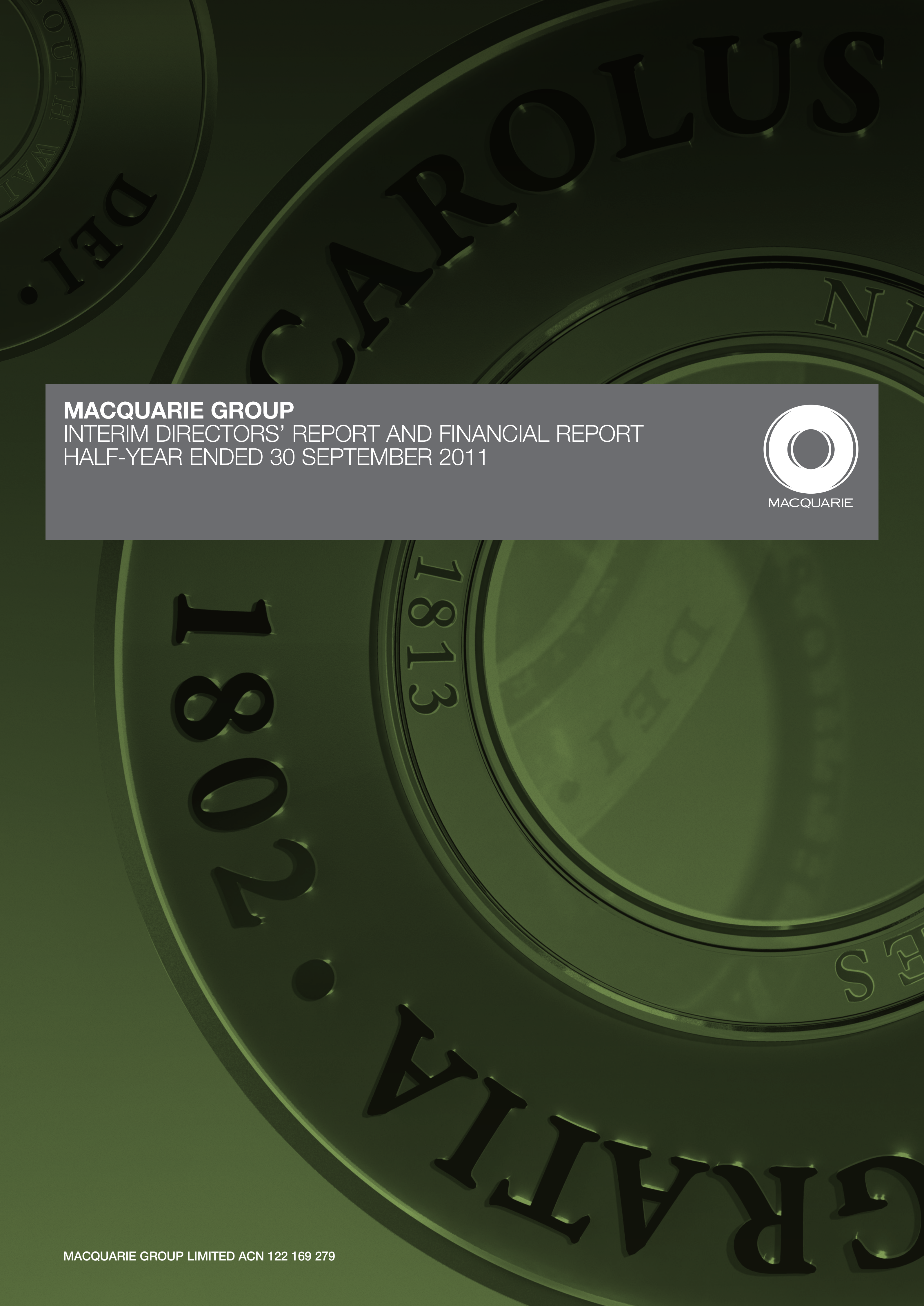

MACQUARIE GROUP

INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2011

MACQUARIE

MACQUARIE GROUP LIMITED ACN 122 169 279

Cover image: A stylised contemporary version of the Holey Dollar

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie Group.

This interim financial report has been prepared in accordance with Australian Accounting Standards and does not include all the notes of the type normally included in an annual financial report.

The material in this report has been prepared by Macquarie Group Limited ABN 94 122 169 279 (Macquarie) and is current at the date of this report. It is general background information about Macquarie's activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Financial report

for the half-year ended 30 September 2011
Contents

The Financial report was authorised for issue by the Directors on 28 October 2011.
The Consolidated Entity has the power to amend and reissue the Financial report.

Financial report
for the half-year ended 30 September 2011

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Directors' report
for the half-year ended 30 September 2011

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (MGL or the Company), the Directors submit herewith the financial statements of the Company and its subsidiaries (the Consolidated Entity) and report as follows:

Directors

At the date of this report, the Directors of MGL are:

Executive Director

N.W. Moore, Managing Director and Chief Executive Officer

Independent Directors

H.K. McCann, AM, Chairman
D.J. Grady, AM (appointed on 19 May 2011)
M.J. Hawker, AM
P.M. Kirby
C.B. Livingstone, AO
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

The Directors each held office as a Director of the Company throughout the period and until the date of this report, unless disclosed above.

Those Directors listed as Independent Directors have been independent throughout the period.

Result

The financial report for the half-year ended 30 September 2011 and the results herein are prepared in accordance with Australian Accounting Standards.

The consolidated profit attributable to ordinary equity holders of the Company, in accordance with Australian Accounting Standards, for the period was $305 million (half-year to 31 March 2011: $553 million; half-year to 30 September 2010: $403 million).

Review of operations

Consolidated profit attributable to ordinary equity holders of $305 million for the half-year ended 30 September 2011 decreased 24 per cent from $403 million in the prior corresponding period, and decreased 45 per cent from $553 million in the prior period. Challenging global market conditions during the period resulted in lower operating income compared with the prior corresponding period. The impact was partially offset through lower operating expenses resulting from a number of cost initiatives undertaken during the period and lower staff profit share expense.

Net operating income of $3,243 million for the half-year ended 30 September 2011 decreased 11 per cent from $3,661 million in the prior corresponding period. The main drivers of this decrease were:

– an 11 per cent decrease in fee and commission income to $1,766 million for the half-year ended 30 September 2011 from $1,995 million in the prior corresponding period with weak investor confidence and increased market volatility adversely impacting fee income from mergers, acquisitions, advisory and underwriting transactions as well as brokerage and commissions income;
– a 38 per cent decrease in net trading income to $374 million for the half-year ended 30 September 2011 from $606 million in the prior corresponding period largely driven by the adverse impact of volatility in credit and financial markets due to the uncertainty in Europe and the US on interest rate products related trading income, compounded by concerns over global growth; and
– a 4 per cent decrease in other operating income and charges to $356 million for the half-year ended 30 September 2011 from $370 million in the prior corresponding period. This was in part due to the prior corresponding period including gains of $114 million on re-measurement of retained investments that were reclassified from an associate to available for sale due to the loss of significant influence, predominantly related to an investment in MAp Group. This has been offset by a 147 per cent increase in operating lease income to $188 million for the half-year ended 30 September 2011 from $76 million in the prior corresponding period, largely due to the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation, and the acquisition of the remaining 62.5 per cent of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, in November 2010.

Directors' report
for the half-year ended 30 September 2011 continued

Review of operations continued

Total operating expenses of $2,828 million for the half-year ended 30 September 2011 decreased 11 per cent from $3,165 million in the prior corresponding period. The decrease was largely driven by:

- a 13 per cent decrease in employment expenses to $1,652 million for the half-year ended 30 September 2011 from $1,896 million in the prior corresponding period, which was in part due to lower staff profit share expense combined with a 3 per cent reduction in headcount from 15,533 at 30 September 2010 to 15,088 at 30 September 2011 and lower profit share expense. The compensation ratio of 47.2 per cent for the half-year ended 30 September 2011 compares with 47.9 per cent in the prior corresponding period; and
- a 12 per cent decrease in brokerage and commission expenses to $386 million from $441 million in the prior corresponding period due to reduced activity.

Income tax expense for the half-year ended 30 September 2011 of $107 million increased 26 per cent from $85 million in the prior corresponding period. The effective tax rate for the half-year ended 30 September 2011 was 26 per cent, up from 17 per cent in the prior corresponding period, largely due to changes in the mix of income combined with increased permanent differences relating to share-based payments.

Events after the reporting period

There were no material events subsequent to 30 September 2011 that have not been reflected in the financial statements.

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2011 of $0.65 per fully paid ordinary MGL share on issue at 11 November 2011. The dividend will be unfranked and paid on 14 December 2011.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001 (Cth)*, is set out on page 3.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/0100 (as amended), amounts in the Directors' report and the half-year financial report have been rounded off to the nearest million dollars unless otherwise indicated.

This report is made in accordance with a resolution of the Directors.

H Kevin McCann, AM
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
28 October 2011

Auditor’s independence declaration
for the half-year ended 30 September 2011

As lead auditor for the review of Macquarie Group Limited for the half-year ended 30 September 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001 (Cth)* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Group Limited and the entities it controlled during the period.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
28 October 2011

Consolidated income statement
for the half-year ended 30 September 2011

	Notes	**Half-year to 30 Sep 2011 $m**	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Interest and similar income		**2,789**	2,667	2,637
Interest expense and similar charges		**(2,091)**	(1,997)	(2,032)
Net interest income	2	**698**	670	605
Fee and commission income	2	**1,766**	1,896	1,995
Net trading income	2	**374**	762	606
Share of net profits of associates and joint ventures accounted for using the equity method	2	**49**	94	85
Other operating income and charges	2	**356**	561	370
Net operating income		**3,243**	3,983	3,661
Employment expenses	2	**(1,652)**	(1,994)	(1,896)
Brokerage and commission expenses	2	**(386)**	(344)	(441)
Occupancy expenses	2	**(213)**	(246)	(237)
Non-salary technology expenses	2	**(149)**	(157)	(159)
Other operating expenses	2	**(428)**	(467)	(432)
Total operating expenses		**(2,828)**	(3,208)	(3,165)
Operating profit before income tax		**415**	775	496
Income tax expense	4	**(107)**	(197)	(85)
Profit after income tax		**308**	578	411
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Securities	5	**(13)**	(13)	(13)
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Other non-controlling interests		**12**	(10)	7
Profit attributable to non-controlling interests		**(3)**	(25)	(8)
Profit attributable to ordinary equity holders of Macquarie Group Limited		**305**	553	403
				Cents per share
Basic earnings per share	6	**86.6**	163.3	119.2
Diluted earnings per share	6	**85.3**	158.8	117.1

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income
for the half-year ended 30 September 2011

	Notes	**Half-year to 30 Sep 2011 $m**	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Profit after income tax for the period		**308**	578	411
Other comprehensive (expense)/income:				
Available for sale investments, net of tax	17	**(180)**	148	108
Cash flow hedges, net of tax	17	**2**	(31)	33
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	17	**(4)**	6	21
Exchange differences on translation of foreign operations, net of tax		**333**	(219)	(284)
Total other comprehensive income/(expense) for the period		**151**	(96)	(122)
Total comprehensive income for the period		**459**	482	289
Total comprehensive income/(expense) for the period is attributable to:				
Ordinary equity holders of Macquarie Group Limited		**452**	464	277
Macquarie Income Securities holders		**13**	13	13
Macquarie Income Preferred Securities holders		**5**	(1)	1
Other non-controlling interests		**(11)**	6	(2)
Total comprehensive income for the period		**459**	482	289

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 30 September 2011

	Notes	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Assets				
Due from financial institutions		**11,525**	9,817	9,766
Cash collateral on securities borrowed and reverse repurchase agreements		**6,696**	8,790	9,266
Trading portfolio assets	7	**14,616**	14,898	15,938
Loan assets held at amortised cost	8	**45,843**	46,016	45,130
Other financial assets at fair value through profit or loss		**9,998**	11,668	11,025
Derivative financial instruments – positive values		**34,201**	21,185	23,430
Other assets		**14,960**	12,646	11,671
Investment securities available for sale	10	**21,334**	17,051	18,576
Life investment contracts and other unitholder investment assets		**4,758**	5,059	5,047
Interests in associates and joint ventures accounted for using the equity method	11	**2,891**	2,790	2,719
Property, plant and equipment		**5,133**	5,007	2,899
Intangible assets		**1,393**	1,317	1,411
Deferred income tax assets		**1,251**	1,245	1,107
Non-current assets and assets of disposal groups classified as held for sale	12	**89**	79	75
Total assets		**174,688**	157,568	158,060
Liabilities				
Due to financial institutions		**9,557**	7,810	9,981
Cash collateral on securities lent and repurchase agreements		**8,844**	6,617	6,482
Trading portfolio liabilities	13	**4,425**	5,808	5,811
Derivative financial instruments – negative values		**32,240**	21,572	24,326
Deposits		**38,050**	35,338	35,047
Debt issued at amortised cost	14	**42,258**	41,177	39,955
Other financial liabilities at fair value through profit or loss	15	**3,334**	4,339	3,710
Other liabilities		**15,180**	14,327	12,973
Current tax liabilities		**72**	197	94
Life investment contracts and other unitholder liabilities		**4,759**	5,055	5,069
Provisions		**232**	215	221
Deferred income tax liabilities		**351**	287	235
Total liabilities excluding loan capital		**159,302**	142,742	143,904
Loan capital				
Macquarie Convertible Preference Securities		**596**	595	593
Subordinated debt at amortised cost		**2,877**	1,832	1,483
Subordinated debt at fair value through profit or loss		**149**	467	487
Total loan capital		**3,622**	2,894	2,563
Total liabilities		**162,924**	145,636	146,467
Net assets		**11,764**	11,932	11,593

	Notes	**As at 30 Sep 2011 $m**	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Equity				
Contributed equity				
Ordinary share capital	16	**7,245**	7,140	7,063
Treasury shares	16	**(1,135)**	(731)	(719)
Exchangeable shares	16	**98**	104	129
Reserves	17	**504**	310	263
Retained earnings	17	**4,539**	4,581	4,325
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**11,251**	11,404	11,061
Non-controlling interests				
Macquarie Income Securities	17	**391**	391	391
Macquarie Income Preferred Securities	17	**66**	63	66
Other non-controlling interests	17	**56**	74	75
Total equity		**11,764**	11,932	11,593

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the half-year ended 30 September 2011

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2010		6,684	280	4,268	11,232	537	11,769
Total comprehensive (expense)/income for the period		–	(126)	403	277	12	289
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	64	–	–	64	–	64
Issue of shares to Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust)	16	(19)	–	–	(19)	–	(19)
Purchase of treasury shares by MEREP Trust		(257)	–	–	(257)	–	(257)
Dividends paid or provided for	5	–	–	(346)	(346)	–	(346)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(9)	(9)
Distributions paid or provided for		–	–	–	–	(8)	(8)
Other equity movements:							
Net movement on exchangeable shares	16	(8)	–	–	(8)	–	(8)
Share-based payments		9	109	–	118	–	118
		(211)	109	(346)	(448)	(17)	(465)
Balance at 30 September 2010		6,473	263	4,325	11,061	532	11,593
Total comprehensive (expense)/income for the period		–	(89)	553	464	18	482
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	53	–	–	53	–	53
Purchase of treasury shares by MEREP Trust	16	(12)	–	–	(12)	–	(12)
Dividends paid or provided for	5	–	–	(297)	(297)	–	(297)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	3	3
Distributions paid or provided for		–	–	–	–	(25)	(25)
Other equity movements:							
Net movement on exchangeable shares	16	(25)	–	–	(25)	–	(25)
Share-based payments		24	136	–	160	–	160
		40	136	(297)	(121)	(22)	(143)
Balance at 31 March 2011		**6,513**	**310**	**4,581**	**11,404**	**528**	**11,932**
Total comprehensive income for the period		**–**	**147**	**305**	**452**	**7**	**459**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	16	**52**	**–**	**–**	**52**	**–**	**52**
Purchase of treasury shares by MEREP Trust	16	**(404)**	**–**	**–**	**(404)**	**–**	**(404)**
Dividends paid or provided for	5	**–**	**–**	**(347)**	**(347)**	**–**	**(347)**
Non-controlling interests:							
Distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(19)**	**(19)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(3)**	**(3)**
Other equity movements:							
Net movement on exchangeable shares	16	**(6)**	**–**	**–**	**(6)**	**–**	**(6)**
Share-based payments		**53**	**47**	**–**	**100**	**–**	**100**
		(305)	**47**	**(347)**	**(605)**	**(22)**	**(627)**
Balance at 30 September 2011		**6,208**	**504**	**4,539**	**11,251**	**513**	**11,764**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the half-year ended 30 September 2011

	Notes	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Cash flows from operating activities				
Interest received		**2,956**	2,719	2,378
Interest and other costs of finance paid		**(2,068)**	(1,956)	(2,104)
Dividends and distributions received		**70**	213	153
Fees and other non-interest income received		**2,039**	2,378	2,477
Fees and commissions paid		**(408)**	(332)	(439)
Net receipts from/(payments for) trading portfolio assets and other financial assets/liabilities		**444**	825	(4,682)
Payments (to)/from suppliers		**(594)**	396	(1,885)
Employment expenses paid		**(2,208)**	(1,385)	(2,339)
Income tax paid		**(226)**	(132)	(72)
Life investment contract income		**126**	59	67
Life investment contract premiums received and other unitholder contributions		**1,882**	1,292	1,283
Life investment contract payments		**(2,063)**	(1,260)	(1,151)
Net loan assets granted		**(50)**	(626)	(924)
Recovery of loans previously written off		**10**	6	6
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**4,460**	(1,444)	8,858
Net cash flows from operating activities	18	**4,370**	753	1,626
Cash flows from investing activities				
Net receipts from/(payments for) investment securities available for sale and financial assets at fair value through profit or loss		**1,425**	112	(833)
Net (payments for)/proceeds from the acquisition and disposal of associates		**(115)**	(405)	129
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**(4)**	(22)	–
Payments for the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		**(10)**	(67)	1,445
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**76**	75	17
Payments for life investment contracts and other unitholder investment assets		**(3,178)**	(2,657)	(3,714)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**3,273**	2,578	3,567
Net payments for property, plant and equipment, lease assets and intangible assets		**(60)**	(1,121)	(1,009)
Proceeds from the sale of management rights		**–**	14	–
Net cash flows from/(used in) investing activities		**1,407**	(1,493)	(398)

Consolidated statement of cash flows
for the half-year ended 30 September 2011 continued

	Notes	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**1**	1	–
Payments to non-controlling interests		**(6)**	(4)	–
Net proceeds from issue of subordinated debt		**614**	334	598
Dividends and distributions paid		**(314)**	(279)	(319)
Purchase of treasury shares		**(404)**	(14)	(255)
Net cash flows (used in)/from financing activities		**(109)**	38	24
Net increase/(decrease) in cash and cash equivalents		**5,668**	(702)	1,252
Cash and cash equivalents at the beginning of the period		**12,323**	13,025	11,773
Cash and cash equivalents at the end of the period	18	**17,991**	12,323	13,025

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1

Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2011 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

This half-year financial report comprises the consolidated financial report of Macquarie Group Limited (MGL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity).

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2011 and any public announcements made by MGL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

The Consolidated Entity is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 (as amended), relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' report and the half-year financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of MGL for the year ended 31 March 2011. Certain comparatives have been restated for consistency in presentation at 30 September 2011.

Accounting Standards effective in the current period

AASB 2010-3 and AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* were issued in June 2010 and became applicable in the current period.

AASB 2010-3 amendments confirm that:

- contingent consideration arising in a business combination that had been accounted for in accordance with AASB 3 (2004) that has not been settled or otherwise resolved at the adoption date of AASB 3 (2008) continues to be accounted for in accordance with AASB 3 (2004);
- the accounting policy choice to measure non-controlling interests (NCI) upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets is limited to instruments that give rise to a present ownership interest and which currently entitle the holder to a share of net assets in the event of liquidation. The accounting policy choice does not apply to other instruments, such as written options classified as equity instruments – these are generally measured at fair value or otherwise in accordance with the relevant Standards;
- AASB 3 (2008) application guidance applies to unreplaced and voluntarily replaced share-based payment awards; and
- consequential amendments to AASB 121, AASB 128 and AASB 131 as a result of the issue of AASB 127 (2008) relating to disposals of all or part of a foreign operation and accounting for a loss of significant influence/joint control is applied prospectively.

AASB 2010-4 makes amendments to various disclosure requirements relating to AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements* and AASB 134 *Interim Financial Reporting*.

The application of these amendments in the current period has had an immaterial impact.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,789**	2,667	2,637
Interest expense and similar charges paid/payable	**(2,091)**	(1,997)	(2,032)
Net interest income	**698**	670	605
Fee and commission income			
Base fees	**463**	454	496
Performance fees	**89**	21	15
Mergers and acquisitions, advisory and underwriting fees	**339**	529	402
Brokerage and commissions	**488**	555	582
Other fee and commission income	**354**	300	454
Income from life investment contracts and other unitholder investment assets	**33**	37	46
Total fee and commission income	**1,766**	1,896	1,995
Net trading income[1]			
Equities	**129**	214	178
Commodities	**207**	397	156
Foreign exchange products	**119**	109	83
Interest rate products	**(81)**	42	189
Net trading income	**374**	762	606
Share of net profits of associates and joint ventures accounted for using the equity method	**49**	94	85

[1] Included in net trading income are fair value gains of $207 million (half-year to 31 March 2011: $461 million gain; half-year to 30 September 2010: $202 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes a $2 million gain (half-year to 31 March 2011: $8 million loss; half-year to 30 September 2010: $1 million loss) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**78**	124	105
Impairment charge on investment securities available for sale	**(56)**	(35)	(3)
Net gains on sale of associates (including associates held for sale) and joint ventures	**13**	10	9
Impairment reversal/(charge) on interests in associates and joint ventures[1]	**24**	(23)	(46)
Impairment charge on disposal groups held for sale	**–**	(16)	–
Gain on acquiring, disposing and change in ownership interest in subsidiaries	**5**	63	33
Gain on re-measurement of retained investments[2]	**–**	15	114
Impairment charge on non-financial assets	**(7)**	(3)	(4)
Sale of management rights	**–**	14	–
Net operating lease income[3]	**188**	167	76
Dividends/distributions received/receivable:			
Investment securities available for sale	**81**	60	66
Collective allowance for credit losses (provided for)/written back during the period (note 8)	**(16)**	(4)	9
Individually assessed provisions:			
Loan assets provided for during the period (note 8)	**(30)**	(28)	(66)
Other receivables provided for during the period	**(4)**	(6)	(3)
Recovery of loans previously provided for (note 8)	**6**	7	9
Recovery of other receivables previously provided for	**–**	13	–
Loan losses written off	**(32)**	(39)	(32)
Recovery of loans previously written off	**10**	6	6
Other income	**96**	236	97
Total other operating income and charges	**356**	561	370
Net operating income	**3,243**	3,983	3,661

1 Includes impairment charge of $10 million (half-year to 31 March 2011: impairment reversals of $10 million; half-year to 30 September 2010: impairment reversals of $nil).

2 The comparatives included gains on re-measurement of retained ownership interest to fair value on the loss of control of investments in subsidiaries and the loss of significant influence of investments in associates.

3 Includes rental income of $304 million (half-year to 31 March 2011: $240 million; half-year to 30 September 2010: $161 million) less depreciation of $116 million (half-year to 31 March 2011: $73 million; half-year to 30 September 2010: $85 million) in relation to operating leases where the Consolidated Entity is the lessor.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,398)**	(1,673)	(1,596)
Share-based payments	**(113)**	(181)	(125)
Provision for annual leave	**(16)**	(4)	(25)
Provision for long service leave	**(4)**	–	(8)
Total compensation expenses	**(1,531)**	(1,858)	(1,754)
Other employment expenses including on-costs, staff procurement and staff training	**(121)**	(136)	(142)
Total employment expenses	**(1,652)**	(1,994)	(1,896)
Brokerage and commission expenses			
Brokerage expenses	**(314)**	(310)	(273)
Other fee and commission expenses	**(72)**	(34)	(168)
Total brokerage and commission expenses	**(386)**	(344)	(441)
Occupancy expenses			
Operating lease rentals	**(120)**	(145)	(150)
Depreciation: furniture, fittings and leasehold improvements	**(56)**	(59)	(59)
Other occupancy expenses	**(37)**	(42)	(28)
Total occupancy expenses	**(213)**	(246)	(237)
Non-salary technology expenses			
Information services	**(71)**	(72)	(73)
Depreciation: computer equipment	**(25)**	(23)	(27)
Other non-salary technology expenses	**(53)**	(62)	(59)
Total non-salary technology expenses	**(149)**	(157)	(159)
Other operating expenses			
Professional fees	**(107)**	(152)	(124)
Auditor’s remuneration	**(9)**	(11)	(9)
Travel and entertainment expenses	**(81)**	(92)	(92)
Advertising and promotional expenses	**(32)**	(39)	(33)
Communication expenses	**(22)**	(24)	(25)
Amortisation of intangibles	**(39)**	(46)	(28)
Depreciation: communication equipment	**(3)**	(3)	(3)
Other expenses	**(135)**	(100)	(118)
Total other operating expenses	**(428)**	(467)	(432)
Total operating expenses	**(2,828)**	(3,208)	(3,165)

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups, one operating division and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2011 there have been a number of asset transfers between Operating Groups and the Corporate segment. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. In addition, certain assets not aligned with any of the Operating Groups were transferred to the Corporate segment, including the investment in MAp Group.

This restructure is effective from 1 April 2011. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie Funds Group is the Consolidated Entity's funds management business. It is a full-service asset manager, offering a diverse range of capabilities and products including investment management, infrastructure and real asset management and fund and equity based structured products.

Corporate and Asset Finance is the lending and leasing business of the Consolidated Entity.

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

Macquarie Securities Group activities include institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full-service institutional cash equities broker in the Asia Pacific region and South Africa, and offers specialised services in other regions. It also provides an equity capital markets service through a joint venture with Macquarie Capital Advisers.

Macquarie Capital comprises the Consolidated Entity's corporate advisory, equity underwriting and debt structuring and distribution businesses, private equity placements and principal products.

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

Real Estate Banking Division activities include real estate investment, development management and asset management.

Corporate includes Group Treasury, head office and central support functions. It holds certain central investments. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and certain expenses attributable to NCI. Corporate is not considered an operating group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 3
Segment reporting continued

(i) **Operating segments** continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the period:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Revenues from external customers	**812**	**958**	**1,130**
Inter-segmental (expense)/revenue[1]	**(28)**	**(287)**	**604**
Interest revenue	**143**	**794**	**771**
Interest expense	**(22)**	**(127)**	**(1,022)**
Depreciation and amortisation	**(10)**	**(118)**	**(9)**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**16**	**2**	**(1)**
Reportable segment profit/(loss)	**410**	**358**	**137**
Reportable segment assets	**11,037**	**21,706**	**28,190**

Revenues from external customers	722	891	1,291
Inter-segmental (expense)/revenue[1]	(42)	(267)	499
Interest revenue	91	734	786
Interest expense	(20)	(118)	(924)
Depreciation and amortisation	(13)	(97)	(24)
Share of net profits of associates and joint ventures accounted for using the equity method	61	5	1
Reportable segment profit/(loss)	257	328	141
Reportable segment assets	11,146	20,662	28,765

Revenues from external customers	825	766	1,239
Inter-segmental (expense)/revenue[1]	(28)	(282)	265
Interest revenue	97	719	799
Interest expense	(38)	(95)	(733)
Depreciation and amortisation	(12)	(48)	(14)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	6	19	–
Reportable segment profit/(loss)	228	246	134
Reportable segment assets	11,353	17,367	29,396

[1] Internal reporting systems do not enable the separation of inter-segmental revenues and expenses. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Real Estate Banking Division $m	Corporate $m	Total $m
					Half-year to 30 September 2011
609	**369**	**783**	**24**	**681**	**5,366**
(1)	**(108)**	**(191)**	**(10)**	**21**	**–**
130	**23**	**336**	**8**	**584**	**2,789**
(66)	**(9)**	**(146)**	**–**	**(699)**	**(2,091)**
(7)	**(19)**	**(10)**	**–**	**(66)**	**(239)**
–	**18**	**9**	**3**	**2**	**49**
(19)	**5**	**6**	**(3)**	**(589)**	**305**
26,230	**3,520**	**56,742**	**397**	**26,866**	**174,688**
					Half-year to 31 March 2011
729	678	1,181	60	589	6,141
18	(132)	(143)	(18)	85	–
131	16	355	7	547	2,667
(63)	(14)	(163)	–	(695)	(1,997)
(7)	(23)	(10)	–	(30)	(204)
1	19	–	3	4	94
86	162	408	(14)	(815)	553
25,583	3,097	43,154	448	24,713	157,568
					Half-year to 30 September 2010
694	493	803	25	1,016	5,861
(6)	(123)	(81)	(19)	274	–
119	22	297	9	575	2,637
(64)	(24)	(199)	–	(879)	(2,032)
(3)	(32)	(9)	–	(84)	(202)
–	37	15	(8)	16	85
98	44	167	(28)	(486)	403
26,433	3,050	43,879	554	26,028	158,060

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 3
Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:

Asset and Wealth Management: distribution and manufacture of funds management products;

Financial Markets: trading in fixed income, equities, currency, commodities and derivative products;

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development; and

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
			Half-year to 30 September 2011		
Revenues from external customers	**1,026**	**1,763**	**567**	**2,010**	**5,366**
			Half-year to 31 March 2011		
Revenues from external customers	1,216	1,687	1,277	1,961	6,141
			Half-year to 30 September 2010		
Revenues from external customers	1,156	1,791	1,217	1,697	5,861

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Revenues from external customers			
Australia	**2,881**	3,154	3,291
Asia Pacific	**338**	462	466
Europe, Middle East and Africa	**686**	1,085	821
Americas	**1,461**	1,440	1,283
Total	**5,366**	6,141	5,861

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Note 4

Income tax expense

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
(i) Numerical reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit[1]	**(125)**	(232)	(149)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**68**	101	73
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	1
Share-based payments expense	**(25)**	(8)	(14)
Other items	**(26)**	(58)	4
Total income tax expense	**(107)**	(197)	(85)
(ii) Tax benefit/(expense) relating to items of other comprehensive income			
Available for sale reserves	**63**	(61)	(43)
Cash flow hedges	**(2)**	10	(13)
Foreign currency translation reserve	**25**	22	69
Share of other comprehensive income of associates and joint ventures	**2**	(3)	(9)
Total tax benefit/(expense) relating to items of other comprehensive income	**88**	(32)	4

[1] Prima facie income tax expense on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2011: 30 per cent; half-year to 30 September 2010: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Group has assessed these and other taxation claims, including seeking advice where appropriate, and considers that it holds appropriate provisions.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid or provided for

Ordinary share capital			
Interim dividend paid (half-year to 31 March 2011: $0.86 per share)[1]	**–**	296	–
2011 final dividend paid $1.00 per share (half-year to 30 September 2010: $1.00 per share)[1]	**346**	–	344
Dividends provided for[2]	**1**	1	2
Total dividends paid or provided for (note 17)	**347**	297	346

1 Dividend paid by the Consolidated Entity includes $1 million (half-year to 31 March 2011: $1 million; half-year to 30 September 2010: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in note 16 – Contributed equity.

2 Dividends provided by the Consolidated Entity relate to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. as described in note 16 – Contributed equity.

The final dividend paid during the period was unfranked (half-year to 31 March 2011: unfranked; half-year to 30 September 2010: unfranked). The dividends paid to the holders of the exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 16 – Contributed equity.

(ii) Dividends not recognised at the end of the period

Since the end of the period, the Directors have recommended the payment of an interim dividend for the half-year ended 30 September 2011 of $0.65 per fully paid ordinary MGL share on issue on 11 November 2011, unfranked. The aggregate amount of the proposed dividend expected to be paid on 14 December 2011 from retained profits at 30 September 2011, but not recognised as a liability at the end of the period, is $225 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of $2 million to be received on treasury shares – refer to note 16 – Contributed equity for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 30 September 2011.

	Half-year to 30 Sep 2011	Half-year to 31 Mar 2011	Half-year to 30 Sep 2010
		Dividend per ordinary share	
Cash dividend per ordinary share (distribution of current year profits)	**$0.65**	$1.00	$0.86

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided for)	**7**	7	7
Distributions provided for	**6**	6	6
Total distributions paid or provided for	**13**	13	13

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIS are recorded as movements in NCI, as disclosed in note 17 – Reserves, retained earnings and non-controlling interests. No dividends are payable under the preference shares until Macquarie Bank Limited (MBL), a subsidiary, exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 17 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

Macquarie Income Preferred Securities			
Distributions provided for	**2**	2	2
Total distributions paid or provided for (note 17)	**2**	2	2

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid/provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 17 – Reserves, retained earnings and non-controlling interests. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 17 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 6
Earnings per share

	Half-year to 30 Sep 2011	Half-year to 31 Mar 2011	Half-year to 30 Sep 2010
			Cents per share
Basic earnings per share	**86.6**	163.3	119.2
Diluted earnings per share	**85.3**	158.8	117.1
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m	$m
Profit after income tax	**308**	578	411
(Profit)/loss attributable to non-controlling interests:			
Macquarie Income Securities	**(13)**	(13)	(13)
Macquarie Income Preferred Securities	**(2)**	(2)	(2)
Other non-controlling interests	**12**	(10)	7
Total profit attributable to ordinary equity holders of MGL	**305**	553	403
Less profit attributable to treasury shares[1]	**(21)**	(10)	(5)
Total earnings used in the calculation of basic earnings per share	**284**	543	398
Add back adjusted interest expense on Macquarie Convertible Preference Securities[2]	**–**	17	16
Total earnings used in the calculation of diluted earnings per share	**284**	560	414
			Number of shares
Total weighted average number of ordinary shares used in the calculation of basic earnings per share[1]	**328,034,686**	332,592,566	333,939,801
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid ordinary shares	**328,034,686**	332,592,566	333,939,801
Potential ordinary shares:			
Weighted average options	**20,322**	100,250	173,222
Weighted average MEREP awards	**4,744,822**	3,066,565	2,577,335
Weighted average retention securities and options	**148,207**	145,966	217,074
Macquarie Convertible Preference Securities[2]	**–**	16,808,205	16,742,601
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**332,948,037**	352,713,552	353,650,033

1 Total weighted average number of ordinary shares and total earnings for comparative periods have been restated to include the impact of treasury shares. Refer note 16 – Contributed equity for further details on the treasury shares.

2 Macquarie Convertible Preference Securities were not dilutive as at 30 September 2011 on the basis of share prices prevailing at that time.

Note 6

Earnings per share continued

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are nil (31 March 2011: 5,099; 30 September 2010: 9,706) options that were converted, lapsed or cancelled during the period. There are a further 21,535,863 (31 March 2011: 30,513,007; 30 September 2010: 33,385,892) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the half-year ended 30 September 2011 and consequently, they are not considered to be dilutive.

The Company has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently the Company does not expect to issue any further options under the MGESOP.

Macquarie Group Employee Retained Equity Plan (MEREP)

In December 2009, the Company's shareholders approved the implementation of the MEREP. Awards granted under MEREP are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average shares are 890,333 (31 March 2011: 171,357; 30 September 2010: 390,105) awards that were converted, lapsed or cancelled during the period. As at 30 September 2011, a further 3,493,587 (31 March 2011: 4,052,663; 30 September 2010: 825,500) MEREP awards have not been included in the balance of weighted average awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer to note 16 – Contributed equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Retention Securities and Options

Retention securities and options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The fair value of these securities and options is amortised over the vesting period.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie Convertible Preference Securities (CPS) at face value of $100 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. The CPS have not been included in the determination of basic earnings per share and have been included in diluted earnings per share from their date of issue to the extent to which they are dilutive.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m

Note 7
Trading portfolio assets

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Equities			
Listed	**5,159**	6,771	7,759
Unlisted	**37**	71	1
Commonwealth government bonds	**2,993**	1,818	3,131
Corporate bonds	**2,796**	2,915	2,789
Commodities	**1,435**	2,002	1,478
Foreign government bonds[1]	**1,078**	517	413
Other government securities[2]	**823**	197	209
Promissory notes	**175**	508	72
Bank bills	**66**	40	20
Treasury notes	**53**	58	58
Certificates of deposit	**1**	1	8
Total trading portfolio assets	**14,616**	14,898	15,938

1 The Consolidated Entity has no sovereign debt exposure to Portugal, Italy, Ireland, Greece or Spain.

2 Other government securities include state and local governments and related enterprises, predominantly in Australia.

Note 8
Loan assets held at amortised cost

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Due from clearing houses	**1,527**	1,894	2,162
Due from governments[1]	**231**	593	154
Due from other entities			
Other loans and advances	**40,186**	39,931	39,479
Less individually assessed provisions for impairment	**(367)**	(332)	(377)
	39,819	39,599	39,102
Lease receivables	**4,513**	4,159	3,937
Less individually assessed provisions for impairment	**(2)**	(2)	(3)
Total due from other entities	**44,330**	43,756	43,036
Total loan assets before collective allowance for credit losses	**46,088**	46,243	45,352
Less collective allowance for credit losses	**(245)**	(227)	(222)
Total loan assets held at amortised cost[2]	**45,843**	46,016	45,130

1 Governments include federal, state and local governments and related enterprises, predominantly in Australia.

2 Included within this balance are loans of $13,495 million (31 March 2011: $13,390 million; 30 September 2010: $14,390 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m

Note 8

Loan assets held at amortised cost continued

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**334**	379	352
Provided for during the period (note 2)	**30**	28	66
Loan assets written off, previously provided for	**(3)**	(59)	(20)
Recovery of loans previously provided for (note 2)	**(6)**	(7)	(9)
Impact of foreign currency translation	**14**	(7)	(10)
Balance at the end of the period	**369**	334	379
Individually assessed provisions as a percentage of total gross loan assets	**0.79%**	0.72%	0.83%
Collective allowance for credit losses			
Balance at the beginning of the period	**227**	222	229
Provided for/(written back) during the period (note 2)	**16**	4	(9)
Loan assets written off, previously provided for	**–**	(5)	–
Attributable to acquisitions during the period	**–**	6	3
Impact of foreign currency translation	**2**	–	(1)
Balance at the end of the period	**245**	227	222

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identifiable.

Note 9

Impaired financial assets

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	**121**	117	109
Less individually assessed provisions for impairment	**(86)**	(86)	(84)
Debt investment securities available for sale after individually assessed provisions for impairment	**35**	31	25
Impaired loan assets and other financial assets with individually assessed provisions for impairment	**806**	792	944
Less individually assessed provisions for impairment	**(426)**	(415)	(482)
Loan assets and other financial assets after individually assessed provisions for impairment	**380**	377	462
Total net impaired financial assets	**415**	408	487

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m

Note 10
Investment securities available for sale

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Equity securities			
Listed	**1,907**	1,969	2,417
Unlisted	**705**	572	320
Debt securities[1,2]	**18,722**	14,510	15,839
Total investment securities available for sale	**21,334**	17,051	18,576

1 Included within this balance are debt securities of $209 million (31 March 2011: $235 million; 30 September 2010: $197 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal title to these assets but has full economic exposure to them.

2 Includes $5,485 million (31 March 2011: $2,314 million; 30 September 2010: $3,682 million) of Negotiable Certificates of Deposits (NCD) due from financial institutions and $307 million (31 March 2011: $43 million; 30 September 2010: $115 million) of bank bills.

Note 11
Interests in associates and joint ventures accounted for using the equity method

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Loans and investments without provisions for impairment	**2,147**	1,820	1,768
Loans and investments with provisions for impairment	**1,272**	1,503	1,605
Less provisions for impairment	**(528)**	(533)	(654)
Loans and investments at recoverable amount	**744**	970	951
Total interests in associates and joint ventures accounted for using the equity method	**2,891**	2,790	2,719

Note 11

Interests in associates and joint ventures accounted for using the equity method continued

Summarised information of interests in material associates and joint ventures accounted for using the equity method is as follows:

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2011 %**	As at 31 Mar 2011 %	As at 30 Sep 2010 %
BrisConnections Unit Trusts [1, a]	Australia	30 June	**46**	46	46
Diversified CMBS Investments Inc. [2, b]	USA	31 March	**57**	57	57
Macquarie AirFinance Limited [3, c]	Bermuda	31 December	**–**	–	38
Macquarie Goodman Japan Pte Limited [d]	Singapore	31 March	**50**	50	50
MGPA Limited [1, d]	Bermuda	30 June	**56**	56	56
Miclyn Express Offshore Limited [1, e]	Bermuda	30 June	**34**	34	34
Redford Australian Investment Trust [1, d]	Australia	31 December	**29**	29	25
Southern Cross Media Group [1, f]	Australia	30 June	**25**	25	26

1 Significant influence arises due to the Consolidated Entity's voting power and board representation.

2 The Consolidated Entity has joint control because neither the Consolidated Entity nor its joint investor has control in their own right.

3 During the half-year ended 31 March 2011, controlling interest in the entity was acquired.

a Infrastructure

b Funds management and investing

c Aircraft leasing

d Property development/management

e Metals, mining and energy

f Television and radio investments

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Note 12			
Non-current assets and disposal groups classified as held for sale			
Non-current assets and assets of disposal groups classified as held for sale			
Associates	**89**	79	75
Total non-current assets and assets of disposal groups classified as held for sale	**89**	79	75

The above non-current assets and assets of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale unless events or circumstances occur that are beyond the control of the Consolidated Entity, and the Consolidated Entity remains committed to its plan to sell the assets.

Summarised information of interests in material associates and joint ventures classified as held for sale is as follows:

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2011 %**	As at 31 Mar 2011 %	As at 30 Sep 2010 %
Retirement Villages Group [a]	Australia	30 June	**10**	10	10
Soria Finance Co[b]	Mexico	31 December	**22**	22	–

[a] Retirement homes
[b] Infrastructure

All associates and joint ventures classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m

Note 13

Trading portfolio liabilities

Listed equity securities	**2,973**	4,500	4,058
Commonwealth government securities	**1,101**	340	642
Corporate securities	**261**	472	621
Other government securities	**90**	496	490
Total trading portfolio liabilities	**4,425**	5,808	5,811

Note 14

Debt issued at amortised cost

Debt issued at amortised cost[1]	**42,258**	41,177	39,955
Total debt issued at amortised cost	**42,258**	41,177	39,955

1 Included within this balance are amounts payable to SPE note holders of $11,191 million (31 March 2011: $11,679 million; 30 September 2010: $12,679 million).

The Consolidated Entity has not had any defaults of principal, interest or other breaches with respect to its debt during the periods reported.

Note 15

Other financial liabilities at fair value through profit or loss

Debt issued at fair value	**713**	873	1,249
Equity linked notes	**2,621**	3,466	2,461
Total other financial liabilities at fair value through profit or loss	**3,334**	4,339	3,710

Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:

(In Australian dollar equivalent):

United States dollars	**19,809**	18,035	15,629
Australian dollars	**13,819**	14,663	15,729
Canadian dollars	**6,690**	7,242	6,830
Japanese yen	**2,097**	1,466	1,442
Euro	**1,259**	2,295	1,635
South African rand	**942**	1,173	1,381
Korean won	**462**	247	348
Great British pounds	**191**	135	214
Hong Kong dollars	**133**	164	279
Singapore dollars	**122**	62	81
Other currencies	**68**	34	97
Total by currency	**45,592**	45,516	43,665

The Consolidated Entity's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from one day to 30 years.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 16
Contributed equity

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Ordinary share capital			
Opening balance of 346,814,961 (1 October 2010: 345,601,301; 1 April 2010: 344,244,271) fully paid ordinary shares	**7,140**	7,063	6,990
Issue of 25,579 shares (31 March 2011: 32,076; 30 September 2010: 6,013) on exercise of options	**1**	1	–
Issue of 3,197 shares (31 March 2011: 8,701; 30 September 2010: 2,864) on exercise of MEREP awards	**–**	–	–
Issue of shares (31 March 2011: 32,328) pursuant to the Macquarie Group Employee Share Plan (ESP) at $40.52 per share	**–**	1	–
Issue of 1,407,153 shares (31 March 2011: 826,982; 30 September 2010: 912,835) pursuant to the Macquarie Group Dividend Reinvestment Plan (DRP) at $34.60 (31 March 2011: $36.36; 30 September 2010: $45.55) per share	**49**	30	42
Issue of 27,041 shares (31 March 2011: 215,399; 30 September 2010: 40,964) on retraction of exchangeable shares at $80.30 per share	**2**	18	3
Issue of 7,101 (31 March 2011: 57,842; 30 September 2010: nil) shares on retraction of exchangeable shares at $50.80 per share	**–**	3	–
Issue of shares (31 March 2011: 40,332; 30 September 2010: nil) for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**–**	–	–
Issue of shares (30 September 2010: 394,354) to MEREP Trust within the range of (30 September 2010: $38.42 and $50.40) per share	**–**	–	19
Transfer from share-based payments reserve for employee awards that have vested	**53**	24	9
Closing balance of 348,285,032 (31 March 2011: 346,814,961; 30 September 2010: 345,601,301) fully paid ordinary shares	**7,245**	7,140	7,063

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Total treasury shares[1]	**(1,135)**	(731)	(719)

[1] Under MEREP the staff retained profit share will be held in the shares of the Company by MEREP Trust and presented as treasury shares. As at 30 September 2011, there were 28,227,215 (31 March 2011: 16,051,666; 30 September 2010: 15,662,650) treasury shares held.

Note 16

Contributed equity continued

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Exchangeable shares			
Opening balance of 2,150,614 (1 October 2010: 2,605,164; 1 April 2010: 2,935,489) exchangeable shares	**104**	129	137
Issue of 40,943 (31 March 2011: nil; 30 September 2010: 43,767) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis[1,2]	**1**	1	5
Retraction of 27,041 (31 March 2011: 215,399; 30 September 2010: 40,964) exchangeable shares at $80.30 per share, exchangeable to shares in MGL on a one-for-one basis[3]	**(2)**	(18)	(3)
Retraction of 7,101 (31 March 2011: 57,842; 30 September 2010: nil) exchangeable shares with vesting conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis	**–**	(3)	–
Cancellation of 10,442 (31 March 2011: 40,890; 30 September 2010: 62,874) exchangeable shares at $80.30 per share	**(1)**	(3)	(5)
Cancellation of 152,562 (31 March 2011: 140,419; 30 September 2010: 270,254) exchangeable shares at $50.80 per share	**(4)**	(2)	(5)
Cancellation of 8,471 (31 March 2011: nil; 30 September 2010: nil) exchangeable shares with retention conditions at $50.80 per share	**–**	–	–
Closing balance of 1,985,940 (31 March 2011: 2,150,614; 30 September 2010: 2,605,164) exchangeable shares	**98**	104	129

1 The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation.* They are eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

There are also retention agreements in place with key former Tristone employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 30 September 2011, the total number of retention options remaining is 40,941 (31 March 2011: 81,884; 30 September 2010: 87,530).

2 The value of the exchangeable shares at the reporting date includes a fair value adjustment due to an earn out mechanism. The number of exchangeable shares exercisable by the holders will expand (to a maximum of 4 million shares) or contract, based on the performance of the acquired business against pre-determined financial performance measures until the adjustment date (a date between the second anniversary of closing and not later than 60 days after the second anniversary of closing).

3 The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.

There are also retention agreements in place with key former Orion employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 30 September 2011, the total number of retention options remaining is 66,668 (31 March 2011: 66,668; 30 September 2010: 107,000).

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 17
Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(820)**	(608)	(320)
Currency translation differences arising during the period, net of hedge and net of tax	**329**	(212)	(288)
Balance at the end of the period	**(491)**	(820)	(608)
Available for sale reserve			
Balance at the beginning of the period	**382**	234	126
Revaluation movement for the period, net of tax	**(111)**	352	85
Transfer to income statement for impairment, net of tax	**19**	(2)	(4)
Transfer to income statement for hedged item components	**(57)**	–	–
Transfer to profit on realisation	**(31)**	(202)	27
Balance at the end of the period	**202**	382	234
Share-based payments reserve			
Balance at the beginning of the period	**789**	653	544
Option expense for the period	**10**	11	21
MEREP expense for the period	**90**	149	97
Transfer to share capital on vesting of MEREP awards	**(53)**	(24)	(9)
Balance at the end of the period	**836**	789	653
Cash flow hedging reserve			
Balance at the beginning of the period	**(37)**	(6)	(39)
Revaluation movement for the period, net of tax	**2**	(31)	33
Balance at the end of the period	**(35)**	(37)	(6)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**(4)**	(10)	(31)
Share of other comprehensive (expense)/income during the period	**(4)**	6	21
Balance at the end of the period	**(8)**	(4)	(10)
Total reserves at the end of the period	**504**	310	263
Retained earnings			
Balance at the beginning of the period	**4,581**	4,325	4,268
Profit attributable to ordinary equity holders of MGL	**305**	553	403
Dividends paid on ordinary share capital (note 5)	**(347)**	(297)	(346)
Balance at the end of the period	**4,539**	4,581	4,325

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m

Note 17

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests			
Macquarie Income Securities[1]			
4,000,000 Macquarie Income Securities of $100 each	**400**	400	400
Less transaction costs for original placement	**(9)**	(9)	(9)
Total Macquarie Income Securities	**391**	391	391
Macquarie Income Preferred Securities[2]			
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	107
Less issue costs	**(1)**	(1)	(1)
	106	106	106
Current period profit	**2**	4	2
Distribution provided for on Macquarie Income Preferred Securities (note 5)	**(2)**	(4)	(2)
Foreign currency translation reserve	**(40)**	(43)	(40)
Total Macquarie Income Preferred Securities	**66**	63	66
Other non-controlling interests			
Ordinary share capital	**36**	46	44
Foreign currency translation reserve	**(11)**	(12)	(8)
Retained earnings	**31**	40	39
Total other non-controlling interests	**56**	74	75
Total non-controlling interests	**513**	528	532

1 The Macquarie Income Securities issued by MBL, a subsidiary, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent per annum (31 March 2011: 1.7 per cent per annum; 30 September 2010: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual security with no conversion rights.

2 On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, currently pay a 6.177 per cent per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

These instruments are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation* and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax.

Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m

Note 18
Notes to the consolidated statement of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the consolidated statement of cash flows are reconciled to related items in the consolidated statement of financial position as follows:

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Due from financial institutions[1]	**11,311**	9,667	9,493
Trading portfolio assets and debt securities[2]	**6,680**	2,656	3,532
Cash and cash equivalents at the end of the period	**17,991**	12,323	13,025

[1] Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses.

[2] Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Reconciliation of profit after income tax to net cash flows from operating activities			
Profit after income tax	**308**	578	411
Adjustments to profit after income tax:			
Depreciation and amortisation	**239**	204	202
Dividends received/receivable from associates	**84**	141	149
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(152)**	(138)	(96)
Gain on acquiring, disposing, and change in ownership interest in subsidiaries	**(5)**	(63)	(33)
Impairment charge on financial and non-financial assets	**115**	134	136
Interest on available for sale financial assets	**6**	62	(210)
Gain on disposal of property, plant and equipment	**(22)**	–	–
Net gains on sale of investment securities available for sale and associates and joint ventures	**(91)**	(149)	(228)
Sale of management rights	**–**	(14)	–
Share-based payments expense	**101**	166	118
Share of net profits of associates and joint ventures accounted for using the equity method	**(49)**	(94)	(85)
Changes in assets and liabilities:			
Change in dividends receivable	**(101)**	12	(62)
Change in fees and non-interest income receivable	**(93)**	45	271
Change in fees and commissions payable	**(22)**	12	2
Change in tax balances	**(119)**	65	13
Change in provisions for employee entitlements	**15**	(8)	14
Change in loan assets	**(50)**	(626)	(924)
Change in debtors, prepayments, accrued charges and creditors	**(527)**	1,325	(1,617)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**178**	462	(5,324)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**4,644**	(1,413)	8,737
Change in life investment contract receivables	**(89)**	52	152
Net cash flows from operating activities	**4,370**	753	1,626

Note 19

Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Contingent liabilities exist in respect of:			
Guarantees	**355**	330	305
Indemnities	**–**	2	3
Letters of credit	**145**	122	151
Performance related contingents	**95**	89	66
Total contingent liabilities[1]	**595**	543	525
Commitments exist in respect of:			
Undrawn credit facilities	**4,284**	5,689	5,220
Forward asset purchases	**1,530**	1,627	1,728
Total commitments[2]	**5,814**	7,316	6,948
Total contingent liabilities and commitments	**6,409**	7,859	7,473

1 Contingent liabilities exist in respect of claims and potential claims against the Consolidated Entity. They are reported as the maximum potential liability without considering the value of recovery of assets. Where necessary, appropriate provisions have been made in the financial statements. The Directors do not consider that the outcomes of any such claims known to exist at the date of the financial report, either individually or in aggregate, are likely to have a material effect on the results of its operations or its financial position.

2 Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Notes to the consolidated financial statements
for the half-year ended 30 September 2011 continued

Note 20

Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control:

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the period.

Other entities or businesses acquired or consolidated due to acquisition of control during the period are as follows:

Regal Capital Advisors LLC, Regal Capital Group LLC and SCC Swiss Commercial Capital AG.

Aggregate details of the above entities and businesses acquired or consolidated due to acquisition of control are as follows:

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Fair value of net assets acquired			
Cash, other financial assets and other assets	**–**	55	4,778
Goodwill and other intangible assets	**14**	61	30
Property, plant and equipment	**–**	2,257	113
Assets of disposal groups classified as held for sale	**–**	–	5
Payables, provisions, borrowings and other liabilities	**–**	(2,023)	(4,834)
Liabilities of disposal groups classified as held for sale	**–**	–	(4)
Non-controlling interests	**–**	–	(4)
Total fair value of net assets acquired	**14**	350	84
Consideration			
Cash consideration	**10**	205	26
Deferred consideration	**4**	–	–
Fair value of previously held interest	**–**	126	–
Total consideration	**14**	331	26
Net cash flow			
Cash consideration	**(10)**	(205)	(26)
Less:			
Cash and cash equivalents acquired	**–**	138	1,471
Net cash (outflow)/inflow	**(10)**	(67)	1,445

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current period has arisen due to the value of the business acquired over its individual asset values and synergies the Consolidated Entity expects to realise from the acquisition.

The 31 March 2011 and 30 September 2010 comparatives principally relate to Macquarie AirFinance and Sal. Oppenheim respectively, being the significant entities and businesses acquired or consolidated due to acquisition of control.

Note 20

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposed of or deconsolidated due to loss of control:

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the period.

Other entities or businesses disposed of or deconsolidated during the period are as follows:
Biocarbon Group Pte. Limited, Fifi Investments Limited, Garrison Energy Center LLC and Municipal and Infrastructure Assurance Corporation.

Aggregate details of the above entities or businesses disposed of or deconsolidated are as follows:

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash, other financial assets and other assets	**72**	129	4
Goodwill and other intangible assets	**–**	24	–
Property, plant and equipment	**–**	513	–
Assets of disposal groups classified as held for sale	**–**	–	45
Payables, provisions, borrowings and other liabilities	**–**	(439)	(2)
Liabilities of disposal groups classified as held for sale	**–**	–	(40)
Non-controlling interests	**–**	(9)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**72**	218	7
Consideration			
Cash consideration	**80**	139	18
Consideration received in equity	**–**	86	–
Total consideration	**80**	225	18
Net cash flow			
Cash consideration	**80**	139	18
Less:			
Investment retained	**–**	1	(1)
Cash and cash equivalents disposed of or deconsolidated	**(4)**	(65)	–
Net cash inflow	**76**	75	17

The 31 March 2011 comparatives relate principally to Macquarie Asset Leasing Trust, being the significant entity deconsolidated due to loss of control. There were no significant entities or businesses disposed of or deconsolidated due to loss of control in the 30 September 2010 comparatives.

Note 21

Events after the Reporting Period

There were no material events subsequent to 30 September 2011 that have not been reflected in the financial statements.

Directors' declaration
for the half-year ended 30 September 2011

In the Directors' opinion

(a) the financial statements and notes for the half-year ended 30 September 2011 set out on pages 4 to 37 are in accordance with the *Corporations Act 2001 (Cth)*, including:

i) complying with Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001 (Cth);* and

ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2011 and performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

H Kevin McCann, AM
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
28 October 2011

Independent auditor's review report
to the members of Macquarie Group Limited

pwc

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Group Limited, which comprises the statement of financial position as at 30 September 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Macquarie Group Limited (the Consolidated Entity). The Consolidated Entity comprises both Macquarie Group Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of Macquarie Group Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001 (Cth)* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001 (Cth)* including: giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth).* As the auditor of Macquarie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001 (Cth).*

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macquarie Group Limited is not in accordance with the *Corporations Act 2001 (Cth)* including:

(a) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth).*

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
28 October 2011

Macquarie Group Limited
Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the Australian Accounting Standards adopted at each end of reporting date. The financial information for the full years ended 31 March 2005-2011 and half-year ended 30 September 2011 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	First Half 2012
Income statement ($ million)										
Total income	2,155	2,823	4,197	4,832	7,181	8,248	5,526	6,638	7,644	**3,243**
Total expenses	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,373)	**(2,828)**
Operating profit before income tax	460	685	1,158	1,287	1,928	2,205	989	1,294	1,271	**415**
Income tax expense	(96)	(161)	(288)	(290)	(377)	(317)	(15)	(201)	(282)	**(107)**
Profit for the year	364	524	870	997	1,551	1,888	974	1,093	989	**308**
Macquarie Income Securities distributions	(28)	(27)	(29)	(29)	(31)	(34)	(33)	(21)	(26)	**(13)**
Macquarie Income Preferred Securities distributions	–	–	(28)	(51)	(54)	(50)	(45)	(8)	(4)	**(2)**
Other non-controlling interests	(3)	(3)	(1)	(1)	(3)	(1)	(25)	(14)	(3)	**12**
Profit attributable to ordinary equity holders	333	494	812	916	1,463	1,803	871	1,050	956	**305**
Statement of financial position ($ million)										
Total assets	32,462	43,771	67,980	106,211	136,389	167,250	149,144	145,940	157,568	**174,688**
Total liabilities	29,877	40,938	63,555	100,874	128,870	157,189	139,584	134,171	145,636	**162,924**
Net assets	2,585	2,833	4,425	5,337	7,519	10,061	9,560	11,769	11,932	**11,764**
Total loan assets	9,839	10,777	28,425	34,999	45,796	52,407	44,751	44,267	46,016	**45,843**
Impaired loan assets (net of provisions)	16	61	42	85	88	165	952	647	377	**380**
Share information[1]										
Cash dividends per share (cents per share)										
Interim	41	52	61	90	125	145	145	86	86	**65**
Final	52	70	100	125	190	200	40	100	100	**n/a**
Special[2]	50	–	40	–	–	–	–	–	–	**n/a**
Total	143	122	201	215	315	345	185	186	186	**n/a**
Basic earnings per share (cents per share)	164.8	233.0	369.6	400.3	591.6	670.6	309.6	320.2	282.5	**86.6**
Share price at 31 March ($)[1, 3]	24.70	35.80	48.03	64.68	82.75	52.82	27.05	47.25	36.60	**22.87**
Ordinary share capital (million shares)[4]	204.5	215.9	223.7	232.4	253.9	274.6	283.4	344.2	346.8	**348.29**
Market capitalisation at 31 March (fully paid ordinary shares) ($ million)[3]	5,051	7,729	10,744	15,032	21,010	14,504	7,666	16,266	12,693	**7,965**
Net tangible assets per ordinary share ($)[5]	8.80	9.66	14.02	16.99	24.35	30.35	27.89	28.40	28.91	**28.14**
Ratios (%)										
Return on average ordinary shareholders' funds	18.0	22.3	29.8	26.0	28.1	23.7	9.9	10.1	8.8	**5.7**
Dividend payout ratio	87.4[2]	53.2	53.2	54.4	54.3	52.2	60.2	60.4	67.3	**73.8**
Expense/income ratio	78.7	75.7	72.4	73.4	73.2	73.3	82.1	80.5	83.4	**87.2**
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.0	0.3	0.2	0.2	0.1	0.3	1.9	0.8	0.4	**0.2**
Assets under management ($ billion) [6]	52.3	62.6	96.7	140.3	197.2	232.0	243.1	325.7	309.8	**327.3**
Staff numbers[7]	4,839	5,716	6,556	8,183	10,023	13,107	12,716	14,657	15,556	**15,088**

1 The MBL (now MGL) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

2 The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of $0.50 per share, the payout ratio would have been 56.8 per cent.

3 At 30 September for the first half 2012.

4 Number of fully paid ordinary shares at 30 September, excluding exchangeable shares, options and partly paid shares.

5 Net tangible assets include intangible assets within disposal groups and assets held for sale. Net tangible assets per ordinary share has been restated to include net deferred tax assets, in accordance with industry practice.

6 The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with methodology.

7 Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

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