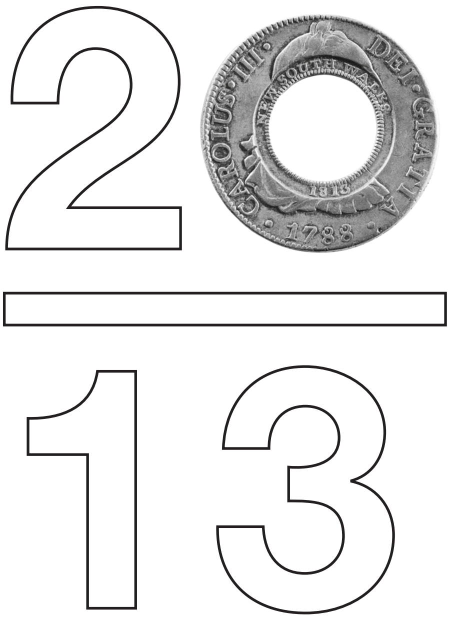
MACQUARIE BANK

Interim Directors' Report and Financial Report

Macquarie Bank
Half year ended 30 September 2013

MACQUARIE BANK LIMITED ACN 008 583 542



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 year celebrates the bicentenary of the Holey Dollar.

MACQUARIE BANK 2013 INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT

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 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 without professional advice when deciding if an investment is appropriate.

Financial report
for the half-year ended 30 September 2013
Contents

The Financial report was authorised for issue by the Directors on 1 November 2013.
The Consolidated Entity has the power to amend and reissue the Financial report.

Financial Report
for the half-year ended 30 September 2013

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Directors' Report
for the half-year ended 30 September 2013

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
G.R. Banks AO[(1)]
M.J. Coleman
P.A. Cross[(2)]
D.J. Grady AM
M.J. Hawker AM
P.M. Kirby
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

Other than Ms Cross and Mr Banks, 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.

Ms C.B. Livingstone retired as a Director on 25 July 2013.

Result

The financial report for the half-year ended 30 September 2013 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*

The consolidated profit attributable to ordinary equity holders of the Bank, in accordance with Australian Accounting Standards, for the period was $A365 million (half-year to 31 March 2013: $A287 million; half-year to 30 September 2012: $A363 million).

[redacted]

(1) Mr Banks joined the Board on 1 August 2013.
(2) Ms Cross joined the Board on 7 August 2013.
(3) Prior corresponding period refers to the six months to 30 September 2012.
(4) Prior period refers to the six months to 31 March 2013.

Directors' Report
for the half-year ended 30 September 2013 continued

[redacted]

- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Events after the reporting period

There were no material events subsequent to 30 September 2013 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 2013 of $A280 million. The dividend will be paid on 5 November 2013.

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 98/100 (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
1 November 2013

Auditor's independence declaration
for the half-year ended 30 September 2013

pwc

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2013, 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
1 November 2013

Consolidated income statement
for the half-year ended 30 September 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Interest and similar income		**2,102**	2,195	2,199
Interest expense and similar charges		**(1,254)**	(1,453)	(1,513)
Net interest income	2	**848**	742	686
Fee and commission income	2	**828**	777	736
Net trading income	2	**673**	695	583
Share of net profits of associates and joint ventures accounted for using the equity method	2	**12**	13	27
Other operating income and charges	2	**195**	140	202
Net operating income		**2,556**	2,367	2,234
Employment expenses	2	**(792)**	(825)	(686)
Brokerage, commission and trading-related expenses	2	**(335)**	(241)	(282)
Occupancy expenses	2	**(69)**	(74)	(71)
Non-salary technology expenses	2	**(56)**	(48)	(40)
Other operating expenses	2	**(715)**	(682)	(623)
Total operating expenses		**(1,967)**	(1,870)	(1,702)
Operating profit before income tax		**589**	497	532
Income tax expense	4	**(213)**	(199)	(156)
Profit after income tax		**376**	298	376
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)**	(1)	(2)
Profit attributable to equity holders of Macquarie Bank Limited		**374**	297	374
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(9)**	(10)	(11)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**365**	287	363

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

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

Consolidated statement of comprehensive income
for the half-year ended 30 September 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Profit after income tax for the period		**376**	298	376
Other comprehensive income/(expense)[1]:				
Available for sale investments, net of tax	15	**19**	19	(9)
Cash flow hedges, net of tax	15	**2**	7	(17)
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	15	**1**	(1)	(1)
Exchange differences on translation of foreign operations, net of hedge and tax		**475**	(40)	11
Total other comprehensive income/(expense) for the period		**497**	(15)	(16)
Total comprehensive income for the period		**873**	283	360
Total comprehensive income/(expense) for the period is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**851**	276	346
Macquarie Income Securities holders		**9**	10	11
Macquarie Income Preferred Securities holders		**13**	(2)	3
Other non-controlling interests		**–**	(1)	–
Total comprehensive income for the period		**873**	283	360

(1) All items of other comprehensive income/(expense) may be reclassified subsequently to profit or loss.

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 2013

	Notes	As at 30 Sep 2013 $m	As at 31 Mar 2013[1] $m	As at 30 Sep 2012[1] $m
Assets				
Receivables from financial institutions		**17,007**	13,899	15,838
Trading portfolio assets	6	**21,469**	18,853	14,457
Derivative assets		**14,473**	14,595	21,579
Investment securities available for sale	7	**13,612**	14,190	18,267
Other assets		**7,693**	7,895	7,831
Loan assets held at amortised cost	8	**53,355**	47,926	46,537
Other financial assets at fair value through profit or loss		**2,524**	4,645	4,909
Due from related body corporate entities		**861**	1,060	766
Property, plant and equipment		**5,983**	5,352	4,776
Interests in associates and joint ventures accounted for using the equity method	10	**588**	528	592
Intangible assets		**834**	795	830
Deferred tax assets		**234**	262	117
Total assets		**138,633**	130,000	136,499
Liabilities				
Trading portfolio liabilities	11	**1,796**	1,384	3,384
Derivative liabilities		**13,967**	14,725	20,920
Deposits		**42,573**	40,966	39,801
Other liabilities		**7,805**	8,147	7,679
Payables to financial institutions		**16,235**	15,180	12,930
Other financial liabilities at fair value through profit or loss	12	**663**	919	993
Due to related body corporate entities		**6,045**	5,456	3,495
Debt issued at amortised cost	13	**37,032**	31,826	35,963
Provisions		**110**	104	94
Deferred tax liabilities		**643**	435	596
Total liabilities excluding loan capital		**126,869**	119,142	125,855
Loan capital				
Subordinated debt at amortised cost		**2,399**	2,203	1,976
Total loan capital		**2,399**	2,203	1,976
Total liabilities		**129,268**	121,345	127,831
Net assets		**9,365**	8,655	8,668
Equity				
Contributed equity	14	**8,087**	8,077	8,082
Reserves	15	**(159)**	(645)	(634)
Retained earnings	15	**1,366**	1,131	1,151
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**9,294**	8,563	8,599
Non-controlling interests	15	**71**	92	69
Total equity		**9,365**	8,655	8,668

(1) Prior period comparatives have been restated for the effect of applying AASB10. Refer to note 1(iii).

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 2013

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2012		8,077	(617)	1,743	9,203	68	9,271
Profit after income tax		–	–	374	374	2	376
Other comprehensive (expense)/ income, net of tax		–	(17)	–	(17)	1	(16)
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
Profit after income tax		–	–	297	297	1	298
Other comprehensive expense, net of tax		–	(11)	–	(11)	(4)	(15)
Total comprehensive (expense)/income for the period		–	(11)	297	286	(3)	283
Transactions with equity holders in their capacity as equity holders:							
Return of capital to ultimate parent entity in relation to share-based payments	14	(5)	–		(5)	–	(5)
Dividends and distributions paid or provided for	5	–	–	(317)	(317)	–	(317)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	27	27
Distributions paid or provided for		–	–	–	–	(1)	(1)
		(5)	–	(317)	(322)	26	(296)
Balance at 31 March 2013		**8,077**	**(645)**	**1,131**	**8,563**	**92**	**8,655**
Profit after income tax		**–**	**–**	**374**	**374**	**2**	**376**
Other comprehensive income, net of tax		**–**	**486**	**–**	**486**	**11**	**497**
Total comprehensive income for the period		**–**	**486**	**374**	**860**	**13**	**873**
Transactions with equity holders in their capacity as equity holders:							
Contributions from ultimate parent entity in relation to share-based payments	14	**10**	**–**	**–**	**10**	**–**	**10**
Dividends and distributions paid or provided for	5	**–**	**–**	**(139)**	**(139)**	**–**	**(139)**
Non-controlling interests:							
Distribution of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(32)**	**(32)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(2)**	**(2)**
		10	**–**	**(139)**	**(129)**	**(34)**	**(163)**
Balance at 30 September 2013		**8,087**	**(159)**	**1,366**	**9,294**	**71**	**9,365**

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 2013

	Notes	**Half-year to 30 Sep 2013 $m**	Half-year to 31 Mar 2013[(1)] $m	Half-year to 30 Sep 2012[(1)] $m
Cash flows (used in)/from operating activities				
Interest received		**2,028**	2,042	2,166
Interest and other costs of finance paid		**(1,268)**	(1,527)	(1,455)
Dividends and distributions received		**26**	19	45
Fees and other non-interest income received		**1,317**	1,313	988
Fees and commissions paid		**(330)**	(256)	(414)
Net (payments)/receipt for trading portfolio assets and other financial assets/liabilities		**(1,637)**	(686)	548
Payments to suppliers		**(835)**	(862)	(403)
Employment expenses paid		**(993)**	(525)	(920)
Income tax paid		**(37)**	(586)	(93)
Life investment contract premiums received and other unitholder contributions		**131**	137	185
Life investment contract payments		**(182)**	(651)	(217)
Net loan assets granted		**(4,769)**	(42)	(1,143)
Recovery of loans previously written off		**7**	7	8
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**6,459**	(2,298)	3,725
Net cash flows (used in)/from operating activities	16	**(83)**	(3,915)	3,020
Cash flows from/(used in) investing activities				
Net proceeds from/(payments for) investment securities available for sale		**510**	2,708	(1,285)
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**74**	96	388
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(57)**	(769)	(44)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**544**	760	1,051
Payments for life investment contracts and other unitholder investment assets		**(490)**	(210)	(991)
Proceeds for property, plant and equipment, leased assets and intangible assets		**16**	5	171
Payments for property, plant and equipment, leased assets and intangible assets		**(209)**	(230)	(274)
Net cash flows from/(used in) investing activities		**388**	2,360	(984)
Cash flows used in financing activities				
Proceeds from non-controlling interests		**99**	29	–
Proceeds from/(repayment of) subordinated debt		**–**	115	(414)
Dividends and distributions paid		**(141)**	(319)	(969)
Net cash flows used in financing activities		**(42)**	(175)	(1,383)
Net increase/(decrease) in cash and cash equivalents		**263**	(1,730)	653
Cash and cash equivalents at the beginning of the period		**11,168**	12,898	12,245
Cash and cash equivalents at the end of the period	16	**11,431**	11,168	12,898

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(iii).

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

Note 1

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2013 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 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 2013 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 98/100 (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 MBL for the year ended 31 March 2013 other than where disclosed. Certain comparatives have been restated for consistency in presentation at 30 September 2013.

(ii) Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2013.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

(iii) Amendments to Accounting Standards that are effective in the current period

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current period:

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 127 Separate Financial Statements (Dec 2012), AASB 128 Investments in Associates and Joint Ventures (Dec 2012) and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.

AASB 10 was applied by the Consolidated Entity from 1 April 2013. AASB 10 replaces the previous guidance on control and retains the core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity. Whereas the control definition in the previous guidance focussed on 'risks and rewards', AASB 10 focuses on the combination of power, exposure to variable returns and ability to use the power to affect the returns. The Consolidated Entity's accounting policy for Principles of consolidation in accordance with AASB 10 is provided in note 1(iv).

Application of AASB 10 has resulted in the deconsolidation of certain entities that were previously consolidated due to exposure to a majority of risks and rewards; however the Consolidated Entity either does not have power over the relevant activities, or is not exposed to significant variable returns of the entity, or both. This includes entities where client monies are invested and the investors absorb substantially all the variable returns of the entity (leaving the Consolidated Entity with insignificant returns). Further, for such entities the Consolidated Entity acts as an agent for the investors as a result of their substantive right to remove the Consolidated Entity from its role as manager. For other entities, the Consolidated Entity has a majority of the risk of loss through its derivatives, however does not have significant variable returns since those derivatives create exposure that is passed through the entity and absorbed by investors.

The transitional provisions permit prior period comparatives to not be restated where the accounting outcome under the previous guidance is the same as that under AASB 10 as at the date of initial application, 1 April 2013. For all other situations, comparatives are restated retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if AASB 10 had always been applied.

Initial application has resulted in a decrease in Life investment contracts and other unitholder investment assets (included in Other assets as at 30 September 2013) and Total assets, with a corresponding decrease in Life investment contracts and other unitholder liabilities (included in Other liabilities as at 30 September 2013) and Total liabilities. The amount of the adjustment to each of these financial statement line items is $6,037 million as at 31 March 2013 and $4,833 million as at 30 September 2012. Initial application has not affected basic and diluted earnings per share in these periods.

The amount of the adjustment for each line item affected in the Consolidated statement of cash flows is as follows:

Notes to the consolidated financial statements
for the half-year ended 30 September 2013 continued

Note 1

(iii) Amendments to Accounting Standards that are effective in the current period continued

Consolidated statement of cash flows (extract)

	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
	Amount of adjustment	
Cash flows from operating activities:		
Life investment contract premiums received and other unitholder contributions	(2,070)	(995)
Life investment contract payments	944	906
Net cash flows used in operating activities	(1,126)	(89)
Cash flows from investing activities:		
Payments for life investment contracts and other unitholder investment assets	(2,239)	(1,731)
Proceeds from the disposal of life investment contracts and other unitholder investment assets	3,365	1,820
Net cash flows from investing activities	1,126	89

Initial application of AASB 11, AASB 127 (Dec 2012) and AASB 128 (Dec 2012) has not resulted in any material impact in the current or prior periods presented.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. Whilst AASB 12 will not affect any of the amounts recognised in the financial statements, it will require additional disclosures of interests in these entities in the financial report for the year ending 31 March 2014. AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 13 Fair Value Measurement

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures, and is effective for annual reporting periods beginning on or after 1 January 2013. In accordance with the transitional provisions, AASB 13 has been applied prospectively from 1 April 2013. The application of AASB 13 in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional fair value disclosures as provided in note 18.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

AASB 2012-2 became effective in the current period and requires additional disclosures of enforceable master netting arrangements and their effect, even if assets and liabilities are not offset on the statement of financial position.

AASB 2012-2 has not affected any of the amounts recognised in the financial statements, however will increase disclosures of certain netting arrangements in the financial report for the year ending 31 March 2014. AASB 2012-2 is applied retrospectively.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

AASB 2011-9 requires items included in other comprehensive income (OCI) in the Statement of comprehensive income (including prior period comparatives) to be grouped according to whether they may be reclassified subsequently to profit or loss. For the half year ended 30 September 2013, all items have been presented as "Items that may be reclassified subsequently to profit or loss".

(iv) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Company has the power to direct the relevant activities of the entity, exposure to significant variable returns and the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

Structured entities (SEs) are those entities where voting rights do not have a significant effect on its returns, such as where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities. When assessing whether the Consolidated Entity controls (and therefore consolidates) an SE, judgement is required about whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

The Consolidated Entity has power over, and is exposed to significant variable returns through the residual risk associated with its Mortgage SEs and other SEs. The Consolidated Entity is further able to use its power to affect its variable returns in the SEs. The underlying assets, liabilities, revenues and expenses of the SEs are reported in the consolidated statement of financial position and consolidated income statement.

(iv) Principles of consolidation (continued)

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment in accordance with AASB 127 *Separate Financial Statements*.

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves.

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,102**	2,195	2,199
Interest expense and similar charges paid/payable	**(1,254)**	(1,453)	(1,513)
Net interest income	**848**	742	686
Fee and commission income			
Base fees	**382**	326	313
Performance fees	**10**	23	2
Mergers and acquisitions, advisory and underwriting fees	**24**	21	20
Brokerage and commissions	**248**	220	144
Other fee and commission income	**164**	187	257
Total fee and commission income	**828**	777	736
Net trading income[1]			
Equities	**176**	125	100
Commodities	**381**	359	328
Credit, interest rates and foreign exchange products	**116**	211	155
Net trading income	**673**	695	583
Share of net profits of associates and joint ventures accounted for using the equity method	**12**	13	27

(1) Included in net trading income are fair value gains of $118 million (half-year to 31 March 2013: fair value loss of $7 million; half-year to 30 September 2012: fair value gain of $262 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 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**59**	80	18
Impairment charge on investment securities available for sale	**(71)**	(81)	(89)
Net gains on sale of associates and joint ventures	**2**	–	51
Impairment charge on interest in associates and joint ventures	**(14)**	(18)	(9)
Impairment charge on non-financial assets	**(24)**	(26)	(1)
Net operating lease income[1]	**256**	214	203
Dividends/distributions received/receivable:			
Investment securities available for sale	**22**	12	7
Collective allowance for credit losses (provided for)/ written back during the period (note 8)	**(18)**	2	5
Individually assessed provisions:			
Loan assets provided for during the period (note 8)	**(39)**	(20)	(62)
Other receivables provided for during the period	**(10)**	(5)	(3)
Recovery of loans previously provided for (note 8)	**6**	1	11
Loan losses written off	**(33)**	(57)	(37)
Recovery of loans previously written off	**7**	7	8
Other income	**52**	31	100
Total other operating income and charges	**195**	140	202
Net operating income	**2,556**	2,367	2,234

(1) Includes rental income of $447 million (half-year to 31 March 2013: $376 million; half-year to 30 September 2012: $348 million) less depreciation of $191 million (half-year to 31 March 2013: $162 million; half-year to 30 September 2012: $145 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 2013
continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(727)**	(764)	(632)
Share-based payments	**(62)**	(62)	(51)
(Provision for)/reversal of annual leave	**(3)**	2	(3)
Provision for long service leave	**–**	(1)	–
Total employment expenses	**(792)**	(825)	(686)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(265)**	(190)	(207)
Other fee and commission expenses	**(70)**	(51)	(75)
Total brokerage, commission and trading-related expenses	**(335)**	(241)	(282)
Occupancy expenses			
Operating lease rentals	**(21)**	(23)	(28)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(5)**	(5)	(7)
Other occupancy expenses	**(43)**	(46)	(36)
Total occupancy expenses	**(69)**	(74)	(71)
Non-salary technology expenses			
Information services	**(35)**	(31)	(28)
Depreciation: computer equipment	**(1)**	(1)	(1)
Other non-salary technology expenses	**(20)**	(16)	(11)
Total non-salary technology expenses	**(56)**	(48)	(40)
Other operating expenses			
Professional fees	**(85)**	(89)	(63)
Auditor's remuneration	**(8)**	(8)	(7)
Travel and entertainment expenses	**(30)**	(31)	(29)
Advertising and promotional expenses	**(29)**	(27)	(24)
Communication expenses	**(7)**	(7)	(9)
Amortisation of intangibles	**(33)**	(29)	(23)
Other expenses[1]	**(523)**	(491)	(468)
Total other operating expenses	**(715)**	(682)	(623)
Total operating expenses	**(1,967)**	(1,870)	(1,702)

(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.

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 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.

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.

Internal transactions

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

Internal funding arrangements

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

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

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

During the half-year ended 30 September 2013, Group Treasury revised internal funding transfer pricing arrangements relating to Banking and Financial Services' deposit and lending activities. Comparative information presented in this document has been restated to reflect the current methodology.

Transactions between Operating Groups

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

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

Internal management revenue/charges

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 3
Segment reporting continued

(i) Operating segments continued

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

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income	**45**	**270**	**366**
Fee and commission income	**453**	**7**	**317**
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(4)**	**4**	**1**
Other operating income and charges	**25**	**282**	**(19)**
Internal management revenue/(charge)	**2**	**7**	**2**
Net operating income	**521**	**570**	**667**
Total operating expenses	**(300)**	**(180)**	**(556)**
Profit/(loss) before tax	**221**	**390**	**111**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**1**	**–**	**–**
Profit/(loss) attributable to equity holders	**222**	**390**	**111**
Distributions paid or provided for on MIS	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**222**	**390**	**111**
Reportable segment assets	**6,805**	**25,601**	**29,304**
Net interest and trading income	24	323	332
Fee and commission income/(expense)	436	21	309
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	4	(4)	1
Other operating income and charges	14	196	(14)
Internal management revenue/(charge)	1	–	8
Net operating income/(charge)	479	536	636
Total operating expenses	(291)	(182)	(517)
Profit/(loss) before tax	188	354	119
Tax expense	–	–	–
Profit attributable to non-controlling interests	–	–	–
Profit/(loss) attributable to equity holders	188	354	119
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	188	354	119
Reportable segment assets	6,849	23,181	26,051
Net interest and trading income	35	246	310
Fee and commission income/(expense)	362	16	336
Share of net profits of associates and joint ventures accounted for using the equity method	6	1	2
Other operating income and charges	14	234	6
Internal management revenue/(charge)	7	3	1
Net operating income	424	500	655
Total operating expenses	(281)	(170)	(531)
Profit/(loss) before tax	143	330	124
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Profit/(loss) attributable to equity holders	144	330	124
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	144	330	124
Reportable segment assets	6,863	22,209	26,424

Macquarie Securities Group $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
		Half-year to 30 September 2013	
137	**613**	**90**	**1,521**
26	**47**	**(22)**	**828**
–	**16**	**(5)**	**12**
(5)	**(64)**	**(24)**	**195**
–	**5**	**(16)**	**–**
158	**617**	**23**	**2,556**
(143)	**(428)**	**(360)**	**(1,967)**
15	**189**	**(337)**	**589**
–	**–**	**(213)**	**(213)**
–	**–**	**(3)**	**(2)**
15	**189**	**(553)**	**374**
–	**–**	**(9)**	**(9)**
15	**189**	**(562)**	**365**
18,396	**42,732**	**15,795**	**138,633**
		Half-year to 31 March 2013	
112	583	63	1,437
(2)	31	(18)	777
–	11	1	13
–	(20)	(36)	140
1	12	(22)	–
111	617	(12)	2,367
(124)	(354)	(402)	(1,870)
(13)	263	(414)	497
–	–	(199)	(199)
–	–	(1)	(1)
(13)	263	(614)	297
–	–	(10)	(10)
(13)	263	(624)	287
15,564	42,560	15,795	130,000
		Half-year to 30 September 2012	
74	504	100	1,269
(26)	44	4	736
–	15	3	27
–	(58)	6	202
–	5	(16)	–
48	510	97	2,234
(94)	(340)	(286)	(1,702)
(46)	170	(189)	532
–	–	(156)	(156)
–	–	(3)	(2)
(46)	170	(348)	374
–	–	(11)	(11)
(46)	170	(359)	363
13,510	47,543	19,950	136,499

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
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 2013		
Revenues from external customers	**825**	**1,376**	**71**	**2,029**	**4,301**
			Half-year to 31 March 2013		
Revenues from external customers	882	1,632	1	1,791	4,306
			Half-year to 30 September 2012		
Revenues from external customers	756	1,403	–	1,934	4,093

(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 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Revenues from external customers			
Australia	**2,640**	2,506	2,357
Americas	**1,088**	959	1,053
Europe, Middle East and Africa	**471**	688	560
Asia Pacific	**102**	153	123
Total	**4,301**	4,306	4,093

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 4

Income tax expense

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

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Prima facie income tax expense on operating profit[1]	**(177)**	(150)	(159)
Tax effect of amounts which are not assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**(1)**	(21)	4
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	1
Share-based payments expense	**1**	2	(1)
Other items	**(37)**	(30)	(1)
Total income tax expense	**(213)**	(199)	(156)

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

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Available for sale reserve	**(11)**	(17)	(4)
Cash flow hedges	**(3)**	–	8
Share of other comprehensive income of associates and joint ventures	**–**	1	–
Foreign currency translation reserve	**(1)**	–	13
Total tax (expense)/benefit relating to items of other comprehensive income	**(15)**	(16)	17

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2013: 30 per cent; half-year to 30 September 2012: 30 per cent).

Revenue authorities undertake risk reviews and audits as part of their normal activities.

The Bank has received amended assessments from the Australian Tax Office (ATO), which cover a range of items. In accordance with ATO practice, the Bank has paid some of the primary tax and interest covered by these amended assessments and this has been recognised in these financial statements as a tax receivable within other assets.

The Bank has considered its position with respect to these and other tax claims, including seeking advice, and considers that it holds appropriate provisions.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m

Note 5
Dividends paid and distributions paid or provided for
(i) Dividends paid

Ordinary share capital			
Interim dividend paid	**–**	307	–
Final dividend paid	**130**	–	455
2012 Special dividend paid[1]	**–**	–	500
Total dividends paid (note 15)	**130**	307	955

[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 5 November 2013 from retained profits at 30 September 2013, but not recognised as a liability at the end of the period, is $280 million.

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	**5**	6	7
Distributions provided for	**4**	4	4
Total distributions paid or provided for (note 15)	**9**	10	11

The Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares 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 stapled security. Upon exercise of the option, dividends on the preference shares 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*.

Macquarie Income Preferred Securities			
Distributions provided for	**2**	2	2
Total distributions provided for	**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.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 6
Trading portfolio assets

Equities			
Listed	**7,873**	6,476	4,471
Unlisted	**37**	31	35
Commonwealth government securities	**5,657**	5,601	3,599
Commodities	**3,425**	2,261	2,278
Foreign government securities	**2,457**	1,742	1,379
Corporate securities	**1,575**	1,704	1,525
Other government securities[1]	**224**	640	600
Treasury notes	**85**	252	265
Bank bills	**69**	14	65
Promissory notes	**67**	132	240
Total trading portfolio assets	**21,469**	18,853	14,457

(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	**193**	246	327
Unlisted	**266**	236	231
Debt securities[1]	**13,153**	13,708	17,709
Total investment securities available for sale	**13,612**	14,190	18,267

(1) Included within this balance is $2,457 million (31 March 2013: $3,357 million; 30 September 2012: $4,947 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $265 million (31 March 2013: $20 million; 30 September 2012: $120 million) of bank bills.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 8
Loan assets held at amortised cost

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Due from other entities, net of individually assessed provision for impairment:			
Other loans and advances(1)	**45,443**	41,246	40,745
Lease receivables(2)	**5,388**	5,192	4,975
Total due from other entities, net of individually assessed provisions for impairment	**50,831**	46,438	45,720
Due from clearing houses	**2,664**	1,524	940
Due from governments(3)	**90**	169	85
Total loan assets before collective allowance for credit losses	**53,585**	48,131	46,745
Less collective allowance for credit losses	**(230)**	(205)	(208)
Total loan assets held at amortised cost(4)	**53,355**	47,926	46,537

(1) The balance is net of $292 million (31 March 2013: $273 million; 30 September 2012: $343 million) of individually assessed provision for impairment.
(2) The balance is net of $12 million (31 March 2013: $4 million; 30 September 2012: $1 million) of individually assessed provision for impairment.
(3) Governments include federal, state and local governments and related enterprises, predominantly in Australia.
(4) Included within this balance are loans of $13,103 million (31 March 2013: $10,774 million; 30 September 2012: $12,244 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**277**	344	352
Provided for during the period (note 2)	**39**	20	62
Loan assets written off, previously provided for	**(33)**	(84)	(57)
Recovery of loans previously provided for (note 2)	**(6)**	(1)	(11)
Transfer from other provisions	**10**	–	–
Impact of foreign currency translation	**18**	(2)	(2)
Balance at the end of the period	**305**	277	344
Individually assessed provisions as a percentage of total gross loan assets	**0.57%**	0.57%	0.73%
Collective allowance for credit losses			
Balance at the beginning of the period	**205**	208	213
Provided for/(written back) during the period (note 2)	**18**	(2)	(5)
Impact of foreign currency translation	**7**	(1)	–
Balance at the end of the period	**230**	205	208

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 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 9

Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	**8**	9	11
Less individually assessed provisions for impairment	**(7)**	(7)	(10)
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	2	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**673**	660	728
Less individually assessed provisions for impairment	**(337)**	(310)	(374)
Loan assets and other financial assets after individually assessed provisions for impairment	**336**	350	354
Total net impaired financial assets	**337**	352	355

Note 10

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

Loans and investments without provisions for impairment	**479**	436	451
Loans and investments with provisions for impairment	**275**	248	271
Less provisions for impairment	**(166)**	(156)	(130)
Loans and investments at recoverable amount	**109**	92	141
Total interests in associates and joint ventures accounted for using the equity method	**588**	528	592

There are no material associates and joint ventures accounted for using the equity method.

Note 11

Trading portfolio liabilities

Listed equity securities	**1,402**	1,029	2,189
Foreign government securities	**257**	179	210
Corporate securities	**133**	176	281
Commonwealth government securities	**4**	–	704
Total trading portfolio liabilities	**1,796**	1,384	3,384

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

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

Equity linked notes	**662**	878	931
Debt issued at fair value	**1**	41	62
Total other financial liabilities at fair value through profit or loss	**663**	919	993

Note 13
Debt issued at amortised cost

Debt issued at amortised cost(1)	**37,032**	31,826	35,963
Total debt issued at amortised cost	**37,032**	31,826	35,963

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $11,961million (31 March 2013: $9,393 million; 30 September 2012: $10,817 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	**15,541**	13,505	12,937
Australian dollars	**11,636**	8,944	11,649
Canadian dollars	**4,789**	5,868	6,636
Japanese yen	**1,735**	1,805	2,170
Euro	**1,632**	594	1,640
Swiss franc	**1,089**	1,004	510
Great British pounds	**782**	442	890
Hong Kong dollars	**198**	250	204
Korean won	**142**	134	157
Singapore dollars	**119**	76	106
Others	**32**	123	57
Total by currency	**37,695**	32,745	36,956

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.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m

Note 14

Contributed equity

Ordinary share capital			
Opening balance of 501,561,948 (1 October 2012: 501,561,948; 1 April 2012: 501,561,948) fully paid ordinary shares	**7,578**	7,578	7,578
Closing balance of 501,561,948 (31 March 2013: 501,561,948; 30 September 2012: 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**	113	108
Additional paid up capital/(return of capital)	**10**	(5)	5
Balance at the end of the period	**118**	108	113

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 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Contributed equity	**8,087**	8,077	8,082

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 15
Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(684)**	(648)	(658)
Currency translation differences arising during the period, net of hedges and tax	**464**	(36)	10
Balance at the end of the period	**(220)**	(684)	(648)
Available for sale reserve			
Balance at the beginning of the period	**85**	66	75
Revaluation movement for the period, net of tax	**(6)**	20	(57)
Transfer to income statement upon impairment, net of tax	**50**	57	61
Transfer to income statement on realisation, net of tax	**(25)**	(58)	(13)
Balance at the end of the period	**104**	85	66
Cash flow hedging reserve			
Balance at the beginning of the period	**(46)**	(53)	(36)
Revaluation movement for the period, net of tax	**2**	7	(17)
Balance at the end of the period	**(44)**	(46)	(53)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**–**	1	2
Share of other comprehensive income/(expense) during the period	**1**	(1)	(1)
Balance at the end of the period	**1**	–	1
Total reserves at the end of the period	**(159)**	(645)	(634)
Retained earnings			
Balance at the beginning of the period	**1,131**	1,151	1,743
Profit attributable to equity holders of MBL	**374**	297	374
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(9)**	(10)	(11)
Dividends paid on ordinary share capital (note 5)	**(130)**	(307)	(955)
Balance at the end of the period	**1,366**	1,131	1,151

Note 15

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities

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 2013: 6.177 per cent; 30 September 2012: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities 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 2013: 2.35 per cent; 30 September 2012: 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 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.

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.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Macquarie Income Preferred Securities			
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	107
Less issue costs	**(1)**	(1)	(1)
	106	106	106
Foreign currency translation reserve	**(35)**	(46)	(42)
Total Macquarie Income Preferred Securities	**71**	60	64
Other non-controlling interests			
Ordinary share capital	**–**	29	11
Retained earnings	**–**	3	(6)
Total other non-controlling interests	**–**	32	5
Total non-controlling interests	**71**	92	69

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
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 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Receivables from financial institutions[1],[2]	**7,783**	8,195	8,362
Trading portfolio assets and debt securities[3]	**3,648**	2,973	4,536
Cash and cash equivalents at the end of the period	**11,431**	11,168	12,898

(1) Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses.
(2) Cash and cash equivalents include $3,687 million (31 March 2013: $3,119 million; 30 September 2012: $117 million) held in segregated deposit fund and escrow account which are restricted for use.
(3) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

	Half-year to 30 Sep 2013 $m	Half-year to 31 Mar 2013 $m	Half-year to 30 Sep 2012 $m
Reconciliation of profit after income tax to net cash flows (used in)/from operating activities			
Profit after income tax	**376**	298	376
Adjustments to profit after income tax:			
Depreciation and amortisation	**230**	197	176
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**71**	(173)	(100)
Provision and impairment charge on financial and non-financial assets	**203**	203	185
Interest on available for sale financial assets	**(60)**	(84)	(42)
Net gains on sale of investment securities available for sale and associates and joint ventures	**(61)**	(81)	(69)
Share-based payments expense	**10**	(10)	5
Share of net profits of associates and joint ventures accounted for using the equity method	**(12)**	(13)	(27)
Changes in assets and liabilities:			
Change in dividends receivable	**(23)**	57	(54)
Change in values of associates due to dividends received	**27**	4	38
Change in fees and non-interest income receivable	**(48)**	(12)	(13)
Change in fees and commissions payable	**5**	1	(105)
Change in tax balances	**191**	219	63
Change in provisions for employee entitlements	**6**	10	(3)
Change in loan assets	**(4,769)**	(42)	(1,143)
Change in debtors, prepayments, accrued charges and creditors	**19**	381	(107)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(2,650)**	(1,272)	124
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**6,454**	(3,045)	3,790
Change in life investment contract receivables	**(52)**	(553)	(74)
Net cash flows (used in)/from operating activities	**(83)**	(3,915)	3,020

Note 17

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2013 $m	As at 31 Mar 2013 $m	As at 30 Sep 2012 $m
Contingent liabilities exist in respect of:			
Guarantees	**559**	545	512
Letters of credit	**347**	272	296
Performance related contingents	**130**	228	211
Indemnities	**1**	1	1
Total contingent liabilities[(1)]	**1,037**	1,046	1,020
Commitments exist in respect of:			
Undrawn credit facilities	**2,563**	2,374	2,315
Forward asset purchases	**136**	17	138
Total commitments[(2)]	**2,699**	2,391	2,453
Total contingent liabilities and commitments	**3,736**	3,437	3,473

(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.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 18

Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Bank uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
- for financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the base interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- the Consolidated Entity's own credit risk is factored into the valuations of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the Consolidated Entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the Consolidated Entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

Note 18

Fair values of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread; and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 18
Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost:

	Carrying value $m	Fair value $m
Assets	As at 30 Sep 2013	
Receivables from financial institutions	17,007	17,007
Other financial assets	4,921	4,921
Loan assets held at amortised cost	53,355	53,670
Due from related body corporate entities	861	861
Total assets	76,144	76,459
Liabilities		
Deposits	42,573	42,588
Other financial laibilities	5,487	5,487
Payables to financial institutions	16,235	16,307
Due to related body corporate entities	6,045	6,045
Debt issued at amortised cost	37,032	37,458
Loan capital at amortised cost	2,399	2,524
Total liabilities	109,771	110,409

Note 18

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				As at 30 Sep 2013
Trading portfolio assets	15,567	5,780	122	21,469
Derivative assets	1,066	13,268	139	14,473
Investment securities available for sale	9,153	4,311	148	13,612
Other financial assets at fair value through profit or loss	462	2,011	51	2,524
Other financial assets[1]	381	776	–	1,157
Total assets	26,629	26,146	460	53,235
Liabilities				
Trading portfolio liabilities	604	1,192	–	1,796
Derivative liabilities	1,225	12,679	63	13,967
Other financial liabilities at fair value through profit or loss	–	613	50	663
Other financial assets[1]	380	749	–	1,129
Total liabilities	2,209	15,233	113	17,555

[1] Relates to life insurance contracts and other unitholder investment assets and liabilities.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 18
Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the period ended 30 September 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the period	253	268
Purchases	68	10
Sales	(138)	(3)
Settlements	–	–
Net transfers (out of)/into level 3[(1)]	(58)	(111)
Fair value (losses)/gains recognised in the income statement[(2)]	(3)	–
Fair value losses recognised in other comprehensive income[(2)]	–	(16)
Balance at the end of the period	122	148
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[(2)]	(3)	–

(1) Transfers in and out of level 3 during the period are reported using their end of period fair values.

(2) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2. Total gains or losses recognised in the income statement are included in net trading income, and those recognised in other comprehensive income are included in the available-for-sale investments reserve.

(3) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $139 million and derivative liabilities are $63 million.

	Other financial assets at fair value through profit or loss	Other financial liabilities at fair value through profit or loss	Derivative financial instruments (net replacement values)(3)	Total
	$m	$m	$m	$m
				Half-year to 30 Sep 2013
	69	(70)	14	534
	–	–	44	122
	(19)	23	(4)	(141)
	–	(1)	(24)	(25)
	(6)	–	40	(135)
	7	(2)	6	8
	–	–	–	(16)
	51	(50)	76	347
	4	(4)	1	(2)

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 18

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the period, the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the period.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Half-year to 30 Sep 2013 $m
Balance at the beginning of the period	24
Deferral on new transactions	3
Amounts recognised in the income statement during the period	(9)
Balance at the end of the period	18

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type			As at 30 Sep 2013	
Equity and equity linked products	2	2	(2)	2
Other products	16	–	(14)	–
Total	18	2	(16)	2

Note 18

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair values of the instruments. The range of values represents the highest and lowest of inputs used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Range of inputs Maximum value
					As at 30 Sep 2013	
Equity and equity linked products	**142**	**56**	Discounted cash flows	Discount rate	13.5%	13.5%
			Pricing model	Volatility	38%	55%
			Market comparability	Price in %	94.8%	113.4%
Other products	**318**	**57**	Pricing model	Volatility	8.5%	92.0%
				Correlation	0.15	1
			Market comparability	Price in %	5%	337%
Total	**460**	**113**				

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility and skew

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of the amount a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Forward prices

Forward prices are a price or rate that is applicable to a financial transaction that will take place in the future. It is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment.

Notes to the consolidated financial statements
for the half-year ended 30 September 2013
continued

Note 19
Events after the reporting period

There were no material events subsequent to 30 September 2013 that have not been reflected in the financial statements.

Directors' declaration
for the half-year ended 30 September 2013

In the Directors' opinion:

a) the financial statements and notes for the half-year ended 30 September 2013 set out on pages 4 to 38 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 2013 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.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth).*

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
1 November 2013

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

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 2013, and the income statement, the statement of comprehensive income, statement of changes in equity and statements 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* 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* including: giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2013 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*. 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 2013 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
1 November 2013

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