	**727**	**697**	4
Net trading income	**1**	**(38)**	large
Share of net profits of associates and joint ventures using the equity method	**2**	**(7)**	129
Other operating income and charges			
Net gains on sale of equity investments	2	(2)	200
Impairment charge on equity investments and disposal groups held for sale[2]	(5)	(214)	(98)
Impairment charge on non-financial assets	(3)	(2)	50
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	4	57	(93)
Specific provisions and collective allowance for credit losses	(45)	(96)	(53)
Other income	6	7	(14)
Total other operating income and charges	**(41)**	**(250)**	(84)
Internal revenue[3]	11	(22)	150
Total operating income	**1,251**	**805**	55
Operating expenses			
Employment expenses	(408)	(394)	4
Brokerage and commission expenses	(121)	(140)	(14)
Other operating expenses	(455)	(364)	25
Total operating expenses	(984)	(898)	10
Minority interests[4]	(6)	(6)	—
Net profit / (loss) contribution	**261**	**(99)**	large
Non-GAAP metrics			
Assets under Management[5] (A$ billion)	14.3	19.2	(26)
Headcount	3,268	2,598	26

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

2 There were no impairments recognized in trading income for the year ended March 31, 2010 (year ended March 31, 2009: A$24 million).

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

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

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

6 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).

Banking & Financial Services' net profit contribution of A$261 million for the year ended March 31, 2010 increased significantly from a net loss of A$99 million in the prior year. The result in the prior year included a loss of A$307 million on the sale of the Italian Mortgages portfolio and a gain from the sale of the majority of the margin lending portfolio of A$41 million. Excluding these items, the result for the year ended March 31, 2010 increased 56% on the prior year.

Net interest income/(expense)

Net interest income of A$551 million for the year ended March 31, 2010 increased 30% from A$425 million in the prior year predominately due to increased margins and retail deposits. Retail deposits of A$15.5 billion as at March 31, 2010 increased 16% from A$13.4 billion at March 31, 2009 due to a focus on cash offerings, including the Cash Management Account.

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

Origination volumes and margins on the Canadian mortgage loan portfolio improved significantly during the year ended March 31, 2010, due to increased market share. Canadian mortgage originations increased 75% to A$7.0 billion as at March 31, 2010, an increase of 75% from A$4.0 billion as at March 31, 2009. The business continues to participate in the Canadian government sponsored mortgage securitization programme.

Base fees

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

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

Brokerage and commissions

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

Other fee and commission income

Other fee and commission income of A$264 million for the year ended March 31, 2010 increased 10% from A$240 million in the prior year.

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

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

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

Income from life insurance business and other unit holder businesses

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

Net trading income

Net trading income was a profit of A$1 million for the year ended March 31, 2010, compared to a loss of A$38 million in the prior year. The prior year included losses of A$20 million on the sale of Macquarie Private Wealth's holding in BrisConnections.

Impairment charge on equity investments and disposal groups held for sale

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

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

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

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$45 million for the year ended March 31, 2010 decreased 53% from A$96 million in the prior year. The prior year included significant provisions on the Italian Mortgages portfolio and Investment Lending portfolio. Provision charges in the year ended March 31, 2010 were lower compared to the prior year as a result of improved economic conditions, particularly in North America.

Operating expenses

Total operating expenses of A$984 million for the year ended March 31, 2010 increased 10% from A$898 million in the prior year. The increase was mainly in other operating expenses of A$455 million for the year ended March 31, 2010, which increased 25% from A$364 million for the prior year, primarily due to significant integration and acquisition costs relating to the Blackmont Capital acquisition which occurred on December 31, 2009. The acquisition resulted in an additional 410 staff in Banking & Financial Services. Expenses associated with deposit generating activities also contributed to the increase in other operating expenses. Brokerage and commission expense of A$121 million for the year ended March 31, 2010 decreased 14% from A$140 million in the prior year, which included commissions related to the Italian Mortgages portfolio and the margin lending portfolio prior to their sales.

Macquarie Funds

	Year ended Mar 10 A$m	Year ended Mar 09 A$m	Movement[1] %
Net interest income/(expense)	**45**	**65**	(31)
Fee and commission income			
Base fees	234	142	65
Performance fees	10	14	(29)
Other fee and commission income	93	129	(28)
Total fee and commission income	**337**	**285**	18
Net trading income	**19**	**(10)**	290
Share of net profits of associates and joint ventures using the equity method	**10**	**(12)**	183
Other operating income and charges			
Impairment charge on equity investments	(7)	(5)	40
Specific provisions and collective allowance for credit losses	(2)	(9)	(78)
Other income	21	19	11
Total other operating income and charges	**12**	**5**	140
Internal revenue[2]	**4**	**4**	—
Total operating income	**427**	**337**	27
Operating expenses			
Employment expenses	(120)	(105)	14
Brokerage and commission expenses	(69)	(72)	(4)
Other operating expenses	(144)	(115)	25
Total operating expenses	**(333)**	**(292)**	14
Minority interests[3]	1	—	—
Net profit/(loss) contribution	**95**	**45**	111
Non-GAAP metrics			
Assets under Management[4] (A$ billion)	209.9	49.7	large
Headcount[5]	1,094	583	88

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

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

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

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

5 The acquisition of Delaware Investments in January 2010 contributed 521 staff to the headcount increase.

Macquarie Fund's net profit contribution of A$95 million for the year ended March 31, 2010 increased 111% from A$45 million in the prior year. The result includes the contribution from Delaware Investments of A$23 million in net profit since its acquisition in January 2010 (including all transaction costs). Excluding the impact of this acquisition, the result for the year ended March 31, 2010 increased 61% on the prior year, primarily due to an increase in net trading income to A$19 million profit for the year ended March 31, 2010 from a loss of A$10 million in the prior year. The result was mainly driven by increases in the value of seed investments that are carried at fair value and activities relating to the hedging of capital protected products.

Net interest income/(expense)

Net interest income of A$45 million for the year ended March 31, 2010 decreased 31% from A$65 million in the prior year, primarily driven by a net reduction in retail loans provided to investors which fell due to redemptions in Macquarie Funds' structured investment offerings, including the reFleXion and Gateway products, and increased borrowings as a result of the acquisition of Delaware Investments.

Base fees

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

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

Performance fees

Performance fee income of A$11 million for the year ended March 31, 2010 decreased 29% from A$14 million in the prior year due to lower performance fees from emerging markets strategies and funds of private equity funds products.

Other fee and commission income

Other fee and commission income includes structuring fees, capital protection fees, wholesale threshold management fees, income from True Index products and internal fees received for managing and administering investment products on behalf of Banking & Financial Services. See "Macquarie Group Limited—Operating groups— Macquarie Funds" for more information.

Other fee and commission income of A$93 million for the year ended March 31, 2010 decreased 28% from A$129 million in the prior year mainly due to non-recurring service fees in the prior period for Agricultural products and lower True Index income.

Net trading income

Net trading income of A$19 million for the year ended March 31, 2010 increased from a loss of A$10 million in the prior year. The result was mainly driven by increases in the value of seed investments that are carried at fair value and activities relating to the hedging of capital protected products.

Other income

Other income of A$21 million for the year ended March 31, 2010 increased 11% from A$19 million in the prior year and comprised proceeds from the sale of assets held on the balance sheet and distributions from Macquarie Funds' seed investments, which were minimal in the prior year.

Operating expenses

Total operating expenses (including Delaware Investments expenses) of A$333 million for the year ended March 31, 2010 increased 14% from A$292 million in the prior year. Excluding Delaware Investments, operating expenses decreased 16% primarily due to lower employment costs in line with a decrease in headcount and lower commission expenses.

Corporate & Asset Finance

	Year ended Mar 10	Year ended Mar 09	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**361**	**129**	180
Fee and commission income/(expenses)	**6**	**14**	(57)
Net trading income	**41**	**(9)**	large
Share of net profits of associates and joint ventures using the equity method	**1**	**(1)**	200
Other operating income and charges			
Impairment charge on equity investments	—	(33)	(100)
Net operating lease income	68	114	(40)
Specific provisions and collective allowance for credit losses	(87)	(44)	98
Other income	39	24	63
Other operating income and charges	20	61	(67)
Internal revenue[2]	27	17	59
Total operating income	456	211	116
Operating expenses			
Employment expenses	(91)	(75)	21
Other operating expenses	(99)	(68)	46
Total operating expenses	(190)	(143)	33
Minority interests[3]	**(2)**	**(2)**	—
Net profit/ (loss) contribution	**264**	**66**	300
Non-GAAP metrics			
Headcount	685	539	27

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

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

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

Corporate & Asset Finance's net profit contribution of A$264 million for the year ended March 31, 2010 increased 300% from A$66 million in the prior year predominately due to increased net interest income, partially offset by specific provisions and collective allowances for credit losses, lower operating lease income and higher operating expenses.

Net interest income

Net interest income of A$361 million for the year ended March 31, 2010 increased 180% from A$129 million in the prior year. The increase was driven by an 87% increase in the total size of the loan and finance lease portfolios to A$12.9 billion at March 31, 2010 from A$6.9 billion at March 31, 2009 mainly due to increased corporate lending and the acquisition of the A$1.0 billion Ford Credit Australia portfolio in October 2009. In addition, there was an increase in lending margins due to a change in product mix from lower margin leases to higher margin corporate lending during the 2010 fiscal year.

Net trading income

Net trading income of A$41 million for the year ended March 31, 2010 increased significantly from a loss of A$9 million in the prior year. The income was due to mark-to-market gains and trading profit on options and equity securities from a single issuer, particularly in the six months ended September 30, 2009.

Impairment charge on non-financial assets

There were no impairment charges on non-financial assets during the year. The impairment charge of A$33 million recognized in the prior year was held against inventories of off-lease assets.

Net operating lease income

Net operating lease income (net of depreciation) of A$68 million for the year ended March 31, 2010 decreased 40% from A$114 million in the prior year largely due to a 51% decline in the operating lease portfolio to A$692 million at March 31, 2010 from A$1.4 billion at March 31, 2009 resulting from the expiry of a number of leases.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of A$87 million for the year ended March 31, 2010 increased 98% from A$44 million in the prior year as a result of the growth in the loan and finance lease portfolios.

Other income

Other income of A$39 million for the year ended March 31, 2010 increased 63% from A$24 million in the prior year largely due to improved market conditions resulting in increased sales income from assets that have come off-lease and inventory largely in the electronics business.

Operating expenses

Total operating expenses of A$190 million for the year ended March 31, 2010 increased 33% from A$143 million in the prior year. The increase was driven by a 46% increase in other operating expenses to A$99 million for the year ended March 31, 2010 from A$68 million in the prior year resulting from growth in the loan and lease portfolio and higher transaction and integration costs associated with increased volume. Employment expense increased 21% to A$91 million driven by a 27% increase in headcount mainly as a result of new staff in the corporate lending business.

Real Estate Banking

	Year ended		
	Mar 10	Mar 09	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**(22)**	**(4)**	large
Fee and commission income			
Base fees	30	26	15
Performance fees	35	2	large
Mergers and acquisitions, advisory and underwriting	—	11	(100)
Other fee and commission income	4	10	(60)
Total fee and commission income	**69**	**49**	41
Net trading income / (expense)	**(6)**	**(6)**	—
Share of net profits of associates and joint ventures using the equity method	**(31)**	**5**	large
Other operating income and charges			
Net gains/(losses) on sale of equity investments	(33)	13	large
Impairment charge on equity investments	(71)	(146)	(51)
Impairment charge on non-financial assets	(19)	(40)	(53)
Specific provisions and collective allowance for credit losses	(24)	(170)	(86)
Other income	50	43	16
Total other operating income and charges	**(97)**	**(300)**	(68)
Internal revenue[2]	(13)	(12)	8
Total operating income	**(100)**	**(268)**	(63)
Operating expenses			
Employment expenses	(19)	(32)	(41)
Other operating expenses	(33)	(62)	(47)
Total operating expenses	**(52)**	**(94)**	(45)
Net profit / (loss) contribution	(152)	(362)	(58)
Non-GAAP metrics			
Assets under Management (A$ billion)	5.0	14.8	(66)
Headcount	105	136	(23)

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

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

Real Estate Banking's net loss contribution of A$152 million for the year ended March 31, 2010 decreased 58% from a net loss of A$362 million in the prior year driven by a 51% decrease in impairment charges on equity investments to A$71 million in the year to March 31, 2010 from A$146 million in the prior year and an 86% reduction in specific provisions and collective allowance for credit losses to A$24 million in the year to March 31, 2010 from A$170 million in the prior year. Although the year remained challenging for Real Estate Banking, an asset disposal by Macquarie Central Office CR-REIT resulted in significant base and performance fees for Real Estate Banking during the six months ended September 30, 2009. On March 1, 2010 as part of a combined transaction with Macquarie Capital involving the sale of Australian listed REIT platforms to Charter Hall Group, Real Estate Banking sold the majority of its holdings in Macquarie Countrywide Trust, Macquarie Office Trust and Macquarie Direct Property Fund. See "Macquarie Group Limited — Operating Groups — Real Estate Banking" for further information. The full impact of the Charter Hall Group transaction on Real Estate Banking was a loss of A$33 million, comprising a loss on sale of equity investments of A$29 million and an impairment on non-financial assets of A$4 million.

Net interest income/(expense)

Net interest expense of A$22 million for the year ended March 31, 2010 increased significantly from A$4 million in the prior year due to the prior year including one-off revenue of A$30 million relating to interest accrual adjustments.

Base fees

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

Performance fees

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

Mergers and acquisitions, advisory and underwriting

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

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

Equity accounted losses of A$31 million were recognized for the year ended March 31, 2010 compared to an equity accounted gain of A$5 million in the prior year. This result for the year ended March 31, 2010 was driven by losses in Real Estate Banking's associates, including investments in Medallist and J-REP (a listed fund manager on the Tokyo Stock Exchange), partially offset by profits from MGPA (a real estate investment advisory company). The gain in the prior year was driven by higher equity accounted profits in MGPA.

Net gains/(losses) on sales of equity investments

Net losses on sales of equity investments of A$33 million for the year ended March 31, 2010 increased significantly from a A$13 million gain in the prior year. A loss of A$29 million was incurred as part of the Charter Hall Group transaction noted above. In addition, the sale of an investment in MW Cell Manager LLC in the United States generated a loss of A$6 million, partially offset by a small gain on the disposal of Macquarie Leisure Trust units.

Impairment charge on equity investments

The impairment charge on equity investments of A$71 million for the year ended March 31, 2010 decreased 51% from A$146 million in the prior year. Write-downs for the year ended March 31, 2010 included A$33 million on offshore investments, A$25 million on Australian investments, A$7 million on Structured Finance investments and A$6 million on listed REITs.

The impairment charge of A$146 million in the prior year included a charge of A$101 million on offshore listed investments, A$30 million on Australian listed and unlisted REIT investments, A$12 million on Structured Finance investments and A$3 million of direct property write-downs.

Impairment charge on non-financial assets

The impairment charge on non-financial assets of A$19 million for the year ended March 31, 2010 was recognized on consolidation of a joint venture in Queensland that Real Estate Banking took control of during the six months ended September 30, 2009, write-downs on foreclosed assets and the write-off of management rights on the US Macquarie Office Trust portfolio as part of the Charter Hall Group transaction noted above. An impairment charge of A$40 million was recognized in the prior year that related to REIT investments, direct property and inventory.

Specific provisions and collective allowance for credit losses

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

Other income

Other income of A$50 million for the year ended March 31, 2010 increased 16% from A$43 million in the prior year. The year included higher property development income and A$10 million from a legal settlement with a property developer in Australia, partially offset by lower distribution revenue.

Operating expenses

Total operating expenses of A$52 million for the year ended March 31, 2010 decreased 45% from A$94 million in the prior year. The decrease was in line with the 23% reduction in headcount, as the business focused on extracting value form its current investments.

Corporate

	Year ended Mar 10	Year ended Mar 09	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	**339**	**657**	(48)
Fee and commission income/(expense)	**(9)**	**(88)**	(90)
Net trading income/(expense)	**(383)**	**204**	(288)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**(7)**	**7**	200
Other operating income and charges			
Net gains on sale of equity investments	28	(7)	large
Impairment charge on equity investments	(4)	(32)	(88)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	128	203	(37)
Gain on repurchase of debt	55	—	—
Specific provisions and collective allowance for credit losses	8	12	(33)
Other income/(expense)	41	6	large
Other operating income and charges	**256**	**182**	41
Internal revenue[2]	(241)	(430)	(44)
Total operating income/(expense)	**(45)**	**532**	(108)
Operating expenses			
Employment expenses	(1,463)	(623)	135
Brokerage and commission expenses	(10)	(33)	(70)
Other operating expenses	260	384	(32)
Total operating expenses	**(1,213)**	**(272)**	large
Tax expense	(201)	(15)	large
MIPS	(8)	(45)	(82)
MIS	(21)	(33)	(36)
Other minority interests	6	13	(54)
Net profit/(loss) contribution	**(1,482)**	**180**	large
Non-GAAP metrics			
Headcount	**4,800**	**4,023**	19

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

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

The Corporate segment's net loss contribution of A$1,482 million for the year ended March 31, 2010 increased significantly from a net profit of A$180 million in the prior year, primarily due to:-

- A net trading loss of A$383 million in the year ended March 31, 2010 compared to net trading income of A$204 million in the prior year primarily due to negative fair value adjustments on fixed rate issued debt of A$255 million in the year ended March 31, 2010, compared to positive fair value adjustments of A$179 million in the prior year (See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information); and

- An increase in employment expenses of 135% to A$1,463 million in the year ended March 31, 2010 from A$623 million in the prior year primarily due to an increase in the staff profit share expense combined with support function headcount growth and a charge for the net mark-to-market increase in Director's profit share plan liabilities resulting from share price appreciation of many Macquarie-managed listed funds during the year ended March 31, 2010.

Net interest income

Interest income is mainly generated through the investment of MGL's capital, offset by funding costs not passed on to businesses through Group Treasury. Net interest income of A$339 million for the year ended March 31, 2010 decreased 48% from A$657 million in the prior year, primarily due to lower interest rates in the year ended March 31, 2010 compared to the prior year generating lower earnings on capital, combined with the cost of holding excess liquidity.

Fee and commissions expense

Fee and commissions expenses primarily relate to internal transactions with operating groups that net out in their entirety on consolidation across MGL Group. External fee and commissions income is negligible. Fee and commissions expense of A$9 million for the year ended March 31, 2010 decreased 90% from an expense of A$88 million in the prior year.

Net trading income/(expense)

The primary drivers of net trading income in the Corporate segment were derivative volatility and the impact of changes in the fair value of fixed rate issued debt. Net trading expense of A$383 million for the year ended March 31, 2010 decreased 288% from net trading income of A$204 million in the prior year. This is primarily due to the fact that during the year ended March 31, 2010, negative fair value adjustments on our fixed rate issued debt amounted to A$255 million, as compared to positive fair value adjustments in the prior year of A$179 million. See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information.

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

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

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of A$28 million for the year ended March 31, 2010 increased significantly from net losses on sale of debt and equity securities of A$7 million in the prior year. Gains in the year ended March 31, 2010 related to the sale of debt securities by Group Treasury of A$9 million and the sale of equity securities held to hedge Director's profit share plan balances of A$19 million.

Impairment charges on equity investments

Impairment charges on equity investments of A$4 million for the year ended March 31, 2010 decreased 88% from A$32 million in the prior year reflecting improved market conditions and values of the assets.

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

The gain of A$203 million in the year ended March 31, 2009 largely related to gains from financing the acquisition of Macquarie Income Preferred Securities (MIPS). Further acquisitions of MIPS were financed during the year ended March 31, 2010 resulting in a gain of A$127 million.

Gain on repurchase of debt

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

Other income

Other income of A$41 million for the year ended March 31, 2010 increased significantly from A$6 million in the prior year. The increase was primarily due to increased income from sub-leasing activity.

Employment expenses

Employment expenses in the Corporate segment relate to staff profit share, the impact of mark-to-market adjustments of Director's profit share plan liabilities and the employment costs associated with MGL Group's support functions, including Corporate Affairs, Risk Management and Information Technology.

Employment expenses of A$1,463 million for the year ended March 31, 2010 increased 135% from A$623 million in the prior year. The majority of the increase was due to an increase in the staff profit share expense combined with support function headcount growth and a charge for the net mark-to-market increase in Director's profit share plan liabilities resulting from share price appreciation of many Macquarie-managed listed funds during the year ended March 31, 2010. Headcount of the support functions at March 31, 2010 was 4,800, an increase of 19% from 4,023 at March 31, 2009.

Brokerage and commission expenses

Brokerage and commission expenses in the Corporate segment relates to fees and commissions paid on the issuance of debt instruments by Group Treasury. Brokerage and commission expenses of A$10 million for the year ended March 31, 2010 decreased 70% from A$33 million in the prior year, primarily due to a reduction in the amount of issuances. The Commonwealth Large Deposit and Wholesale Funding Guarantee Scheme introduced in October 2008 resulted in higher levels of issuances in the year ended March 31, 2009.

Other operating expenses

The other operating expenses category in the Corporate segment relates to the recovery of service area costs from the operating groups. The 32% net reduction in this category from the prior year is largely due to an increase in net unrecovered rent expenses resulting from an increase in surplus leased space.

Macquarie Income Preferred Securities (MIPS)

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

International Income

International income by region

	Year ended		
	Mar 10	**Mar 09**	**Movement**
	A$m	**A$m**	**%**
Americas	1,349	359	276
Asia Pacific	1,139	1,072	6
Europe, Africa and Middle East	863	916	(6)
Total international income	**3,351**	**2,347**	43

	Year ended		
	Mar 10	Mar 09	Movement
	A$m	A$m	%
Australia	3,098	2,207	40
Total income (excluding earnings on capital and other corporate items)	**6,449**	**4,554**	42
Earnings on capital and other corporate items	189	972	(81)
Total operating income (as reported)	**6,638**	**5,526**	20
International income/total income (excluding earnings on capital and other corporate items) (%)	52	52	

Total international income increased 43% to A$3,351 million for the year ended March 31, 2010 from A$2,347 million in the prior year primarily due to income from the Americas for the year ended March 31, 2010 of A$1,349 million increasing 276% from A$359 million in the prior year primarily due to increased earnings in Fixed Income, Currencies & Commodities compared to the prior year resulting from improved market conditions.

Earnings on capital and other corporate items for the year ended March 31, 2010 was A$189 million, down 81% from A$972 million in the prior year primarily due to negative fair value adjustments on fixed rate issued debt of A$255 million in the year ended March 31, 2010 compared to positive fair value adjustments in the prior year of A$179 million, combined with lower earnings on capital due to lower interest rates in the 12 months to March 31, 2010 compared to the prior year.

The tables below show a breakdown of our international income by operating group for the years ended March 31, 2010 and March 31, 2009.

International income by group and region

	Year ended					
	Mar 10					
	Americas	Asia Pacific	Europe, Africa, Middle East	Total International	Australia	Total Income
	A$m	A$m	A$m	A$m	A$m	A$m
Macquarie Securities	158	799	191	1,148	310	1,458
Macquarie Capital	169	217	342	728	872	1,600
Macquarie Funds	129	28	31	188	235	423
Fixed Income, Currencies & Commodities	709	41	267	1,017	383	1,400
Corporate & Asset Finance	111	(2)	57	166	262	428
Real Estate Banking	(12)	36	(21)	3	(112)	(109)
Banking & Financial Services	85	20	(4)	101	1,138	1,239
Corporate	—	—	—	—	10	10
Total	**1,349**	**1,139**	**863**	**3,351**	**3,098**	**6,449**

International income by group and region

	Year ended					
	Mar 09					
	Americas	Asia Pacific	Europe, Africa, Middle East	Total International	Australia	Total Income
	A$m	A$m	A$m	A$m	A$m	A$m
Macquarie Securities	169	775	81	1,025	198	1,223
Macquarie Capital	(51)	171	647	767	553	1,320
Macquarie Funds	32	28	22	82	250	332
Fixed Income, Currencies & Commodities	298	74	353	725	246	971
Corporate & Asset Finance	57	37	34	128	64	192
Real Estate Banking	(133)	(23)	(28)	(184)	(121)	(305)
Banking & Financial Services	(13)	10	(193)	(196)	1,023	827
Corporate	—	—	—	—	(6)	(6)
Total	**359**	**1,072**	**916**	**2,347**	**2,207**	**4,554**

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

Results overview

Income statement	Year ended Mar 09 A$m	Year ended Mar 08 A$m	Movement %
Net interest income	938	817	15
Fee and commission income	4,045	4,645	(13)
Net trading income	1,157	1,835	(37)
Asset and equity investment income[1]	(468)	839	(156)
Other operating income and charges[1]	(146)	112	(230)
Total operating income	5,526	8,248	(33)
Employment expenses	(2,359)	(4,177)	(44)
Brokerage and commission expenses	(685)	(702)	(2)
Occupancy expenses	(393)	(264)	49
Non-salary technology expenses	(263)	(214)	23
Other operating expenses	(837)	(686)	22
Total operating expenses	(4,537)	(6,043)	(25)
Operating profit before income tax	989	2,205	(55)
Income tax expense	(15)	(317)	(95)
Profit from ordinary activities after income tax	974	1,888	(48)
Profit attributable to minority interest	(103)	(85)	21
Profit attributable to ordinary equity holders of MGL	**871**	**1,803**	(52)

[1] "Asset and equity investment income" and "Other operating income and charges" includes A$1,788 million in impairment charges and loan provisions (March 31, 2008: A$528 million).

Our consolidated net profit after income tax attributable to ordinary equity holders in the 2009 fiscal year was A$871 million, which is a 52% decrease from the A$1,803 million result in the prior year. The result was delivered in extremely difficult global financial market conditions and includes significant restructuring costs (A$248 million), write-downs and equity accounted losses (A$1.5 billion) and impairment provisions (A$496 million).

Total operating income was A$5,526 million, which is a 33% decrease from A$8,248 million in the prior year. This was largely driven by:

- impairment charges of A$1,788 million (see footnote 1 in the "Results overview" table above) in aggregate for the year ended March 31, 2009 compared to A$528 million in the prior year, including impairments to the following assets:
  - funds management and other co-investments of A$1,079 million (asset and equity investment income also includes A$0.4 billion in equity accounted losses);
  - loans of A$496 million;
  - loss on the sale of the Italian Mortgages business of A$189 million and a loan provision of A$4 million (other restructuring and redundancy costs for the business of A$55 million were also recognized in trading income and operating expenses); and
  - selected trading assets of A$20 million (trading income also includes fair value adjustments to selected trading assets positions of A$0.3 billion).

- a 37% decrease in net trading income to A$1,157 million, which was primarily driven by a A$1,023 million, or 88%, decrease in equities net trading income to A$144 million in the year ended March 31, 2009 from A$1,167 in the prior year, primarily driven by significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses.

- a A$600 million or 13% decrease in fee and commission income to A$4,045 million in the year ended March 31, 2009 from A$4,645 million in the prior year, primarily from a A$230 million reduction in merger and acquisitions, advisory and underwriting fees from a similar volume of transactions which generated less income, a A$216 million reduction in brokerage and commission income driven by lower equity market trading volumes and a A$150 million reduction in performance fee income due to lower equity indices impacting the values of listed securities.

These effects were partially offset by:

- a A$345 million or 52% increase in other net trading income to A$1,013 million in the year ended March 31, 2009 from A$668 million in the prior year, primarily driven by increased contributions from interest rate products and energy markets based commodities businesses, particularly US gas and electricity trading, in Treasury & Commodities. See "— Critical Accounting Policies and Significant Judgments — Other financial liabilities at fair value through profit or loss" above for further information.

- a A$274 million recognized profit as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value (which would be reversed in future periods if credit spreads were to tighten in future periods) and A$197 million from the financing of the acquisition of £150 million of Macquarie Income Preferred Securities (MIPS).

Total operating expenses decreased by 25% to A$4,537 million in the year ended March 31, 2009 from A$6,043 million in the prior year. This was largely driven by a A$1,818 million or 44% decrease in employment expenses, from A$4,177 million in 2008 to A$2,359 million for the 2009 fiscal year. The decrease in employment expenses was driven by lower performance-related profit share expense.

Income tax expense decreased by 95% to A$15 million in the 2009 fiscal year from A$317 million in the prior year, as a result of differential tax rates on income earned and expenses incurred offshore, the impact of employee options expense, interest payments made under Macquarie Income Securities and funding and associated hedging transactions.

Results analysis

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

Net Interest Income

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Net interest income			
Interest revenue	6,420	6,698	(4)
Interest expense	(5,482)	(5,881)	(7)
Net interest income (as reported)	**938**	**817**	15
Adjustment for accounting for swaps	(9)	(116)	(92)
Net interest income	**929**	**701**	33

Net interest income was A$929 million in the 2009 fiscal year, which is a 33% increase on the prior year result of A$701 million after adjusting for amounts relating to the accounting for swaps that are classified as trading income for statutory purposes. This result is primarily driven by a 17 basis point increase in our net interest margin. Average loan volumes were stable between the 2008 fiscal year and the 2009 fiscal year.

Analysis of net interest margins

	Year ended Mar 09			Year ended Mar 08		
	Interest A$m	**Average volume A$m**	**Average Spread %**	**Interest A$m**	**Average volume A$m**	**Average Spread %**
Mortgages	185	27,240	0.68	115	26,997	0.43
Other lending areas	621	26,787	2.32	595	26,938	2.21
Total net interest margin from interest bearing assets	**806**	**54,027**	**1.49**	**710**	**53,935**	**1.32**
Other net interest income/(expense)	123			(9)		
Total net interest income	**929**			**701**		

Mortgages

Net interest income from mortgage assets of A$185 million is a 61% increase from the result from the 2008 fiscal year of A$115 million. Average spread in the 2009 fiscal year increased to 0.68% from 0.43%. Average mortgage loan volumes of A$27.2 billion have remained broadly in line with the prior year (A$27.0 billion for the year ended March 31, 2008). Although the Mortgages Australia business has ceased originating loans, the ongoing business has been profitable with margin increasing occurring in a period of easing monetary policy by the RBA as the full impact of RBA rate cuts was not passed on to customers. These increases were partially offset by increased funding costs.

Refer to “Segment Overview — Banking & Financial Services” for further discussion on Mortgages.

Other lending areas

The net interest income from other lending areas of A$621 million is a 4% increase from the results from the 2008 fiscal year of A$595 million, largely as a result of increased margins. Average spread in the 2009 fiscal year increased to 2.32% from 2.21%, largely as a result of monetary policy easing by the RBA, the full impact of which was not passed on to customers. Average loan volumes of A$26.8 billion have remained broadly in line with the prior year (A$26.9 billion for the year ended March 31, 2008).

Other net interest income/(expense)

Other net interest income/(expense) includes earnings on capital, the net interest expense on trading assets and assets held for liquidity management. Other net interest income/(expense) in the 2009 fiscal year was income of A$123 million, up from a loss of A$9 million in the prior year largely due to the impact of funding and associated hedging transactions.

Fee and commission income

	Year ended		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Fee and commission income			
Mergers and acquisitions, advisory and underwriting	1,229	1,459	(16)
Brokerage and commissions	1,037	1,253	(17)
Base fee income	923	960	(4)
Performance fee income	234	384	(39)
Income from life insurance business and other unit holder businesses	55	35	57
Other fee and commission income	567	554	2
Total fee and commission income	**4,045**	**4,645**	(13)

Fee and commission income was A$4,045 million in the 2009 fiscal year, which is a 13% decrease from A$4,645 million in the prior year, with stable relative contribution from all fee and commission sources. Fee and commission income in the second half of 2009 was 12% lower than the first half, primarily due to less brokerage and commission income driven by lower equity market trading volumes, and minimal performance fees recognized in the second half of 2009.

Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income was A$1,229 million in the 2009 fiscal year, which is a 16% decrease from A$1,459 million in the prior year. The volume of deals in which Macquarie Capital participated for the year ended March 31, 2009 (299 deals valued at A$203 billion) was comparable to the prior year (304 deals valued at A$199 billion). Significant advisory deals completed for the year ended March 31, 2009 included:

- Origin Energy Limited – exclusive financial adviser to Origin Energy in relation to their defense of BG Group’s A$14 billion takeover offer and joint venture with ConocoPhillips of up to A$11 billion;

- Rio Tinto Limited – adviser to Rio Tinto Group on its response to the pre-conditional takeover offers from BHP Billiton;

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

- BAA debt refinance – MGL Group advised BAA Limited on its £16 billion ($33.6 billion) refinancing;

- Bupa/MBF merger – adviser to Bupa on the merger of Bupa Australia with MBF for A$2.4 billion cash consideration;

- Senoko Power acquisition – MGL Group advised a Marubeni-led consortium on the capital raising and acquisition of Senoko Power, the largest power generation company in Singapore;

- AED Oil joint venture with Sinopec Group – MGL Group was adviser to AED Oil on the formation of a joint venture with Sinopec Group worth A$584 million; and

- Macquarie European Infrastructure Fund II (MEIF2) acquisition of GWE – MGL Group advised MEIF2 on the acquisition of GWE, a leading independent energy provider in Germany.

Brokerage and commissions

Brokerage and commissions income was A$1,037 million in the 2009 fiscal year, which is a 17% decrease from A$1,253 million in the prior year. Brokerage and commission income predominantly includes transaction related fees from cash equities services provided to institutional and retail clients.

During the year, a decline in equity market values, the de-leveraging of certain market participants and a flight of investors from equities saw significantly lower equity market volumes than the prior year, which lead to lower overall equity market turnover (down 25% in Australia and 32% in Asia on the prior year) and a corresponding decrease in income.

The effect of the decrease in lower overall market turnover was partially offset by the full year contribution from secondary market brokerage from the Canadian business (acquired December 2007) and income from the US and European greenfield cash equities businesses that continue to be built out.

Despite difficult market conditions, Macquarie Private Wealth maintained its position as the number one full-service retail stockbroker in Australia in terms of consideration traded. However, Macquarie Private Wealth's volumes were down 34% on the prior year.

Base and performance fees

	Year ended	
	Mar 09	Mar 08
	A$m	A$m
Base fees		
Macquarie Capital and Real Estate Banking		
ConnectEast Group	0.8	1.1
DUET Group	7.0	7.0
Macquarie Airports	33.6	70.7
Macquarie Central Office Corporate Restructuring -REIT	1.6	1.7
Macquarie Communications Infrastructure Group	21.7	40.1
Macquarie CountryWide Trust	9.4	9.5
Macquarie Infrastructure Company	9.6	24.9
Macquarie Infrastructure Group	43.8	72.7
Macquarie International Infrastructure Fund	5.2	12.8
Macquarie Leisure Trust Group	3.7	3.4
Macquarie Media Group	2.4	13.6
Macquarie Office Trust	21.9	21.9
Macquarie Power and Infrastructure Income Fund	2.1	1.9
Unlisted Funds	369.9	262.6
Managed assets	18.7	10.6
Total Macquarie Capital and Real Estate Banking	**551.4**	**554.5**
Macquarie Funds	**142.3**	**158.4**
Banking and Financial Services	**229.0**	**246.8**
Total base fee income	**922.7**	**959.7**

	Year ended	
	Mar 09	Mar 08
	A$m	A$m
Performance fees		
Macquarie Capital and Real Estate Banking		
DUET Group	27.1	21.3
Macquarie Infrastructure Company	-	50.1
Macquarie International Infrastructure Fund	-	2.4
Macquarie Leisure Trust	-	0.3
Macquarie Power and Infrastructure Income Fund	2.0	3.9
Unlisted funds	133.6	204.8
Managed assets	58.2	55.8
Total Macquarie Capital and Real Estate Banking	220.9	338.6
Macquarie Funds	13.5	45.2
Total performance fee income	**234.4**	**383.8**

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 were A$922.7 million in the 2009 fiscal year, which is a 4% decrease from A$959.7 million of base fees earned in the prior year. Base fees are generally driven by total Assets under Management, which increased by 5% to A$243 billion as at March 31, 2009 from A$232 billion as at March 31, 2008. Although Assets under Management have shown an overall net increase, the result was in part due to the weakening of the Australian dollar against major global currencies, which in turn increased the value of Assets under Management denominated in foreign currencies. In addition, the acquisition of the remaining shares in Allegiance Investment Management, a US fund manager, increased Assets under Management by A$5.1 billion. This increase offset reductions in Assets under Management due to falling equity indices impacting the value of listed securities, especially those funds managed by Macquarie Funds. Due to the overall mix in Assets under Management, base fees fell despite the increase in Assets under Management. See "Macquarie Group Limited — Funds Management Business — MBL Group and the Non-Banking Group"."

Total performance fees were A$234.4 million in the 2009 fiscal year, which is a 39% decrease from A$383.8 million in the prior year, with minimal performance fees earned in the six months to March 31, 2009. The reduction is largely as a result of market conditions which drove significant falls in the prices of listed securities, making outperformance of the relevant benchmarks difficult to achieve. A significant contributor for the 2009 fiscal year was the performance fee on the termination of the Advisory Agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited). Performance fees also included A$27 million from the DUET Group.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder businesses was A$55 million in the 2009 fiscal year, which is a 57% increase from the prior year, largely as a result of an additional contribution from the Macquarie Funds' True Income Index business outperformance of benchmarks.

Other fee and commission income

Other fee and commission income including income from financial products, platform and other administration fee income, banking, lending and securitization fee income, of A$567million for the year ended March 31, 2009 was broadly in line with the prior year.

Net trading income

Net trading income in the 2009 fiscal year decreased 37% to A$1,157 million from A$1,835 million in the prior year, largely as a result of the net effect of market movements, which caused trading income of equity products to decline as clients engaged in a substantially lower volume of trades due to poor equity market conditions, the effect of which was partially offset by the impact of the growth of our North American energy trading business and lower commodity product trading competition and higher volumes in client trading of foreign exchange products.

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 — Treasury & Commodities" and "— Segment Overview — Macquarie Securities".

	Year ended		
	Mar 09	**Mar 08**	**Movement**
	A$m	**A$m**	**%**
Net trading income			
Equity products	144	1,167	(88)
Commodity products	583	394	48
Foreign exchange and interest rate products	430	274	57
Total net trading income[1]	**1,157**	**1,835**	(37)

[1] Presented net of impact of revaluation of economic hedges and the accounting impact of swaps.

Equity products

Trading income from equity products in the 2009 fiscal year was A$144 million, which is a 88% decrease from A$1,167 million in the prior year. A significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses contributed to the decline in derivatives trading income. Dislocation in global equity markets and continued volatility delivered arbitrage trading income that was slightly down on the prior year. Hedge fund de-leveraging, redemptions and regulatory changes to short selling resulted in a substantial decline in Synthetic Products revenues. Structured Equity Finance revenues were down significantly as a result of lower stock borrow and loan volumes. In addition, the trading result for the year included a A$101 million mark-to-market loss on a US-listed investment and a provision for losses on BrisConnections.

Commodity products

Commodity products income in the 2009 fiscal year was A$583 million, which is a 48% increase from A$394 million in the prior year. Commodity products trading (encompassing metals, energy and agricultural trading) experienced higher volatility, wider margins and an exit of competitors across a number of its markets.

Trading income in the Energy Markets division was significantly up on the prior year. The drivers of the result were increased market volatility and continued growth of various businesses. The biggest contributor was US Gas Trading, while other key contributors were US Power, UK Gas and Energy OTC. The Constellation Energy business was acquired in March 2009.

The Agricultural and Investor Products division was down on a very strong prior year. While we experienced a decline in revenue opportunities for investor products, increased market volatility resulted in increased activity in agricultural risk management services.

The Metals and Energy Capital division was again a significant contributor during the year. The Metals trading book had a strong year, also benefiting from volatile markets, fewer competitors and wider spreads.

Foreign exchange and interest rate products trading income

Trading income on foreign exchange and interest rate products was A$430 million in the 2009 fiscal year, which is a 57% increase from A$274 million in the prior year. The Foreign Exchange division in our Treasury & Commodities operating group had a record year providing a strong contribution, benefiting from volatile currency markets and the positive effect this volatility had on client demand for foreign exchange products, translating to increased volumes transacted. The Interest Rate Derivative book also provided a strong contribution benefiting from significant movements in interest rates. The result was also impacted by mark-to-market write-downs of A$50 million on CLO/CDO investments due to difficult market conditions.

Asset and equity investment income and other income

	Year ended		
	Mar 09	**Mar 08**	**Movement[1]**
	A$m	**A$m**	**%**
Asset and equity investment income			
Profit on sale of investment securities available for sale	143	123	16
Profit on sale of associates and joint ventures	81	560	(86)
Gain on acquiring, disposing and change in ownership interests in subsidiaries and businesses held for sale	323	293	10
Net income/(loss) from disposal groups held for sale	91	(28)	large
Share of net profits of associates and joint ventures using the equity method	74	156	(53)
Dividends/distributions received/receivable from investment securities available for sale (including associates held for sale)	49	91	(46)
Impairment charge on investment in associates and joint ventures	(714)	(300)	138
Impairment charge on investment securities available for sale	(306)	(120)	155
Impairment charge on disposal group held for sale	(192)	–	–
Impairment charge on non-financial assets	(75)	–	–
Other asset sales	58	64	(9)
Total asset and equity investment income	**(468)**	**839**	(156)
Other income			
Impairment charges:			
Collective allowance for credit losses	(90)	(37)	143
Specific provisions for credit losses	(411)	(71)	large
Other	355	220	217
Total other income	**(146)**	**112**	large

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

Asset and equity investment income and other income was a loss of A$614 million in the 2009 fiscal year, as compared to income of A$951 million in the prior year, which is largely driven by losses associated with asset and equity investment income and other income, which were largely the result of impairment charges of A$1,788 million in aggregate for the year ended March 31, 2009, compared to A$528 million in the prior year, relating to impairments of:

- funds management and other co-investments of A$1,079 million (asset and equity investment income also includes A$0.4 billion in equity accounted losses);
- loans of A$496 million;

- the loss on the sale of the Italian Mortgages business of A$189 million and a loan provision of A$4 million (other restructuring and redundancy costs for the business of A$55 million were also recognized in trading income and operating expenses); and

- selected trading assets of A$20 million (trading income also includes fair value adjustments to selected trading assets positions of A$0.3 billion).

Impairment charges and provisions for the year ended March 31, 2009 are set forth in more detail in the table below. A summary of our critical accounting policies relating to impairment charges and provisions is set forth under "— Critical Accounting Policies and Significant Judgments."

	Year ended Mar 09 A$b
One-off costs relating to the Italian Mortgages exit[1]	**0.2**
Impairment and equity accounted losses on funds management assets and other co-investments[2]	
Listed Macquarie managed funds:	
Macquarie Infrastructure Group	0.2
Macquarie Communications Infrastructure Group	0.1
Macquarie Media Group	0.1
Other Funds[3]	0.1
Real estate equity investments	0.2
US portfolio of ABS held as available for sale[4]	0.1
Resources equity investments	0.1
Other equity accounted / available for sale investments (including Japan Airports, Spirit Finance)	0.6
Total	**1.5**
Loan provisions[5]	
Real estate loans	0.2
Resources and other loans	0.3
Total	**0.5**
Impairments recognized on trading asset positions[6]	
Other equity investments carried at fair value through profit or loss, including BrisConnections and CLO/CDO exposures[4]	0.3
Total	**0.3**

1 Includes loss on sale of loan portfolio, write off of capitalized acquisition costs, loan impairment provisions, closure/redundancy costs.

2 A$0.4 billion equity accounted losses included on the basis impairment write-downs would have been recognized on MGL's co-investments if these equity accounted losses had not been recognized.

3 Includes Macquarie Infrastructure Company, Macquarie Countrywide Trust, Macquarie Office Trust, DUET Group and Macquarie International Infrastructure Fund.

4 Statistics regarding our debt investment securities is set forth under "— Liquidity — Explanatory notes concerning the funded assets and funding sources — 5. Debt investment securities"".

5 Includes specific credit provisions and collective allowance for credit losses recognized in the year ended March 31, 2009. Statistics regarding our loan portfolio's diversification, arrears rates and level of security is set forth under "— Liquidity — Explanatory notes concerning the funded assets and funding sources — 3. Loan assets".

6 Selected items included are carried in the trading portfolio at fair value. Realized gains and losses, and unrealized gains and losses arising from changes in the fair value of the trading portfolio are recognized as trading income or expense in the income statement in the period in which they arise.

In addition, asset realizations were down substantially in the 2009 fiscal year as difficult market conditions and more limited availability of acquisition finance lead to lower transaction volumes. Asset and equity investment income includes a A$298 million gain on acquiring and disposing businesses and subsidiaries which includes a A$197 million gain from financing the acquisition of Macquarie Income Preferred Securities.

Operating expenses

	Year ended		
	Mar 09	Mar 08	Movement
	A$m	A$m	%
Operating expenses			
Employment expenses:			
Salary, commissions, superannuation and performance-related profit share	(2,098)	(3,720)	(44)
Share based payments	(128)	(126)	2
Provision for annual leave	(19)	(21)	(10)
Provision for long service leave	(2)	(11)	(82)
Other employment expenses	(112)	(299)	(63)
Total employment expenses	**(2,359)**	**(4,177)**	(44)
Brokerage and commission expenses	(685)	(702)	(2)
Occupancy expenses	(393)	(264)	49
Non-salary technology expenses	(263)	(214)	23
Professional fees	(325)	(246)	32
Travel and entertainment	(204)	(200)	2
Advertising and communication	(92)	(93)	(1)
Other expenses	(216)	(147)	47
Total operating expenses	**(4,537)**	**(6,043)**	(25)

Total operating expenses for the 2009 fiscal year were A$4,537 million, which is a 25% decrease from A$6,043 million in the prior year. This result is largely driven by a 44% decrease in total employment expenses from A$4,177 million in the prior year ended A$2,359 million for the year ended March 31, 2009, primarily driven by reduced performance related profit share.

Our headcount decreased from 13,107 at March 31, 2008 to 12,716 at March 31, 2009, with headcount by operating group and region provided in the table below:

	Year ended		
	Mar 09	Mar 08	Movement
			%
Headcount by operating group			
Macquarie Capital	2,617	2,786	(6)
Banking and Financial Services	2,598	3,058	(15)
Macquarie Securities	1,540	1,596	(4)
Treasury and Commodities	680	611	11
Macquarie Funds	583	496	18
Real Estate Banking	136	213	(36)
Corporate & Asset Finance	539	545	(1)
Total headcount - operating groups	**8,693**	**9,305**	(7)
Total headcount - service areas	**4,023**	**3,802**	6
Total headcount	**12,716**	**13,107**	(3)
Headcount by region			
Australia	7,243	7,822	(7)
International:			
Americas	1,931	1,778	9
Asia Pacific	2,207	2,158	2
Europe, Africa and Middle East	1,335	1,349	(1)
Total headcount – International	**5,473**	**5,285**	4
Total headcount	**12,716**	**13,107**	(3)
International headcount ratio (%)	**43**	**40**	

All remaining expenses increased by 17% from A$1,866 million for the year ended March 31, 2008 to A$2,178 million for the year ended March 31, 2009, with increased occupancy costs being the largest contributor. The overall expense to income ratio increased to 82.1% for the year ended March 31, 2009 from 73.3% for the year ended March 31, 2008, largely as a result of the significant drop in income experienced in the year.

Income tax expense

	Year ended	
	Mar 09	Mar 08
	A$m	A$m
Profit before income tax	**989**	**2,205**
Less: Macquarie Income Preferred Securities	(45)	(50)
Less: Macquarie Income Securities	(33)	(34)
Less: Other minority interests	(25)	(1)
Profit before income tax attributable to ordinary equity holders	**886**	**2,120**
Income tax expense	**(15)**	**(317)**
Effective tax rate	**1.7%**	**15.0%**

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

The effective tax rate has been impacted by the following items:

- Permanent differences on underlying income have been relatively stable when compared to the prior year;

- Operating income for the year ended March 31, 2009 is 33% lower than the prior year due to write-offs in the year ended March 31, 2009; and

- Funding and associated hedging transactions have reduced income and tax expense (approximately 12% reduction in reported effective tax rate).

Segment Overview

Summary of segment results

	Macquarie Capital A$m	Treasury & Commodities A$m	Macquarie Securities A$m	Macquarie Funds A$m	Banking & Financial Services A$m	Corporate & Asset Finance A$m	Real Estate Banking A$m	Corporate A$m	Total A$m
Year ended March 31, 2009									
Net interest income/(expense)	(381)	34	13	65	425	129	(4)	657	938
Fee and commission income	2,072	166	844	285	697	14	55	(88)	4,045
Trading income	(239)	893	362	(10)	(38)	(9)	(6)	204	1,157
Asset and equity investment income	(291)	10	—	(15)	(167)	—	(149)	144	(468)
Other income/(expense)	361	(66)	125	12	(112)	77	(158)	(385)	(146)
Total operating income	1,522	1,037	1,344	337	805	211	(262)	532	5,526
Total operating expenses	(1,271)	(528)	(1,069)	(292)	(904)	(145)	(94)	(352)	(4,655)
Profit contribution	**251**	**509**	**275**	**45**	**(99)**	**66**	**(356)**	**180**	**871**
Year ended March 31, 2008									
Net interest income/(expense)	(289)	(84)	(190)	70	338	101	2	869	817
Fee and commission income	2,319	160	1,046	314	783	13	67	(57)	4,645
Trading income	(37)	744	1,078	21	29	3	4	(7)	1,835
Asset and equity investment income	719	108	—	105	(2)	—	(77)	(14)	839
Other income/(expense)	411	79	233	64	(7)	101	(36)	(733)	112
Total operating income	3,123	1,007	2,167	574	1,141	218	(40)	58	8,248
Total operating expenses	(886)	(405)	(950)	(267)	(903)	(106)	(90)	(2,838)	(6,445)
Profit contribution	**2,237**	**602**	**1,217**	**307**	**238**	**112**	**(130)**	**(2,780)**	**1,803**

Basis of Presentation

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

For internal reporting and risk management purposes, MGL Group is divided into five operating groups and two divisions. The operating groups are:

- Macquarie Capital
- Treasury & Commodities
- Macquarie Securities
- Banking & Financial Services
- Macquarie Funds

The divisions are:

- Corporate & Asset Finance
- Real Estate Banking

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

Any transactions between segments have been determined on what MGL 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.

Internal Reorganization of Operating Groups

In February 2008, the activities of Financial Services and Banking & Securitization were combined to form the new operating group called Banking & Financial Services.

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

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

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

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

The results of these new operating groups are presented effective April 1, 2008, with the comparative information for the years ended March 31, 2008 based on aggregated results of the businesses that comprise the new operating groups and divisions. In order to illustrate the financial impact of these internal reorganizations on our results of operations the table below reconciles the 2008 operating segment results prior to the reorganizations discussed above (and as reported in the 2008 annual financial statements) to the comparative information presented in the 2009 operating segment analysis below. See “Financial Information Presentation” above for further information.

	Operating Income for Year ended Mar 08								
Operating groups as previously reported	**Operating group contribution**	**Banking & Financial Services Formation**	**Macquarie Securities Formation**	**Macquarie Funds Formation**	**Corporate & Asset Finance Formation**	**Real Estate Banking Formation**	**Group Treasury**	**Operating group contribution**	**Operating groups as currently reported**
Macquarie Capital.....	**2,915**		(547)	(68)	(112)	49		**2,237**	Macquarie Capital
Equity Markets	**732**		547	(62)				**1,217**	Macquarie Securities
Treasury & Commodities............	**645**						(43)	**602**	Treasury & Commodities
Real Estate	**(81)**					(49)		**(130)**	Real Estate Banking
Banking & Securitization	**51**	187						**238**	Banking & Financial Services
Financial Services.....	**187**	(187)						**-**	
Funds Management...	**177**			130				**307**	Macquarie Funds
	-				112			**112**	Corporate & Asset Finance
Corporate	**(2,823)**						43	**(2,780)**	Corporate
Total	**1,803**	-	-	-	-	-	-	**1,803**	Total

Macquarie Capital

	Year ended		
	Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	(381)	(289)	32
Fee and commission income			
Base fees	518	558	(7)
Performance fees	219	321	(32)
Mergers and acquisitions, advisory and underwriting	1,156	1,310	(12)
Other fee and commission income	179	130	38
Total fee and commission income	2,072	2,319	(11)
Net trading income	(239)	(37)	large
Asset and equity investment income			
Asset and equity investment income	405	798	(49)
Impairment charges on equity investments	(696)	(79)	large
Total asset and equity investment income	(291)	719	(140)
Other income			
Specific provisions and collective allowance for credit losses	(33)	(11)	200
Operating lease income	94	35	169
Other income	44	(2)	large
Internal revenue	256	389	(34)
Total other income	361	411	(12)
Total operating income	1,522	3,123	(51)
Operating expenses			
Employment expenses	(618)	(465)	33
Brokerage and Commission expenses	(97)	(32)	203
Other operating expenses	(525)	(390)	35
Total operating expenses	(1,240)	(887)	40
Outside equity interests	(31)	1	large
Total contribution to profit	**251**	**2,237**	(89)
Non-GAAP metrics			
Equity under management (A$ billion)	54	60	(10)
Assets under management (A$ billion)	166	157	6
Headcount	2,617	2,786	(6)

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

Macquarie Capital's profit contribution was A$251 million for the 2009 fiscal year, a decrease of 89% from A$2,237 million in the record prior year. Macquarie Capital made a lower contribution due to extremely challenging market conditions. The result in the 2009 fiscal year included impairment provisions, trading losses and equity accounted losses of A$1.2 billion as compared to approximately A$140 million in the prior year.

Net interest income/(expense)

Net interest expense was A$381 million for the 2009 fiscal year, which is a 32% increase from A$289 million in the prior year, reflecting increased interest expense on borrowings for principal investments reflecting higher risk premiums charged by lenders as market conditions deteriorated.

Base fee income

Base fees are generally driven by total Assets under Management, which increased by 6% from A$157 billion as at March 31, 2008 to A$166 billion as at March 31, 2009. Although Assets under Management have shown an overall net increase, the result was largely due to the weakening of the Australian dollar against major global currencies, which in turn increased the value of Assets under Management denominated in foreign currencies.

Base fee income was A$518 million for the 2009 fiscal year, which is a 7% decrease from A$558 million in the prior year, mainly as a result of a decline in the market capitalization of listed funds, which was partially offset by new capital raisings and equity invested by Macquarie Capital unlisted funds. Significant base fees recognized included fees derived from management of Macquarie Infrastructure Group (A$44 million), Macquarie Airports (A$34 million) and Macquarie Communications Infrastructure Group (A$22 million).

Performance fee income

Performance fees were A$219 million for the 2009 fiscal year, which is a 32% decrease from A$321 million in the prior year. A significant contributor in the first half of the year was the performance fee on the termination of the Advisory Agreement with Bristol Airports Bermuda Limited (formerly Macquarie Airports Group Limited). Performance fees in the first half also included A$27 million from the DUET Group. Minimal performance fees were generated in the second half of 2009.

Mergers and acquisitions, advisory and underwriting income

Mergers and acquisitions, advisory and underwriting income was A$1,156 million for the 2009 fiscal year, a 12% decrease from A$1,310 million in the prior year. The volume of deals in which we participated for the year ended March 31, 2009 (299 deals valued at A$203 billion) was comparable to the prior year (304 deals valued at A$199 billion). Significant advisory deals completed for the year ended March 31, 2009 are discussed above under "—Results analysis—Fee and commission income".

Net trading income

The net trading loss of A$239 million for the 2009 fiscal year increased from a loss of A$37 million in the prior year, which included a A$101 million mark-to-market loss on a US-listed investment and a provision for losses on BrisConnections.

Asset and equity investment income

Asset and equity investment income for the year was A$405 million, down 49% on a strong prior year, which included the sale of Boart Longyear Limited.

Asset and equity investment income for the year included the sale of investments in listed securities held as available for sale and the sale or partial sale of unlisted assets classified as held-for-sale. Contributors to this income included sales of MGL's holding of equity interests in:

- Dyno Nobel (residual holding);
- Boart Longyear (residual holding);
- Longview Oil and Gas assets;
- Red Bee Media;
- Tasmanian Gateway Corporation Holdings Pty Limited;
- New World Gaming Partners Limited; and
- Puget Holdings LLC.

Also included in asset and equity investment income is Macquarie Capital's share of equity accounted income from associates. An increased contribution from Macquarie Capital's investment in Macquarie Airports was offset by losses from Macquarie Communications Infrastructure Group and other equity accounted investments.

Impairment charges on equity investments

Impairment charges on equity investments increased to A$696 million for the 2009 fiscal year from A$79 million in the prior year. These charges related to the write-down of holdings in listed securities of A$355 million (including Macquarie Infrastructure Group, Macquarie Infrastructure Company, Macquarie Media Group, DUET and BrisConnections), certain unlisted equity accounted investments (A$286 million), and the write-down of the US portfolios of asset-backed securities held as available for sale (A$55 million).

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses were A$33 million for the 2009 fiscal year, an increase of 200% from A$11 million in the prior year largely as a result of deteriorating loan quality due to market conditions.

Total operating expenses

Total operating expenses were A$1,240 million for the 2009 fiscal year, a 40% increase from A$887 million in the prior year. Employment expenses were A$618 million for the 2009 fiscal year, a 33% increase from A$465 million in the prior year, reflecting a higher average headcount compared to the prior year, a number of one-off costs relating to business restructuring and the weakening of the Australian dollar, increasing offshore employment costs.

Brokerage and commission expenses were A$97 million for the 2009 fiscal year, an increase of 203% from A$32 million in the prior year, with the increase predominantly relating to a one-off deal expense in 2009.

Other operating expenses of A$525 million for the 2009 fiscal year increased 35% from A$390 million in the prior year, mainly due to the full year impact of operating expenses from consolidated assets, the full year impact of 2008 growth including new offices and increased offshore costs due to the weakening Australian dollar.

Treasury & Commodities

	Year ended		
	Mar 09	Mar 08	Movement[2]
	A$m	A$m	%
Income from trading activities (including net interest income)[1]			
Commodities	650	409	59
Foreign exchange products	164	131	25
Interest rate products	113	120	(6)
Total income from trading activities (including net interest income)	**927**	**660**	40
Fee and commission income	**166**	**160**	4
Asset and equity investment income			
Asset and equity investment income	78	106	(26)
Impairment charges on equity investments	(120)	(22)	large
Other asset sales	52	24	117
Total asset and equity investment income	**10**	**108**	(91)
Other income			
Specific provisions and collective allowance for credit losses	(160)	(32)	large
Other income	28	16	75
Internal revenue	66	95	(31)
Total other income	(66)	79	(184)
Total operating income	**1,037**	**1,007**	3
Operating expenses			
Employment expenses	(175)	(123)	42
Brokerage and commission expenses	(91)	(93)	(2)
Other operating expenses	(263)	(189)	39
Total operating expenses	**(529)**	**(405)**	31
Outside equity interests	1	—	—
Total contribution to profit	**509**	**602**	(15)
Non-GAAP metrics			
Headcount	680	611	11

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 MGL Group and its clients. As such, to obtain a more complete view of the group's trading activities, net interest income has been combined with trading income above.

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

Treasury & Commodities' profit contribution of A$509 million for the 2009 fiscal year decreased 15% from A$602 million in the prior year.

Commodities trading income

Commodities trading income for the year was A$650 million, up 59% on the prior year. Commodity products trading (encompassing metals, energy and agricultural trading) experienced higher volatility, wider margins and an exit of competitors across a number of its markets.

Trading income in the Energy Markets division was significantly up on the prior year. The drivers of the result were increased market volatility and continued growth of various businesses. The biggest contributor was US Gas Trading, while other key contributors were US Power, UK Gas and Energy OTC. The Constellation Energy business was acquired in March 2009.

The Agricultural and Investor Products division was down on a very strong prior year. Although revenue opportunities for investor products declined, increased market volatility resulted in increased activity in agricultural risk management services.

The Metals and Energy Capital division was again a significant contributor during the year. The Metals trading book had a strong year, also benefiting from volatile markets, fewer competitors and wider spreads.

Foreign exchange products trading income

Trading income on foreign exchange products of A$164 million for the 2009 fiscal year increased 25% from A$131 million in the prior year. The Foreign Exchange division had a record year, benefiting from volatile currency markets and the positive effect volatility had on client demand for foreign exchange products, translating to increased volumes transacted.

Interest rate products trading income

Trading income on interest rate products of A$113 million in the 2009 fiscal year decreased 6% from A$120 million in the prior year. The current year result included a strong contribution from the Interest Rate Derivative book but was also impacted by difficult market conditions and mark-to-market write-downs of A$50 million on CLO/CDO investments.

Fee and commission income

Fee and commission income of A$166 million for the 2009 fiscal year increased 4% from A$160 million in the corresponding period, broadly in line with the prior year. The Futures division remains the key contributor to this income category.

Asset and equity investment income

Asset and equity investment income of A$78 million for the 2009 fiscal year decreased 26% from A$106 million in the prior year, primarily due to lower profits from the sale of equity investments in the resources sector.

Impairment charges on equity investments

Impairment charges of A$120 million for the 2009 fiscal year increased from A$22 million in the prior year. The impairment charges were recognized mainly on listed equity investments in the resources sector.

Other asset sales

Income from other assets sales of A$52 million for the 2009 fiscal year increased 117% from A$24 million in the prior year, reflecting the gain on sale of a number of resources-related net profit interests in the Metals & Energy Capital division.

Specific provisions and collective allowance for credit losses

Net loan provisions of A$160 million for the 2009 fiscal year increased from A$32 million in the prior year. There were A$135 million in specific provisions raised and an increase in the collective allowance for credit losses of A$25 million.

Operating expenses

Total operating expenses of A$529 million for the 2009 fiscal year increased 31% from A$405 million in the prior year. Employment expenses of A$175 million for the 2009 fiscal year increased 42% from A$123 million in the prior year which was driven by an increase in headcount and costs incurred in restructuring and growing the business. Other operating expenses of A$263 million for the 2009 fiscal year increased 39% from A$189 million in the prior year, mainly as a result of increased investment in IT infrastructure, including the development of new global Loan and Deposits systems.

Macquarie Securities

	Year ended Mar 09 A$m	Year ended Mar 08 A$m	Movement %
Income from trading activities (including net interest income) – equities[1]	375	888	(58)
Fee and commission income			
Brokerage and commissions	688	867	(21)
Other fee and commission income	156	179	(13)
Total fee and commission income	844	1,046	(19)
Other income			
Other income	4	13	(69)
Internal revenue	121	220	(45)
Total other income	125	233	(46)
Total operating income	1,344	2,167	(38)
Operating expenses			
Employment expenses	(339)	(252)	35
Brokerage and commission expenses	(256)	(360)	(29)
Other operating expenses	(474)	(338)	40
Total operating expenses	(1,069)	(950)	13
Total contribution to profit	**275**	**1,217**	(77)
Non-GAAP metrics			
Headcount	1,540	1,596	(4)

[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 MGL Group and its clients. As such, to obtain a more complete view of the group's trading activities, net interest income has been combined with trading income above.

Macquarie Securities' profit contribution of A$275 million for the 2009 fiscal year decreased 77% from A$1,217 million in the prior year. The Cash division in Macquarie Securities contribution to profit was A$236 million for the year ended March 31, 2009 compared to A$547 million for the year ended March 31, 2008.

Income from trading activities (including net interest income)

Trading income from equity products (including net interest income) of A$375 million for the 2009 fiscal year decreased 58% from A$888 million in the prior year. A significant decline in demand for listed/structured products and unprecedented volatility resulting in trading losses contributed to the decline in derivatives trading income. Dislocation in global equity markets and continued volatility delivered arbitrage trading income that was slightly down on the prior year. Hedge fund de-leveraging, redemptions and regulatory changes to short selling resulted in a substantial decline in Synthetic Products revenues. Structured Equity Finance revenues were down significantly down as a result of lower stock borrow and loan volumes. In addition, the trading result for the year included a provision for losses on BrisConnections.

Fee and commission income

Fee and commission income of A$844 million for the 2009 fiscal year decreased 19% from A$1,046 million in the prior year. This income category largely consists of brokerage and commission income, which predominantly includes transaction related fees from cash equities services provided to institutional clients, including internal clients.

During the year, a decline in equity market values, the de-leveraging of certain market participants and a flight of investors from equities saw significantly lower equity market volumes than the prior year which lead to lower overall equity market turnover (down 25% in Australia and 32% in Asia on the prior year) and a corresponding decrease in income.

The effect of the lower overall market turnover was partially offset by the full year contribution from secondary market brokerage from the Canadian business (acquired December 2007) and income from the US and European greenfield cash equities businesses that continue to be built out.

Employment expenses

Employment expenses of A$339 million for the 2009 fiscal year increased 35% from A$252 million in the prior year. The increase was mainly driven by the depreciation of the Australian dollar against the US dollar and Euro during the year, impacting remuneration costs of overseas staff. In addition, the current year employment expense includes the full year impact of the Canadian cash equities business (acquired December 2007), and the US and European greenfield cash equities businesses build out. The last quarter of the year has seen re-alignment of resources as a result of the current market activity.

Brokerage and commission expenses

Brokerage and commission expenses of A$256 million for the 2009 fiscal year decreased 29% from A$360 million in the prior year. The decrease in brokerage and commission expenses was driven by lower trading volumes and brokerage operations during the year.

Other operating expenses

Other operating expenses of A$474 million for the 2009 fiscal year increased 40% from A$338 million in the prior year. The increase was predominantly due to continued investment in enhancing the IT platform for both front and back office functions and the increased offshore expense driven by the depreciation of the Australian dollar against the US dollar and Euro.

Banking & Financial Services

	Year ended[1] Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	425	338	26
Fee and commission income			
Base fees	229	247	(7)
Brokerage and commissions	198	256	(23)
Platform and other administration fee income	134	144	(7)
Banking, lending and securitization	75	57	32
Other fee and commission income	31	50	(38)
Income from life insurance business and other unit holder businesses	30	29	3
Total fee and commission income	697	783	(11)
Net trading income	(38)	29	(231)
Asset and equity investment income			
Impairment charges on equity investments	(216)	(3)	large
Asset and equity investment income	49	1	large
Total asset and equity investment income	(167)	(2)	large
Other income			
Specific provisions and collective allowance for credit losses	(96)	(26)	269
Other income	6	12	(50)
Internal revenue	(22)	7	large
Total other income	(112)	(7)	large
Total operating income	805	1,141	(29)
Operating expenses			
Employment expenses	(394)	(427)	(8)
Brokerage and commission expenses	(140)	(117)	20
Other operating expenses	(364)	(357)	2
Total operating expenses	(898)	(901)	nm
Outside equity interests	(6)	(2)	200
Total contribution to profit	**(99)**	**238**	(142)
Non-GAAP metrics			
Assets under Management[2] (A$ billion)	19	23	(17)
Headcount	2,598	3,058	(15)

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

2 The Macquarie CMT, included in Banking & Financial Services Assets under Management above, is a Banking & Financial Services product that is managed by Macquarie Funds. The CMT closed at A$14.7 billion at March 31, 2009 (September 30, 2008: A$16.1 billion; March 31, 2008: A$17.6 billion).

Banking & Financial Services' loss of A$99 million for the 2009 fiscal year decreased 142% from A$238 million income in the prior year. The loss for the year was mainly driven by losses recognized on the sale of the Italian Mortgages portfolio.

Net interest income/(expense)

Net interest income of A$425 million for the 2009 fiscal year increased 26% from A$338 million in the prior year principally due to growth in retail deposits which provide lower cost funding, and the effect of not passing on the full interest rate cuts announced by the RBA during the year.

Retail deposits grew 103% during the 2009 fiscal year to A$13.4 billion. This strong growth in deposits was primarily achieved through issuance of new cash product offerings such as Cash XL, the Cash Management Account and deposits via Macquarie Wrap.

In March 2008, we announced we would wind back our Australian residential mortgage origination services for both retail and wholesale clients due to the significant increase in funding costs and current conditions in the global mortgage securitization market. The ongoing business has been profitable as the portfolio runs off. The Australian mortgage book has reduced in size from A$23.7 billion at March 31, 2008 to A$18.3 billion at March 31, 2009.

The Canadian mortgages business is able to access the Canadian Mortgage Bond program. All Canadian mortgages are insured by an agency backed by the Canadian government. The US mortgages business has been closed and the book is being run down.

In April 2008, the decision to cease originating new fixed rate consumer loans was announced. The business will continue to provide services to existing clients. Outstanding loans were approximately A$120 million at March 31, 2009.

In January 2009, we sold the majority of our margin lending business. As a result of the sale, combined with poor conditions in equity markets, the investment lending portfolio has fallen from A$6.0 billion at March 31, 2008 to A$2.2 billion at March 31, 2009. We retained a portfolio of loans related to structured products and a small book of margin loans.

Base fee income

Base fee income of A$229 million in the 2009 fiscal year decreased 7% from A$247 million in the prior year. The Cash Management Trust (CMT) was A$14.7 billion at March 31, 2009, down 16% since March 31, 2008. The impact of falling Assets under Management in the CMT was partially offset by growth of 256% in Assets under Management of the Macquarie Pastoral Fund during the year, with funds under management of A$434 million at March 31, 2009 as it ramped up in early stages.

Brokerage and commission income

Brokerage and commission income of A$198 million for the 2009 fiscal year decreased 23% from A$256 million in the prior year. Despite difficult market conditions, Macquarie Private Wealth maintained its position as the number one full-service retail stockbroker in Australia in terms of consideration traded. However, Macquarie Private Wealth's volumes were down 34% on the prior year.

Platform and other administration fee income

Platform and other administration fee income of A$134 million for the 2009 fiscal year decreased 7% from A$144 million in the prior year. Wrap funds under administration decreased from A$22.5 billion at March 31, 2008 to A$17.5 billion at March 31, 2009, mainly due to negative market movements. Macquarie Wrap was ranked number one for Wrap inflows in the Australian market for the 2008 calendar year.

Banking, lending and securitization fee income

Banking, lending and securitization fee income of A$75 million for the 2009 fiscal year increased 32% from A$57 million in the prior year. This mainly relates to the mortgages and Macquarie Relationship Banking servicing and administration fees which increased principally due to the run-off of the Australian Mortgages portfolio which has resulted in increased loan termination and associated fees.

Net trading income

Net trading loss of A$38 million for the 2009 fiscal year decreased from net trading income of A$29 million in the prior year. The A$20 million loss on the sale of Macquarie Private Wealth's holding in BrisConnections in the first half was the major contributor to Banking & Financial Services' A$38 million trading loss for the year. Banking & Financial Services had sold all of its holding in BrisConnections by March 31, 2009 although other segments in MGL Group continue to hold equity stakes in BrisConnections.

Asset and equity investment income

Asset and equity investment income of A$49 million for the 2009 fiscal year increased from A$1 million in the prior year. A premium of A$52 million was received on the sale of the margin lending portfolio. After provisions for redundancies and other closure costs, Banking & Financial Services recognized a profit on sale of A$41 million. This was the main contributor to the A$49 million asset and equity investment income for the year.

Impairment charges on asset and equity investments

Impairment charges on asset and equity investments of A$216 million for the 2009 fiscal year increased from A$3 million in the prior year primarily due to losses of A$189 million recognized on the sale of the Italian Mortgages portfolio combined with falling asset values as a result of the conditions in financial markets.

Difficult economic conditions in Italy coupled with the effective closure of international securitization markets led to the decision to cease originating residential mortgages in Italy in June 2008, and the subsequent sale of our Italian Mortgages portfolio to Barclays Bank.

Specific provisions and collective allowance for credit losses

Specific and collective allowance for credit loss of A$96 million for the 2009 fiscal year increased 269% from A$26 million in the prior year primarily due to increased loan losses provisions across all loan portfolios due to the slow down in economic activity in all markets and falling house prices in the United States.

Operating expenses

Employment expenses of A$394 million for the 2009 fiscal year decreased 8% from A$427 million in the prior year, in line with a decrease in headcount. Remuneration of some staff (mainly financial planners and advisers) within Banking & Financial Services includes a commission component. Commission payments to staff were down as a result of the decrease in brokerage and commission income.

Brokerage and commissions expenses are driven by fees paid to external distributors of Banking & Financial Services products and/or services. These expenses were up 20% on the prior year to A$140 million at March 31, 2009, primarily driven by additional fees paid due to growth in insurance related business, including sales of insurance policies and funding of insurance premiums.

Other operating expenses were broadly in line with the prior year.

Macquarie Funds

	Year ended		
	Mar 09	Mar 08	Movement[1]
	A$m	A$m	%
Net interest income/(expense)	65	70	(7)
Fee and commission income			
Base fees	142	158	(10)
Performance fees	14	45	(69)
Other fee and commission income	129	111	16
Total fee and commission income	285	314	(9)
Net trading income	(10)	21	(148)
Asset and equity investment income	(15)	105	(114)
Other income			
Specific provisions and collective allowance for credit losses	(9)	(2)	large
Other income	17	24	(29)
Internal revenue	4	42	(90)
Total other income	12	64	(81)
Total operating income	337	574	(41)
Operating expenses			
Employment expenses	(105)	(74)	42
Brokerage and commission expenses	(72)	(87)	(17)
Other operating expenses	(115)	(108)	6
Total operating expenses	(292)	(269)	9
Outside equity interests	—	2	(100)
Total contribution to profit	**45**	**307**	(85)
Non-GAAP metrics			
Assets under Management[2] (A$ billion)	50	47	6
Headcount[3]	583	496	18

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

2 The Macquarie CMT, excluded from Macquarie Funds Assets under Management reported above, is a Banking & Financial Services product that is managed by Macquarie Funds. The CMT closed at A$14.7 billion at March 31, 2009 (September 30, 2008: A$16.1 billion; March 31, 2008: A$17.6 billion).

3 Macquarie Funds added 198 new staff during the period, offset by a reduction in staff of 111. The acquisition and consolidation of fund managers in the United States during the year, as well as the internal transfer of a European distribution business from Macquarie Securities, contributed 66 staff members to the headcount increase in 2009.

Macquarie Funds profit contribution of A$45 million for the 2009 fiscal year decreased 85% from A$307 million in the prior year (including a large gain on the sale of Macquarie IMM). Excluding the impact of the Macquarie IMM gain, the result decreased 76% on the prior year.

Net interest income/(expense)

Net interest income of A$65 million for the 2009 fiscal year decreased 7% from A$70 million in the prior year. This result was driven largely by a decrease in loans provided which fell as a result of redemptions from Macquarie Funds structured investment offerings.

Base fees

Base fee revenue of A$142 million for the 2009 fiscal year decreased 10% from A$158 million in the prior year due to the decrease in Assets under Management, excluding Allegiance Investment Management Assets under

Management acquired in January 2009. Base fee revenue was lower across most asset classes, particularly in real estate and infrastructure.

Total Assets under Management of A$49,700 million for the 2009 fiscal year increased 5% from A$47,300 million in the prior year. The increase includes A$5,100 million of Assets under Management from Macquarie Funds' acquisition of the remaining shares in Allegiance Investment Management in January 2009. Excluding the impact of this, Assets under Management decreased 6% to A$44,600 million at March 31, 2009. Assets under Management was negatively impacted by market falls and outflows from hedge funds and Asian retail investors, partially offset by inflows from Australian investors. The fall in base fee revenue was greater than the decrease in Assets under Management due to fund redemptions from higher margin products, and also that the decrease in Assets under Management would have been greater but for a A$1.7 billion mandate won in March 2009.

Performance fees

Performance fee revenue was A$14 million for the 2009 fiscal year, a 69% decline from A$45 million in the prior year that included significant performance fees from the Listed Equities division.

Other fee and commission income

Other fee and commission income of A$129 million for the 2009 fiscal year increased 16% from A$111 million in the prior year. Included in Other fee and commission income are structuring fees, capital protection fees, wholesale threshold management fees and internal fees received for managing Banking & Financial Services products.

Structuring fees were down on the prior year due to lower Australian and European retail product raisings. Wholesale threshold management fees also declined as the base on which these were earned was affected by adverse market conditions. These decreases were offset by significantly higher income from the True Index products due particularly to strong performance by the Real Estate Securities division. Another strong contributor was the income from the German investment distribution business.

Net trading income

Net trading income includes the results for Macquarie Funds' seed investments and some products offered by the Investment Solutions & Distribution division. Macquarie Funds net trading loss of A$10 million for the 2009 fiscal year decreased 148% from a profit of A$21 million in the prior year as seed investments were impacted by the negative performance of markets.

Asset and equity investment income

Asset and equity investment loss of A$15 million for the 2009 fiscal year decreased 114% from A$105 million profit in the prior year, which included a significant gain on the sale of investment in Macquarie-IMM. The current year result largely consisted of equity accounted losses and diminution in the value of investment securities from Four Corners Capital Management, Fortress Trust, MD Sass Financial Strategies Investment Vehicle, LLC and the United Kingdom open-ended investment company, CF Macquarie Global Infrastructure Securities Fund.

Other income

Other income of A$17 million for the 2009 fiscal year decreased 29% from A$24 million, which included profit from the disposal of held-for-sale investments, in the prior year. The current period result includes dilution gains on the sale of joint venture interests (A$4 million) and seasonal inventory sales associated with the agricultural funds management business (A$9 million).

Total operating expenses

Total operating expenses of A$292 million for the 2009 fiscal year increased 9% from A$269 million in the prior year. This was mainly due to higher overall staff numbers as a result of the acquisition and consolidation of Allegiance Investment Management and Four Corners Capital Management in the United States, as well as the internal transfer of a European distribution business from Macquarie Securities, which contributed 66 staff members to the overall headcount in 2009. The increase in employment expenses was partially offset by reduced IT system costs associated with a new investment accounting and administration system implemented during the prior year, and lower brokerage and commission expenses associated with lower structured product raisings in the current year.

Corporate & Asset Finance

	Year ended		
	Mar 09	**Mar 08**	**Movement[1]**
	A$m	**A$m**	**%**
Net interest income/(expense)	129	101	28
Fee and commission income	14	13	8
Net trading income	(9)	3	large
Other income			
Specific provisions and collective allowance for credit losses	(44)	(15)	193
Operating lease income	114	67	70
Other income	(10)	41	(124)
Internal revenue	17	8	113
Total other income	77	101	(24)
Total operating income	211	218	(3)
Operating expenses			
Employment expenses	(75)	(55)	36
Other operating expenses	(68)	(50)	36
Total operating expenses	(143)	(105)	36
Outside equity interests	(2)	(1)	100
Total contribution to profit	**66**	**112**	(41)
Non-GAAP metrics			
Headcount	539	545	(1)

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

Corporate & Asset Finance’s profit contribution of A$66 million for the 2009 fiscal year decreased 41% from A$112 million in the prior year.

Net interest income

Net interest income of A$129 million for the 2009 fiscal year increased 28% from A$101 million in the prior year. The increase in net interest income on the combined loan and leasing book was due to portfolio growth, higher margins and the full year impact from the acquisition of Macquarie Equipment Finance US (formerly CIT Equipment Leasing) in December 2007.

Specific provisions and allowances for credit losses

The charge for specific provisions and allowance for credit losses of A$44 million for the 2009 fiscal year increased 193% from A$15 million in the prior year, driven by portfolio growth and losses incurred across the businesses and difficult economic conditions, impacting some clients.

Operating lease income

Operating lease income, net of depreciation, of A$114 million for the 2009 fiscal year increased 70% from A$67 million in the prior year, reflecting the growth in the operating lease portfolio, particularly the Electronics business.

Other income

Other loss of A$10 million for the 2009 fiscal year decreased 124% from A$41 million in the prior year, due to the reduced sales activity in the second six months of the year ended March 31, 2009, together with provisions for impairment against the value of inventory of off-lease assets held.

Total operating expenses

Total expenses of A$143 million for the 2009 fiscal year increased 36% from A$105 million in the prior year. This increase was mainly driven by the full year impact of the additional headcount and other related costs resulting from the acquisition of Macquarie Equipment Finance US (formerly CIT Equipment Leasing) in December 2007.

Real Estate

	Year ended		Movement[1]
	Mar 09	Mar 08	Mar 08
	A$m	A$m	%
Net interest income/(expense)	(4)	2	(300)
Fee and commission income			
Base fees	32	31	3
Performance fees	2	18	(89)
Advisory fee income	11	—	—
Other fee and commission income	10	18	(44)
Total fee and commission income	55	67	(18)
Net trading income	(6)	4	(250)
Asset and equity investment income			
Asset and equity investment income	31	184	(83)
Impairment charges on equity investments and non-financial assets	(186)	(301)	(38)
Other asset sales	6	40	(85)
Total asset and equity investment income	(149)	(77)	94
Other income			
Specific provisions and collective allowance for credit losses	(170)	(13)	large
Other income	24	16	50
Internal revenue	(12)	(39)	(69)
Total other income	(158)	(36)	large
Total operating income	(262)	(40)	large
Operating expenses			
Employment expenses	(32)	(33)	(3)
Other operating expenses	(62)	(57)	9
Total operating expenses	(94)	(90)	4
Total contribution to profit	(356)	(130)	174
Non-GAAP metrics			
Assets under management (A$ billion)	8	5	60
Headcount	136	213	(36)

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

During the year, the majority of Real Estate was merged with Macquarie Capital to create an integrated real estate platform in order to maximize domestic and international real estate growth opportunities (including funds management, advisory and principal activities) and to leverage expertise from all Macquarie Capital industry and product teams. The remaining businesses formed a new division called Real Estate Banking.

Real Estate Banking's loss of A$356 million for the 2009 fiscal year increased 174% from A$130 million in the prior year. The year has been challenging for Real Estate Banking with the financial crisis significantly impacting real estate markets worldwide. Consequently, Real Estate Banking has recognized a number of provisions and impairment charges during the year.

Net interest income/(expense)

Net interest expense of A$4 million for the 2009 fiscal year decreased 300% from net interest income of A$2 million in the prior year. The second half of the 2009 fiscal year includes A$26 million of interest and A$9 million of risk participation fee accruals on loans previously on zero accrual in the Structured Finance loan book and A$19 million on Medallist US shareholder loans to lift the interest rate to entitlement over the prior three years.

Base and performance fee income

Base management fee income of A$32 million for the 2009 fiscal year increased 3% from A$31 million in the prior year.

Minimal performance fee income was recognized in the year ended March 31, 2009 as a result of the general downturn in global real estate markets.

Advisory fee income

Advisory fee income, net of service fee charges from Macquarie Capital Advisers for the year ended March 31, 2009 was A$11 million. The main fee income for the year related to advisory fees on the sale of the interest in Macquarie Prime REIT and its manager. Additional fees were earned on the capital raising for MGPA Fund III.

Other fee and commission income

Other fee and commission income of A$10 million for the 2009 fiscal year decreased 44% from A$18 million in the prior year. The other fee and commission income included fees recognized on a number of real estate transactions, including property development activities, which declined as a result of reduced activity across all real estate markets.

Asset and equity investment income

Asset and equity investment income of A$31 million for the 2009 fiscal year decreased 83% from A$184 million in the prior year. This income category was driven by Real Estate Banking's share of equity accounted income from associates. Equity accounted income from MGPA provided a solid contribution, which included the underlying receipt of management and performance fees.

The disposal of the Macquarie Goodman Asia business and the exit from Macquarie Prime REIT and its manager contributed a small net profit.

Impairment charges on equity investments and non-financial assets

Impairments of A$186 million for the 2009 fiscal year decreased 38% from A$301 million in the prior year. Difficult market conditions resulted in further impairments, including write-downs on Macquarie CountryWide Trust, Macquarie Office Trust and other REIT investments, direct property and inventory.

Other asset sales

Other asset sales of A$6 million for the 2009 fiscal year decreased 85% from A$40 million in the prior year. Other asset sales related to the sale of a portfolio of residential and office properties in Japan.

Specific provisions and collective allowance for loan losses

Difficult market conditions have resulted in specific provisions and an increase in the collective allowance for credit losses on real estate loans of A$170 million in the year ended March 31, 2009, mostly attributable to loans made to developers with United States residential market exposure.

Operating expenses

Operating expenses of A$94 million for the 2009 fiscal year increased 4% from A$90 million in the prior year. Recent decreases in headcount have not yet been reflected in employment expenses.

Capital Analysis

Overview

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

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

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

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

Transactions internal to MGL Group are eliminated.

Eligible regulatory capital of MGL consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments currently include the Convertible Preference Securities (CPS) issued by MGL in July 2008 as well as the Macquarie Income Securities (MIS) and Macquarie Income Preferred Securities (MIPS), described in further detail below.

MGL Group regulatory capital surplus calculation

	As at	
	Mar 10	**Mar 09**
	A$m	**A$m**
MGL Group eligible capital		
Bank Gross Tier 1 capital	7,930	6,547
Non-Bank eligible capital	3,880	3,827
Elimination of intra group holdings of capital[1]	—	(127)
Eligible capital	11,810	10,247
MGL Group capital requirement		
Banking Group		
Risk Weighted Assets (excluding intra group exposures)[2]	46,940	36,765
Capital required to cover Risk Weighted Assets[3]	3,286	2,574
Tier 1 deductions (excluding intra group exposures)[4]	2,466	2,136
Banking Group contribution	5,752	4,710
Non-Banking Group contribution	2,094	2,401
Total capital requirement	7,846	7,111
MGL Group regulatory capital surplus	3,964	3,136

1 In calculating MGL Group's eligible capital, intra-group holdings of capital instruments are eliminated.

2 In calculating MBL's contribution to MGL Group's capital requirements, risk weighted assets associated with exposures to the Non-Banking Group are eliminated (year ended March 31, 2010: A$393 million and year ended March 31, 2009: A$710 million).

3 At the internal minimum Tier 1 ratio of the Banking Group, which is 7%.

4 In calculating the MBL's contribution to MGL Group's capital requirement, Tier 1 deductions associated with intra-group exposures are eliminated (year ended March 31, 2010: nil; and year ended March 31, 2009: A$127 million).

Banking Group capital

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

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

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

Tier 1 capital

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

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

MIPS were issued when the London branch of MBL issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020. On September 11, 2009, £307.5 million of MIPS owned by entities associated with MGL Group were redeemed and on September 29, 2009, £307.5 million of reset convertible debentures issued by Macquarie Bank's London Branch were subsequently redeemed. As at March 31, 2010, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with MGL Group.

Tier 2 capital

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

During the year ended March 31, 2010, MGL Group either called or bought back A$463 million of subordinated debt instruments.

Pillar 3

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

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

Banking Group total capital base

MBL Group's regulatory capital supply and capital ratios as of March 31, 2010 are detailed in the following tables.

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Tier 1 capital			
Paid-up ordinary share capital	6,595	4,560	45
Reserves	(86)	190	(145)
Retained earnings	962	882	9
Innovative Tier 1 capital	459	915	(50)
Gross Tier 1 capital	**7,930**	**6,547**	21
Deductions from Tier 1 capital:			
Goodwill	193	162	19
Deferred tax assets	434	53	large
Changes in the ADI's own creditworthiness on banking book liabilities	49	340	(86)
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	621	128	large
Loan and lease origination fees and commissions paid to mortgage originators and brokers	132	170	(22)
Holding of own Tier 1 capital instruments agreed with APRA	—	127	large
Other Tier 1 capital deductions	283	357	(21)
Deductions from Tier 1 capital only	**1,712**	**1,337**	28
Other 50/50 deductions from Tier 1 capital:			
Non-subsidiary entities exceeding prescribed limits (50%)	151	112	35
Non-consolidated subsidiaries (50%)	255	274	(7)
All other deductions relating to securitization (50%)	43	74	(42)

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Shortfall in provisions for credit losses (50%)	171	294	(42)
Other 50/50 deductions from Tier 1 capital (50%)	134	172	(22)
Total 50/50 deductions from Tier 1 capital	**754**	**926**	(19)
Total Tier 1 capital deductions	**2,466**	**2,263**	9
Net Tier 1 capital	**5,464**	**4,284**	28
Tier 2 capital			
Upper Tier 2 capital:			
Excess Tier 1 capital instruments	—	204	(100)
Other Upper Tier 2 capital	168	86	95
Lower Tier 2 capital:			
Term subordinated debt	1,404	1,941	(28)
Gross Tier 2 capital	**1,572**	**2,231**	(30)
Deductions from Tier 2 capital:			
Holding of own Tier 2 capital instruments agreed with APRA	-	204	(100)
50/50 deductions from Tier 2 capital	754	926	(19)
Total Tier 2 capital deductions	**754**	**1,130**	(33)
Net Tier 2 capital	**818**	**1,101**	(26)
Total capital base	**6,282**	**5,385**	17

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

Risk Weighted Assets

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Credit risk – Risk-Weighted Assets (RWA)			
Subject to F-IRB approach:			
Corporate[2]	15,254	9,901	54
Sovereign	730	36	large
Bank	2,324	1,134	105
Residential mortgage	1,897	1,952	(3)
Other retail	1,006	680	48
Total RWA subject to F-IRB approach	21,211	13,703	55
Specialized lending exposures subject to slotting criteria[3]	3,002	3,101	(3)
Subject to standardized approach:			
Corporate	3319	3,504	(6)
Residential mortgage	462	197	135
Other retail	3,376	2,496	35
Other	2,728	3,540	(23)
Total RWA subject to standardized approach	9,885	9,737	2
Credit risk RWA for securitization exposures	1,019	1,074	(5)
Total credit risk RWA	35,117	27,615	27
Equity risk exposures RWA	1,715	1,189	44
Market risk RWA	2,480	2,082	19
Operational risk RWA	6,748	5,761	17
Interest rate risk in banking book RWA	—	6	(100)
APRA scaling factor (6%) applied to IRB exposures	1,273	822	55
Total RWA	**47,333**	**37,475**	26
Capital ratios			
Macquarie Bank Group Tier 1 capital ratio (%)	11.5	11.4	1
Macquarie Bank Group Total capital ratio (%)	13.3	14.4	(8)

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

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

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

Non-Banking Group capital

APRA has approved our Economic Capital Adequacy Model for use in calculating the regulatory capital requirement of the Non-Banking Group. The Economic Capital Adequacy Model is based on similar principles and models as the Basel II Framework for banks, with both calculating capital at a one year 99.9% confidence level. The key features are:

Risk[1]	Basel II	Economic Capital Adequacy Model
Credit	Capital requirement determined by Basel II formula, with some parameters specified by the regulator (*e.g.*, loss given default)	Capital requirement determined by Basel II formula, but with internal estimates of some parameters
Equity	Simple risk-weight approach or deductions. Tier 1 capital requirement between 24% and 50% of face value[2]	Extension of Basel II credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 51%
Market	3 times 10 day 99% Value at Risk plus a specific risk charge	Scenario-based approach. Greater capital requirement than under regulatory regime
Operational	Basel II Advanced Measurement Approach	Basel II Advanced Measurement Approach

1 The Economic Capital Adequacy Model also covers risk on assets held as part of business operations, *e.g.*, fixed assets, goodwill, intangible assets, capitalized expenses and certain minority stakes in associated companies or stakes in joint ventures as well as non-traded interest rate risks.

2 Assuming an 8% Tier 1 ratio, the 300% and 400% risk weightings for equity exposures under Basel II equate to a capital requirement of 24% or 32%, respectively. Any deductions required for equity exposure are 50/50 Tier 1 and Tier 2, hence a 50% Tier 1 capital requirement.

Non-Banking Group regulatory capital requirement

The capital requirement of the Non-Banking Group is set out in the table below.

	As at Mar 10		
	Asset	Capital requirement	Equivalent risk weight
	A$b	A$m	%
Funded assets			
Cash and liquid assets	2.1	23	13%
Loan assets[1]	1.4	85	76%
Assets held for sale	—		
Debt investment securities	0.3	17	72%
Co-investments in Macquarie Capital managed funds and equity investments – listed	3.8	1,685	561%
Co-investments in Macquarie Capital managed funds and equity investments – unlisted	0.1		
Property, plant and equipment and intangibles[2]	1.0	276	355%
Non Banking Group deposits with MBL	6.9		
Net Trading Assets	1.4		
Net Trade Debtors	—		
Total funded assets	**17.0**	**2,086**	
Self-funded and non-recourse assets			
Self funded trading assets	2.5		
Broker settlement balances	3.8		
Derivative revaluation accounting gross-ups	0.0		
Working capital assets	2.9		
Total self-funded and non-recourse assets	9.2		
Total Non-Banking Group assets	**26.2**		
Off balance sheet exposures, operational, market and other risk and diversification offset[3]		8	
Non-Banking Group capital requirement		**2,094**	

[1] Includes leases.

[2] A component of the intangibles relating to the acquisitions of Orion Financial Inc. and Tristone Capital Global Inc. are supported 100% by exchangeable shares. These exchangeable shares have not been included in eligible regulatory capital.

[3] Includes capital associated with net trading assets (e.g. market risk capital), net trade debtors and assets held for sale.

Statutory consolidated balance sheet

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Assets			
Cash and balances with central banks	—	141	(100)
Due from banks	8,251	12,271	(33)
Cash collateral on securities borrowed and reverse repurchase agreements	7,149	5,096	40
Trading portfolio assets	12,138	9,260	31
Loan assets held at amortized cost	44,267	44,751	(1)
Other financial assets at fair value through profit or loss	9,172	7,910	16
Derivative financial instruments — positive values	21,561	27,428	(21)
Other assets	13,096	10,640	23
Investment securities available for sale	18,221	18,123	1
Intangible assets	1,456	759	92
Life investment contracts and other unit holder assets	4,846	4,314	12
Interests in associates and joint ventures using the equity method	3,927	6,123	(36)
Property, plant and equipment	605	605	—
Deferred income tax assets	1,124	1,186	(5)
Non-current assets and assets of disposal groups classified as held for sale	127	537	(76)
Total assets	**145,940**	**149,144**	(2)
Liabilities			
Due to banks	9,927	11,858	(16)
Cash collateral on securities lent and repurchase agreements	7,490	3,953	89
Trading portfolio liabilities	5,432	2,161	151
Derivative financial instruments — negative values	21,706	27,371	(21)
Deposits	22,484	21,868	3
Debt issued at amortized cost	42,614	48,270	(12)
Other financial liabilities at fair value through profit or loss	4,413	6,203	(29)
Other liabilities	12,679	10,342	23
Current tax liabilities	119	187	(36)
Life investment contracts and other unit holder liabilities	4,864	4,312	13
Provisions	191	189	1
Deferred income tax liabilities	235	4	large
Liabilities of disposal groups classified as held for sale	9	328	(97)
Total liabilities excluding loan capital	**132,163**	**137,046**	(4)
Loan capital			
Macquarie convertible preference securities	593	591	nm
Subordinated debt at amortized cost	916	1,496	(39)
Subordinated debt at fair value through profit or loss	499	451	11
Total loan capital	**2,008**	**2,538**	(21)
Total liabilities	**134,171**	**139,584**	(4)
Net assets	**11,769**	**9,560**	23
Equity			
Contributed equity:			
Ordinary share capital	6,990	4,906	42
Treasury shares	(443)	(2)	large
Exchangeable shares	137	116	18
Reserves	280	17	large
Retained earnings	4,268	3,627	18
Total capital and reserves attributable to equity holders of MGL Group	**11,232**	**8,664**	30

	As at		Movement[1]
	Mar 10	Mar 09	
	A$m	A$m	%
Macquarie Income Preferred Securities	67	398	(83)
Macquarie Income Securities	391	391	—
Other minority interests	79	107	(26)
Total equity	**11,769**	**9,560**	23

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$145.9 billion at March 31, 2010 decreased A$3.2 billion, or 2% from A$149.1 billion at March 31, 2009.

Improved activity in global markets over the past year has resulted in an increase in trading related balances, including cash collateral on securities borrowed & reverse repurchase agreements (up A$2.1 billion) and Trading portfolio assets (up A$2.9 billion).

Loan assets of A$44.3 billion at March 31, 2010 decreased 1% from A$44.8 billion at March 31, 2009 primarily due to a reduction in the Australian mortgage portfolio as the business continued to wind down. This decline has been partially offset by an increase in loan volumes in the Corporate & Asset Finance division largely due to corporate debts acquired since March 2009 and the acquisition of a A$1.0 billion portfolio from Ford Credit in October 2009.

Amounts due from banks of A$8.3 billion at March 31, 2010 decreased 33% from A$12.3 billion since March 31, 2009 mainly due to a reduction in liquidity requirements as a result of lower foreign exchange trading volumes.

Interests in associates and joint ventures using the equity method decreased 36% from A$6.1 billion at March 31, 2009 to A$3.9 billion March 31, 2010 due to impairments and asset sales recognized during the year. The strengthening of the Australian dollar compared with major global currencies during the year contributed to a reduction in the value of investments held in foreign currencies. Additionally, some investments (including the previous Macquarie Infrastructure Group, Macquarie Office Trust and Macquarie CountryWide Trust) were reclassified to investment securities available for sale when the sale of the respective fund managers during the period resulted in a loss of significant influence over the funds.

Intangible assets increased A$697 million from A$759 million at March 31, 2009 to A$1.5 billion at March 31, 2010 largely due to the acquisition of Delaware Investments in January 2010. Other assets increased A$2.5 billion from March 31, 2009 to A$13.1 billion at March 31, 2010 mainly due to an increase in unsettled trades, reflecting an increase in global market activity.

Total liabilities (excluding loan capital) decreased 4% from A$137.0 billion at March 31, 2009 to A$132.2 billion at March 31, 2010. The main driver of the decrease has been a A$5.7 billion reduction in debt issued at amortized cost from A$48.3 billion at March 31, 2009 to A$42.6 billion at March 31, 2010 primarily due to a reduction in the securitized Australian mortgage portfolio. Movements in trading related balances from March 31, 2009 (Cash collateral on securities lent & repurchase agreements up A$3.5 billion and Trading portfolio liabilities up A$3.3 billion) have resulted from improved market conditions compared to the prior year.

Total equity has increased A$2.2 billion since March 31, 2009 to A$11.8 billion at March 31, 2010. The main drivers of the change has been the share placement and share purchase plan in May 2009 and June 2009 respectively that raised a total of A$1.2 billion of new capital, combined with profit for the year ended March 31, 2010 of A$1,050 million. These were partially offset by the reduction in Macquarie Income Preferred Securities of A$331 million and dividends paid during the year on ordinary share capital of A$409 million loan assets.

This description of our funded loan assets is based on the funded balance sheet of MGL Group and not the statutory balance sheet classification. For detail on the funded balance sheet see "— Liquidity — Funded Assets and Funding Sources of MGL Group".

	As at		Movement
	Mar 10	Mar 09	
	A$b	A$b	%
Loan assets at amortized cost per statutory balance sheet	44.3	44.8	(1)
Other loans held at fair value	2.9	2.5	16
Operating lease assets	1.2	2.0	(40)
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers	(15.2)	(19.3)	(21)
Less: segregated funds	(1.3)	(2.4)	(46)
Less: margin balances (reclassed to trading)	(2.4)	(2.1)	14
Less: other reclassification	—	(0.2)	(100)
Total per funded balance sheet	**29.5**	**25.3**	17

For the years ended March 31, 2010 and March 31, 2009 funded loan assets of MGL Group consisted of:

	Year ended		Movement
	Mar 10	Mar 09	Mar 10
	A$b	A$b	%
Mortgages:			
Australia	2.2	1.9	16
United States	0.9	1.3	(31)
Canada	6.7	4.0	68
Margin lending	—	0.3	(100)
Structured investments	4.0	5.2	(23)
Banking	3.6	3.3	9
Real estate	0.6	1.4	(57)
Debt markets warehouses	—	0.4	(100)
Resources and commodities	1.7	1.5	13
Corporate & Asset Finance leasing	3.7	3.7	—
Corporate & Asset Finance lending	5.1	1.4	264
Other lending	1.0	0.9	11
Total	29.5	25.3	17

Our funded loan asset portfolio comprises diverse, secured assets:

Loan Category	**Asset Security**
Mortgages	Secured by residential mortgages and supported by mortgage insurance. • Australia: most loans are fully mortgage insured. • United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured. • Canada: most loans are fully insured with underlying government support. • Italian Mortgages: portfolio sold in October 2008.
Margin 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.

Loan Category	Asset Security
Banking	Secured relationship managed portfolio to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. Portfolio also includes other consumer lending including credit cards.
Real estate..........	Loans secured against real estate assets, generally subject to regular independent valuations.
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.....	Includes: • aircraft operating lease portfolio to a single counterparty, all aircraft residual value insured. • deposits with financial institutions as collateral for trading positions. • other secured lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities. MBL Group • deposits with financial institutions as collateral for trading positions.

Equity investments

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

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

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

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

The tables below set out the composition of these categories of equity investments for the 2010 and 2009 fiscal years.

Equity investments reconciliation

	As at	
	Mar 10	Mar 09
	A$m	A$m
Equity investments (excluding Held for Sale)		
Statutory balance sheet		
Equity investments within Other financial assets at fair value through profit or loss	1,254	2,196
Equity investments within Investment securities available for sale	1,345	814
Interests in associates and joint ventures using the equity method	3,927	6,123
Total equity investments per statutory balance sheet	**6,526**	**9,133**
Adjustment for funded balance sheet		
Equity hedge positions[1]	(1,030)	(1,951)
Total funded equity investments	**5,496**	**7,182**
Adjustments for equity investments analysis		
Available-for-Sale reserves[2]	(36)	(105)
Associate reserves[3]	37	85
Total adjusted equity investments[4]	**5,497**	**7,162**
Held-for-Sale investments		
Net assets of disposal groups classified as held for sale	118	209
Total equity investments including Held for Sale investments	**5,615**	**7,371**

1 These relate to assets held for the purposes of economically hedging MGL'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 MGL.

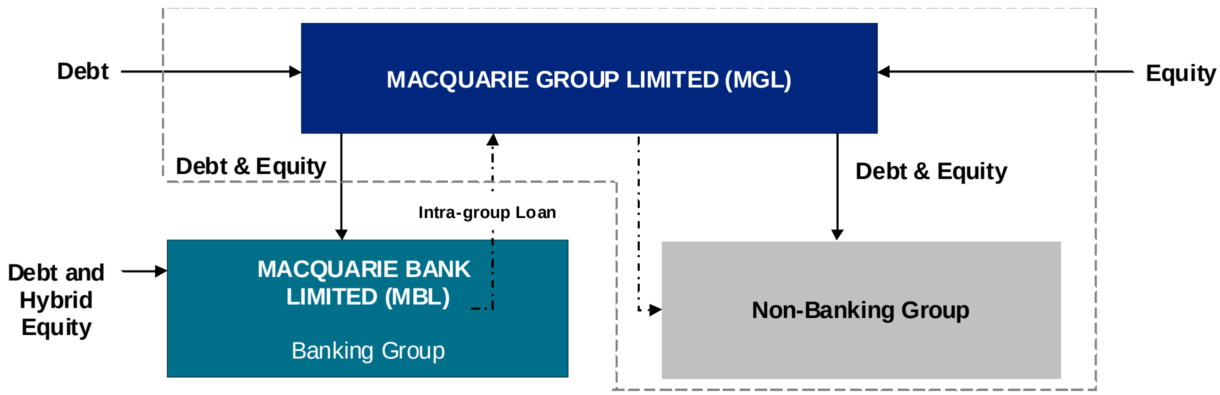
Adjusted book value of equity investments by category

	Mar 10 A$m	Mar 09 A$m
Macquarie-managed funds		
DUET Group	15	15
Macquarie DDR Trust	1	7
Macquarie Infrastructure Company	60	61
Macquarie Atlas Roads Limited	80	—
Macquarie International Infrastructure Fund	55	86
Macquarie Korea Infrastructure Fund	55	60
Total listed Macquarie Capital managed funds	266	229
Unlisted Macquarie Capital managed funds	521	949
Other Macquarie-managed funds	388	359
Total Macquarie-managed funds	1,175	1,537
Other investments		
Finance, investment, funds management and exchanges	748	910
Transport, industrial and infrastructure	2,242	2,295
Real estate	547	941
Debt investment entities	225	284
Energy and resources	289	533
Telecommunications, internet, media and entertainment	271	662
Total Other investments	4,322	5,625
Held for sale investments	118	209
Total equity investments including held for sale investments	5,615	7,371

Liquidity

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

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



Liquidity Management

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

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

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

In Australia, MBL is subject to regulation by APRA as an ADI and MGL is subject to regulation by APRA as a NOHC. See "Regulation and Supervision — Australia — APRA" for further information.

Liquidity Policies and Principles

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a twelve month period with no access to funding markets and with only a limited impact on franchise businesses.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MGL has no short-term wholesale funding.

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

MBL can provide debt funding to MGL (or the Non-Banking Group) up to a regulatory limit that is determined by APRA's non ELE rules. MBL's ability to return capital to MGL for use by MGL (or the Non-Banking Group) is limited by MBL's existing capital requirements as an ADI. See "Regulation and Supervision — Australia — APRA". As a result, MGL's liquidity modeling and twelve month scenarios separately test MGL Group, MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business.

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

Liquidity and Funding Management

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

Liquidity Limits

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

Scenario Analysis

Scenario analysis is central to MGL Group's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modeling is to ensure MGL Group and MBL Group's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modeling includes two 12-month liquidity projection scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes (including twelve months) and a range of conservative assumptions are used in the scenarios with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid Asset Holdings

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

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

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank. The remaining 10% must be approved by Group Treasury and Risk Management before inclusion in the liquid asset portfolio. As at March 31, 2010, 98% of the liquid asset portfolio was eligible for repurchase with central banks.

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

MGL Group had A$22.2 billion cash and liquid assets at March 31, 2010 (March 31, 2009: A$30.3 billion), of which A$20.1 billion were held by MBL Group (March 31, 2009: A$25.5 billion).

MGL Group continues to monitor regulatory and other market developments in response to the global financial crisis that may impact the composition of its cash and liquid asset portfolio. See "— Regulatory Developments" below for further information.

Liquidity Contingency Plan

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

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

Certain jurisdictions in which MGL has regulated banking subsidiaries may require a more comprehensive contingency plan specific to that region. In that instance, a supplement to our Liquidity Contingency Plan which is consistent with the liquidity management principles and policies of MGL Group is maintained.

Funding Transfer Pricing

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

Credit Ratings

On February 17, 2010, Standards and Poor's revised its outlook for MGL from Negative to Stable. As at March 31, 2010, the credit ratings for each of our funding vehicles were as follows:

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

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

Regulatory developments

In response to the global financial crisis, regulators worldwide are proposing to enhance their prudential standards for liquidity risk management of financial institutions. The proposed changes include more stringent qualitative and quantitative requirements to enhance the resilience of financial institutions under stressed market conditions. See "Regulation and Supervision" above for further information on these proposed changes.

In Australia, the proposed regulatory changes are expected to result in higher capital and tighter liquidity requirements for the banking sector. MGL Group currently expects that, if APRA's liquidity proposals are implemented in their current form, the key implication for MGL would be the narrowing of the definition of "liquid assets", which could require it to hold lower yielding assets such as Commonwealth Government Securities, and significantly increased reporting requirements. See "Regulation and Supervision — Australia — Discussion Paper - APRA's prudential approach to ADI liquidity risk" for further information. MGL Group continues to monitor relevant regulatory and other market developments .

Funding Transactions

The table below sets out MGL Group's term funding transactions in the year ended March 31, 2010:

	Year ended Mar 10		
Funding Source	**Banking Group**	**Non-Banking Group**	**Total**
	A$bn	**A$bn**	**A$bn**
Secured finance			
Term secured finance..	3.1	-	3.1
Issued paper			
Commonwealth Guaranteed	3.7	-	3.7
Unguaranteed..	-	3.0	3.0
Capital			
Institutional placement and retail share purchase plan	-	1.2	1.2
Total...	**6.8**	**4.2**	**11.0**

In the year ended March 31, 2010, MBL Group raised A$3.1 billion of term secured finance, of which A$2.5 billion was through the Canadian Mortgage Bonds program.

Since March 31, 2009, MBL and MGL have continued to raise term wholesale funding. In the year ended March 31, 2010, MBL issued A$3.7 billion of Commonwealth – guaranteed funding and MGL issued A$3.0 billion of non-guaranteed funding.

On October 14, 2009, MBL Group raised further term funding through the issuance of A$675 million SMART Series 2009-1 bonds. These securities are backed by automobile and equipment receivables previously funded through non-recourse warehouse facilities.

On February 7, 2010, the Commonwealth announced the withdrawal of the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme effective March 31, 2010. Although wholesale markets began to be accessible without the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme during the second half of the 2010 fiscal year, the effect of terminating the Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme is uncertain, and may affect the general level of liquidity in the international capital markets and our cost of funding. As at March 31, 2010, MGL Group had US$12.0 billion of Commonwealth guaranteed debt outstanding. See "Risk Factors — Our business and financial condition may be negatively impacted by adverse credit and equity market conditions, which may negatively affect our businesses in certain industry sectors, impair our ability to meet our liquidity needs, adversely affect our access to international capital markets and increase our cost of funding". Commonwealth guaranteed issuances were only available to MBL and could not be used to fund the Non-Banking Group.

On May 7, 2009, MGL completed a A$540 million capital raising in the Australian and international capital markets through an institutional private placement that resulted in the issue of approximately 20 million additional ordinary shares at A$27 per ordinary share. In addition to the institutional placement, on June 2, 2009, MGL completed a A$669 million Share Purchase Plan for eligible retail shareholders that resulted in the issue of approximately 25 million additional ordinary shares at A$26.60 per ordinary share.

Recent Funding Developments. On April 22, 2010, unitholders of investments in the CMT approved the conversion of the CMT to an at call CMA with MBL, effective July 31, 2010. The final balance to be transferred is subject to change, however, the CMT volume at March 31, 2010 was A$9.5 billion, which represents the CMT balance as at March 31, 2010 net of amount on deposit with MBL of A$0.5 billion. We expect that our excess liquidity will continue to be deployed across our businesses as growth opportunities arise and are evaluated. See "Macquarie Group Limited — Our Strategy" above for further information.

During April 2010, MBL Group raised C$181 million of term secured finance through the issuance of National Housing Authority Mortgage Backed Securities.

Explanation of Funded Balance Sheet

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

The tables below have been prepared to reconcile the reported assets of the consolidated MGL Group to net funded assets at March 31, 2010. This MGL Group funding requirement is then split between the Banking Group and the Non-Banking Group to assist in the analysis of each of the separate funding requirements of MBL and MGL.

MGL Group

	As at Mar 10
	A$b
Total assets per MGL Statutory Balance Sheet	**145.9**
Accounting deductions:	
Self funded trading assets[1]	(15.4)
Derivative revaluation accounting gross-ups[2]	(21.2)
Life investment contracts and segregated assets[3]	(7.3)
Broker settlement balances[4]	(5.7)
Short term working capital assets[5]	(6.6)
Non-recourse funded assets:	
Securitized assets and non-recourse warehouses[6]	(14.8)
Net funded assets	74.9

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

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

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

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

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

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

Funded Assets and Funding Sources of MGL Group

The following table represents the funded balance sheet of MGL Group at March 31, 2010:

	As at Mar 10 A$b
MGL Group	
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposits	1.9
Commercial paper	3.0
Net trade creditors[2]	0.4
Structured notes[3]	2.8
Secured funding[4]	8.3
Bonds[5]	17.5
Other loans[6]	0.7
Senior credit facility[7]	6.9
Deposits[8]	
Retail deposits	15.5
Corporate and wholesale deposits	4.1
Loan Capital[9]	2.0
Equity and hybrids[10]	11.8
Total	**74.9**
Funded assets	
Cash and liquid assets[11]	22.2
Net trading assets[12]	12.7
Loan assets less than one year[13]	7.2
Loan assets greater than one year[13]	22.3
Assets held for sale[14]	0.1
Debt investment securities[15]	2.8
Co-investment in MGL Group managed funds and equity investments[16]	5.5
Property, plant and equipment and intangibles	2.1
Total	**74.9**

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

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.6 billion facility, of which A$0.7 billion is undrawn as at March 31, 2010.

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

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

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

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

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

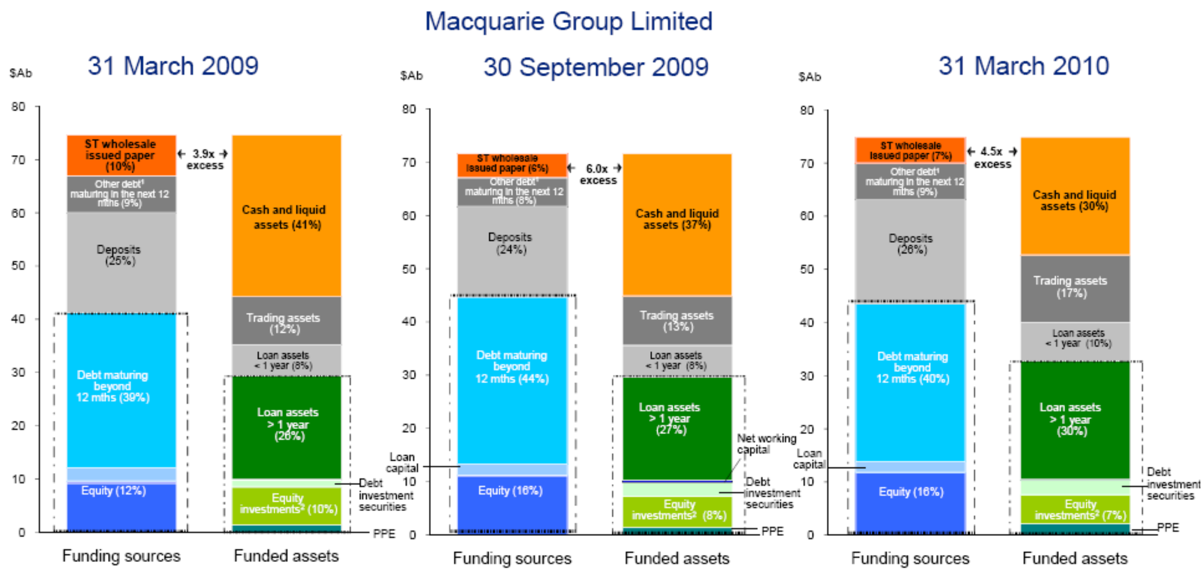
13 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

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

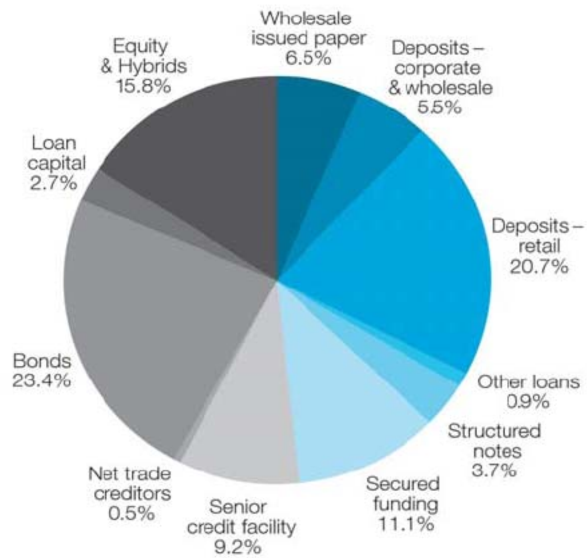
15 *Debt investment securities.* These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

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

The funded balance sheet of MGL has continued to strengthen due to the term funding raised in the year ended March 31, 2010, as described above under "— Funding Transactions". The graph below illustrates the change in composition of the funded balance sheet from March 31, 2009 to March 31, 2010.

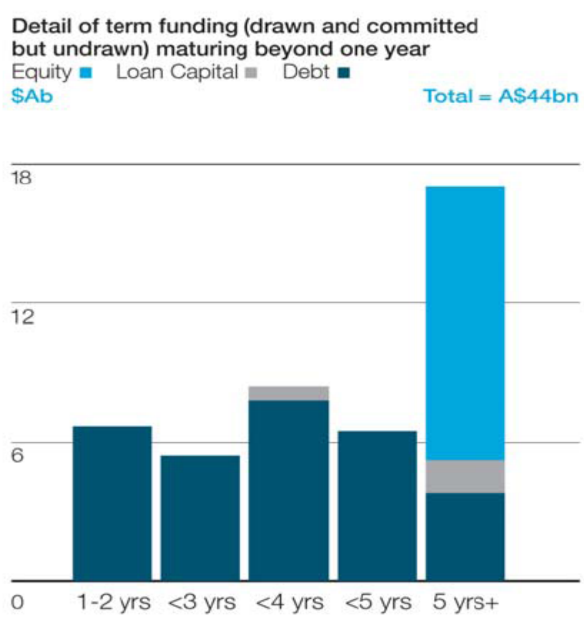


Diversity of funding sources of MGL Group, as at March 31, 2010



As at March 31, 2010, deposits at MBL represented A$19.6 billion, or 26% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A$4.9 billion, or 7% of total funding and other debt funding maturing within 12-months represented A$6.8 billion or 9% of total funding.

The following chart and table provide details of MGL Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:



MGL Group	1-2 yrs A$b	2-3 yrs A$b	3-4 yrs A$b	4-5 yrs A$b	5 yrs+ A$b
	As at Mar 10				
Structured notes	0.4	0.2	0.1	0.3	0.2
Secured funding	0.4	1.3	2.2	2.1	1.7
Bonds	3.2	1.6	5.5	4.1	1.7
Other loans	-	-	-	-	0.2
Senior credit facility	2.5	2.1	-	-	-
Total debt	**6.5**	**5.2**	**7.8**	**6.5**	**3.8**
Loan capital	-	-	0.6	-	1.4
Equity and hybrid	-	-	-	-	11.8
Total funding sources drawn	**6.5**	**5.2**	**8.4**	**6.5**	**17.0**
Undrawn	0.2	0.2	-	-	-
Total funding sources drawn and undrawn	**6.7**	**5.4**	**8.4**	**6.5**	**17.0**

MGL Group's term funding (including undrawn facilities) maturing beyond one year exceeds term assets, which primarily comprises loan assets of greater than one year (A$22.3 billion or 30% of total funded assets) and equity investments (A$5.5 billion or 7% of total funded assets). In addition, at March 31, 2010 our cash and liquid assets of A$22.2 billion exceeded short-term wholesale issued paper of A$4.9 billion. Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short term funding) increased to 3.9 years at March 31, 2010 from 3.7 years at March 31, 2009.

Funding Profile for Non-Banking Group

The funded balance sheet of the Non-Banking Group as at March 31, 2010:

	As at Mar 10 A$b
Non-Banking Group	
Funding sources	
MBL Intra Group Loan to MGL[1]	1.2
Net trade creditors[2]	0.5
Structured notes[3]	0.2
Secured funding[4]	0.6
Bonds[5]	3.2
Other loans[6]	0.5
Senior credit facility[7]	6.9
Loan capital[8]	0.6
Equity and hybrids[9]	3.3
Total	**17.0**
Funded assets	
Cash and liquid assets[10]	2.1
Non-Banking Group deposit with MBL	6.9
Net trading assets[11]	1.4
Loan assets less than one year[12]	0.4
Loan assets greater than one year[12]	1.0

	As at Mar 10 A$b
Debt investment securities[13]	0.3
Co-investment in MGL Group managed funds and equity investments[14]	3.9
Property, plant and equipment and intangibles	1.0
Total	**17.0**

1 *Intra Group Loan*. See "Macquarie Group Limited — Intra Group Loan" above for details.

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

7 *Senior credit facility.* MGL's senior credit facility, provided by a syndicate of wholesale lenders, is a A$7.6 billion facility, of which A$0.7 billion is undrawn as at March 31, 2010.

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

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

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

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

12 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

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

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

The following chart and table provides detail of the Non-Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:

	As at Mar 10				
	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5 yrs+
Non-Banking Group	A$b	A$b	A$b	A$b	A$b
Structured notes	-	-	-	-	-
Secured funding	0.1	0.2	0.1	0.1	0.1
Bonds	-	0.2	0.1	1.1	1.7
Other bank loans	-	-	-	-	0.2
Senior credit facility	2.5	2.1	-	-	-
Intra-group loan	-	1.2	-	-	-
Total debt	**2.6**	**3.7**	**0.2**	**1.2**	**2.0**
Loan capital	-	-	0.6	-	-
Equity	-	-	-	-	3.3
Total funding sources drawn	**2.6**	**3.7**	**0.8**	**1.2**	**5.3**
Undrawn[1]	0.2	0.2	-	-	-
Total funding sources drawn and undrawn	**2.8**	**3.9**	**0.8**	**1.2**	**5.3**

[1] Undrawn term facilities for the Non-Bank include A$0.7 billion undrawn on the Senior Credit Facility.

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.8 years.

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

- Senior Credit Facility, of which at March 31, 2010 was A$6.9 billion drawn and A$0.7 billion undrawn. For a description of the Senior Credit Facility entered into by MGL on November 13, 2007, see "Recent Developments — Macquarie Group Limited — Relationship between MBL and MGL — Senior Credit Facility" above for further information.

- US$1.1 billion Intra Group Loan from MBL. This facility is an unsecured term loan to be repaid by December 2012. As at March 31, 2010, the balance outstanding was A$1.2 billion. This facility provided funding to MGL following the Restructure and is described under " Macquarie Group Limited — Relationship between MBL and MGL — Intra Group Loan" above.

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

- US$10 billion Rule 144A/Regulation S Medium Term Note Program. US$2.5 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at March 31, 2010; and

- US$10 billion multi-instrument Regulation S Debt Instrument Program, under which securities may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits and MGL Wholesale Notes. The Debt Instrument Program had US$605 million of debt securities outstanding at March 31, 2010.

Funding Profile for Banking Group

The funded balance sheet of the Banking Group as at March 31, 2010:

	As at
	Mar 10
Banking Group	**A$b**
Funding sources	
Wholesale issued paper:[1]	
Negotiable certificates of deposit	1.9
Commercial paper	3.0
Net trade creditors[2]	-
Structured notes[3]	2.6
Secured funding[4]	7.7
Bonds[5]	14.3
Other loans[6]	0.2
Deposits[7]	
Retail	15.5
Corporate and wholesale	4.1
Loan capital[8]	1.4
Equity and hybrids[9]	8.5
Total	**59.2**

Funded assets	
Cash and liquid assets[10]	20.1
Net trading assets[11]	11.3
Loan assets less than one year[12]	6.8
Loan assets greater than one year[12]	21.3
Assets held for sale[13]	0.1
Debt investment securities[14]	2.5
MBL Intra Group Loan to MGL[15]	1.2
Non-Banking Group deposit with MBL	(6.9)
Co-investment in MGL Group managed funds and equity investments[16]	1.6
Property, plant and equipment and intangibles	1.1
Net trade debtors[17]	0.1
Total	**59.2**

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

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

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

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

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

6 *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

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

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

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

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

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

12 *Loan assets.* This represents all loans provided to retail and wholesale borrowers, in addition to operating lease assets. See "— Capital Analysis — Loan Assets" below for further information.

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

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

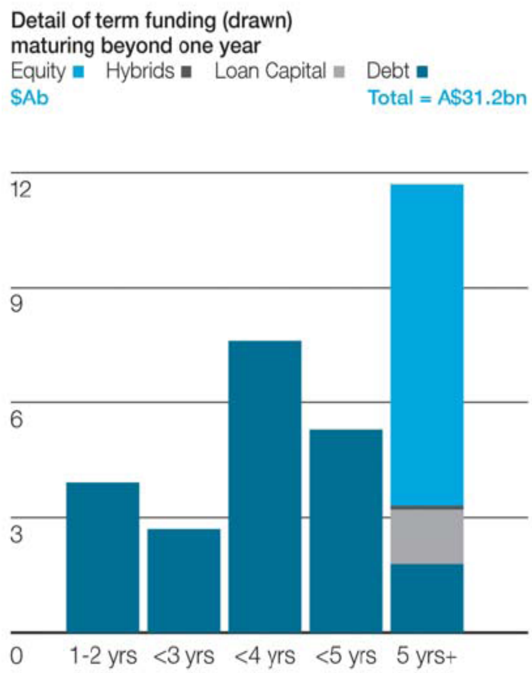
15 *Intra Group Loan*. Subsequent to March 31, 2009 MBL and MGL agreed to vary the Intra Group Loan, see "Macquarie Group Limited — Relationship between MBL and MGL — Intra Group Loan" above for details.

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

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

As at March 31, 2010, deposits represented A$19.6 billion, or 33% of total funding, short-term wholesale funding represented A$4.9 billion, or 8% of total funding, and other debt funding maturing within 12 months represented A$3.5 billion, or 6% of total funding.

The following chart and table provides details of the Banking Group's term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2010:



	As at Mar 10				
	1-2 yrs	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**5 yrs+**
Banking Group	**A$b**	**A$b**	**A$b**	**A$b**	**A$b**
Structured notes	0.4	0.2	0.1	0.3	0.2
Secured funding	0.3	1.1	2.1	2.0	1.6
Bonds	3.2	1.4	5.4	3.0	-
Total debt	**3.9**	**2.7**	**7.6**	**5.3**	**1.8**
Loan capital	-	-	-	-	1.4
Equity and hybrid	-	-	-	-	8.5
Total funding sources drawn	**3.9**	**2.7**	**7.6**	**5.3**	**11.7**
Undrawn	-	-	-	-	-
Total funding sources drawn and undrawn	**3.9**	**2.7**	**7.6**	**5.3**	**11.7**

As demonstrated above, the Banking Group has diversity in its funding sources by source and maturity. The Banking Group's term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.8 years.

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

- US$25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government guaranteed and unguaranteed securities that may be issued including Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had US$8.0 billion of debt securities outstanding at March 31, 2010, of which US$4.5 billion are Commonwealth Government guaranteed;

- US$10 billion Commercial Paper Program incorporating Commonwealth Government guaranteed and unguaranteed securities under which US$1.6 billion of debt securities were outstanding as at March 31, 2010; and

- US$20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Commonwealth Government guaranteed and unguaranteed securities. As at March 31, 2010, Government guaranteed issuance amounted to US$7.5 billion under the Rule 144A/Regulation S Medium Term Note Program, of which all are Commonwealth Government guaranteed and there are no unguaranteed notes outstanding under the program.

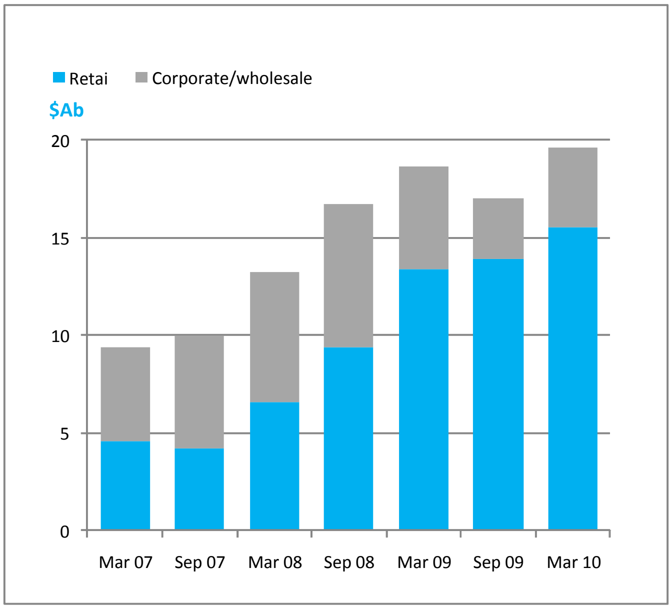
In addition to the foregoing, MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits and Transferable Negotiable Certificates of Deposits. As at March 31, 2010, MBL Group had A$1.9 billion of these securities outstanding, of which none are Commonwealth Government guaranteed.

Furthermore, MBL Group as an ADI has access to liquidity from the RBA's daily market operations. At March 31, 2010, MBL Group had internally securitized A$1.6 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

Deposit Strategy

During the 2010 fiscal year, MBL continued to pursue a deposit strategy that was consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy focused on growing the retail deposit base, which generally represents a more stable and reliable source of funding than corporate and wholesale deposits. This resulted in a reduction in corporate and wholesale deposits from A$5.4 billion at March 31, 2009 to A$4.1 billion at March 31, 2010, while retail deposits continued to grow by A$2.1 billion to A$15.5 billion at March 31, 2010.

The chart below illustrates MBL Group's strong retail deposit growth since March 2007.



Deposits	Mar 07 A$b	Sep 07 A$b	Mar 08 A$b	Sep 08 A$b	Mar 09 A$b	Sep 09 A$b	Mar 10 A$b
Retail	4.6	4.2	6.6	9.4	13.4	13.9	15.5
Corporate/Wholesale	4.8	5.8	6.6	7.3	5.4	3.1	4.1

MBL is an Australian ADI, and therefore the provisions of the financial claims scheme apply to MBL. See "Regulation and Supervision — Australia — Financial Claims Scheme and Commonwealth Large Deposits and Wholesale Funding Guarantee Scheme" for further information.

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

We do not expect our capital and other expenditure commitments and our lease commitments to have a significant effect on our liquidity needs. See Note 38 "Capital and other expenditure commitments" and Note 39 "Lease commitments" to our 2010 annual financial statements, for further information. Lease, capital and other expenditure commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at March 31, 2010, MGL Group had A$5.5 billion of contingent liabilities and commitments, including A$552 million of contingent liabilities and A$3.9 billion of commitments under undrawn credit facilities. See Note 37 "Contingent liabilities and commitments" to our 2010 annual financial statements which shows MGL Group's contingent liabilities and commitments at March 31, 2010.

Quantitative and Qualitative Disclosures about Market Risk

Each year we prepare a detailed analysis of market risk as it applies to MGL Group and a quantitative analysis of MGL 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 MGL Group's 2010 annual financial statements for a quantitative and qualitative discussion of these risks.

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