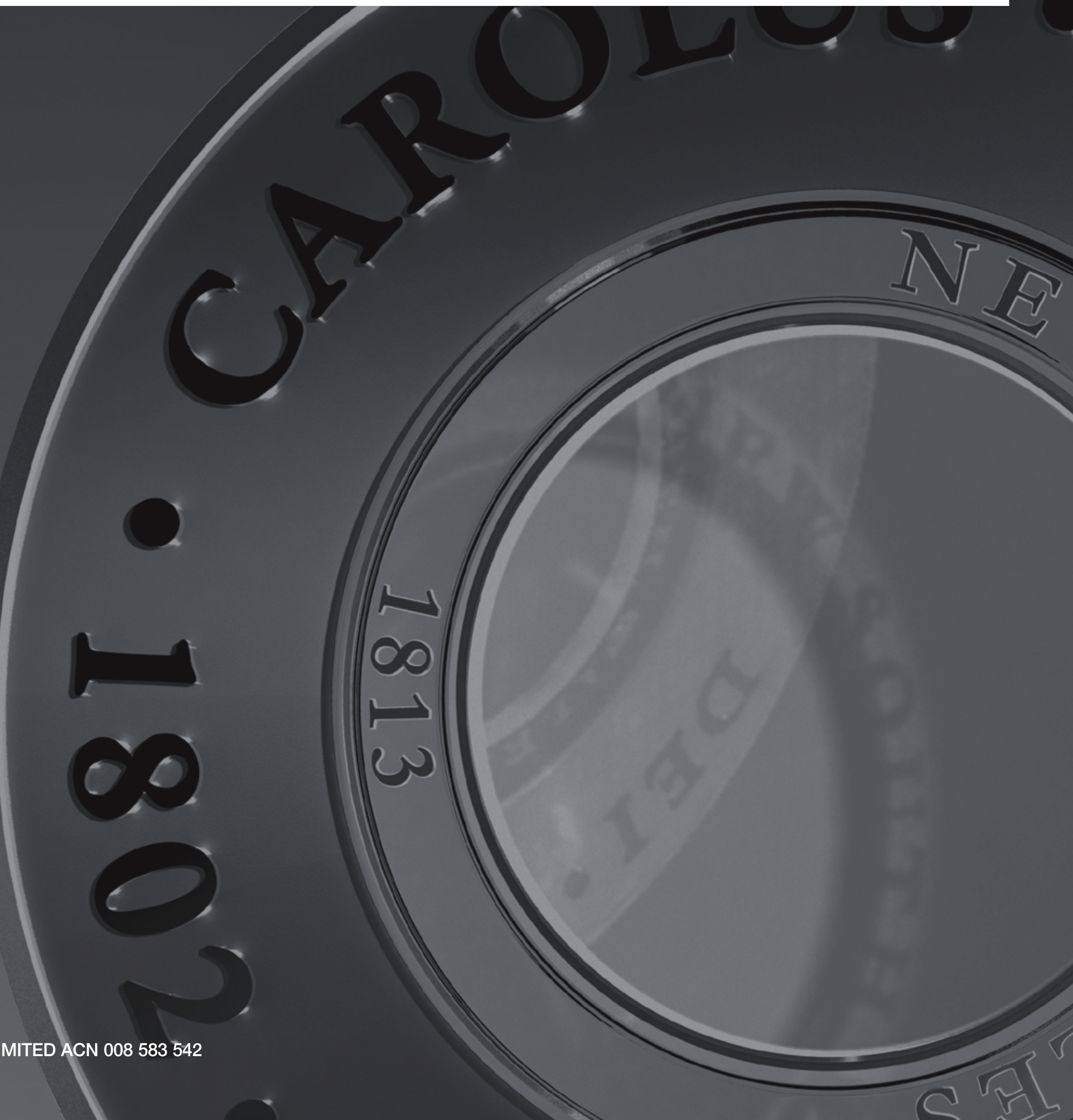
MACQUARIE BANK
INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2012

MACQUARIE
BANK



MACQUARIE BANK LIMITED ACN 008 583 542

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.

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 Bank Limited ABN 46 008 583 542 and is current at the date of this report. It is general background information about Macquarie Bank Limited'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 2012
Contents

The Financial report was authorised for issue by the Directors on 26 October 2012.
The Consolidated Entity has the power to amend and reissue the Financial report.

Financial report
for the half-year ended 30 September 2012

This page has been intentionally left blank.

Directors' report
for the half-year ended 30 September 2012

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL, Macquarie Bank or the Bank), the Directors submit herewith the financial statements of the Bank and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial period ended on that date and report as follows:

Directors

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

Independent Directors

H.K. McCann, AM, Chairman
D.J. Grady, AM
M.J. Hawker, AM
P.M. Kirby
C.B. Livingstone, AO
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

Executive Directors

G.C. Ward, Managing Director and Chief Executive Officer
N.W. Moore

The Voting Directors listed above each held office as a Director of Macquarie Bank throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Result

The financial report for the half-year ended 30 September 2012 and the results herein are prepared in accordance with Australian Accounting Standards and IAS 34 *Interim Financial Reporting*.

The consolidated profit attributable to ordinary equity holders of the Bank, in accordance with Australian Accounting Standards, for the period was $A363 million (half-year to 31 March 2012: $A400 million; half-year to 30 September 2011: $A209 million).

Review of operations

Profit attributable to ordinary equity holders of $A363 million for the half-year ended 30 September 2012 increased 74 per cent from $A209 million in the prior corresponding period[1] and decreased 9 per cent from $A400 million in the prior period[2].

Macquarie's annuity style businesses, Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services, continue to perform well with combined results for the half-year ended 30 September 2012 broadly in line with a strong prior corresponding period and prior period.

Macquarie's capital markets facing businesses, Macquarie Securities and Fixed Income, Currencies and Commodities, although continuing to face subdued market conditions, delivered a combined result that was up on the prior corresponding period due to improved conditions for Fixed Income, Currencies and Commodities. Macquarie Securities was impacted by low levels of client activity combined with run-off costs in its legacy businesses, partially offset by ongoing cost efficiencies.

Net operating income of $A2,261 million for the half-year ended 30 September 2012 increased 6 per cent from $A2,137 million in the prior corresponding period and decreased 12 per cent from $A2,574 million in the prior period.

Total operating expenses of $A1,729 million for the half-year ended 30 September 2012 decreased 7 per cent from $A1,854 million in the prior corresponding period and decreased 12 per cent from $A1,974 million in the prior period.

The effective tax rate for the half-year ended 30 September 2012 was 30.1 per cent, up from 21.5 per cent in the prior corresponding period, largely due to changes in the mix and location of income.

The Bank has met its externally imposed capital requirements throughout the period. The Bank is well capitalised, and as at 30 September 2012, it had a Basel II Tier 1 capital ratio of 13.3 per cent and a total capital ratio of 15.6 per cent.

Events after the reporting period

There were no material events subsequent to 30 September 2012 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 2012 of $307 million.
The dividend will be paid on 12 December 2012.

[1] Prior corresponding period refers to the six months to 30 September 2011.

[2] Prior period refers to the six months to 31 March 2012.

Directors' report
for the half-year ended 30 September 2012 continued

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
Independent Director and
Chairman

Greg Ward
Managing Director and
Chief Executive Officer

Sydney
26 October 2012

Auditor's independence declaration

for the half-year ended 30 September 2012

pwc

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2012, 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 Bank Limited and the entities it controlled during the period.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
26 October 2012

Liability is limited by a scheme approved under Professional Standards Legislation.

Consolidated income statement
for the half-year ended 30 September 2012

	Notes	**Half-year to 30 Sep 2012 $m**	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Interest and similar income		**2,199**	2,456	2,701
Interest expense and similar charges		**(1,513)**	(1,682)	(1,872)
Net interest income	2	**686**	774	829
Fee and commission income	2	**767**	719	625
Net trading income	2	**579**	591	408
Share of net profits of associates and joint ventures accounted for using the equity method	2	**27**	22	15
Other operating income and charges	2	**202**	468	260
Net operating income		**2,261**	2,574	2,137
Employment expenses	2	**(686)**	(775)	(732)
Brokerage, commission and trading-related expenses	2	**(309)**	(293)	(318)
Occupancy expenses	2	**(71)**	(77)	(72)
Non-salary technology expenses	2	**(40)**	(47)	(49)
Other operating expenses	2	**(623)**	(782)	(683)
Total operating expenses		**(1,729)**	(1,974)	(1,854)
Operating profit before income tax		**532**	600	283
Income tax expense	4	**(156)**	(185)	(58)
Profit after income tax		**376**	415	225
Profit attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Other non-controlling interests		**–**	–	(1)
Profit attributable to non-controlling interests		**(2)**	(2)	(3)
Profit attributable to equity holders of Macquarie Bank Limited		**374**	413	222
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(11)**	(13)	(13)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**363**	400	209

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 2012

	Notes	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Profit after income tax for the period		**376**	415	225
Other comprehensive (expense)/income:				
Available for sale investments, net of tax	15	**(9)**	(69)	(163)
Cash flow hedges, net of tax	15	**(17)**	(11)	1
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	15	**(1)**	(1)	2
Exchange differences on translation of foreign operations, net of hedge and tax		**11**	(288)	273
Total other comprehensive (expense)/income for the period		**(16)**	(369)	113
Total comprehensive income for the period		**360**	46	338
Total comprehensive income/(expense) for the period is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**346**	34	319
Macquarie Income Securities holders		**11**	13	13
Macquarie Income Preferred Securities holders		**3**	(1)	5
Other non-controlling interests		**–**	–	1
Total comprehensive income for the period		**360**	46	338

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 2012

	Notes	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Assets				
Receivables from financial institutions		**8,431**	8,316	9,024
Cash collateral on securities borrowed and reverse repurchase agreements		**7,407**	7,024	5,894
Trading portfolio assets	6	**14,457**	11,545	14,375
Derivative assets		**21,579**	21,951	34,064
Investment securities available for sale	7	**18,267**	16,285	19,409
Other assets		**6,601**	7,444	9,173
Loan assets held at amortised cost	8	**46,537**	44,095	44,934
Other financial assets at fair value through profit or loss		**4,909**	5,962	9,097
Life investment contracts and other unitholder investment assets		**6,063**	5,908	4,760
Due from related body corporate entities		**766**	1,118	1,313
Property, plant and equipment		**4,776**	4,835	4,648
Interests in associates and joint ventures accounted for using the equity method	10	**592**	707	771
Intangible assets		**830**	874	934
Deferred tax assets		**117**	105	108
Total assets		**141,332**	136,169	158,504
Liabilities				
Cash collateral on securities lent and repurchase agreements		**8,560**	4,779	8,571
Trading portfolio liabilities	11	**3,384**	3,507	4,346
Derivative liabilities		**20,920**	20,897	32,171
Deposits		**39,801**	37,014	37,833
Current tax liabilities		**37**	46	27
Other liabilities		**6,428**	7,720	9,059
Payables to financial institutions		**4,370**	4,299	4,995
Other financial liabilities at fair value through profit or loss	12	**993**	1,688	2,103
Life investment contracts and other unitholder liabilities		**6,047**	5,897	4,759
Due to related body corporate entities		**3,495**	3,022	4,856
Debt issued at amortised cost	13	**35,963**	35,068	37,365
Provisions		**94**	99	87
Deferred tax liabilities		**596**	536	296
Total liabilities excluding loan capital		**130,688**	124,572	146,468
Loan capital				
Subordinated debt at amortised cost		**1,976**	2,176	2,447
Subordinated debt at fair value through profit or loss		**–**	150	149
Total loan capital		**1,976**	2,326	2,596
Total liabilities		**132,664**	126,898	149,064
Net assets		**8,668**	9,271	9,440

	Notes	**As at 30 Sep 2012 $m**	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Equity				
Contributed equity	14	**8,082**	8,077	8,080
Reserves	15	**(634)**	(617)	(326)
Retained earnings	15	**1,151**	1,743	1,613
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**8,599**	9,203	9,367
Non-controlling interests				
Macquarie Income Preferred Securities	15	**64**	63	66
Other non-controlling interests	15	**5**	5	7
Total equity		**8,668**	9,271	9,440

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 2012

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2011		7,771	(436)	1,701	9,036	72	9,108
Total comprehensive income for the period		–	110	222	332	6	338
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	300	–	–	300	–	300
Contributions from ultimate parent entity in relation to share-based payments	14	9	–	–	9	–	9
Dividends and distributions paid or provided for	5	–	–	(310)	(310)	–	(310)
Non-controlling interests:							
Distributions of equity, net of transaction costs	15	–	–	–	–	(2)	(2)
Distributions paid or provided for		–	–	–	–	(3)	(3)
		309	–	(310)	(1)	(5)	(6)
Balance at 30 September 2011		8,080	(326)	1,613	9,367	73	9,440
Total comprehensive (expense)/income for the period		–	(366)	413	47	(1)	46
Transactions with equity holders in their capacity as equity holders:							
Contributions from ultimate parent entity in relation to share-based payments	14	(3)	–	–	(3)	–	(3)
Dividends and distributions paid or provided for	5	–	–	(207)	(207)	–	(207)
Reserves arising from group restructure of combining entities under common control	15	–	(1)	–	(1)	–	(1)
Non-controlling interests:							
Distributions of equity, net of transaction costs	15	–	–	–	–	(2)	(2)
Distributions paid or provided for		–	–	–	–	(2)	(2)
Other equity movements:							
Transfer from share-based payments reserve to retained earnings	15	–	(186)	186	–	–	–
Transfer from reserves arising from group restructure of combining entities under common control to retained earnings	15	–	262	(262)	–	–	–
		(3)	75	(283)	(211)	(4)	(215)
Balance at 31 March 2012		**8,077**	**(617)**	**1,743**	**9,203**	**68**	**9,271**
Total comprehensive (expense)/income for the period		**–**	**(17)**	**374**	**357**	**3**	**360**
Transactions with equity holders in their capacity as equity holders:							
Contributions from ultimate parent entity in relation to share-based payments	14	**5**	**–**	**–**	**5**	**–**	**5**
Dividends and distributions paid or provided for	5	**–**	**–**	**(966)**	**(966)**	**–**	**(966)**
Non-controlling interests:							
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(2)**	**(2)**
		5	**–**	**(966)**	**(961)**	**(2)**	**(963)**
Balance at 30 September 2012		**8,082**	**(634)**	**1,151**	**8,599**	**69**	**8,668**

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 2012

	Notes	**Half-year to 30 Sep 2012 $m**	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Cash flows from/(used in) operating activities				
Interest received		**2,166**	2,294	2,825
Interest and other costs of finance paid		**(1,455)**	(1,673)	(1,839)
Dividends and distributions received		**45**	–	65
Fees and other non-interest income received		**988**	1,004	915
Fees and commissions paid		**(414)**	(205)	(320)
Net proceeds from trading portfolio assets and other financial assets/liabilities		**548**	2,552	82
Payments to suppliers		**(403)**	(758)	(591)
Employment expenses paid		**(920)**	(536)	(1,073)
Income tax paid		**(93)**	(65)	(105)
Life investment contract receipts		**149**	233	126
Life investment contract premiums received and other unitholder contributions		**1,031**	1,405	1,882
Life investment contract payments		**(1,123)**	(1,219)	(2,063)
Net loan assets granted		**(1,143)**	(655)	(1,065)
Loan facility repaid by ultimate parent entity		**–**	–	737
Recovery of loans previously written off		**8**	12	7
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**3,725**	(2,975)	4,168
Net cash flows from/(used in) operating activities	16	**3,109**	(586)	3,751
Cash flows (used in)/from investing activities				
Net (payments for)/proceeds from investment securities available for sale		**(1,285)**	(1,511)	1,412
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**388**	125	86
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(44)**	(452)	(281)
Payments for life investment contracts and other unitholder investment assets		**(2,811)**	(4,501)	(3,180)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**2,782**	4,113	3,273
Net payments for property, plant and equipment, lease assets and intangible assets		**(103)**	(259)	(4)
Net cash flows (used in)/from investing activities		**(1,073)**	(2,485)	1,306

Consolidated statement of cash flows
for the half-year ended 30 September 2012 continued

	Notes	**Half-year to 30 Sep 2012 $m**	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Cash flows (used in)/from financing activities				
Proceeds from the issue of ordinary shares		**–**	–	300
Payments to non-controlling interests		**–**	(1)	(3)
(Repayment of)/proceeds from issue of subordinated debt		**(414)**	(149)	609
Dividends and distributions paid		**(969)**	(209)	(313)
Net cash flows (used in)/from financing activities		**(1,383)**	(359)	593
Net increase/(decrease) in cash and cash equivalents		**653**	(3,430)	5,650
Cash and cash equivalents at the beginning of the period		**12,245**	15,675	10,025
Cash and cash equivalents at the end of the period	16	**12,898**	12,245	15,675

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 2012 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 Bank Limited (MBL, Macquarie Bank or the Bank) 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 2012 and any public announcements made by MBL 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 98/0100 (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 MBL for the year ended 31 March 2012 other than where disclosed. Certain comparatives have been restated for consistency in presentation at 30 September 2012.

Amendments to Accounting Standards that are effective in the current period

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* became applicable in the current period and are to be disclosed in the annual financial report.

AASB 2010-6 adds and amends disclosures about transfers of financial assets. Disclosures apply for transfers of financial assets that do not achieve accounting derecognition, or where Consolidated Entity has some form of continuing involvement. Comparative information is not required.

The application of these amendments in the current period do not have any impact on the accounting, financial position or performance of the Consolidated Entity.

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 continued

Note 2
Profit for the period

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Net interest income			
Interest and similar income received/receivable	**2,199**	2,456	2,701
Interest expense and similar charges paid/payable	**(1,513)**	(1,682)	(1,872)
Net interest income	**686**	774	829
Fee and commission income			
Base fees	**313**	302	292
Performance fees	**2**	19	11
Mergers and acquisitions, advisory and underwriting fees	**20**	20	23
Brokerage and commissions	**144**	143	165
Other fee and commission income	**248**	195	103
Income from life investment contracts and other unitholder investment assets	**40**	40	31
Total fee and commission income	**767**	719	625
Net trading income[1]			
Equities	**100**	78	152
Commodities	**328**	359	207
Foreign exchange products	**125**	176	107
Interest rate products	**26**	(22)	(58)
Net trading income	**579**	591	408
Share of net profits of associates and joint ventures accounted for using the equity method	**27**	22	15

[1] Included in net trading income are fair value gains of $262 million (half-year to 31 March 2012: $179 million; half-year to 30 September 2011: $214 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally 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 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**18**	124	56
Impairment charge on investment securities available for sale	**(89)**	(26)	(27)
Net gains on sale of associates and joint ventures	**51**	3	5
Impairment charge on interest in associates and joint ventures	**(9)**	(38)	(12)
Gain on change of ownership interests[1]	**–**	37	–
Impairment charge on non-financial assets	**(1)**	(33)	(7)
Gain on sale of non-financial assets	**–**	104	–
Net operating lease income[2]	**203**	198	183
Dividends/distributions received/receivable:			
Investment securities available for sale	**7**	11	10
Management fees, group service charges and cost recoveries	**–**	(1)	–
Collective allowance for credit losses written back/(provided for) during the period (note 8)	**5**	3	(6)
Individually assessed provisions:			
Loan assets provided for during the period (note 8)	**(62)**	(54)	(29)
Other receivables (provided for)/written back during the period	**(3)**	(14)	1
Recovery of loans previously provided for (note 8)	**11**	25	5
Loan losses written off	**(37)**	(46)	(32)
Recovery of loans previously written off	**8**	12	7
Other income	**100**	163	106
Total other operating income and charges	**202**	468	260
Net operating income	**2,261**	2,574	2,137

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

[2] Includes rental income of $348 million (half-year to 31 March 2012: $339 million; half-year to 30 September 2011: $297 million) less depreciation of $145 million (half-year to 31 March 2012: $141 million; half-year to 30 September 2011: $114 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 2012 continued

Note 2

Profit for the period continued

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(632)**	(712)	(679)
Share-based payments	**(51)**	(60)	(46)
Provision for annual leave	**(3)**	(4)	(5)
Provision for long service leave	**–**	1	(2)
Total employment expenses	**(686)**	(775)	(732)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(234)**	(222)	(247)
Other fee and commission expenses	**(75)**	(71)	(71)
Total brokerage, commission and trading-related expenses	**(309)**	(293)	(318)
Occupancy expenses			
Operating lease rentals	**(28)**	(41)	(39)
Depreciation: furniture, fittings and leasehold improvements	**(7)**	(9)	(9)
Other occupancy expenses	**(36)**	(27)	(24)
Total occupancy expenses	**(71)**	(77)	(72)
Non-salary technology expenses			
Information services	**(28)**	(28)	(27)
Depreciation: computer equipment	**(1)**	(4)	(3)
Other non-salary technology expenses	**(11)**	(15)	(19)
Total non-salary technology expenses	**(40)**	(47)	(49)
Other operating expenses			
Professional fees	**(63)**	(79)	(57)
Auditor's remuneration	**(7)**	(8)	(7)
Travel and entertainment expenses	**(29)**	(33)	(32)
Advertising and promotional expenses	**(24)**	(26)	(24)
Communication expenses	**(9)**	(11)	(9)
Amortisation of intangibles	**(23)**	(40)	(29)
Other expenses[1]	**(468)**	(585)	(525)
Total other operating expenses	**(623)**	(782)	(683)
Total operating expenses	**(1,729)**	(1,974)	(1,854)

[1] Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and central support functions.

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups and a corporate group. These segments have been set up based on the different core products and services offered. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy.

Since 31 March 2012 there have been a number of business and 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. As part of this realignment, the Real Estate Banking Division is now reported as part of the Corporate segment. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie Funds Group is Macquarie Group Limited's (MGL) 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 Macquarie Group.

Banking and Financial Services Group is the primary relationship manager for Macquarie Group'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.

Macquarie Capital comprises MGL's corporate advisory, equity underwriting, debt structuring and distribution businesses, private equity placements and principal products. Due to the non-banking nature of Macquarie Capital, it no longer operates in the Consolidated Entity.

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.

Corporate is not considered an operating group and includes Group Treasury, head office and central support functions. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. 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 investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non-controlling interests (NCI) and holders of loan capital.

Inter segmental transactions are determined on an arm's length basis and eliminate on aggregation/consolidation.

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 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	**750**	**918**	**1,065**
Inter-segmental (expense)/revenue[1]	**(49)**	**(275)**	**560**
Interest revenue	**104**	**755**	**640**
Interest expense	**(15)**	**(125)**	**(834)**
Depreciation and amortisation	**(9)**	**(150)**	**(6)**
Share of net profits of associates and joint ventures accounted for using the equity method	**6**	**1**	**2**
Reportable segment profit/(loss)	**144**	**330**	**185**
Reportable segment assets	**11,696**	**22,209**	**26,424**
Revenues from external customers	793	1,012	1,108
Inter-segmental (expense)/revenue[1]	(66)	(288)	636
Interest revenue	129	811	671
Interest expense	(24)	(136)	(966)
Depreciation and amortisation	(10)	(144)	(10)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(2)	3	1
Reportable segment profit/(loss)	181	340	130
Reportable segment assets	11,000	21,567	26,965
Revenues from external customers	578	940	1,058
Inter-segmental (expense)/revenue[1]	(64)	(272)	660
Interest revenue	191	793	719
Interest expense	(31)	(126)	(1,022)
Depreciation and amortisation	(10)	(118)	(8)
Share of net profits of associates and joint ventures accounted for using the equity method	–	2	–
Reportable segment profit/(loss)	182	359	147
Reportable segment assets	10,744	21,509	27,176

[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	Corporate $m	Total $m
			Half-year to 30 September 2012	
145	**–**	**834**	**523**	**4,235**
(36)	**–**	**(162)**	**(38)**	**–**
56	**–**	**199**	**445**	**2,199**
(47)	**–**	**(43)**	**(449)**	**(1,513)**
(4)	**–**	**(7)**	**–**	**(176)**
–	**–**	**15**	**3**	**27**
(46)	**–**	**170**	**(409)**	**374**
13,510	**–**	**47,543**	**19,950**	**141,332**
			Half-year to 31 March 2012	
72	–	1,180	539	4,704
(31)	–	(173)	(78)	–
54	–	297	494	2,456
(36)	–	(117)	(403)	(1,682)
(6)	–	(24)	–	(194)
–	–	9	11	22
(135)	–	472	(575)	413
14,658	–	41,192	20,787	136,169
			Half-year to 30 September 2011	
156	–	745	594	4,071
(36)	–	(175)	(113)	–
65	–	319	614	2,701
(31)	–	(145)	(517)	(1,872)
(1)	–	(10)	(8)	(155)
–	–	8	5	15
(70)	–	8	(404)	222
18,531	–	56,647	23,897	158,504

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 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 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 2012		
Revenues from external customers	**1,077**	**1,402**	**15**	**1,741**	**4,235**
			Half-year to 31 March 2012		
Revenues from external customers	1,117	1,688	61	1,838	4,704
			Half-year to 30 September 2011		
Revenues from external customers	733	1,432	8	1,898	4,071

(iii) Geographical areas

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

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Revenues from external customers			
Australia	**2,559**	2,722	2,471
Asia Pacific	**123**	99	117
Europe, Middle East and Africa	**533**	738	443
Americas	**1,020**	1,145	1,040
Total	**4,235**	4,704	4,071

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m

Note 4

Income tax expense

(i) Numerical reconciliation of income tax expense to prima facie tax payable

Prima facie income tax expense on operating profit[1]	**(159)**	(180)	(85)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**4**	11	64
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	1
Share-based payments expense	**(1)**	1	(10)
Other items	**(1)**	(17)	(28)
Total income tax expense	**(156)**	(185)	(58)

(ii) Tax (expense)/benefit relating to items of other comprehensive income

Available for sale reserve	**(4)**	33	58
Cash flow hedges	**8**	6	(4)
Share of other comprehensive income of associates and joint ventures	**–**	–	(1)
Foreign currency translation reserve	**13**	(4)	(3)
Total tax benefit relating to items of other comprehensive income	**17**	35	50

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2012: 30 per cent; half-year to 30 September 2011: 30 per cent).

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these and other taxation claims and litigation, 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 2012 continued

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m

Note 5
Dividends paid and distributions paid or provided for

(i) Dividends paid

Ordinary share capital			
Interim dividend paid	**–**	194	–
Final dividend paid	**455**	–	297
2012 Special dividend paid[1]	**500**	–	–
Total dividends paid (note 15)	**955**	194	297

[1] MBL paid a special dividend to contribute to the funding of the buyback of MGL ordinary shares.

(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. The aggregate amount of the proposed dividend expected to be paid on 12 December 2012 from retained profits at 30 September 2012, but not recognised as a liability at the end of the period, is $307 million.

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	**7**	8	7
Distributions provided for	**4**	5	6
Total distributions paid or provided for (note 15)	**11**	13	13

The Macquarie Income Securities (MIS) are stapled arrangements, which include a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank 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 Directors' discretion. The distributions paid or provided for in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation*. Refer to note 14 – Contributed equity, for further details on these instruments.

Macquarie Income Preferred Securities			
Distributions provided for	**2**	2	2
Total distributions provided for (note 15)	**2**	2	2

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 15 – Reserves, retained earnings and non-controlling interests. The Bank 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 the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 15 – Reserves, retained earnings and non-controlling interests, for further details on these instruments.

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m

Note 6
Trading portfolio assets

Equities			
Listed	**4,423**	5,249	4,925
Unlisted	**35**	36	37
Commonwealth government securities	**3,599**	31	2,993
Commodities	**2,278**	2,010	1,435
Corporate securities	**1,525**	1,317	2,790
Foreign government securities	**1,379**	1,325	1,078
Other government securities[1]	**600**	1,094	823
Treasury notes	**265**	223	53
Promissory notes	**240**	235	175
Bank bills	**65**	17	65
Certificates of deposit	**48**	8	1
Total trading portfolio assets	**14,457**	11,545	14,375

[1] Other government securities include state and local governments and related enterprises, predominantly in Australia.

Note 7
Investment securities available for sale

Equity securities			
Listed	**327**	422	481
Unlisted	**231**	214	369
Debt securities[1, 2]	**17,709**	15,649	18,559
Total investment securities available for sale	**18,267**	16,285	19,409

[1] Included within this balance is $4,947 million (31 March 2012: $3,070 million; 30 September 2011: $5,485 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $120 million (31 March 2012: $120 million; 30 September 2011: $307 million) of bank bills.

[2] Included within this balance are debt securities of $125 million (31 March 2012: $121 million; 30 September 2011: $79 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.

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 continued

Note 8
Loan assets held at amortised cost

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Due from clearing houses	**940**	1,101	1,431
Due from governments[1]	**85**	71	174
Due from other entities			
Other loans and advances	**41,088**	38,985	39,514
Less individually assessed provisions for impairment	**(343)**	(349)	(349)
	40,745	38,636	39,165
Lease receivables	**4,976**	4,503	4,384
Less individually assessed provisions for impairment	**(1)**	(3)	(2)
Total due from other entities	**45,720**	43,136	43,547
Total loan assets before collective allowance for credit losses	**46,745**	44,308	45,152
Less collective allowance for credit losses	**(208)**	(213)	(218)
Total loan assets held at amortised cost[2]	**46,537**	44,095	44,934

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

[2] Included within this balance are loans of $12,244 million (31 March 2012: $12,935 million; 30 September 2011: $13,495 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**352**	351	314
Provided for during the period (note 2)	**62**	54	29
Loan assets written off, previously provided for	**(57)**	(15)	(1)
Recovery of loans previously provided for (note 2)	**(11)**	(25)	(5)
Impact of foreign currency translation	**(2)**	(13)	14
Balance at the end of the period	**344**	352	351
Individually assessed provisions as a percentage of total gross loan assets	**0.73%**	0.79%	0.77%
Collective allowance for credit losses			
Balance at the beginning of the period	**213**	218	212
(Written back)/provided for during the period (note 2)	**(5)**	(3)	6
Impact of foreign currency translation	**–**	(2)	–
Balance at the end of the period	**208**	213	218

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

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m

Note 9

Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	**11**	11	121
Less individually assessed provisions for impairment	**(10)**	(10)	(86)
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	1	35
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**728**	737	739
Less individually assessed provisions for impairment	**(374)**	(380)	(369)
Loan assets and other financial assets after individually assessed provisions for impairment	**354**	357	370
Total net impaired financial assets	**355**	358	405

Note 10

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

Loans and investments without provisions for impairment	**451**	513	601
Loans and investments with provisions for impairment	**271**	339	306
Less provisions for impairment	**(130)**	(145)	(136)
Loans and investments at recoverable amount	**141**	194	170
Total interests in associates and joint ventures accounted for using the equity method	**592**	707	771

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 2012 %**	As at 31 Mar 2012 %	As at 30 Sep 2011 %
MGPA Limited[1, a]	Bermuda	30 June	**56**	56	56

[1] Significant influence arises due to the Consolidated Entity’s voting power and board representation being less than 50 per cent.

[a] Property development/management

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 continued

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m

Note 11
Trading portfolio liabilities

Listed equity securities	**2,189**	2,541	2,894
Commonwealth government securities	**704**	551	1,101
Corporate securities	**281**	213	261
Other government securities	**210**	202	90
Total trading portfolio liabilities	**3,384**	3,507	4,346

Note 12
Other financial liabilities at fair value through profit or loss

Equity linked notes	**931**	1,638	2,062
Debt issued at fair value	**62**	50	41
Total other financial liabilities at fair value through profit or loss	**993**	1,688	2,103

Note 13
Debt issued at amortised cost

Debt issued at amortised cost[1]	**35,963**	35,068	37,365
Total debt issued at amortised cost	**35,963**	35,068	37,365

[1] Included within this balance are amounts payable to SPE note holders of $10,817 million (31 March 2012: $11,474 million; 30 September 2011: $11,191 million).

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

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	**12,937**	13,013	15,770
Australian dollars	**11,649**	12,638	13,504
Canadian dollars	**6,636**	7,192	6,690
Japanese yen	**2,170**	1,551	1,584
Euro	**1,640**	1,394	1,247
Great British pounds	**890**	476	191
Swiss franc	**510**	13	24
Hong Kong dollars	**204**	88	122
Korean won	**157**	171	201
Singapore dollars	**106**	121	133
Others	**57**	99	2
Total by currency	**36,956**	36,756	39,468

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.

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m

Note 14

Contributed equity

Ordinary share capital			
Opening balance of 501,561,948 (1 October 2011: 501,561,948; 1 April 2011: 485,069,369) fully paid ordinary shares	**7,578**	7,578	7,278
Issue of 16,492,579 shares to Macquarie B.H. Pty Ltd on 30 June 2011 at $18.19 per share	**–**	–	300
Closing balance of 501,561,948 (31 March 2012: 501,561,948; 30 September 2011: 501,561,948) fully paid ordinary shares	**7,578**	7,578	7,578
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**108**	111	102
Additional paid up capital/(return of capital)	**5**	(3)	9
Balance at the end of the period	**113**	108	111
Macquarie Income Securities			
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

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Contributed equity	**8,082**	8,077	8,080

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 continued

Note 15
Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(658)**	(373)	(643)
Currency translation differences arising during the period, net of hedge and net of tax	**10**	(285)	270
Balance at the end of the period	**(648)**	(658)	(373)
Available for sale reserve			
Balance at the beginning of the period	**75**	144	307
Revaluation movement for the period, net of tax	**(57)**	64	(155)
Transfer to income statement upon impairment, net of tax	**61**	3	(2)
Transfer to income statement on realisation, net of tax	**(13)**	(136)	(6)
Balance at the end of the period	**66**	75	144
Share-based payments reserve			
Balance at the beginning of the period	**–**	186	186
Transfer to retained earnings[1]	**–**	(186)	–
Balance at the end of the period	**–**	–	186
Cash flow hedging reserve			
Balance at the beginning of the period	**(36)**	(25)	(26)
Revaluation movement for the period, net of tax	**(17)**	(11)	1
Balance at the end of the period	**(53)**	(36)	(25)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**2**	3	1
Share of other comprehensive (expense)/income during the period	**(1)**	(1)	2
Balance at the end of the period	**1**	2	3
Reserves arising from group restructure of combining entities under common control			
Balance at the beginning of the period	**–**	(261)	(261)
Arising from acquisition of subsidiaries from the Non-Banking Group	**–**	(1)	–
Transfer to retained earnings[2]	**–**	262	–
Balance at the end of the period	**–**	–	(261)
Total reserves at the end of the period	**(634)**	(617)	(326)

1 Includes $nil (31 March 2012: $186 million; 30 September 2011: $nil) transferred to retained earnings in respect of expired and lapsed options.

2 Reserves arising from group restructure of combining entities under common control relate predominantly to transactions in the 31 March 2007 and 31 March 2008 financial years where these reserves and ordinary share capital were disclosed on a gross basis to explain the impacts of restructures of entities under the control of MGL. While the presentation was relevant to those reporting periods, there is no continuing value to the users of the accounts in carrying forward the gross disclosures and as such, these reserves have been transferred to retained earnings.

	Half-year to 30 Sep 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m

Note 15

Reserves, retained earnings and non-controlling interests continued

Retained earnings			
Balance at the beginning of the period	**1,743**	1,613	1,701
Profit attributable to equity holders of MBL	**374**	413	222
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(11)**	(13)	(13)
Dividends paid on ordinary share capital (note 5)	**(955)**	(194)	(297)
Transfer from share-based payments reserve[1]	**–**	186	–
Transfer from reserves arising from group restructure of combining entities under common control[2]	**–**	(262)	–
Balance at the end of the period	**1,151**	1,743	1,613

[1] Includes $nil (half-year to 31 March 2012: $186 million; half-year to 30 September 2011: $nil) transferred to retained earnings in respect of expired and lapsed options.

[2] Reserves arising from group restructure of combining entities under common control relate predominantly to transactions in the 31 March 2007 and 31 March 2008 financial years where these reserves and ordinary share capital were disclosed on a gross basis to explain the impacts of restructures of entities under the control of MGL. While the presentation was relevant to those reporting periods, there is no continuing value to the users of the accounts in carrying forward the gross disclosures and as such, these reserves have been transferred to retained earnings.

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Non-controlling interests			
Macquarie Income Preferred Securities[1]			
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	107
Less issue costs	**(1)**	(1)	(1)
	106	106	106
Current period profit	**2**	2	2
Distribution provided for on Macquarie Income Preferred Securities (note 5)	**(2)**	(2)	(2)
Foreign currency translation reserve	**(42)**	(43)	(40)
Total Macquarie Income Preferred Securities	**64**	63	66
Other non-controlling interests			
Ordinary share capital	**11**	5	10
Retained earnings	**(6)**	–	(3)
Total other non-controlling interests	**5**	5	7
Total non-controlling interests	**69**	68	73

[1] On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (31 March 2012: 6.177 per cent; 30 September 2011: 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 the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (31 March 2012: 2.35 per cent; 30 September 2011: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The first coupon was paid on 15 April 2005. The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

Notes to the consolidated financial statements
for the half-year ended 30 September 2012 continued

Note 16
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 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m
Receivables from financial institutions[1]	**8,362**	8,288	8,996
Trading portfolio assets and debt securities[2]	**4,536**	3,957	6,679
Cash and cash equivalents at the end of the period	**12,898**	12,245	15,675

[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 2012 $m	Half-year to 31 Mar 2012 $m	Half-year to 30 Sep 2011 $m
Reconciliation of profit after income tax to net cash flows from/(used in) operating activities			
Profit after income tax	**376**	415	225
Adjustments to profit after income tax:			
Depreciation and amortisation	**176**	194	155
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(100)**	(68)	(180)
Gain on sale of non-financial assets	**–**	(104)	–
Provision and impairment charge on financial and non-financial assets	**185**	183	107
Interest on available for sale financial assets	**(42)**	(119)	19
Net gains on sale of investment securities available for sale and associates and joint ventures	**(69)**	(164)	(61)
Share-based payments expense	**5**	(3)	9
Share of net profits of associates and joint ventures accounted for using the equity method	**(27)**	(22)	(15)
Changes in assets and liabilities:			
Change in dividends receivable	**(54)**	91	(112)
Change in values of associates due to dividends received	**38**	8	57
Change in fees and non-interest income receivable	**(13)**	(158)	(83)
Change in fees and commissions payable	**(105)**	89	(2)
Change in tax balances	**63**	120	(47)
Change in provisions for employee entitlements	**(3)**	(4)	7
Change in loan assets	**(1,143)**	(655)	(1,065)
Change in loan receivable from ultimate parent entity	**–**	–	737
Change in debtors, prepayments, accrued charges and creditors	**(107)**	275	(165)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**124**	1,968	(53)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**3,790**	(3,009)	4,305
Change in life investment contract receivables	**15**	377	(87)
Net cash flows from/(used in) operating activities	**3,109**	(586)	3,751

	As at 30 Sep 2012 $m	As at 31 Mar 2012 $m	As at 30 Sep 2011 $m

Note 17

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:			
Guarantees	**512**	309	336
Indemnities	**1**	1	–
Letters of credit	**296**	178	175
Performance related contingents	**211**	209	228
Total contingent liabilities[1]	**1,020**	697	739
Commitments exist in respect of:			
Undrawn credit facilities	**2,315**	3,431	3,408
Forward asset purchases	**138**	109	168
Total commitments[2]	**2,453**	3,540	3,576
Total contingent liabilities and commitments	**3,473**	4,237	4,315

1 Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. A provision is recognised where some loss is probable and can be reliably estimated. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

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.

Note 18

Events after the reporting period

There were no material events subsequent to 30 September 2012 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes for the half-year ended 30 September 2012 set out on pages 4 to 29 are in accordance with the *Corporations Act 2001 (Cth)*, including:

   i) complying with the 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 2012 and performance for the half-year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Bank 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
Independent Director and
Chairman

Greg Ward
Managing Director and
Chief Executive Officer

Sydney
26 October 2012

Independent auditor's review report

to the members of Macquarie Bank Limited

pwc

Report on the half-year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Bank Limited, which comprises the statement of financial position as at 30 September 2012, 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 Bank Limited Group (the Consolidated Entity). The Consolidated Entity comprises both Macquarie Bank Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company 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 internal 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 Auditing Standard on Review Engagements ASRE 2410 *Review of a 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 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*. As the auditor of Macquarie Bank 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. 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.

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 Bank 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 2012 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
26 October 2012

Liability is limited by a scheme approved under Professional Standards Legislation.

This page has been intentionally left blank.

This page has been intentionally left blank.

This page has been intentionally left blank.

Macquarie Bank Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Bank Limited
Level 3, 25 National Circuit
Forrest ACT 2603
Australia

Tel: +61 2 6225 3000