Contents

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Group Limited Financial Report for the year ended 31 March 2013, including further detail in relation to key elements of Macquarie Group Limited's (the Group) financial performance and financial position. The report also provides an analysis of the funding profile of the Group. Maintaining the structural integrity of the Group's balance sheet requires active management of both asset and liability portfolios and enables the Group to strengthen its liquidity and funding position.

Certain financial information in this report is prepared on a different basis to that contained in the Macquarie Group Limited Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, reconciliation to the statutory information is provided.

Date of this report

This report has been prepared for the year ended 31 March 2013 and is current as at 3 May 2013.

Comparative information and conventions

Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group restructures.

References to the prior year are to the 12 months ended 31 March 2012.

References to the first half are to the six months ended 30 September 2012.

References to the second half are to the six months ended 31 March 2013.

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

Independent auditor's report

This document should be read in conjunction with the Macquarie Group Limited Financial Report for the year ended 31 March 2013, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent audit report to the members of Macquarie Group Limited dated
3 May 2013 was unqualified.

Any additional financial information in this document which is not included in the Macquarie Group Limited Financial Report was not subject to independent audit by PricewaterhouseCoopers.

Disclaimer

1.0 Result overview

1.1 Executive summary

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Financial performance summary						
Net interest income	723	644	12	1,367	1,333	3
Fee and commission income	1,771	1,651	7	3,422	3,364	2
Net trading income	679	555	22	1,234	1,035	19
Share of net profits of associates and joint ventures accounted for using the equity method	17	75	(77)	92	108	(15)
Other operating income and charges	441	144	206	585	1,123	(48)
Net operating income	3,631	3,069	18	6,700	6,963	(4)
Employment expenses	(1,735)	(1,538)	13	(3,273)	(3,560)	(8)
Brokerage, commission and trading-related expenses	(312)	(335)	(7)	(647)	(724)	(11)
Occupancy expenses	(202)	(188)	7	(390)	(456)	(14)
Non-salary technology expenses	(130)	(130)	—	(260)	(290)	(10)
Other operating expenses	(364)	(361)	1	(725)	(884)	(18)
Total operating expenses	(2,743)	(2,552)	7	(5,295)	(5,914)	(10)
Operating profit before income tax	888	517	72	1,405	1,049	34
Income tax expense	(377)	(156)	142	(533)	(287)	86
Profit after income tax	511	361	42	872	762	14
Profit attributable to non-controlling interests	(21)	—	*	(21)	(32)	(34)
Profit attributable to ordinary equity holders of Macquarie Group Limited	490	361	36	851	730	17
Key metrics						
Expense to income ratio (%)	75.5	83.2		79.0	84.9	
Compensation ratio (%)	44.9	47.0		45.9	47.9	
Effective tax rate (%)	43.5	30.2		38.5	28.2	
Basic earnings per share (cents per share)	146.1	105.5		251.2	210.1	
Diluted earnings per share (cents per share)	142.1	99.7		246.1	202.3	
Dividends per share (cents per share)	125.0	75.0		200.0	140.0	
Dividend payout ratio (%)	85.7	69.8		79.0	66.4	
Annualised return on equity (%)	8.9	6.6		7.8	6.8	

Profit attributable to ordinary equity holders was $A851 million for the year ended 31 March 2013, up 17% from $A730 million in the prior year.

Macquarie's annuity style businesses – Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services – continued to perform well. The combined net profit contribution of these businesses for the year ended 31 March 2013 increased 10% on the prior year. Macquarie Funds and Corporate and Asset Finance benefited from increased assets under management and loan and lease volumes respectively, while Banking and Financial Services' improved result was largely driven by cost reductions.

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities – although continuing to face subdued market conditions in most businesses, delivered a combined net profit contribution for the year ended 31 March 2013 that increased 54% on the prior year. Macquarie Securities and Macquarie Capital continued to be impacted by low activity levels across equity capital markets and mergers and acquisitions. Lower income from these two businesses was more than offset by a significant decrease in operating expenses resulting from cost initiatives undertaken over the past two years, driving improved results for these businesses.

1.0 Result overview
continued

Net operating income of $A6,700 million for the year ended 31 March 2013 decreased 4% from $A6,963 million in the prior year, and total operating expenses decreased 10% from $A5,914 million in the prior year to $A5,295 million for the year ended 31 March 2013. Key drivers of the changes from the prior year are:

- A 19% increase in net trading income to $A1,234 million for the year ended 31 March 2013 from $A1,035 million in the prior year primarily in Fixed Income, Currencies and Commodities with the business experiencing improved market conditions across most markets, particularly energy, agricultural, credit and financial markets. In comparison, the prior year was adversely impacted by extreme volatility and uncertainty, particularly in credit and financial markets.
- A 2% increase in fee and commission income to $A3,422 million for the year ended 31 March 2013 from $A3,364 million in the prior year. Aggregate base and performance fees of $A1,183 million for the year ended 31 March 2013 increased 11% from $A1,068 million in the prior year, primarily due to an increase in assets and equity under management combined with higher performance fees earned from funds outperforming their benchmarks. These increases were offset by reduced brokerage and commissions income impacted by lower volumes across equity markets, and reduced fee income from mergers and acquisitions, advisory and underwriting activity as capital market conditions remained subdued.
- A 48% decrease in other operating income and charges to $A585 million for the year ended 31 March 2013 from $A1,123 million in the prior year. The decrease was due to a number of factors, most notably:
  - the prior year benefitting from a number of items including the receipt of a special distribution of $A295 million from Sydney Airport and the gain of $A104 million on the sale of a North American oil asset;
  - an increase in aggregate impairment charges on investment securities available for sale and interests in associates and joint ventures of 85% to $A388 million for the year ended 31 March 2013 from $A210 million in the prior year. In particular, weak investor sentiment and confidence in resource equity markets as well as underperformance in certain investments adversely impacted equity values of investments in Fixed Income, Currencies and Commodities; and
  - reduced income from investments in non-financial operations and Net Profit Interests within Fixed Income, Currencies and Commodities that were sold in the prior year.
- A 10% reduction in total operating expenses from $A5,914 million in the prior year to $A5,295 million for the year ended 31 March 2013 achieved as a result of cost management initiatives undertaken over the past two years, including the centralisation of support functions to generate scale benefits through improved operational efficiencies and the exiting of selected businesses. These initiatives were primarily responsible for a 12% reduction in headcount over the past two years from 15,556 at 31 March 2011 to 13,663 at 31 March 2013. The compensation ratio of 45.9% for the year ended 31 March 2013 decreased from 47.9% in the prior year.

Income tax expense for the year ended 31 March 2013 was $A533 million, up 86% from $A287 million in the prior year due to a combination of higher operating profit before income tax as well as increased profitability in the US, the write down of certain international group tax assets and increased provisioning for tax uncertainties. These factors resulted in an effective tax rate for the year ended 31 March 2013 of 38.5%, up from 28.2% in the prior year.

2.0 Financial performance analysis

2.1 Net interest and trading income

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Net interest income	723	644	*12*	1,367	1,333	*3*
Net trading income	679	555	*22*	1,234	1,035	*19*
Net interest and trading income	1,402	1,199	*17*	2,601	2,368	*10*

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

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

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

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

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Macquarie Funds	(7)	7	*	—	110	*(100)*
Corporate and Asset Finance	328	251	*31*	579	586	*(1)*
Banking and Financial Services	361	372	*(3)*	733	703	*4*
Macquarie Securities	70	63	*11*	133	227	*(41)*
Macquarie Capital	(19)	(30)	*(37)*	(49)	(121)	*(60)*
Fixed Income, Currencies and Commodities						
Commodities[1]	366	347	*5*	713	573	*24*
Credit, interest rates and foreign exchange	268	183	*46*	451	310	*45*
Corporate	35	6	*	41	(20)	*
Net interest and trading income	1,402	1,199	*17*	2,601	2,368	*10*

[1] Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

2.0 Financial performance analysis
continued

Net interest and trading income was $A2,601 million for the year ended 31 March 2013, an increase of 10% from $A2,368 million in the prior year. Increased income from improved trading conditions in Fixed Income, Currencies and Commodities was partially offset by reduced income from the provision of financing facilities to external funds and their investors within Macquarie Funds and lower income in Macquarie Securities due to continued weak demand for products as most markets remained subdued.

Macquarie Funds

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

Net interest and trading income of $Anil for the year ended 31 March 2013 decreased from net income of $A110 million in the prior year. The reduction in net interest and trading income was due to lower demand for financing facilities from external funds and their investors, higher funding costs associated with investments, and maturities in the retail loan book.

Corporate and Asset Finance

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

Net interest and trading income was $A579 million for the year ended 31 March 2013, a decrease of 1% from $A586 million in the prior year. The decrease was mainly due to higher funding costs, largely offset by growth of the loan and finance lease portfolios to $A17.3 billion at 31 March 2013, an increase of 9% from $A15.9 billion at 31 March 2012.

Banking and Financial Services

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

Net interest and trading income was $A733 million for the year ended 31 March 2013, an increase of 4% from $A703 million in the prior year due to a larger retail deposits base, partially offset by an overall reduction in the loan portfolio.

Retail deposits were $A31.0 billion at 31 March 2013, up 7% from $A29.0 billion at 31 March 2012.

The total loan portfolio was $A23.1 billion at 31 March 2013, a decrease of 3% from $A23.7 billion at 31 March 2012 primarily due to a reduction in the Canadian loan portfolio, which was partially offset by a 9% increase in the Australian mortgage portfolio to $A11.8 billion at 31 March 2013 from $A10.8 billion at 31 March 2012 resulting from increased lending activity.

The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at $A6.8 billion at 31 March 2013, down 21% from $A8.6 billion at 31 March 2012. This was mainly due to a decrease in Canadian mortgages as the portfolio is in run off, and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

Macquarie Securities

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

Net interest and trading income was $A133 million for the year ended 31 March 2013, a decrease of 41% from $A227 million in the prior year.

Income from derivatives and other structured products were adversely impacted by changes in the regulatory environment in Korea that significantly reduced market volumes for equity linked warrants, and continued weak product demand for products as most markets remained subdued.

The year ended 31 March 2013 also reflected the impact on income of business closures in the prior and current year and associated run off costs for legacy businesses.

Macquarie Capital

Net interest and trading expense in Macquarie Capital relates to the interest income and funding costs associated with debt and equity investment portfolios, and fair value movements associated with derivative products typically held as part of debt or equity transactions in which Macquarie Capital is involved.

Net interest and trading expense was $A49 million for the year ended 31 March 2013, a decrease of 60% from $A121 million in the prior year. The change was primarily due to:

– increased interest income from an expanded debt investment portfolio; and

– lower net trading expense in the current year that reflects Macquarie Capital's share of fair value movements on swap transactions which are shared with Fixed Income, Currencies and Commodities; partially offset by

– a higher interest expense primarily as a result of increased funding costs associated with the principal investment asset portfolio.

Fixed Income, Currencies and Commodities

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

Commodities

Commodities trading income was $A713 million for the year ended 31 March 2013, an increase of 24% from
$A573 million in the prior year.

The Energy Markets division experienced solid revenues across its global platform due to strong customer flow and trading opportunities, particularly in the global oil, US power and US gas businesses.

Improved trading conditions in agricultural markets due to increased volatility during the northern hemisphere summer resulted in improved customer flow from certain sectors and increased income for the year ended 31 March 2013 compared to the prior year.

The effect of these improved market conditions was partially offset by challenging conditions in the metals markets, which suffered from reduced volatility, dampening both trading results and client hedging activity. However, increased marketing coverage in the base metals business in Europe resulted in improved client flow.

Credit, interest rates and foreign exchange products

Net interest and trading income from credit, interest rates and foreign exchange products was $A451 million for the year ended 31 March 2013, an increase of 45% from $A310 million in the prior year.

The result represented a significant improvement on the prior year, which was adversely impacted by extreme volatility and concerns over the global outlook. The improved credit environment led to more client activity, increased liquidity and higher levels of debt origination and issuances.

Corporate

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with non-core investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share (DPS) plan.

Net interest and trading income was $A41 million for the year ended 31 March 2013 compared with a net interest and trading expense of $A20 million in the prior year. Key drivers of the change from the prior year were:

– positive changes in the fair value of assets held for liquidity purposes due to the contraction of credit spreads on certain instruments that had widened in the prior year; and

– positive changes in the fair value of assets held to hedge exposures to liabilities under the DPS plan.

The benefits from these were partially offset by lower earnings on capital due to a reduction in interest rates.

2.0 Financial performance analysis
continued

2.2 Fee and commission income

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Base fees	519	500	4	1,019	938	9
Performance fees	88	76	16	164	130	26
Mergers and acquisitions, advisory and underwriting fees	332	327	2	659	682	(3)
Brokerage and commissions	418	393	6	811	910	(11)
Other fee and commission income	376	315	19	691	633	9
Income from life investment contracts and other unit holder investment assets	38	40	(5)	78	71	10
Total fee and commission income	1,771	1,651	7	3,422	3,364	2

Total fee and commission income was $A3,422 million for the year ended 31 March 2013, an increase of 2% from $A3,364 million in the prior year largely due to higher base and performance fees primarily due to an increase in assets and equity under management and a number of infrastructure funds outperforming their benchmarks, respectively. This was partially offset by the impact of low levels of equity markets activity driving reduced brokerage and commissions income for the institutional equities businesses and lower fee income from mergers and acquisitions, advisory and underwriting activity for the year ended 31 March 2013 compared to the prior year.

Base and performance fees

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Base fees						
Macquarie Funds						
Macquarie Investment Management	308	283	9	591	529	12
Macquarie Infrastructure and Real Assets	193	190	2	383	353	8
Macquarie Specialist Investment Solutions	8	7	14	15	23	(35)
Total Macquarie Funds	509	480	6	989	905	9
Other Operating Groups	10	20	(50)	30	33	(9)
Total base fee income	519	500	4	1,019	938	9
Performance fees						
Macquarie Funds						
Macquarie Investment Management	23	2	*	25	25	—
Macquarie Infrastructure and Real Assets	65	74	(12)	139	100	39
Total Macquarie Funds	88	76	16	164	125	31
Other Operating Groups	—	—	—	—	5	(100)
Total performance fee income	88	76	16	164	130	26

Base fees were $A1,019 million for the year ended 31 March 2013, an increase of 9% from $A938 million in the prior year.

Base fees, which are typically generated from funds management activities, are mainly attributable to Macquarie Funds where base fees increased to $A989 million for the year ended 31 March 2013 from $A905 million in the prior year due to an increase in assets and equity under management reflecting investments made by funds in the Macquarie Infrastructure and Real Assets business and positive market movements during the year. In addition, the consolidation of Macquarie Korea Asset Management (manager of Macquarie Korea Infrastructure Fund) due to Macquarie increasing its ownership from 50% to 100% in February 2012 resulted in an increase in base fee income. For further details of AUM refer to Section 7.1.

Performance fees, which are typically generated from Macquarie-managed funds that have outperformed pre-defined benchmarks, were $A164 million for the year ended 31 March 2013, up 26% from $A130 million in the prior year. This was primarily due to performance fees from Macquarie Infrastructure Company LLC, Macquarie Atlas Roads, Quant Hedge Funds and DUET Group outperforming their respective benchmarks, combined with performance fees earned upon the sale of investments in Wales & West Utilities by third party co-investors. The prior year included significant fees from Macquarie Essential Assets Partnership following the sale of the fund's final two assets.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees were $A659 million for the year ended 31 March 2013, a decrease of 3% from $A682 million in the prior year as conditions in equity capital markets remained subdued. Refer to Section 3.6 Macquarie Capital for further information and details of significant transactions for the year ended 31 March 2013.

Brokerage and commissions

Brokerage and commissions income was $A811 million for the year ended 31 March 2013, a decrease of 11% from $A910 million in the prior year mainly driven by lower market volumes and weaker levels of client activity in institutional cash equities across all regions compared to the prior year.

Brokerage and commissions income for the six months ended 31 March 2013 was $A418 million, an increase of 6% from $A393 million in the six months ended 30 September 2012 reflecting an improvement in market conditions especially in the final quarter of the fiscal year.

Other fee and commission income

Other fee and commission income was $A691 million for the year ended 31 March 2013, an increase of 9% from $A633 million in the prior year. Other fee and commission income includes fees earned on Funds under Administration, including the Australian Wrap platform, distribution service fees and structuring fees.

The increase for the year ended 31 March 2013 was mainly due to fees received on the internalisation of the management of the DUET Group and the IPO of the Mexican REIT during the year, and growth of Funds under Administration on the Australian Wrap platform which closed at $A25.1 billion on 31 March 2013, an increase of 14% from $A22.0 billion at 31 March 2012. These were partially offset by lost fee income from the sale of the COIN institutional business in August 2012.

2.0 Financial performance analysis
continued

2.3 Share of net profits of associates and joint ventures

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Share of net profits of associates and joint ventures accounted for using the equity method	17	75	(77)	92	108	(15)

Share of net profits of associates and joint ventures was $A92 million for the year ended 31 March 2013, a decrease of 15% from $A108 million in the prior year predominantly due to asset realisations in Macquarie Capital during the 2013 fiscal year. This was partially offset by non-recurring equity accounted gains in Macquarie Funds arising from the sale of assets during the year ended 31 March 2013 by a number of unlisted infrastructure funds in which Macquarie has an investment.

2.4 Other operating income and charges

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement* %	Mar 13 $Am	Mar 12 $Am	*Movement* %
Net gains on sale of investment securities available for sale	99	15	*	114	131	*(13)*
Impairment charge on investment securities available for sale	(109)	(123)	*(11)*	(232)	(82)	*183*
Net gains on sale of associates and joint ventures	99	109	*(9)*	208	108	*93*
Impairment charge on interest in associates and joint ventures	(59)	(97)	*(39)*	(156)	(128)	*22*
Gain/(loss) on change of ownership interests	163	(42)	*	121	66	*83*
Gains on sale of non-financial assets	—	—	—	—	104	*(100)*
Impairment charge on non-financial assets	(40)	(3)	*	(43)	(56)	*(23)*
Net operating lease income	216	201	*7*	417	390	*7*
Dividends/distributions received/receivable	73	69	*6*	142	443	*(68)*
Collective allowance for credit losses (provided for)/written back during the financial year	(4)	1	*	(3)	(13)	*(77)*
Specific provisions	(97)	(89)	*9*	(186)	(166)	*12*
Other income	100	103	*(3)*	203	326	*(38)*
Total other operating income and charges	441	144	*206*	585	1,123	*(48)*

Total other operating income and charges was $A585 million for the year ended 31 March 2013, a decrease of 48% from $A1,123 million in the prior year mainly due to increased impairment charges and a reduction in dividend income due to a special distribution of $A295 million received from Sydney Airport and the gain of $A104 million on the sale of a North American oil asset in the prior year.

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totalled $A322 million for the year ended 31 March 2013, an increase of 35% from $A239 million in the prior year. The net gain for the year ended 31 March 2013 was driven by sales of principal investments in Macquarie Capital and resources sector investments in Fixed Income, Currencies and Commodities. In addition, Macquarie Securities recognised a profit of $A22 million for the year ended 31 March 2013 on the sale of an investment in an exchange, while Macquarie Funds and the Corporate segment also benefited from increased income from a number of investment realisations in the 2013 fiscal year.

Impairment charges on investment securities available for sale, associates and joint ventures, and non-financial assets totalled $A431 million for the year ended 31 March 2013, an increase of 62% from $A266 million in the prior year. Weak investor sentiment and confidence in resource equity markets as well as the underperformance of certain investments adversely impacted equity values of investments held by Fixed Income, Currencies and Commodities. In addition, impairments were recognised during the year on a number of legacy investments held within the Corporate segment.

Gain on change of ownership interests for the year ended 31 March 2013 was $A121 million, an increase of 83% from $A66 million in the prior year. The 2013 fiscal year included a gain in the Corporate segment on reclassification of an investment in an associate to an investment available for sale following the loss of significant influence, partially offset by a loss booked in Macquarie Capital on an investment where Macquarie lost significant influence on the IPO of the investment. The prior year included a gain on change of ownership interest when Macquarie lost control of Energy Assets Limited on IPO.

The gain on sale of non-financial assets in the prior year related to the sale of a Net Profit Interest in a North American oil asset in the energy sector by Fixed Income, Currencies and Commodities.

2.0 Financial performance analysis
continued

Net operating lease income, which is predominantly earned by Corporate and Asset Finance, was $A417 million for the year ended 31 March 2013, an increase of 7% from $A390 million in the prior year, largely driven by the full year contribution from the acquisition of the OnStream UK meters business in October 2011 and the acquisition of a European Rail portfolio in January 2013. The impact of these acquisitions was partially offset by reduced lease income from the aviation leasing portfolio following the sale of leased aircraft engines in the prior year and the sale of aircraft in each year. Overall, the operating lease portfolio in Corporate and Asset Finance was $A5.1 billion at 31 March 2013, up 9% from $A4.7 billion at 31 March 2012.

Dividends/distributions received/receivable was $A142 million for the year ended 31 March 2013, a decrease of 68% from $A443 million in the prior year, which included a special distribution of $A295 million received from Sydney Airport.

Net charges for specific and collective provisions were $A189 million for the year ended 31 March 2013, an increase of 6% from $A179 million in the prior year. This was primarily due to an increase in impairment charges on loan assets in the resources sector in Fixed Income, Currencies and Commodities.

Other income was $A203 million for the year ended 31 March 2013, a decrease of 38% from $A326 million in the prior year. In Fixed Income, Currencies and Commodities, other income was $A25 million for the year ended 31 March 2013, a decrease of 73% from $A94 million in the prior year mainly due to reduced income from Net Profit Interests and non-financial operations that were sold in the prior year, including a North American oil asset and Energy Assets Limited. In Corporate and Asset Finance other income was $A70 million for the year ended 31 March 2013, a decrease of 36% from $A109 million in the prior year, which included income from the sale of the aircraft engines operating lease portfolio. Both the current and prior years included profits from the sale of an aircraft.

2.5 Operating expenses

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Employment expenses						
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,500)	(1,306)	*15*	(2,806)	(3,035)	*(8)*
Share based payments	(139)	(134)	*4*	(273)	(274)	*(<1)*
Provision for annual leave	9	(3)	*	6	(23)	*
Provision for long service leave	—	1	*(100)*	1	(3)	*
Total compensation expenses	(1,630)	(1,442)	*13*	(3,072)	(3,335)	*(8)*
Other employment expenses including on-costs, staff procurement and staff training	(105)	(96)	*9*	(201)	(225)	*(11)*
Total employment expenses	(1,735)	(1,538)	*13*	(3,273)	(3,560)	*(8)*
Brokerage, commission and trading-related expenses	(312)	(335)	*(7)*	(647)	(724)	*(11)*
Occupancy expenses	(202)	(188)	*7*	(390)	(456)	*(14)*
Non-salary technology expenses	(130)	(130)	—	(260)	(290)	*(10)*
Professional fees	(152)	(124)	*23*	(276)	(274)	*1*
Travel and entertainment expenses	(71)	(63)	*13*	(134)	(157)	*(15)*
Advertising and communication expenses	(44)	(47)	*(6)*	(91)	(112)	*(19)*
Other expenses	(97)	(127)	*(24)*	(224)	(341)	*(34)*
Total operating expenses	(2,743)	(2,552)	*7*	(5,295)	(5,914)	*(10)*

Total operating expenses were $A5,295 million for the year ended 31 March 2013, a decrease of 10% from $A5,914 million in the prior year reflecting the full year impact of cost management initiatives undertaken in the prior year, and further headcount reductions in the year ended 31 March 2013.

Total employment expenses were $A3,273 million for the year ended 31 March 2013, a decrease of 8% from $A3,560 million in the prior year mainly due to the full year impact of reduced headcount that resulted from creating scale through consolidation of support functions and exiting certain businesses. Since 31 March 2011 headcount has decreased 12% from 15,556 to 13,663 at 31 March 2013 with the majority of the decrease coming from Macquarie Securities, Banking and Financial Services, and Macquarie Capital. The prior year was also negatively impacted by an elevated level of restructuring costs. Refer to Section 2.6 Headcount for further information and details of Macquarie's headcount.

Brokerage, commission and trading-related expenses were $A647 million for the year ended 31 March 2013, a decrease of 11% from $A724 million in the prior year reflecting the impact of recent trading conditions. Macquarie Securities was especially impacted by the reduction in trading activity in derivatives and structured products as a result of changes in the regulatory environment in Korea that significantly reduced market volumes for equity linked warrants, and weaker demand for retail products.

Occupancy expenses were $A390 million for the year ended 31 March 2013, a decrease of 14% from $A456 million in the prior year mainly due to headcount reductions since 31 March 2011 that resulted in the consolidation of leased office space, especially in New York, Frankfurt, Singapore and Sydney.

Other operating expenses, including non-salary technology expenses, professional fees, travel and entertainment, advertising and communication expenses and other expenses, in aggregate decreased 16% from $A1,174 million in the prior year to $A985 million for the year ended 31 March 2013. The decrease was mainly due to the full year effect of cost management initiatives undertaken in the prior year, partially offset by increased costs associated with targeted growth areas and the cost of investing in compliance related activities in response to global regulatory changes.

2.0 Financial performance analysis
continued

2.6 Headcount

	As at			Movement	
				Sep 12	Mar 12
	Mar 13	Sep 12	Mar12	%	%
Headcount by group					
Macquarie Funds	1,472	1,425	1,418	*3*	*4*
Corporate and Asset Finance	957	928	953	*3*	*<1*
Banking and Financial Services	2,848	2,922	3,113	*(3)*	*(9)*
Macquarie Securities	1,020	1,037	1,187	*(2)*	*(14)*
Macquarie Capital	1,105	1,114	1,215	*(1)*	*(9)*
Fixed Income, Currencies and Commodities	946	949	949	*(<1)*	*(<1)*
Total headcount — Operating Groups	8,348	8,375	8,835	*(<1)*	*(6)*
Total headcount — Corporate	5,315	5,088	5,367	*4*	*(1)*
Total headcount	13,663	13,463	14,202	*1*	*(4)*
Headcount by region					
Australia	6,124	6,145	6,618	*(<1)*	*(7)*
International:					
Americas	3,253	3,276	3,419	*(1)*	*(5)*
Asia	3,093	2,813	2,795	*10*	*11*
Europe, Middle East and Africa	1,193	1,229	1,370	*(3)*	*(13)*
Total headcount — International	7,539	7,318	7,584	*3*	*(1)*
Total headcount	13,663	13,463	14,202	*1*	*(4)*
International headcount ratio (%)	55	54	53		

Total headcount of 13,663 at 31 March 2013 decreased 4% from 14,202 at 31 March 2012. Most Operating Groups and service areas reported a reduction in headcount mainly from cost management initiatives and the scaling back or exiting of selected businesses.

The total headcount of Operating Groups was 8,348 at 31 March 2013, a decrease of 6% from 8,835 at 31 March 2012 predominantly due to business divestments, including the sale of the Canadian Macquarie Premium Funding business and COIN institutional business within Banking and Financial Services, and the scaling back of some operations largely in Europe and the Americas. In addition, during the second half of the 2013 fiscal year a number of support roles within Operating Groups were consolidated into central support functions within the Corporate segment, further reducing the headcount of Operating Groups. These headcount reductions were partially offset by investment in growth areas, particularly in Macquarie Funds and Corporate and Asset Finance.

Total Corporate headcount of 5,315 at 31 March 2013 decreased 1% from 5,367 at 31 March 2012, which reflected continued focus on costs, and which was partially offset by support roles transferred in from Operating Groups during the second half of the fiscal year. The transfer of support roles into Corporate was a key factor in the headcount increase of 4% from 5,088 at 30 September 2012, along with growth of regional service hubs supporting Macquarie's global operating platform.

2.7 Income tax expense

	Full-year to	
	Mar 13 $Am	Mar 12 $Am
Operating profit before income tax	1,405	1,049
Prima facie tax @ 30%	422	315
Income tax permanent differences	111	(28)
Income tax expense	533	287
Effective tax rate[1]	38.5%	28.2%

[1] The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduced net profit before tax by $A21 million for the year ended 31 March 2013 (31 March 2012: $A32 million). The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.

Income tax expense for the year ended 31 March 2013 was $A533 million, an increase of 86% from $A287 million in the prior year due to a number of factors, most notably:

– Operating profit before income tax for the year ended 31 March 2013 was $A1,405 million, up 34% from $A1,049 million in the prior year;
– Profitability in the United States increased significantly during the year particularly as a result of strong performances from businesses within Macquarie Funds Group and the Energy and Credit businesses within Fixed Income, Currencies and Commodities and improved performance by Macquarie Capital. Income derived in the United States is typically taxed at rates higher than in Australia with combined Federal, State and City taxes generally resulting in an overall tax rate in excess of 40%;
– The write down of international group tax assets, particularly in Asia; and
– Increased provisioning for tax uncertainties.

These factors were the main drivers of the increase in the effective tax rate for the year ended 31 March 2013 of 38.5%, up from 28.2% in the prior year.

3.0 Segment analysis

3.1 Basis of preparation

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

For internal reporting, performance measurement and risk management purposes, Macquarie is divided into six Operating Groups.

Operating Groups:

– Macquarie Funds
– Corporate and Asset Finance
– Banking and Financial Services
– Macquarie Securities
– Macquarie Capital
– Fixed Income, Currencies and Commodities.

In addition, there is a Corporate segment which includes Group Treasury, head office and central support functions, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from non-core investments, costs of central support functions, income tax expense and distributions to holders of CPS, MIS, MIPS, PMI and ECS.

Central support functions recover their costs from Operating Groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Corporate Operations, Financial Management, Risk Management, Group Legal and Governance and Central Executive.

Business and asset transfers

Since 31 March 2012 there have been a number of business and asset transfers between Operating Segments. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. As part of this realignment, the Real Estate Banking Division is now reported as part of the Corporate segment. Comparative information presented in this document has been restated to reflect the current operating structure in accordance with AASB 8 'Operating Segments'.

Internal transactions

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

Internal funding arrangements

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

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

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

Transactions between Operating Groups

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

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

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense and benefits. Non-assessable income generated by an Operating Group results in management revenue added to that group's operating result. Conversely a non-deductible expense results in a management charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognised 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 summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of Macquarie's financial performance.

3.0 Segment analysis
continued

	Macquarie Funds $Am	Corporate and Asset Finance $Am	Banking and Financial Services $Am
Full-year ended 31 March 2013			
Net interest and trading income/(expense)	—	579	733
Fee and commission income/(expense)	1,442	37	645
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	36	(3)	3
Other operating income and charges	20	431	(7)
Internal management revenue/(charge)	16	8	9
Net operating income/(loss)	1,514	1,052	1,383
Total operating expenses	(760)	(358)	(1,048)
Profit/(loss) before tax	754	694	335
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	1	—	—
Net profit/(loss) contribution	755	694	335
Full-year ended 31 March 2012			
Net interest and trading income/(expense)	110	586	703
Fee and commission income	1,253	33	689
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	(13)	5	—
Other operating income and charges	38	427	(22)
Internal management revenue/(charge)	21	26	1
Net operating income/(loss)	1,409	1,077	1,371
Total operating expenses	(767)	(376)	(1,096)
Profit/(loss) before tax	642	701	275
Tax expense	—	—	—
Profit/(loss) attributable to non-controlling interests	3	(3)	—
Net profit/(loss) contribution	645	698	275

	Macquarie Securities $Am	Macquarie Capital $Am	Fixed Income, Currencies and Commodities $Am	Corporate $Am	Total $Am
	133	(49)	1,164	41	2,601
	591	542	173	(8)	3,422
	—	13	28	15	92
	22	104	(79)	94	585
	6	10	17	(66)	—
	752	620	1,303	76	6,700
	(802)	(474)	(740)	(1,113)	(5,295)
	(50)	146	563	(1,037)	1,405
	—	—	—	(533)	(533)
	—	4	—	(26)	(21)
	(50)	150	563	(1,596)	851
	227	(121)	883	(20)	2,368
	665	573	148	3	3,364
	—	80	19	17	108
	(1)	109	298	274	1,123
	2	17	16	(83)	—
	893	658	1,364	191	6,963
	(1,087)	(573)	(825)	(1,190)	(5,914)
	(194)	85	539	(999)	1,049
	—	—	—	(287)	(287)
	—	—	—	(32)	(32)
	(194)	85	539	(1,318)	730

3.0 Segment analysis
continued

3.2 Macquarie Funds

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Net interest and trading (expense)/income	(7)	7	*	—	110	(100)
Fee and commission income						
Base fees	509	480	6	989	905	9
Performance fees	88	76	16	164	125	31
Mergers and acquisitions, advisory and underwriting fees	1	—	*	1	7	(86)
Brokerage and commissions	12	15	(20)	27	26	4
Other fee and commission income	168	93	81	261	190	37
Total fee and commission income	778	664	17	1,442	1,253	15
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(12)	48	*	36	(13)	*
Other operating income and charges						
Net gains on sale of equity investments	8	10	(20)	18	7	157
Impairment charge on equity investments and non-financial assets	(2)	(22)	(91)	(24)	(28)	(14)
(Loss)/gain on change of ownership interest	—	(2)	(100)	(2)	29	*
Specific provisions and collective allowance for credit losses	(8)	(3)	167	(11)	(20)	(45)
Other income	25	14	79	39	50	(22)
Total other operating income and charges	23	(3)	*	20	38	(47)
Internal management revenue	7	9	(22)	16	21	(24)
Net operating income	789	725	9	1,514	1,409	7
Operating expenses						
Employment expenses	(137)	(130)	5	(267)	(265)	1
Brokerage and commission expenses	(73)	(77)	(5)	(150)	(143)	5
Other operating expenses	(180)	(163)	10	(343)	(359)	(4)
Total operating expenses	(390)	(370)	5	(760)	(767)	(1)
Non-controlling interests[1]	—	1	(100)	1	3	(67)
Net profit contribution	399	356	12	755	645	17
Non-GAAP metrics						
MFG (including MIRA) assets under management ($A billion)	343.5	336.8	2	343.5	324.8	6
MIRA equity under management ($A billion)	41.0	39.5	4	41.0	37.9	8
Headcount	1,472	1,425	3	1,472	1,418	4

[1] Non-controlling interests adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Macquarie Funds' net profit contribution of $A755 million for the year ended 31 March 2013 increased 17% from $A645 million in the prior year. The result was driven by growth in annuity base fee income, structuring and performance fee income predominantly earned from a number of infrastructure funds outperforming their respective benchmarks, as well as lower operating expenses. These were partially offset by lower demand for financing facilities from external funds and their investors, which resulted in reduced net interest and trading income.

Net interest and trading (expense)/income

Net interest and trading income of $Anil for the year ended 31 March 2013 decreased from income of $A110 million in the prior year. The decrease in net interest and trading income was due to lower demand for financing facilities from external funds and their investors, higher funding costs associated with investments and maturities in the retail loan book.

Base fees

Base fee income of $A989 million for the year ended 31 March 2013 increased 9% from $A905 million in the prior year. This was primarily driven by an increase in AUM reflecting investments made by funds in the infrastructure and real assets business, positive market movements and the transfer of Macquarie Professional Series from Banking and Financial Services from 1 October 2012. In addition, the consolidation of Macquarie Korea Asset Management (manager of Macquarie Korea Infrastructure Fund) due to Macquarie increasing its ownership from 50% to 100% in February 2012 resulted in an increase in base fee income.

Refer to Section 7 for a breakdown of Macquarie Funds' Assets under Management and Equity under Management.

Performance fees

Performance fee income of $A164 million for the year ended 31 March 2013 increased 31% from $A125 million in the prior year. This was primarily due to performance fees from Macquarie Infrastructure Company LLC, Macquarie Atlas Roads, Quant Hedge Funds and DUET Group outperforming their respective benchmarks, and performance fees earned upon the sale of investments in Wales & West Utilities by third party co-investors. The prior year included significant fees from Macquarie Essential Assets Partnership following the sale of the fund's final two assets.

Other fee and commission income

Other fee and commission income includes distribution service fees, structuring fees, capital protection fees and income from True Index products. Distribution service fees were offset with associated expenses that, for accounting purposes, are recognised in brokerage and commissions expense. Other fee and commission income of $A261 million for the year ended 31 March 2013 increased 37% from $A190 million in the prior year primarily due to fees received on the internalisation of the management of the DUET Group and the IPO of the Mexican REIT.

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

Share of net (losses)/profits of associates and joint ventures of $A36 million for the year ended 31 March 2013 increased from a loss of $A13 million in the prior year. The increase was primarily driven by equity accounted gains arising from the sale of assets by a number of unlisted infrastructure funds in which Macquarie has investments.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A18 million for the year ended 31 March 2013 primarily related to the internalisation of the management of the DUET Group and the sale of a number of small principal investments. This was partially offset by a loss on the disposal of an investment in a residential real estate investment business.

Impairment charges on equity investments and non-financial assets

Impairment charges on equity investments and non-financial assets of $A24 million for the year ended 31 March 2013 and $A28 million in the prior year primarily related to impairments of unlisted investments.

Operating expenses

Total operating expenses of $A760 million for the year ended 31 March 2013 decreased 1% from $A767 million in the prior year. The decline was primarily driven by lower technology and occupancy costs, particularly due to the completion of IT projects, and the realisation of operational efficiencies. These reductions were partially offset by the impact of Macquarie's consolidation of Macquarie Korea Asset Management due to increased ownership.

3.0 Segment analysis
continued

3.3 Corporate and Asset Finance

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Net interest and trading income	328	251	31	579	586	(1)
Fee and commission income	21	16	31	37	33	12
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(4)	1	*	(3)	5	*
Other operating income and charges						
Impairment charge on equity investments and non-financial assets	(4)	(1)	300	(5)	(13)	(62)
Net operating lease income	212	203	4	415	381	9
Specific provisions and collective allowance for credit losses	(31)	(18)	72	(49)	(50)	(2)
Other income	19	51	(63)	70	109	(36)
Total other operating income and charges	196	235	(17)	431	427	1
Internal management revenue	4	4	—	8	26	(69)
Net operating income	545	507	7	1,052	1,077	(2)
Operating expenses						
Employment expenses	(75)	(77)	(3)	(152)	(165)	(8)
Brokerage and commission expenses	(10)	(4)	150	(14)	(16)	(13)
Other operating expenses	(101)	(91)	11	(192)	(195)	(2)
Total operating expenses	(186)	(172)	8	(358)	(376)	(5)
Non-controlling interests[1]	—	—	—	—	(3)	(100)
Net profit contribution	359	335	7	694	698	(1)
Non-GAAP metrics						
Loan and finance lease portfolio ($A billion)	17.3	16.9	2	17.3	15.9	9
Operating lease portfolio ($A billion)	5.1	4.5	13	5.1	4.7	9
Headcount	957	928	3	957	953	<1

[1] Non-controlling interests adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

Corporate and Asset Finance's net profit contribution of $A694 million for the year ended 31 March 2013 decreased 1% from $A698 million in the prior year. The decrease was predominantly due to the effect of the sale of aviation operating lease assets in the prior year, offset by the full year contribution from the acquisition of the OnStream UK meters business in October 2011 and growth in the motor vehicle lease portfolio.

Net interest and trading income

Net interest and trading income of $A579 million for the year ended 31 March 2013 decreased 1% from $A586 million in the prior year. The decrease was mainly due to an increase in funding costs, largely offset by growth of the loan and finance lease portfolios to $A17.3 billion at 31 March 2013, up 9% from $A15.9 billion at 31 March 2012. The growth in the loan and finance lease portfolios was predominantly in the motor vehicle lease portfolio.

Net operating lease income

Net operating lease income of $A415 million for the year ended 31 March 2013 increased 9% from $A381 million in the prior year. This was largely driven by the full year contribution from the acquisition of the OnStream UK meters business in October 2011 and the acquisition of a European rail portfolio in January 2013, which were partially offset by lower lease income from the aviation leasing portfolio following the sale of leased aircraft engines in the prior year and the sale of aircraft in each year.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses totalled $A49 million for the year ended 31 March 2013, a decrease of 2% from $A50 million in the prior year. The 2013 fiscal year expense represents 0.3% of the total loan and finance lease portfolio, broadly in line with the prior year.

Other income

Other income of $A70 million for the year ended 31 March 2013 decreased 36% from $A109 million in the prior year, which included the sale of the aircraft engines operating lease portfolio. Both the 2013 fiscal year and prior year included profits from the sale of aircraft.

Operating expenses

Total operating expenses of $A358 million for the year ended 31 March 2013 decreased 5% from $A376 million in the prior year, primarily as a result of exiting the aircraft engine leasing business and the disposal of non-core service companies. The decrease in operating expenses from exiting these operations was partially offset by a small increase in headcount during the 2013 fiscal year.

3.0 Segment analysis
continued

3.4 Banking and Financial Services

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Net interest and trading income	361	372	(3)	733	703	4
Fee and commission income						
Base fees	9	19	(53)	28	33	(15)
Brokerage and commissions	111	103	8	214	217	(1)
Other fee and commission income	156	184	(15)	340	381	(11)
Income from life insurance business and other unit holder businesses	33	30	10	63	58	9
Total fee and commission income	309	336	(8)	645	689	(6)
Share of net profits of associates and joint ventures accounted for using the equity method	1	2	(50)	3	—	*
Other operating income and charges						
Net (losses)/gains on sale of equity investments	(2)	4	*	2	1	100
Impairment charge on equity investments	(2)	(4)	(50)	(6)	(5)	20
Specific provisions and collective allowance for credit losses	(15)	(22)	(32)	(37)	(33)	12
Other income	7	27	(74)	34	15	127
Total other operating income and charges	(12)	5	*	(7)	(22)	(68)
Internal management revenue	8	1	*	9	1	*
Net operating income	667	716	(7)	1,383	1,371	1
Operating expenses						
Employment expenses	(212)	(221)	(4)	(433)	(454)	(5)
Brokerage and commission expenses	(68)	(90)	(24)	(158)	(164)	(4)
Other operating expenses	(237)	(220)	8	(457)	(478)	(4)
Total operating expenses	(517)	(531)	(3)	(1,048)	(1,096)	(4)
Net profit contribution	150	185	(19)	335	275	22
Non-GAAP metrics						
Funds under management/advice/administration[1] ($A billion)	123.0	120.1	2	123.0	118.3	4
Loan portfolio[2] ($A billion)	23.1	23.4	(1)	23.1	23.7	(3)
Retail deposits ($A billion)	31.0	30.8	1	31.0	29.0	7
Headcount	2,848	2,922	(3)	2,848	3,113	(9)

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

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

Banking and Financial Services' net profit contribution of $A335 million for the year ended 31 March 2013 increased 22% from $A275 million in the prior year. The combined effect of growth in volumes, especially cash and Macquarie Relationship Banking's loans and deposits, reduced operating expenses and gains from the divestment of non-core businesses were key contributors to the improved result.

Net interest and trading income

Net interest and trading income of $A733 million for the year ended 31 March 2013 increased 4% from $A703 million in the prior year due to a larger retail deposits base, which was partially offset by an overall reduction in the loan portfolio.

Retail deposits increased 7% to $A31.0 billion at 31 March 2013 from $A29.0 billion at 31 March 2012.

The loan portfolio primarily comprises residential mortgages in Australia, Canada and the United States, as well as loans to Australian and Canadian businesses, loans on capital protected products, insurance premium funding and credit cards. The total loan portfolio of $A23.1 billion at 31 March 2013 decreased 3% from $A23.7 billion at 31 March 2012, primarily due to a reduction in the Canadian loan portfolio, which was partially offset by an increase to the Australian mortgage portfolio of 9% to $A11.8 billion at 31 March 2013 from $A10.8 billion at 31 March 2012 resulting from increased lending activity.

The Canadian loan portfolio, which includes mortgages, margin loans and capital protected products, closed at $A6.8 billion at 31 March 2013, down 21% from $A8.6 billion at 31 March 2012. This was mainly due to a decrease in Canadian mortgages as the portfolio is in run off, and the sale of the Canadian Macquarie Premium Funding business to Wintrust Financial Corporation in May 2012.

Base fees

Base fee income of $A28 million for the year ended 31 March 2013 decreased 15% from $A33 million in the prior year due to the closure of some retail managed funds.

Brokerage and commissions

Brokerage and commission income of $A214 million for the year ended 31 March 2013 decreased 1% from $A217 million in the prior year. Although global equity markets strengthened in the second half of the year, full year trading volumes were down marginally for the year ended 31 March 2013.

Other fee and commission income

Other fee and commission income of $A340 million for the year ended 31 March 2013 decreased 11% from $A381 million in the prior year. Other fee and commission income relates to fees earned on a range of Banking and Financial Services' products including the Australian Wrap Platform, mortgages and financial planning software. The decrease from the prior year was mostly due to the sale of the COIN institutional business in August 2012 and the transfer of Macquarie Professional Series to Macquarie Funds from 1 October 2012.

Funds under Administration on the Australian Wrap platform closed at $A25.1 billion on 31 March 2013, an increase of 14% from $A22.0 billion at 31 March 2012.

Income from life insurance business and other unit holder businesses

Income from life insurance business and other unit holder businesses of $A63 million for the year ended 31 March 2013 increased 9% from $A58 million in the prior year primarily due to growth in the insurance inforce book, which grew to $A155 million at 31 March 2013 from $A125 million at 31 March 2012. This was partially offset by a decrease in retail superannuation funds under management.

The inforce book is the aggregate annualised life insurance premium payable for policies issued by the life company at the balance date.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A37 million for the year ended 31 March 2013 increased 12% from $A33 million the prior year, which included the write back of some loans in Macquarie Relationship Banking.

Other income

3.0 Segment analysis
continued

Other income of $A34 million for the year ended 31 March 2013 increased 127% from $A15 million in the prior year mainly due to gains on the sale of the Canadian Macquarie Premium Funding business in May 2012 and the COIN institutional business in August 2012.

Operating expenses

Total operating expenses of $A1,048 million for the year ended 31 March 2013 decreased 4% from $A1,096 million in the prior year.

Employment expenses of $A433 million for the year ended 31 March 2013 were down 5% from $A454 million in the prior year largely due to reduced headcount resulting from business divestments and internal restructures.

Brokerage and commission expenses, which are mainly paid to external advisers for product distribution, were $A158 million for the year ended 31 March 2013, down 4% from $A164 million in the prior year largely due to the transfer of Macquarie Professional Series to Macquarie Funds from 1 October 2012 and the sale of the Canadian Macquarie Premium Funding business. The decrease was partially offset by increased brokerage and commission expense paid on higher volumes in the Australian Macquarie Premium Funding business and higher cash balances.

Other operating expenses of $A457 million for the year ended 31 March 2013 decreased 4% from $A478 million in the prior year mainly due to the impact of business divestments and cost management initiatives.

3.5 Macquarie Securities

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Net interest and trading income	70	63	*11*	133	227	*(41)*
Fee and commission income						
Brokerage and commissions	234	216	*8*	450	525	*(14)*
Other fee and commission income	77	64	*20*	141	140	*1*
Total fee and commission income	311	280	*11*	591	665	*(11)*
Share of net profits of associates and joint ventures accounted for using the equity method	—	—	—	—	—	—
Other operating income and charges	22	—	*	22	(1)	*
Internal management revenue	2	4	*(50)*	6	2	*200*
Net operating income	405	347	*17*	752	893	*(16)*
Operating expenses						
Employment expenses	(105)	(117)	*(10)*	(222)	(308)	*(28)*
Brokerage and commission expenses	(87)	(87)	—	(174)	(236)	*(26)*
Other operating expenses	(199)	(207)	*(4)*	(406)	(543)	*(25)*
Total operating expenses	(391)	(411)	*(5)*	(802)	(1,087)	*(26)*
Net profit/(loss) contribution	14	(64)	*	(50)	(194)	*(74)*
Non-GAAP metrics						
Headcount	1,020	1,037	*(2)*	1,020	1,187	*(14)*

Macquarie Securities' net loss of $A50 million for the year ended 31 March 2013 improved from a net loss of $A194 million in the prior year. The result for the six months ended 31 March 2013 was a net profit of $A14 million compared to a net loss of $A64 million for the prior period.

Net operating income of $A752 million for the year ended 31 March 2013 decreased 16% from $A893 million in the prior year as global equity market conditions were adversely impacted by weak investor confidence resulting from an uncertain economic outlook, sovereign debt levels in Europe and concerns of a slowdown in China. However, net operating income increased 17% in the six months ended 31 March 2013 compared to the prior period reflecting higher brokerage and commissions income in the institutional cash equities business as markets saw inflows into equities in the final quarter of the fiscal year. In addition, Macquarie Securities sold an investment in an exchange in the second half of the fiscal year resulting in net income of $A22 million. The institutional cash equities business was profitable for the year ended 31 March 2013.

Net interest and trading income

Net interest and trading income of $A133 million for the year ended 31 March 2013 decreased 41% from $A227 million in the prior year as income from derivatives and other structured products were adversely impacted by changes in the regulatory environment in Korea that significantly reduced market volumes for equity linked warrants, and continued weak demand for products as most markets remained subdued. The decrease reflected the impact on income of business closures in the prior and current year and associated run off costs for legacy businesses.

Brokerage and commissions

Brokerage and commissions income of $A450 million for the year ended 31 March 2013 decreased 14% from $A525 million in the prior year, which reflected lower market volumes and weaker levels of client activity in cash equities across all regions, especially Asia. Brokerage and commissions income of $A234 million for the half-year ended 31 March 2013 increased 8% from $A216 million in the prior period driven by an increase in volumes as markets saw inflows into equities in the final quarter of the fiscal year.

3.0 Segment analysis
continued

Other fee and commission income

Other fee and commission income mainly consists of equity capital markets fees, fees charged to Macquarie Capital for equities research and fees earned on stock borrow and lending transactions.

Other fee and commission income of $A141 million for the year ended 31 March 2013 was broadly in line with the prior year. Reduced equity capital markets activity and reduced fee income from equities research were offset by increased stock borrow and lending activity.

Other operating income and charges

Other operating income of $A22 million for the year ended 31 March 2013 represented the profit made on the sale of an investment in an exchange.

Operating expenses

Total operating expenses of $A802 million for the year ended 31 March 2013 decreased 26% from $A1,087 million in the prior year due to a number of cost reduction initiatives undertaken over the past two years combined with the selective rationalisation of businesses.

Employment expenses of $A222 million for the year ended 31 March 2013 decreased 28% from $A308 million in the prior year largely driven by a 14% reduction in headcount. The prior year also included significant restructuring costs resulting from the selective rationalisation of various businesses.

Brokerage and commission expenses of $A174 million for the year ended 31 March 2013 decreased 26% from $A236 million in the prior year reflecting the reduction in trading activity in derivatives and structured products as a result of changes in the regulatory environment in Korea that significantly reduced market volumes for equity linked warrants, and weaker demand for retail products.

Other operating expenses of $A406 million for the year ended 31 March 2013 have decreased 25% from $A543 million in the prior year. The decrease was driven by lower headcount and cost savings arising from cost reduction initiatives across all businesses, including the selective rationalisation of various businesses.

3.6 Macquarie Capital

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Net interest expense	(12)	(26)	*(54)*	(38)	(77)	*(51)*
Fee and commission income						
Mergers and acquisitions, advisory and underwriting fees	311	305	*2*	616	635	*(3)*
Brokerage and commissions	18	16	*13*	34	39	*(13)*
Other fee and commission expense	(59)	(49)	*20*	(108)	(101)	*7*
Total fee and commission income	270	272	*(1)*	542	573	*(5)*
Net trading expense	(7)	(4)	*75*	(11)	(44)	*(75)*
Share of net profits of associates and joint ventures accounted for using the equity method	7	6	*17*	13	80	*(84)*
Other operating income and charges						
Net gains on sale of debt and equity investments	85	56	*52*	141	101	*40*
Impairment write back/(charge) on equity investments	8	(34)	*	(26)	(8)	*225*
Loss on change of ownership interest	—	(40)	*(100)*	(40)	—	*
Impairment charge on non-financial assets	(11)	(2)	*	(13)	(16)	*(19)*
Specific provisions and collective allowance for credit losses	(26)	(8)	*225*	(34)	(30)	*13*
Other income	74	2	*	76	62	*23*
Total other operating income and charges	130	(26)	*	104	109	*(5)*
Internal management revenue	3	7	*(57)*	10	17	*(41)*
Net operating income	391	229	*71*	620	658	*(6)*
Operating expenses						
Employment expenses	(122)	(125)	*(2)*	(247)	(307)	*(20)*
Brokerage and commission expenses	(3)	(3)	—	(6)	(4)	*50*
Other operating expenses	(112)	(109)	*3*	(221)	(262)	*(16)*
Total operating expenses	(237)	(237)	—	(474)	(573)	*(17)*
Non-controlling interests[1]	(14)	18	*	4	—	*
Net profit contribution	140	10	*	150	85	*76*
Non-GAAP metrics						
Headcount	1,105	1,114	*(1)*	1,105	1,215	*(9)*

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

Macquarie Capital's net profit contribution of $A150 million for the year ended 31 March 2013 increased 76% from $A85 million in the prior year primarily due to reduced operating expenses.

Net interest expense

Net interest expense of $A38 million for the year ended 31 March 2013 decreased 51% from $A77 million in the prior year. Compared to the prior year, interest income increased 64% to $A110 million from $A67 million as a result of an expanded debt investment portfolio. Interest expense increased 3% to $A148 million from $A144 million in the prior year primarily as a result of increased funding costs, partially offset by a net reduction in the principal investment asset portfolio due to the disposal of a number of assets during the fiscal year.

3.0 Segment analysis
continued

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A616 million for the year ended 31 March 2013 decreased 3% from $A635 million in the prior year. The number and value of transactions in which Macquarie participated for the year ended 31 March 2013 (447 transactions valued at approximately $A85 billion) was broadly in line with the prior year (435 transactions valued at approximately $A97 billion) and is reflective of ongoing subdued equity and capital markets conditions.

Significant advisory transactions completed for the year ended 31 March 2013 included:

– Adviser and sole lead manager on the $A638 million equity raising for the $A5.1 billion Goodman Australia Industrial Fund and its seven-year extension
– Adviser to APA Group on a $A2.9 billion off-market takeover for Hastings Diversified Utilities Fund
– Adviser to China Gas on its successful defence of the $US2.2 billion unsolicited pre-conditional offer by ENN Energy and China Petroleum & Chemical Corporation (Sinopec)
– Adviser to Tokio Marine on its $US2.7 billion acquisition of Delphi Financial Group
– Adviser to a consortium on the acquisition of Open Grid Europe, from E.ON AG for approximately €3.2 billion
– Adviser to a consortium on the acquisition of a 90% interest in Veolia's UK regulated business (renamed Affinity Water) and subsequently advised A-ffinity Water on the implementation of its £2.5 billion whole business securitisation
– Adviser and co-sponsor on the $US2.1 billion Downtown Tunnel/Midtown Tunnel MLK Extension Project
– Co-adviser to Kelso and PSAV on the acquisition of Swank Audio Visuals and joint bookrunner and joint lead arranger on $US495 million of senior secured credit facilities, as well as preferred equity investor

Other fee and commission expense

Other fee and commission expense predominantly relates to transactions with other Operating Groups. It includes fee sharing with Macquarie Securities and Banking and Financial Services on equity underwriting transactions and with Fixed Income, Currencies and Commodities on debt underwriting transactions. Other fee and commission expense also includes fees paid to Macquarie Securities for equities research.

Other fee and commission expense of $A108 million for the year ended 31 March 2013 increased 7% from $A101 million in the prior year.

Net trading expense

Net trading expense of $A11 million for the year ended 31 March 2013 decreased 75% from $A44 million in the prior year. The net trading expense predominantly reflected Macquarie Capital's share of fair value movements on swap transactions shared with Fixed Income, Currencies and Commodities and fair value movements in relation to listed and unlisted equity investments.

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

Share of net profits of associates and joint ventures of $A13 million for the year ended 31 March 2013 decreased 84% from $A80 million in the prior year predominantly due to asset realisations and transfers to other Operating Groups in the 2013 fiscal year.

Net gains on sale of debt and equity investments

Net gains on sale of debt and equity investments of $A141 million for the year ended 31 March 2013 increased 40% from $A101 million in the prior year, and were in respect of listed and unlisted investments.

Impairment write back/(charge) on equity investments

The impairment charge on equity investments for the year ended 31 March 2013 related to a number of underperforming principal assets.

Loss on change of ownership interest

Loss on change of ownership interest of $A40 million for the year ended 31 March 2013 related to an equity accounted investment where Macquarie lost significant influence on the IPO of the investment and was required to revalue its retained investment to fair value.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A34 million in the year ended 31 March 2013 increased 13% from $A30 million in the prior year, reflecting some specific credit events.

Other income

Other income of $A76 million for the year ended 31 March 2013 increased 23% from $A62 million in the prior year. Other income predominantly includes dividend income from investments and the operating profit and loss from consolidated principal investments.

Operating expenses

Total operating expenses of $A474 million for the year ended 31 March 2013 decreased 17% from $A573 million in the prior year predominantly due to a 20% decrease in employment expenses to $A247 million for the year ended 31 March 2013 from $A307 million in the prior year. The decrease in employment expenses was mainly due to the full year effect of cost initiatives undertaken in the prior year and further headcount reductions in the 2013 fiscal year.

3.0 Segment analysis
continued

3.7 Fixed Income, Currencies and Commodities

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Net interest and trading income						
Commodities[1]	366	347	*5*	713	573	*24*
Credit, interest rates and foreign exchange	268	183	*46*	451	310	*45*
Net interest and trading income	634	530	*20*	1,164	883	*32*
Fee and commission income						
Brokerage and commissions	42	44	*(5)*	86	100	*(14)*
Other fee and commission income	46	41	*12*	87	48	*81*
Total fee and commission income	88	85	*4*	173	148	*17*
Share of net profits of associates and joint ventures accounted for using the equity method	13	15	*(13)*	28	19	*47*
Other operating income and charges						
Net gains on sale of equity investments	67	50	*34*	117	145	*(19)*
Impairment charge on equity investments	(81)	(90)	*(10)*	(171)	(52)	*229*
Gain on change of ownership interest	—	—	—	—	36	*(100)*
Gain/(loss) on sale of non-financial assets	1	(1)	*	—	104	*(100)*
Specific provisions and collective allowance for credit losses	(18)	(32)	*(44)*	(50)	(29)	*72*
Other income	9	16	*(44)*	25	94	*(73)*
Total other operating income and charges	(22)	(57)	*(61)*	(79)	298	*
Internal management revenue	12	5	*140*	17	16	*6*
Net operating income	725	578	*25*	1,303	1,364	*(4)*
Operating expenses						
Employment expenses	(125)	(115)	*9*	(240)	(257)	*(7)*
Brokerage and commission expenses	(68)	(74)	*(8)*	(142)	(156)	*(9)*
Amortisation of intangibles	(16)	(4)	*300*	(20)	(34)	*(41)*
Other operating expenses	(172)	(166)	*4*	(338)	(378)	*(11)*
Total operating expenses	(381)	(359)	*6*	(740)	(825)	*(10)*
Net profit contribution	344	219	*57*	563	539	*4*
Non-GAAP metrics						
Headcount	946	949	*(<1)*	946	949	*(<1)*

1 Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

Fixed Income, Currencies and Commodities' net profit contribution was $A563 million for the year to 31 March 2013, an increase of 4% from $A539 million in the prior year. Net operating income of $A1,303 million decreased 4% from $A1,364 million in the prior year, while total operating expenses of $A740 million decreased 10% from $A825 million in the prior year.

The result for Fixed Income, Currencies and Commodities reflected a general improvement in market conditions compared to the prior year across most markets including energy, agricultural, credit and financial markets. However market conditions continued to be uncertain, particularly in resource equity markets where weak investor sentiment and confidence continued to impact the value of listed equities, which combined with the underperformance of certain investments resulted in a significant increase in equity and loan impairments in the year ended 31 March 2013.

Commodities trading income

Commodities trading income of $A713 million for the year ended 31 March 2013 increased 24% from $A573 million in the prior year.

The Energy Markets division experienced solid revenues across its global platform due to strong customer flow and trading opportunities, particularly in the global oil, US power and US gas businesses.

Improved trading conditions in agricultural markets due to increased volatility during the northern hemisphere summer resulted in improved customer flow from certain sectors and increased income for the year ended 31 March 2013 compared to the prior year.

The effect of these improved market conditions was partially offset by challenging conditions in the metals markets, which suffered from reduced volatility, dampening both trading results and client hedging activity. However, increased marketing coverage in the base metals business in Europe resulted in improved client flow.

Credit, interest rates and foreign exchange trading income

Net interest and trading income from credit, interest rates and foreign exchange products of $A451 million for the year ended 31 March 2013 increased 45% from $A310 million in the prior year.

The result represented a significant improvement on the prior year, which was adversely impacted by extreme volatility and concerns over the global outlook. The improved credit environment led to more client activity, increased liquidity and higher levels of debt origination and issuances.

Total fee and commission income

Total fee and commission income of $A173 million for the year ended 31 March 2013 increased 17% from $A148 million in the prior year due to increased deal flows across global debt markets for the securitisation and origination parts of the business.

Net gains on sale of equity investments

Net gains on sale of equity investments of $A117 million for the year ended 31 March 2013 decreased 19% from $A145 million in the prior year. Depressed resource equity markets during the 2013 fiscal year impacted the timing and number of asset realisations.

3.0 Segment analysis
continued

Impairment charge on equity investments

Impairment charges on equity investments of $A171 million for the year ended 31 March 2013 increased significantly from $A52 million in the prior year. Weak investor sentiment and confidence in resource equity markets as well as the underperformance of certain investments adversely impacted equity values.

Gain on change in ownership interest

The gain on change in ownership interest of $A36 million in the prior year related to a gain recognised when Macquarie lost control of Energy Assets Limited on its IPO and was required to revalue its retained investment to fair value.

Gain/(loss) on sale of non-financial assets

The gain on sale of non-financial assets of $A104 million in the prior year was primarily due to the income earned from the sale of a Net Profit Interest in a North American oil asset.

Specific provisions and collective allowance for credit losses

A net charge for specific provisions and collective allowance for credit losses of $A50 million for the year ended 31 March 2013 increased 72% from $A29 million in the prior year. The charges in the current period predominantly related to loan assets in the resource and energy sectors.

Other income

Other income of $A25 million for the year ended 31 March 2013 decreased 73% from $A94 million in the prior year, driven largely by reduced income from Net Profit Interests and investments in non-financial operations that were sold in the prior year, including a North American oil asset and Energy Assets Limited.

Operating expenses

Total operating expenses were $A740 million for the year ended 31 March 2013, a decrease of 10% from $A825 million in the prior year.

Employment expenses were $A240 million for the year ended 31 March 2013, a decrease of 7% from $A257 million in the prior year, largely due to the prior year including non-recurring costs relating to the build out of the global platform.

Brokerage and commission expenses of $A142 million for the year ended 31 March 2013 decreased 9% from $A156 million in the prior year largely due to a decrease in commissions paid by fixed income businesses.

Amortisation of intangibles relate to investments in Net Profit Interests which are amortised based on the production output of the investment. The expense of $A20 million for the year ended 31 March 2013 was down 41% from $A34 million in the prior year, consistent with a reduced level of income from Net Profit Interests in the 2013 fiscal year. This reduction was primarily due to the prior year sale of a Net Profit Interest in a North American asset.

Other operating expenses decreased 11% from $A378 million in the prior year to $A338 million for the year ended 31 March 2013 mainly due to the impact of lower cost recoveries from central support functions.

3.8 Corporate

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	*Movement %*	Mar 13 $Am	Mar 12 $Am	*Movement %*
Net interest and trading income/(expense)	35	6	*	41	(20)	*
Fee and commission (expense)/income	(6)	(2)	200	(8)	3	*
Share of net profits of associates and joint ventures accounted for using the equity method	12	3	300	15	17	(12)
Other operating income and charges						
Net gains on sale of debt and equity securities	13	5	160	18	1	*
Impairment charge on debt and equity securities	(95)	(70)	36	(165)	(133)	24
Gain on change of ownership interests	161	—	*	161	—	*
Dividends and distributions received	39	42	(7)	81	402	(80)
Loss on repurchase of debt	(34)	—	*	(34)	—	*
Specific provisions and collective allowance for credit losses	(1)	(5)	(80)	(6)	(15)	(60)
Other income	21	18	17	39	19	105
Total other operating income and charges	104	(10)	*	94	274	(66)
Internal management charge	(36)	(30)	20	(66)	(83)	(20)
Net operating income/(loss)	109	(33)	*	76	191	(60)
Operating expenses						
Employment expenses	(959)	(753)	27	(1,712)	(1,804)	(5)
Brokerage and commission expenses	(3)	—	*	(3)	(5)	(40)
Other operating expenses	321	281	14	602	619	(3)
Total operating expenses	(641)	(472)	36	(1,113)	(1,190)	(6)
Tax expense	(377)	(156)	142	(533)	(287)	86
Macquarie Income Preferred Securities	(2)	(2)	—	(4)	(4)	—
Macquarie Income Securities	(10)	(11)	(9)	(21)	(26)	(19)
Non-controlling interests[1]	5	(6)	*	(1)	(2)	(50)
Net loss contribution	(916)	(680)	35	(1,596)	(1,318)	21
Non-GAAP metrics						
Headcount	5,315	5,088	4	5,315	5,367	(1)

[1] Non-controlling interests adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

3.0 Segment analysis
continued

The Corporate segment includes Group Treasury, head office and central support functions, as well as certain legacy assets and businesses that are no longer core for strategic reasons.

The Corporate segment's result for the year ended 31 March 2013 was a net loss of $A1,596 million, up 21% from a net loss of $A1,318 million in the prior year.

Net interest and trading income/(expense)

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, the funding costs associated with non-core investments held centrally and fair value movements on investments held to hedge liabilities under the Directors' Profit Share (DPS) plan.

Net interest and trading income of $A41 million for the year ended 31 March 2013 compares with a net interest and trading expense of $A20 million in the prior year. Key drivers of the change from the prior year were:

– positive changes in the fair value of assets held for liquidity purposes due to the contraction of credit spreads on certain instruments that had widened in the prior year; and
– positive changes in the fair value of assets held to hedge exposures to liabilities under the DPS plan.

The benefits from these were partially offset by lower earnings on capital due to a reduction in interest rates.

Share of net profits of associates and joint ventures

Share of net profits of associates and joint ventures for the year ended 31 March 2013 was $A15 million, a decrease of 12% from $A17 million in the prior year. The income primarily relates to investments in the real estate sector and other non-core investments.

Net gains on sale of debt and equity securities

Net gains on sale of debt and equity securities of $A18 million for the year ended 31 March 2013 increased from $A1 million in the prior year due to gains from the sale of debt securities by Group Treasury in undertaking their management of Macquarie's liquidity.

Impairment charges on debt and equity securities

Impairment charges on debt and equity securities was $A165 million for the year ended 31 March 2013, an increase of 24% from $A133 million in the prior year. The impairment charges for the year ended 31 March 2013 related to a number of legacy investments that are no longer strategic holdings.

Gain on change of ownership interests

The gain on change of ownership interests for the year ended 31 March 2013 of $A161 million related to a gain recognised when Macquarie lost significant influence over an investment and was required to revalue its retained investment to fair value on reclassification of the investment from an investment in an associate to an investment available for sale.

Dividends and distributions received

Dividends and distributions received of $A81 million in the year ended 31 March 2013 decreased significantly from $A402 million in the prior year. Dividends are primarily received from the investment in Sydney Airport and investments held to hedge DPS liabilities. The decrease from the prior period was largely due to a special distribution of $A295 million received from Sydney Airport in December 2011.

Specific provisions and collective allowance for credit losses

Specific provisions and collective allowance for credit losses of $A6 million for the year ended 31 March 2013 decreased 60% from $A15 million in the prior year and primarily related to investments in the real estate sector.

Other income

Other income was $A39 million for the year ended 31 March 2013, an increase of 105% from $A19 million in the prior year due to an increase in rental income on subleased office space across Macquarie's premises as headcount reductions and a consolidation of office space increased the amount of space available for sublet.

Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Group's central support functions; including Corporate Operations, Financial Management, Risk Management, Group Legal and Governance, and Central Executive; staff profit share; share based payments expense and the impact of fair value adjustments of DPS liabilities.

For the year ended 31 March 2013 employment expenses were $A1,712 million, down 5% from $A1,804 million in the prior year. The decrease was mainly attributable to reduced headcount across support functions due to cost management initiatives, partially offset by the transfer of support roles that were previously embedded in Operating Groups into central support functions to drive scale efficiencies.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of central support functions, offset by the recovery of central support function costs from the Operating Groups. Net recoveries from the Operating Groups decreased 3% from $A619 million in the prior year to $A602 million for the year ended 31 March 2013, which reflected the reduced cost base of central support functions resulting from cost management initiatives undertaken over the past two years.

3.0 Segment analysis
continued

3.9 International income

International income by region

	Half-year to			Full-year to		
	Mar 13 $Am	Sep 12 $Am	Movement %	Mar 13 $Am	Mar 12 $Am	Movement %
Americas	1,199	1,000	20	2,199	2,040	8
Asia	390	353	10	743	740	<1
Europe, Middle East and Africa	597	624	(4)	1,221	1,229	(1)
Total international income	2,186	1,977	11	4,163	4,009	4
Australia	1,300	1,095	19	2,395	2,680	(11)
Total income (excluding earnings on capital and other corporate items)	3,486	3,072	13	6,558	6,689	(2)
Earnings on capital and other corporate items	145	(3)	*	142	274	(48)
Net operating income (as reported)	3,631	3,069	18	6,700	6,963	(4)
International income (excluding earnings on capital and other corporate items) ratio (%)	63	64		63	60	

International income by group and region

	Full-year to Mar 13						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	Total International $Am	Australia $Am	Total Income $Am	Total International %
Macquarie Funds	770	93	289	1,152	346	1,498	77
Corporate and Asset Finance	296	(2)	426	720	324	1,044	69
Banking and Financial Services	196	2	6	204	1,170	1,374	15
Macquarie Securities	107	415	74	596	150	746	80
Macquarie Capital	173	86	97	356	254	610	58
Fixed Income, Currencies and Commodities	657	149	329	1,135	151	1,286	88
Total	2,199	743	1,221	4,163	2,395	6,558	63

Total international income represented 63% of total income (excluding earnings on capital and other corporate items) for the year ended 31 March 2013, up from 60% in the prior year. The increase was in part due to an increased contribution from the Americas resulting in higher total international income of $A4,163 million for the fiscal year, up 4% from $A4,009 million in the prior year, combined with the effect of lower income from Australia due to increased impairment charges in the year ended 31 March 2013 compared to the prior year.

Income from the Americas of $A2,199 million for the year ended 31 March 2013, an increase of 8% from $A2,040 million in the prior year, was mainly from:

– an increased contribution by Macquarie Funds, primarily due to performance fees earned from Macquarie Infrastructure Company and increased AUM in Delaware driving higher base fee income;

– an increased contribution from Fixed Income, Currencies and Commodities' Credit Trading business which was significantly impacted by poor credit and financial markets in the prior year; and

– income in Banking and Financial Services from the gain on sale of the Canadian Macquarie Premium Funding business in May 2012.

In Asia, income from Macquarie Securities continued to be adversely impacted by challenging market conditions during the year ended 31 March 2013 and the effect of selective rationalisation of businesses over the past two years. This was partly offset by improved income in Fixed Income, Currencies and Commodities in the region compared to the prior year.

Income derived from Europe, Middle East and Africa remained broadly in line with the prior year. Lower income from Macquarie Securities due to challenging market conditions and costs associated with exiting non-core businesses was partially offset by increased income from Macquarie Capital resulting from an improvement in market conditions in the region compared to the prior year.

The reduction in Australian derived income for the year ended 31 March 2013 compared to the prior year was predominantly due to increased impairment charges in the 2013 fiscal year, mainly in Fixed Income, Currencies and Commodities' Metals and Energy Capital business, where equity investment values were impacted by a weak resource sector. Macquarie Capital's income was also down compared to the prior year as market conditions remained challenging.

4.0 Balance sheet

4.1 Statutory consolidated balance sheet

	As at			Movement	
	Mar 13 $Am	Sep 12 $Am	Mar 12 $Am	Sep 12 %	Mar 12 %
Assets					
Receivables from financial institutions	16,516	18,226	18,510	(9)	(11)
Trading portfolio assets	19,776	15,546	12,689	27	56
Derivative assets	14,704	21,691	22,078	(32)	(33)
Investment securities available for sale	17,057	20,506	18,266	(17)	(7)
Other assets	11,187	12,123	13,717	(8)	(18)
Loan assets held at amortised cost	49,083	47,559	45,218	3	9
Other financial assets at fair value through profit or loss	5,033	5,327	6,715	(6)	(25)
Life investment contracts and other unitholder investment assets	7,240	6,059	5,904	19	23
Property, plant and equipment	5,643	5,134	5,235	10	8
Interests in associates and joint ventures accounted for using the equity method	2,048	2,285	2,664	(10)	(23)
Intangible assets	1,221	1,304	1,351	(6)	(10)
Deferred tax assets	1,270	1,248	1,279	2	(1)
Total assets	150,778	157,008	153,626	(4)	(2)
Liabilities					
Trading portfolio liabilities	1,497	3,641	3,615	(59)	(59)
Derivative liabilities	14,853	21,047	21,022	(29)	(29)
Deposits	41,103	39,959	37,169	3	11
Other liabilities	12,391	12,070	15,096	3	(18)
Payables to financial institutions	18,075	16,703	12,629	8	43
Other financial liabilities at fair value through profit or loss	1,704	1,593	2,733	7	(38)
Life investment contracts and other unitholder liabilities	7,218	6,047	5,897	19	22
Debt issued at amortised cost	38,014	40,714	39,713	(7)	(4)
Provisions	213	228	241	(7)	(12)
Deferred tax liabilities	542	514	436	5	24
Total liabilities excluding loan capital	135,610	142,516	138,551	(5)	(2)
Loan capital					
Macquarie Convertible Preference Securities	616	615	614	<1	<1
Subordinated debt at amortised cost	2,604	2,378	2,579	10	1
Subordinated debt at fair value through profit or loss	—	—	150	—	(100)
Total loan capital	3,220	2,993	3,343	8	(4)
Total liabilities	138,830	145,509	141,894	(5)	(2)
Net assets	11,948	11,499	11,732	4	2

	As at			Movement	
	Mar 13 $Am	Sep 12 $Am	Mar 12 $Am	Sep 12 %	Mar 12 %
Equity					
Contributed equity	5,900	5,882	6,235	<1	(5)
Reserves	57	(50)	44	*	30
Retained earnings	5,439	5,155	4,924	6	10
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	11,396	10,987	11,203	4	2
Non-controlling interests	552	512	529	8	4
Total equity	11,948	11,499	11,732	4	2

Total assets of $A150.8 billion at 31 March 2013 decreased 2% from $A153.6 billion at 31 March 2012. Key movements included:

– Receivables from financial institutions decreased 11% from $A18.5 billion at 31 March 2012 to $A16.5 billion at 31 March 2013 predominantly due to reduced reverse repurchase activity in Group Treasury.

– Trading portfolio assets increased 56% from $A12.7 billion at 31 March 2012 to $A19.8 billion at 31 March 2013 primarily as a result of increased trading activity in Fixed Income, Currencies and Commodities and Macquarie Securities.

– Derivative assets decreased 33% from $A22.1 billion at 31 March 2012 to $A14.7 billion at 31 March 2013 and derivative liabilities decreased 29% from $A21.0 billion at 31 March 2012 to $A14.9 billion at 31 March 2013 due to the impact of price movements in commodities on positions in Fixed Income, Currencies and Commodities.

– Investment securities available for sale decreased 7% from $A18.3 billion at 31 March 2012 to $A17.1 billion at 31 March 2013 and Other financial assets at fair value through profit or loss decreased 25% from $A6.7 billion at 31 March 2012 to $A5.0 billion at 31 March 2013 mainly due to liquidity management activities within Group Treasury.

– Other assets decreased 18% from $A13.7 billion at 31 March 2012 to $A11.2 billion at 31 March 2013 and Other liabilities decreased 18% from $A15.1 billion at 31 March 2012 to $A12.4 billion at 31 March 2013 mainly due to a reduction in unsettled trade receivables and payables at the end of the fiscal year in Macquarie Securities.

– Loan assets increased 9% from $A45.2 billion at 31 March 2012 to $A49.1 billion at 31 March 2013 primarily due to organic growth in the finance leasing books in Corporate and Asset Finance and increased asset backed lending in Europe by Macquarie Funds.

– Life investment contracts and other unitholder investment assets increased 23% from $A5.9 billion at 31 March 2012 to $A7.2 billion at 31 March 2013 largely due to increased net applications into True Index funds within Macquarie Funds. A corresponding increase is reflected in Life investment contracts and other unitholder liabilities.

4.0 Balance sheet
continued

Total liabilities (excluding loan capital) decreased 2% from $A138.6 billion at 31 March 2012 to $A135.6 billion at 31 March 2013. Key movements included:

- Trading portfolio liabilities decreased 59% from $A3.6 billion at 31 March 2012 to $A1.5 billion at 31 March 2013 largely due to reductions in short positions held by Macquarie Securities and Group Treasury.
- Deposits increased 11% from $A37.2 billion at 31 March 2012 to $A41.1 billion at 31 March 2013 primarily due to continuing growth in cash management account balances in Banking and Financial Services and increased margin deposits placed by Futures clients in Fixed Income, Currencies and Commodities.
- Payables to financial institutions increased 43% from $A12.6 billion at 31 March 2012 to $A18.1 billion at 31 March 2013 due to increased repurchase agreement activity, driven by the funding requirement resulting from the increase in trading portfolio assets.
- Debt issued at amortised cost decreased 4% from $A39.7 billion at 31 March 2012 to $A38.0 billion at 31 March 2013 largely due to the run off of securitised mortgages in Banking and Financial Services and the buyback of some debt by Group Treasury. This was partly offset by new debt issuances by Fixed Income, Currencies and Commodities and Group Treasury.

Total equity increased $A216 million from $A11.7 billion at 31 March 2012 to $A11.9 billion at 31 March 2013. This was largely driven by a net increase in retained earnings of $A515 million, which was partly offset by the $A251 million buyback of shares in the first half of the fiscal year.

4.2 Loan assets

Reconciliation between loan assets per statutory and funded balance sheets

	As at			Movement	
	Mar 13 $Ab	Sep 12 $Ab	Mar 12 $Ab	*Sep 12 %*	*Mar 12 %*
Loan assets at amortised cost per statutory balance sheet	49.1	47.6	45.2	*3*	*9*
Other loans held at fair value[1]	1.5	1.6	2.0	*(6)*	*(25)*
Operating lease assets	5.1	4.6	4.8	*11*	*6*
Other reclassifications[2]	0.2	0.2	0.1	—	*100*
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers[3]	(10.5)	(11.9)	(12.5)	*(12)*	*(16)*
Less: segregated funds[4]	(1.1)	(0.8)	(0.6)	*38*	*83*
Less: margin balances (reclassed to trading)[5]	(1.4)	(1.2)	(1.6)	*17*	*(13)*
Total per funded balance sheet[6]	42.9	40.1	37.4	*7*	*15*

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

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

3 Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPE).

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

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

6 Total Loan Assets per the Funded Balance Sheet includes self securitisation assets.

4.0 Balance sheet
continued

Loan assets per the funded balance sheet are shown below in further detail

		As at			Movement	
	Notes	Mar 13 $Ab	Sep 12 $Ab	Mar 12 $Ab	Sep 12 %	Mar 12 %
Mortgages:	1					
Australia		6.8	4.5	3.0	*51*	*127*
United States		0.7	0.7	0.7	—	—
Canada		6.7	7.8	8.2	*(14)*	*(18)*
Other		0.2	0.1	0.1	*100*	*100*
Total mortgages		14.4	13.1	12.0	*10*	*20*
Structured investments	2	3.6	3.4	2.9	*6*	*24*
Banking	3	4.0	3.8	4.0	*5*	—
Real estate	4	2.3	1.9	1.8	*21*	*28*
Resources and commodities	5	2.3	2.4	1.8	*(4)*	*28*
Leasing (finance and operating)	6	9.3	8.1	7.7	*15*	*21*
Corporate lending	7	5.6	6.3	6.3	*(11)*	*(11)*
Other lending	8	1.4	1.1	0.9	*27*	*56*
Total		42.9	40.1	37.4	*7*	*15*

Explanatory notes concerning asset security of funded loan asset portfolio

1. Mortgages

Secured by residential property 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.

2. Structured investments

Loans to retail and wholesale counterparties that are secured against equities, investment funds or cash, or are protected by capital guarantees at maturity.

3. Banking

Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other consumer lending including credit cards.

4. Real estate

Loans secured against real estate assets, generally subject to regular independent valuations.

5. 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.

6. Leasing (finance and operating)

Secured by underlying leased assets (aircraft, motor vehicles and specialised equipment), diversified portfolio by geography and security asset class.

7. Corporate lending

Diversified secured corporate lending, subject to regular recoverability review. Secured by a diverse range of corporate assets and other securities.

8. Other lending

Includes deposits with financial institutions held as collateral for trading positions.

4.3 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
- Interests in associates and joint ventures.

The classification is driven by a combination of the level of influence Macquarie 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 which are not investments in Macquarie-managed funds.

Equity investments reconciliation

	As at			Movement	
	Mar 13 $Am	Sep 12 $Am	Mar 12 $Am	*Sep 12 %*	*Mar 12 %*
Equity investments					
Statutory balance sheet					
Equity investments within other financial assets at fair value through profit or loss	2,378	2,415	2,255	*(2)*	*5*
Equity investments within investment securities available for sale	3,156	2,642	2,456	*19*	*29*
Interests in associates and joint ventures accounted for using the equity method	2,048	2,285	2,664	*(10)*	*(23)*
Total equity investments per statutory balance sheet	7,582	7,342	7,375	*3*	*3*
Adjustment for funded balance sheet					
Equity hedge positions[1]	(2,114)	(2,193)	(2,071)	*(4)*	*2*
Total funded equity investments	5,468	5,149	5,304	*6*	*3*
Adjustments for equity investments analysis					
Other assets[2]	122	77	134	*58*	*(9)*
Available for sale reserves[3]	(365)	(244)	(144)	*50*	*153*
Associates reserves[4]	—	3	25	*(100)*	*(100)*
Total adjusted equity investments[5]	5,225	4,985	5,319	*5*	*(2)*

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

2 Other assets include equity investments which do not fall within the categories per the statutory balance sheet.

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

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

5 The adjusted book value represents the total net exposure to Macquarie.

4.0 Balance sheet
continued

Equity investments by category

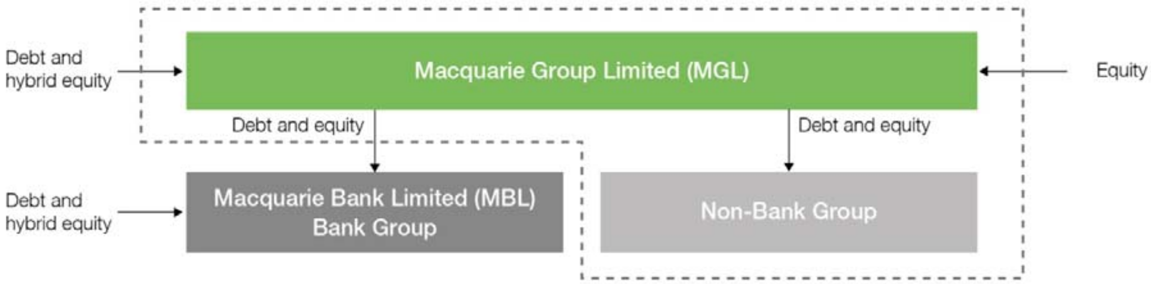
	As at			Movement	
	Mar 13 $Am	Sep 12 $Am	Mar 12 $Am	Sep 12 %	Mar 12 %
Macquarie-managed funds					
Listed MIRA managed funds	579	338	307	71	89
Unlisted MIRA managed funds	564	607	564	(7)	-
Other Macquarie-managed funds	302	256	222	18	36
Total Macquarie-managed funds	1,445	1,201	1,093	20	32
Other investments					
Transport, industrial and infrastructure	1,649	1,587	1,818	4	(9)
Telecommunications, information technology, media and entertainment	646	660	686	(2)	(6)
Energy, resources and commodities	588	555	621	6	(5)
Real estate investment, property and funds management	578	646	761	(11)	(24)
Finance, wealth management and exchanges	319	336	318	(5)	<1
Debt investment entities	—	—	22	—	(100)
Total other investments	3,780	3,784	4,226	(<1)	(11)
Total equity investments	5,225	4,985	5,319	5	(2)

5.0 Funding and liquidity

5.1 Overview

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

The high level funding structure of the Group is shown below:



Liquidity management

The Group's liquidity risk management framework is designed to ensure that both MGL and MBL 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 the Asset and Liability Committee and the Risk Management Group (RMG). MGL Group and MBL Group's liquidity policies are approved by their respective Boards after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Business Group Heads.

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

Liquidity policy and principles

MGL provides funding predominantly to the Non-Bank Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Bank 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 12 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-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Bank 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 12 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.

5.0 Funding and liquidity
continued

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 at least annually
– A funding strategy is prepared annually and the funding position is monitored on an ongoing basis throughout the year
– Internal pricing incorporates liquidity costs, benefits and risks to align risk-taking activities with liquidity risk exposures
– Diversity and stability of funding sources is a key priority and strong relationships are maintained.

Liquidity limits

– Term assets must be funded by term liabilities
– Cash and liquid assets are sufficient to cover a 12 month stress scenario
– Cash and liquid assets held to meet MGL and MBL 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 the 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 modelling is to ensure MGL and MBL's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

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

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2013, 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, other 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 although liquid assets denominated in US Dollars or other currencies are held where appropriate.

MGL Group had $A19.8 billion cash and liquid assets as at 31 March 2013 (31 March 2012: $A23.2 billion), of which $A18.0 billion was held by the MBL Group (31 March 2012: $A20.9 billion).

Liquidity contingency plan

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

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

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

Funding transfer pricing

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

Credit ratings

Credit ratings[1] at 31 March 2013 are detailed below.

	Macquarie Group Limited			Macquarie Bank Limited		
	Short-term rating	Long-term rating	Long-term rating outlook	Short-term rating	Long-term rating	Long-term rating outlook
Moody's Investors Service	P-2	A3	Stable	P-1	A2	Stable
Standard and Poor's	A-2	BBB	Stable	A-1	A	Stable
Fitch Ratings	F-2	A-	Stable	F-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.

5.0 Funding and liquidity
continued

Regulatory developments

In November 2011, APRA released its draft liquidity standard (APS 210) and discussion paper detailing the local implementation of the Basel III liquidity framework. APRA's proposals incorporate the two quantitative metrics put forward by the Basel Committee: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). In January 2013, the Basel Committee released its final requirements for the LCR, however these are subject to local implementation by APRA. Other regulators in jurisdictions where Macquarie operates are yet to release final Basel III liquidity standards.

Liquidity Coverage Ratio

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

Macquarie expects that it will meet the overall requirements of the LCR. However, as at the time of writing, the APRA standards were not final and the ratio may therefore be subject to change prior to local implementation.

Net Stable Funding Ratio

The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement by APRA in 2018.

Macquarie has minimal reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, Macquarie's internal liquidity policy requires that term assets are funded with term liabilities. Macquarie expects that it will meet the overall requirements of the NSFR. However, the APRA standards have not yet been finalised and the ratio may be subject to change over the consultation period.

Macquarie continues to monitor developing liquidity regulations.

5.2 Funded balance sheet

The Group's statutory balance sheet is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self funded assets that do not represent a funding requirement of the Group.

The table below reconciles the reported assets of the consolidated Group to the net funded assets as at 31 March 2013. This is later split between the Bank Group and Non-Bank Group to assist in the analysis of each of the separate funding profiles of MBL and MGL.

		As at	
	Notes	Mar 13 $Ab	Mar 12 $Ab
Total assets per MGL Group statutory balance sheet		150.8	153.6
Accounting deductions:			
Self funded trading assets	1	(13.6)	(10.0)
Derivative revaluation accounting gross-ups	2	(14.4)	(20.5)
Life investment contracts and other segregated assets	3	(11.5)	(9.0)
Outstanding trade settlement balances	4	(7.7)	(9.2)
Short-term working capital assets	5	(5.2)	(5.7)
Non-recourse funded assets:			
Securitised and non-recourse assets	6	(10.8)	(13.0)
Net funded assets		87.6	86.2

Explanatory notes concerning net funded assets

1. Self funded trading assets

Macquarie enters into stock borrowing and lending as well as repurchase agreements and reverse repurchase agreements in the normal course of trading activity that it conducts with its clients and counterparties. Also as part of its trading activities, Macquarie pays and receives margin collateral on its outstanding derivative positions. These trading related asset and liability positions are presented gross on the balance sheet but are viewed as being self funded to the extent that they offset one another and, therefore, are netted as part of this adjustment.

2. Derivative revaluation accounting gross-ups

Macquarie's derivative activities are mostly client driven with client positions hedged by offsetting positions. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

3. Life investment contracts and other segregated assets

These represent the assets and liabilities that are recognised where Macquarie 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. Outstanding trade settlement balances

At any particular time Macquarie will have outstanding trades to be settled as part of its brokering business and trading activities. These amounts (payables) can be offset in terms of funding by amounts that Macquarie 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, Macquarie through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

6. Securitised and non-recourse assets

These represent assets that are funded by third parties with no recourse to Macquarie including lending assets (mortgages and leasing) sold down into external securitisation entities or transferred to external funding warehouses.

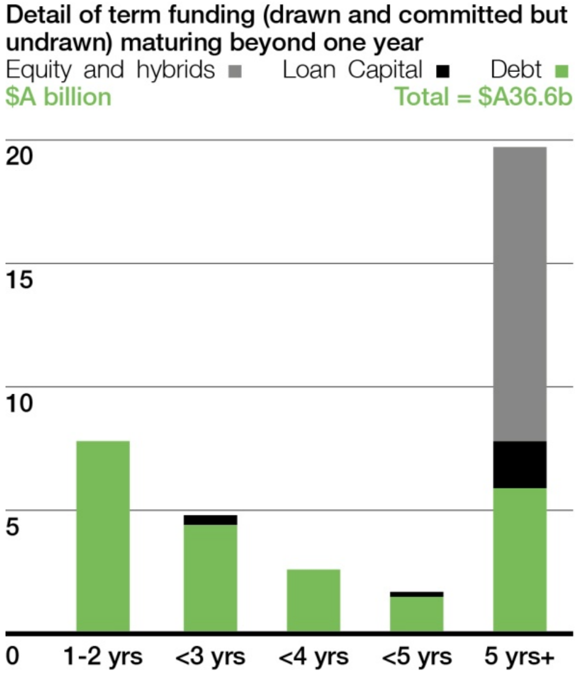
5.0 Funding and liquidity
continued

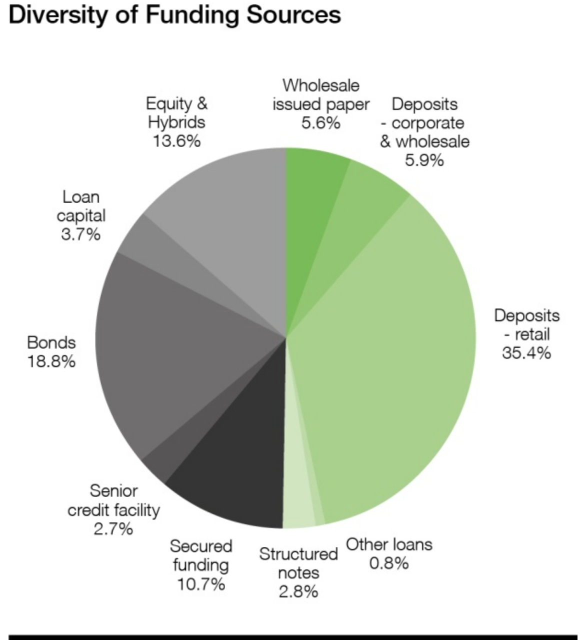
5.3 Funding profile for consolidated MGL Group

Funded balance sheet

	Notes	As at Mar 13 $Ab	Mar 12 $Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.4	1.7
Commercial paper		3.5	4.6
Net trade creditors	2	—	0.2
Structured notes	3	2.4	2.3
Secured funding	4	9.4	10.9
Bonds	5	16.5	14.0
Other loans	6	0.7	0.4
Senior Credit Facility	7	2.4	3.2
Deposits:	8		
Retail deposits		31.0	29.0
Corporate and wholesale deposits		5.2	4.9
Loan capital	9	3.2	3.3
Equity and hybrids	10	11.9	11.7
Total		87.6	86.2
Funded assets			
Cash and liquid assets	11	19.8	23.2
Self securitisation	12	6.2	3.0
Net trading assets	13	15.1	15.9
Loan assets less than one year	14	9.9	7.7
Loan assets greater than one year	14	26.8	26.7
Debt investment securities	15	2.3	2.5
Co-investment in Macquarie-managed funds and other equity investments	16	5.5	5.4
Property, plant and equipment and intangibles		1.7	1.8
Net trade debtors	17	0.3	—
Total		87.6	86.2

See Section 5.6 for notes 1-17.





	As at Mar 13					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.3	0.2	—	0.3	0.5	1.3
Secured funding	2.5	2.9	—	—	0.5	5.9
Bonds	3.7	1.1	1.5	1.2	4.9	12.4
Other loans	—	0.2	—	—	—	0.2
Senior Credit Facility	1.3	—	1.1	—	—	2.4
Total debt	7.8	4.4	2.6	1.5	5.9	22.2
Loan capital	—	0.4	—	0.2	1.9	2.5
Equity and hybrids	—	—	—	—	11.9	11.9
Total funding sources drawn	7.8	4.8	2.6	1.7	19.7	36.6
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	7.8	4.8	2.6	1.7	19.7	36.6

Macquarie has a stable funding base, with minimal reliance on short-term wholesale funding markets. At 31 March 2013, MGL Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

Excluding equity as a permanent source of funding, the weighted average term to maturity of term funding (excluding short-term funding) increased from 3.8 years at 31 March 2012 to 4.4 years at 31 March 2013.

As at 31 March 2013, total deposits represented $A36.2 billion, or 41% of MGL Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A4.9 billion, or 6% of total funding, and other debt funding maturing within 12 months represented $A9.9 billion, or 11% of total funding.

5.0 Funding and liquidity
continued

Term funding initiatives

Macquarie has a liability driven balance sheet approach where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2012, MGL and MBL have continued to raise term wholesale funding.

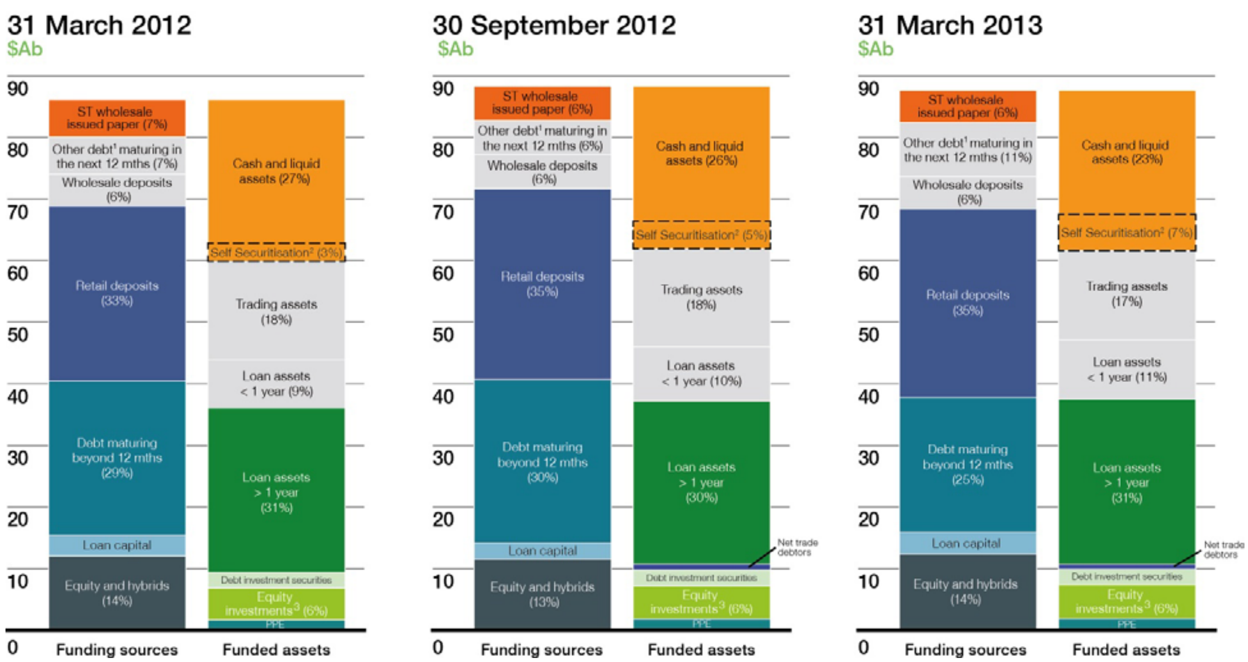
Details of term funding raised since 31 March 2012:

			Bank Group $Ab	Non-Bank Group $Ab	Total $Ab
Securitised assets	–	Term securitisation and other secured finance	3.2	—	3.2
Issued paper	–	Senior	4.5	1.8	6.3
Syndicated loan facility	–	Term unsecured finance	0.2	—	0.2
Total			7.9	1.8	9.7

Macquarie has continued to diversify its funding base and develop new markets including issuances in Switzerland, South Africa, Korea and Taiwan.

Since 31 March 2012, MGL Group raised $A9.7 billion of term funding, including $A6.5 billion of term wholesale funding and $A3.2 billion of term secured finance. Wholesale term issuance of $A6.5 billion includes $A2.8 billion in USD senior unsecured debt issuance, $A2.5 billion in private placements and structured notes, $A0.9 billion senior unsecured issuance in the Swiss market, $A0.2 billion syndicated loan facility with 17 Taiwanese banks and $A0.1 billion senior unsecured issuance in the South African market. Term secured finance of $A3.2 billion includes $A1.9 billion of SMART auto & equipment ABS, $A0.7 billion of PUMA RMBS, $A0.2 billion of MEF US equipment ABS and $A0.4 billion of other secured funding.

The change in composition of the funded balance sheet is illustrated in the chart below.



1 Includes Structured Notes, Secured Funding, Bonds, Other Bank Loans maturing within the next 12 months and Net Trade Creditors.

2 Includes repo eligible Australian mortgages originated by Macquarie.

3 This represents the Group's co-investment in Macquarie-managed funds and equity investments.

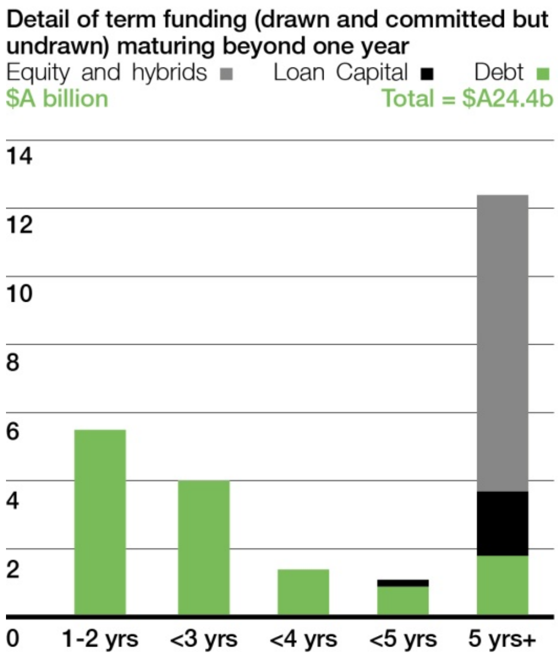
5.4 Funding profile for Bank Group

Funded balance sheet

	Notes	As at Mar 13 $Ab	As at Mar 12 $Ab
Funding sources			
Wholesale issued paper:	1		
Negotiable certificates of deposits		1.4	1.7
Commercial paper		3.5	4.6
Net trade creditors	2	—	0.7
Structured notes	3	1.4	1.7
Secured funding	4	9.3	10.7
Bonds	5	10.7	9.5
Other loans	6	0.5	0.1
Deposits:	8		
Retail deposits		31.0	29.0
Corporate and wholesale deposits		5.2	4.9
Loan capital	9	2.2	2.3
Equity and hybrids	10	8.7	9.2
Total		73.9	74.4
Funded assets			
Cash and liquid assets	11	18.0	20.9
Self securitisation	12	6.2	3.0
Net trading assets	13	14.5	14.5
Loan assets less than one year	14	9.6	7.3
Loan assets greater than one year	14	25.7	25.8
Debt investment securities	15	2.1	2.3
Non-Bank Group deposit with MBL		(4.2)	(1.7)
Co-investment in Macquarie-managed funds and other equity investments	16	1.1	1.4
Property, plant and equipment and intangibles		1.0	0.9
Net trade debtors	17	(0.1)	—
Total		73.9	74.4

See Section 5.6 for notes 1-17.

5.0 Funding and liquidity
continued



	As at Mar 13					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	0.3	0.1	—	0.3	0.3	1.0
Secured funding	2.5	2.9	—	—	0.5	5.9
Bonds	2.7	1.0	1.4	0.6	1.0	6.7
Total debt	5.5	4.0	1.4	0.9	1.8	13.6
Loan capital	—	—	—	0.2	1.9	2.1
Equity and hybrids	—	—	—	—	8.7	8.7
Total funding sources drawn	5.5	4.0	1.4	1.1	12.4	24.4
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	5.5	4.0	1.4	1.1	12.4	24.4

The Bank Group has diversity of funding by both source and maturity. Term funding beyond one year (excluding equity) has a weighted average term to maturity of 3.6 years.

As at 31 March 2013, total deposits represented $A36.2 billion, or 49% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A4.9 billion, or 7% of total funding, and other debt funding maturing within 12 months represented $A8.4 billion, or 12% of total funding.

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

– $US25 billion multi-instrument Regulation S Debt Instrument Program, incorporating both Government Guaranteed and unguaranteed securities including Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US7.4 billion debt securities outstanding at 31 March 2013
– $US10 billion Commercial Paper under which $US2.3 billion of debt securities were outstanding at 31 March 2013
– $US20 billion Rule 144A/Regulation S Medium Term Note Program incorporating both Government Guaranteed and unguaranteed securities. At 31 March 2013 issuances outstanding amounted to $US6.8 billion under the Rule 144A/Regulation S Medium Term Note Program.

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At 31 March 2013, MBL Group had $A1.4 billion of these securities outstanding.

MBL Group, as an ADI, has access to liquidity from the Reserve Bank of Australia's (RBA) daily market operations. At 31 March 2013, MBL Group had internally securitised $A6.2 billion of its own mortgages, which is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

5.0 Funding and liquidity
continued

Deposit strategy

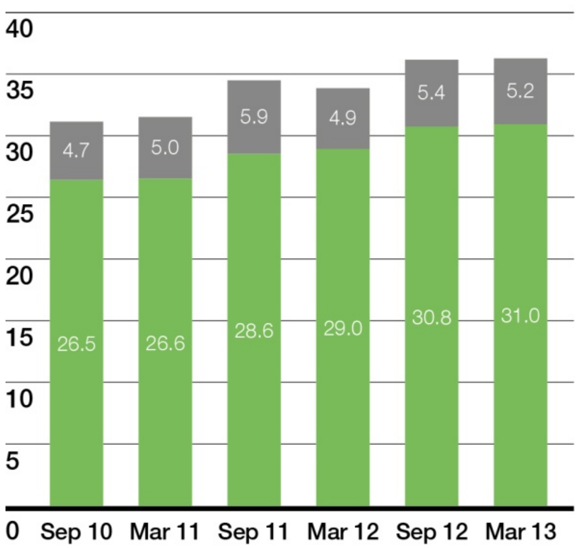
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management principle of achieving diversity and stability of funding sources. The strategy is focused on growing the retail deposit base which represents a stable and reliable source of funding and reduces Macquarie's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

In particular, Macquarie has focused on the quality and composition of the retail deposit base, targeting transactional and relationship based deposits such as the Cash Management Account (CMA).

The majority of Macquarie's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at $A250,000, which was reduced from $A1 million in February 2012.

The chart below illustrates the retail deposit growth since 30 September 2010.

Deposits trend
Retail ■ Corporate/wholesale ■
$A billion



5.5 Funding profile for Non-Bank Group

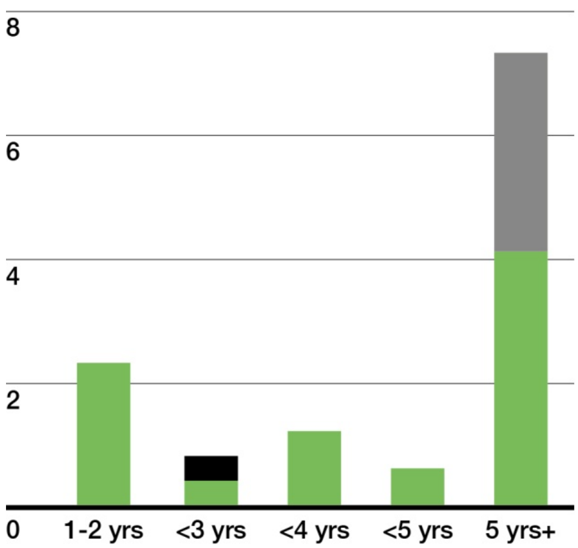
Funded balance sheet

	Notes	As at Mar 13 $Ab	As at Mar 12 $Ab
Funding sources			
Structured notes	3	1.0	0.6
Secured funding	4	0.1	0.2
Bonds	5	5.8	4.5
Other loans	6	0.2	0.3
Senior Credit Facility	7	2.4	3.2
Loan capital	9	1.0	1.0
Equity	10	3.2	2.5
Total		13.7	12.3
Funded assets			
Cash and liquid assets	11	1.8	2.3
Non-Bank Group deposit with MBL		4.2	1.7
Net trading assets	13	0.6	1.4
Loan assets less than one year	14	0.3	0.4
Loan assets greater than one year	14	1.1	0.9
Debt investment securities	15	0.2	0.2
Co-investment in Macquarie-managed funds and other equity investments	16	4.4	4.0
Property, plant and equipment and intangibles		0.7	0.9
Net trade debtors	17	0.4	0.5
Total		13.7	12.3

See Section 5.6 for notes 3-17.

5.0 Funding and liquidity
continued

Detail of term funding (drawn and committed but undrawn) maturing beyond one year



	As at Mar 13					
	1-2yrs $Ab	2-3yrs $Ab	3-4yrs $Ab	4-5yrs $Ab	5yrs+ $Ab	Total $Ab
Structured notes	—	0.1	—	—	0.2	0.3
Bonds	1.0	0.1	0.1	0.6	3.9	5.7
Other loans	—	0.2	—	—	—	0.2
Senior Credit Facility	1.3	—	1.1	—	—	2.4
Total debt	2.3	0.4	1.2	0.6	4.1	8.6
Loan capital	—	0.4	—	—	—	0.4
Equity	—	—	—	—	3.2	3.2
Total funding sources drawn	2.3	0.8	1.2	0.6	7.3	12.2
Undrawn	—	—	—	—	—	—
Total funding sources drawn and undrawn	2.3	0.8	1.2	0.6	7.3	12.2

Term funding beyond one year (excluding equity) has a weighted average term to maturity of 5.9 years.

The key tools used for debt funding of MGL, which primarily funds the activities of the Non-Bank Group, include:

– Senior Credit Facility, which was $A2.4 billion drawn at 31 March 2013
– $US10 billion Rule 144A/Regulation S Medium Term Note Program. $US3.8 billion was outstanding under the Rule 144A/Regulation S Medium Term Note Program at 31 March 2013
– $US10 billion multi-instrument Regulation S Debt Instrument Program, under which securities that may be issued include Euro Commercial Paper, Euro Commercial Deposits, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, Transferable Deposits, and MGL Wholesale Notes. The Debt Instrument Program had $US0.7 billion debt securities outstanding at 31 March 2013.

5.6 Explanatory notes concerning funding sources and funded assets

1. Wholesale issued paper

Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

2. Net trade creditors

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

3. Structured notes

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 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.

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, CPS, PMI and ECS.

10. Equity and hybrids

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

11. Cash and liquid assets

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. Self securitisation

This represents Australian mortgages which have been internally securitised and is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

13. 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.

14. Loan assets

This represents loans provided to retail and wholesale borrowers, in addition to operating lease assets. See section 4.2 for further information.

15. Debt investment securities

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

16. Co-investment in Macquarie-managed funds and other equity investments

These equity securities include co-investments in Macquarie managed funds.

17. Net trade debtors

5.0 Funding and liquidity
continued

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

6.0 Capital

6.1 Overview

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Bank Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie'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 Bank Group'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-Bank Group capital requirement, calculated using Macquarie's ECAM. Transactions internal to the Macquarie 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 Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Exchangeable Capital Securities (ECS), Convertible Preference Securities (CPS) and Preferred Membership Interests (PMI).

Given the introduction of Basel III rules on 1 January 2013, capital disclosures in this section include Harmonised Basel III[1] and APRA Basel III[2]. The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's regulatory requirements under APRA Basel III rules.

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 prepared on an APRA Basel III basis from 1 January 2013 and published by MBL within 40 business days of the reporting date. Pillar 3 documents are available on MGL's U.S. Investors' Website at www.macquarie.com/mgl/com/us/usinvestors/mgl .

[1] Harmonised Basel III relates to the Basel III rules defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).

[2] APRA Basel III relates to the Prudential Standards released by APRA for the period effective 1 January 2013.

6.0 Capital
continued

Macquarie Group Basel III regulatory capital surplus calculation

	As at Mar 13		As at Sep 12[4]		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Macquarie Group eligible capital:						
Bank Gross Tier 1 capital	8,955	8,955	9,010	9,010	*(1)*	*(1)*
Non-Bank eligible capital	3,993	3,993	3,594	3,594	*11*	*11*
Eligible capital	12,948	12,948	12,604	12,604	*3*	*3*
Macquarie Group capital requirement:						
Bank Group						
Risk-Weighted Assets (RWA)	62,457	58,360	60,621	56,010	*3*	*4*
Capital required to cover RWA at 7%[1]	4,372	4,085	4,243	3,921	*3*	*4*
Tier 1 deductions[2]	1,042	2,636	1,163	2,794	*(10)*	*(6)*
Total Bank Group capital requirement	5,414	6,721	5,406	6,715	*<1*	*<1*
Total Non-Bank Group capital requirement	3,150	3,150	2,909	2,909	*8*	*8*
Total capital requirement	8,564	9,871	8,315	9,624	*3*	*3*
Macquarie Group regulatory capital surplus (at 7%[1] of Bank Group RWA)	4,384	3,077	4,289	2,980	*2*	*3*
Additional capital requirement required to maintain 8.5%[3] of Tier 1 ratio in Bank Group	937	876	910	840	*3*	*4*
Macquarie Group regulatory capital surplus (at 8.5%[3] of Bank Group RWA)	3,447	2,201	3,379	2,140	*2*	*3*

1 Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.

2 In calculating the Bank Group's contribution to MGL's capital requirement, Tier 1 deductions arising from transactions with the Non-Bank are eliminated (31 March 2013: $Anil; 30 September 2012: $A60 million).

3 Calculated at 8.5% of the Bank Group's RWAs. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB). The 2.5% CCB is not required by APRA until 2016.

4 The Basel III disclosures for September 2012 included as comparatives in the "6.0 Capital" section were not required for regulatory compliance by APRA but are provided for information purposes only and are not subjected to audit. The Basel III disclosures for September 2012 do not include Basel III central counterparty (CCP) capital charge. Macquarie was supervised on a Basel II basis by APRA for the period ended 30 September 2012.

6.2 Bank Group capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

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

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

MIPS were issued when the London Branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% per annum until April 2020. As at 31 March 2013, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie. MIPS are eligible for transitional arrangements under Basel III.

ECS were issued by MBL acting through its London Branch (Issuer) in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer. APRA has approved ECS to be fully included in Additional Tier 1 until its first mandatory exchange date.

6.0 Capital
continued

Bank Group Basel III Tier 1 Capital

	As at Mar 13		As at Sep 12[1]		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Common equity Tier 1 capital						
Paid-up ordinary share capital	7,680	7,680	7,690	7,690	*(<1)*	*(<1)*
Reserves	(574)	(574)	(566)	(566)	*1*	*1*
Retained earnings	1,202	1,202	1,239	1,239	*(3)*	*(3)*
Gross common equity capital Tier 1 capital	8,308	8,308	8,363	8,363	*(1)*	*(1)*
Deductions from common equity Tier 1 capital:						
Goodwill	136	136	133	133	*2*	*2*
Deferred tax assets	169	200	131	122	*29*	*64*
Intangible component of investments in subsidiaries and other entities	380	380	563	563	*(33)*	*(33)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	—	86	—	81	—	*6*
Shortfall in provisions for credit losses	140	140	202	202	*(31)*	*(31)*
Equity exposures	—	1,455	—	1,518	—	*(4)*
Other common equity Tier 1 capital deductions	217	239	194	235	*12*	*2*
Total Common Equity Tier 1 capital deductions	1,042	2,636	1,223	2,854	*(15)*	*(8)*
Net common equity Tier 1 capital	7,266	5,672	7,140	5,509	*2*	*3*
Additional Tier 1						
Additional Tier 1 capital	647	647	647	647	—	—
Gross additional Tier 1 capital	647	647	647	647	—	—
Deduction from additional Tier 1 capital						
Holdings of Additional Tier 1 capital instruments in financial institutions	—	—	—	—	—	—
Net additional Tier 1 capital	647	647	647	647	—	—
Net Tier 1 capital	7,913	6,319	7,787	6,156	*2*	*3*

[1] The Basel III disclosures for September 2012 included as comparatives in the "6.0 Capital" section were not required for regulatory compliance by APRA but are provided for information purposes only and are not subjected to audit. The Basel III disclosures for September 2012 do not include Basel III central counterparty (CCP) capital charge. Macquarie was supervised on a Basel II basis by APRA for the period ended 30 September 2012.

Bank Group Basel III Risk-Weighted Assets (RWA)

	As at Mar 13		As at Sep 12[1]		Movement	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Credit risk RWA						
Subject to IRB approach:						
Corporate	15,532	15,532	16,455	16,455	(6)	(6)
SME Corporate	1,597	1,597	1,384	1,384	15	15
Sovereign	734	734	987	987	(26)	(26)
Bank	1,644	1,644	2,134	2,134	(23)	(23)
Residential mortgage	1,496	2,179	1,432	2,048	4	6
Other retail	4,613	4,613	3,759	3,759	23	23
Total RWA subject to IRB approach	25,616	26,299	26,151	26,767	(2)	(2)
Specialised lending exposures subject to slotting criteria	4,683	4,683	4,584	4,584	2	2
Subject to Standardised approach:						
Corporate	1,013	1,013	661	661	53	53
Sovereign	—	—	—	—	—	—
Bank	100	100	—	—	*	*
Residential mortgage	482	482	631	631	(24)	(24)
Other retail	1,172	1,172	1,297	1,297	(10)	(10)
Total RWA subject to Standardised approach	2,767	2,767	2,589	2,589	7	7
Credit risk RWA for Securitisation exposures	945	945	954	954	(1)	(1)
RWA for other assets	5,820	5,617	5,380	5,106	8	10
Total credit risk RWA	39,831	40,311	39,658	40,000	<1	1
Equity risk exposures RWA	4,618	—	4,990	—	(7)	-
Market risk RWA	4,536	4,536	4,581	4,581	(1)	(1)
Credit Valuation Adjustment RWA	2,633	2,633	3,384	3,384	(22)	(22)
Exposures to Central Counterparties RWA[1]	1,177	1,177	—	—	*	*
Operational risk RWA	8,125	8,125	6,439	6,439	26	26
Interest rate risk in banking book RWA	—	—	—	—	—	—
Scaling factor (6%) applied to IRB exposures	1,537	1,578	1,569	1,606	(2)	(2)
Total Bank Group RWA	62,457	58,360	60,621	56,010	3	4
Capital ratios						
Macquarie Bank Group Common Equity Tier 1 capital ratio (%)	11.6	9.7	11.8	9.8		
Macquarie Bank Group Tier 1 capital ratio (%)	12.7	10.8	12.8	11.0		

1 The Basel III disclosures for September 2012 included as comparatives in the "6.0 Capital" section were not required for regulatory compliance by APRA but are provided for information purposes only and are not subjected to audit. The Basel III disclosures for September 2012 do not include Basel III central counterparty (CCP) capital charge. Macquarie was supervised on a Basel II basis by APRA for the period ended 30 September 2012.

6.0 Capital
continued

6.3 Non-Bank Group capital

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for ADIs, with both calculating capital at a one year 99.9% confidence level. The key features are:

Risk[1]	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of some parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment[2] Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 79% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

1 The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

2 Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

Non-Bank Group capital requirement

The capital requirement of the Non-Bank Group is set out in the table below.

	As at Mar 13		
	Asset $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	1.8	20	14%
Loan assets[1]	1.4	149	133%
Debt investment securities	0.2	5	30%
Co-investments in Macquarie-managed funds and equity investments	4.3	2,121	617%
Co-investments in Macquarie-managed funds and equity investments (relating to investments that hedge DPS plan liabilities)	0.1		
Property, plant and equipment and intangibles[2]	0.7	290	518%
Non Bank Group deposit with MBL	4.2		
Net trading assets	0.6		
Net trade debtors	0.4		
Total funded assets	13.7	2,585	
Self-funded and non-recourse assets			
Self funded trading assets	0.3		
Broker settlement balances	4.1		
Derivative revaluation accounting gross-ups	0.2		
Non recourse funding	0.1		
Working capital assets	2.9		
Total self-funded and non-recourse assets	7.6		
Total Non-Bank Group assets	21.3		
Off balance sheets exposures, operational, market and other risk and diversification offset[3]		565	
Non-Bank Group capital requirement		3,150	

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 Capital associated with net trading assets (e.g. market risk capital) and net trade debtors has been included here.

7.0 Funds management
continued

7.1 Assets under Management

	As at			Movement	
	Mar 13 $Ab	Sep 12 $Ab	Mar 12 $Ab	Sep 12 %	Mar 12 %
Assets under Management					
Macquarie Investment Management	239.3	229.1	222.2	4	8
Macquarie Infrastructure and Real Assets[1]	102.3	105.7	100.2	(3)	2
Macquarie Specialised Investment Solutions	1.9	2.0	2.4	(5)	(21)
Total Macquarie Funds	343.5	336.8	324.8	2	6
Other Operating Groups	3.9	3.7	2.1	5	86
Total Assets under Management	347.4	340.5	326.9	2	6
Assets under Management by region					
Americas	205.0	200.7	191.9	2	7
Europe, Middle East and Africa	67.8	69.3	65.5	(2)	4
Australia	60.1	55.3	54.9	9	9
Asia	14.5	15.2	14.6	(5)	(1)
Total Assets under Management	347.4	340.5	326.9	2	6
Assets under Management by type					
Fixed income	138.7	138.6	132.8	<1	4
Direct infrastructure	90.8	96.5	90.8	(6)	—
Equities	75.2	64.4	64.3	17	17
Cash	17.5	17.6	16.9	(1)	4
Direct real estate	9.2	7.2	7.2	28	28
Alternatives	5.3	3.9	4.0	36	33
Currency	4.6	4.5	4.4	2	5
Multi-asset allocation solutions	3.9	4.2	4.1	(7)	(5)
Specialist investments	2.2	3.6	2.4	(39)	(8)
Total Assets under Management	347.4	340.5	326.9	2	6

1 Included within this balance is $A5.8 billion (September 2012: $A5.6 billion; March 2012: $A5.5 billion) of MFG Central AUM.

AUM of $A347.4 billion at 31 March 2013 increased 6% from $A326.9 billion at 31 March 2012. The increase in AUM was mainly due to positive market and valuation movements across Macquarie Funds and investments in the infrastructure and real assets business, partially offset by asset disposals in the infrastructure and real assets business and foreign exchange movements.

Macquarie Investment Management

Macquarie Investment Management's AUM was $A239.3 billion at 31 March 2013, an increase of 8% from $A222.2 billion at 31 March 2012 primarily due to positive market and valuation movements.

Macquarie Infrastructure and Real Assets

Macquarie Infrastructure and Real Asset's AUM was $A102.3 billion at 31 March 2013, an increase of 2% from $A100.2 billion at 31 March 2012 largely due to positive valuation movements and investments in the infrastructure and real assets business, partially offset by asset disposals and foreign exchange movements.

8.0 Glossary

7.2 Equity under Management

The Macquarie Infrastructure and Real Assets division of Macquarie Funds tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

Type of equity investment	Basis of EUM calculation
Listed equity	– Market capitalisation at the measurement date plus underwritten or committed future capital raisings for listed funds
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[1]

1 Managed businesses includes third party equity invested in MIRA managed businesses where management fees may be payable to Macquarie.

If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	As at[1,2]			Movement	
	Mar 13 $Ab	Sep 12 $Ab	Mar 12 $Ab	*Sep 12 %*	*Mar 12 %*
Equity under Management by type					
Listed equity	6.9	6.1	5.4	*13*	*28*
Unlisted equity	34.1	33.4	32.5	*2*	*5*
Total EUM	41.0	39.5	37.9	*4*	*8*
Equity under Management by region[3]					
Australia	3.8	4.8	5.2	*(21)*	*(27)*
Europe, Middle East and Africa	16.8	16.5	15.7	*2*	*7*
Americas	13.2	11.4	11.0	*16*	*20*
Asia	7.2	6.8	6.0	*6*	*20*
Total EUM	41.0	39.5	37.9	*4*	*8*

1 Excludes equity invested by Macquarie Group in businesses managed by MIRA.

2 Where a fund's EUM 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.

EUM was $A41.0 billion at 31 March 2013, an increase of 8% from $A37.9 billion at 31 March 2012 primarily driven by equity raisings and increases in listed equity prices, partially offset by a reduction in EUM from the internalisation of the management of the DUET Group.

8.0 Glossary
continued

AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities
ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: - provide a permanent and unrestricted commitment of funds; - are freely available to absorb losses; - rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and - provide for fully discretionary capital distributions. Additional Tier 1 Capital consists of MIS, MIPS and ECS.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AGAAP	Australian Generally Accepted Accounting Principles.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is a metric that provides a consistent basis for measuring Macquarie's funds management activities. AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASX	Australian Securities Exchange (formerly Australian Stock Exchange).
AVS	Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially recognised at cost and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is sold or impaired, the cumulative unrealised gain or loss will be recognised in the income statement.
BBSW	Bank Bill Swap Rate.
CMA	Cash Management Account.
Collective allowance for credit losses	The provision relating to loan losses inherent in a loan portfolio that have not yet been specifically identified.

8.0 Glossary

Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: - provide a permanent and unrestricted commitment of funds; - are freely available to absorb losses; - do not impose any unavoidable servicing charge against earnings; and - rank behind the claims of depositors and other creditors in the event of winding up. Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Contingent liabilities	Defined in AASB 137 '*Provisions, Contingent Liabilities and Contingent Assets*' as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
CPS	In July 2008, Macquarie CPS Trust, a subsidiary of MGL issued six million Macquarie Convertible Preference Securities (CPS) at face value of $A100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. In the event that the CPS do not convert and are not redeemed or resold, they will continue until such time as the conditions are met and securities mandatorily convert.
CEA	Credit Equivalent Amount. The on balance sheet equivalent value of an off balance sheet transaction.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV) that are not consolidated for the APRA regulatory reporting group.
Directors' Profit Share (DPS)	The pre-2009 remuneration agreement in which 20 per cent of each Executive Director's annual gross profit share allocation is withheld and is subject to restrictions through the DPS Plan. The DPS Plan is a tool in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements. The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after ten years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or at the end of a ten year period.
Dividend reinvestment plan (DRP)	The plan that provides shareholders with the opportunity to reinvest part or all of their dividends as additional shares in Macquarie, with no transaction costs.
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 '*Earnings Per Share*'.
ECAI	External Credit Assessment Institution.

8.0 Glossary
continued

ECAM	Economic Capital Adequacy Model.
ECS	On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
Effective tax rate	The income tax expense as a percentage of the profit before income tax adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
EL	Expected Loss, which is a function of PD and LGD.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI (Level 1) for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.
Equity under management (EUM)	Refer definition in Section 7.2.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
Expense/Income ratio	Total operating expenses expressed as a percentage of net operating income.
Fair value through profit or loss	Other financial assets at fair value through profit or loss include those financial assets that contain embedded derivatives which must be otherwise separated and carried at fair value if it is part of a group of financial assets managed and evaluated on a fair value basis.
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
FX	Foreign exchange.
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation.
Headcount	Headcount includes both permanent staff (full time, part time and fixed term hires), casual staff and contractors (including consultants and secondees). It excludes staff on leave without pay and staff on parental leave.
ICAAP	Internal Capital Adequacy Assessment Process.
International income	International income provides a consistent basis for determining the size of Macquarie's operations outside of Australia and New Zealand. Operating income is classified as 'international' with reference to the geographic location from which the operating income is generated. This may not be the same geographic location where the operating income is recognised. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes would be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income.
IPO	Initial public offering.

Level 2 MBL Regulatory Group	MBL, its parent Macquarie B.H. Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie Income Preferred Securities (MIPS)	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. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.
Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital. They are treated as equity in the balance sheet. There are four million $A100 face value MIS on issue.
MBI	Macquarie Bank International Limited.
MBL	Macquarie Bank Limited.
MGL	Macquarie Group Limited.
Net loan losses	The impact on the income statement of loan amounts provided for or written off during the period, net of the recovery of any such amounts which were previously written-off or provided for out of the income statement.
Net Profit Interests	A share of production or proceeds from production derived from rights to various commodity assets (without the obligation to pay any of the costs of explorations and development).
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards.
PCE	Potential Credit Exposure. Potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
PMI	Preferred Membership Interests. On 2 December 2010, Macquarie PMI LLC, a subsidiary of MGL, issued $US400 million of US Dollar denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at MGL's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The PMI bears fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.
REIT	Real Estate Investment Trust.
Retail deposits	Retail deposits are those placed with the Banking and Financial Services Group and includes products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Retail counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.

8.0 Glossary
continued

Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of AVS and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
Tier 1 Capital	Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in determining Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Total Capital	Tier 1 Capital plus Tier 2 Capital.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.
Net Trading Income	Income that represents realised or unrealised gains and losses that relate to financial markets products. This income does not necessarily relate to 'trading' in such products and may arise through the manufacturing of new financial products by bringing together existing financial instruments.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.

This page has been intentionally left blank.