MACQUARIE BANK
INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2010

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.

Financial report
for the half-year ended 30 September 2010
Contents

The Financial report was authorised for issue by the Directors on 28 October 2010.
The consolidated entity has the power to amend and reissue the Financial report.

Financial report
for the half-year ended 30 September 2010

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Directors' report
for the half-year ended 30 September 2010

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL or the Bank), the Directors submit herewith the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended 30 September 2010, and the consolidated statement of financial position as at 30 September 2010, of the Bank and its subsidiaries (the consolidated entity) for the half-year ended on that date (the period) and report as follows:

Directors

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

Non-Executive Director

D.S. Clarke, AO, Chairman

Executive Directors

W.R. Sheppard, Managing Director and Chief Executive Officer

N.W. Moore

Independent Directors

M.J. Hawker, AM

P.M. Kirby

C.B. Livingstone, AO

H.K. McCann, AM

J.R. Niland, AC

H.M. Nugent, AO

P.H. Warne

The Directors each held office as a Director of the Bank throughout the period and until the date of this report.

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

Result

The financial report for the half-year ended 30 September 2010, and the results herein, are prepared in accordance with Australian Accounting Standards.

The consolidated profit attributable to ordinary equity holders of the Bank, in accordance with Australian Accounting Standards, for the period was $294 million (half-year to 31 March 2010: $406 million; half-year to 30 September 2009: $257 million).

Review of operations

Consolidated profit after income tax attributable to ordinary equity holders of $294 million for the half-year ended 30 September 2010 increased 14 per cent from $257 million in the prior corresponding period and decreased 28 per cent from $406 million in the prior period.

Net operating income of $2,345 million for the half-year ended 30 September 2010 increased 45 per cent from $1,616 million in the prior corresponding period and increased 15 per cent from $2,036 million in the prior period.

Total operating expenses of $1,951 million for the half-year ended 30 September 2010 increased 47 per cent from $1,329 million in the prior corresponding period and increased 25 per cent from $1,561 million in the prior period.

On 31 July 2010 unitholders in the Macquarie Cash Management Trust (CMT) converted their units into at-call deposits in the Macquarie Cash Management Account (CMA). This resulted in an increase of $9.6 billion in Macquarie Bank retail deposits.

The Bank has met its externally imposed capital requirements throughout the period. The Bank is well capitalised, and as at 30 September 2010, it had a Tier 1 capital ratio of 10.8 per cent and a total capital ratio of 12.8 per cent.

Events occurring after balance sheet date

There were no material events subsequent to 30 September 2010 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 2010 of $185 million. The dividend will be paid on 15 December 2010.

Directors' report
for the half-year ended 30 September 2010 continued

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, 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.

David S. Clarke, AO
Non-Executive Director and
Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
28 October 2010

Auditor’s independence declaration
for the half-year ended 30 September 2010

PRICEWATERHOUSECOOPERS

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2010, 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* 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
28 October 2010

Consolidated income statement
for the half-year ended 30 September 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Interest and similar income		**2,524**	2,332	2,021
Interest expense and similar charges		**(1,760)**	(1,536)	(1,492)
Net interest income	2	**764**	796	529
Fee and commission income	2	**754**	600	436
Net trading income	2	**633**	664	573
Share of net profits of associates and joint ventures accounted for using the equity method	2	**19**	2	5
Other operating income and charges	2	**175**	(26)	73
Net operating income		**2,345**	2,036	1,616
Employment expenses	2	**(805)**	(587)	(502)
Brokerage and commission expenses	2	**(388)**	(268)	(280)
Occupancy expenses	2	**(67)**	(68)	(54)
Non-salary technology expenses	2	**(50)**	(53)	(35)
Other operating expenses	2	**(641)**	(585)	(458)
Total operating expenses		**(1,951)**	(1,561)	(1,329)
Operating profit before income tax		**394**	475	287
Income tax expense	4	**(83)**	(53)	(12)
Profit after income tax		**311**	422	275
Profit attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**(2)**	(2)	(6)
Other non-controlling interests		**(2)**	(3)	(2)
Profit attributable to non-controlling interests		**(4)**	(5)	(8)
Profit attributable to equity holders of Macquarie Bank Limited		**307**	417	267
Distributions paid or provided on:				
Macquarie Income Securities	5	**(13)**	(11)	(10)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**294**	406	257

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 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Profit after income tax for the period		**311**	422	275
Other comprehensive (expense)/income:				
Available for sale investments, net of tax	16	**26**	83	105
Cash flow hedges, net of tax	16	**14**	17	82
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	16	**–**	7	(36)
Exchange differences on translation of foreign operations, net of tax		**(213)**	(233)	66
Total other comprehensive (expense)/income for the period		**(173)**	(126)	217
Total comprehensive income for the period		**138**	296	492
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**122**	287	402
Macquarie Income Securities holders		**13**	11	10
Macquarie Income Preferred Securities holders		**1**	(5)	78
Other non-controlling interests		**2**	3	2
Total comprehensive income for the period		**138**	296	492

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 2010

	Notes	**As at 30 Sep 2010 $m**	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Assets				
Cash and balances with central banks		**9**	–	3
Due from banks		**7,586**	6,490	7,204
Cash collateral on securities borrowed and reverse repurchase agreements		**8,272**	6,084	3,577
Trading portfolio assets	6	**15,182**	11,324	13,582
Loan assets held at amortised cost	7	**44,703**	43,794	41,882
Other financial assets at fair value through profit or loss		**9,447**	7,125	2,962
Derivative financial instruments – positive values		**23,431**	21,540	21,365
Other assets		**7,735**	7,321	6,104
Investment securities available for sale	9	**16,118**	16,761	21,441
Intangible assets		**951**	948	301
Life investment contracts and other unitholder investment assets		**5,052**	4,854	5,069
Due from related body corporate entities		**2,334**	2,391	2,525
Interests in associates and joint ventures accounted for using the equity method	10	**852**	915	1,155
Property, plant and equipment		**246**	139	86
Deferred income tax assets		**379**	373	462
Non-current assets and assets of disposal groups classified as held for sale	11	**–**	51	73
Total assets		**142,297**	130,110	127,791
Liabilities				
Due to banks		**2,647**	2,167	2,571
Cash collateral on securities lent and repurchase agreements		**5,837**	7,201	5,093
Trading portfolio liabilities	12	**5,501**	4,921	6,986
Derivative financial instruments – negative values		**24,284**	21,634	21,443
Deposits		**34,829**	22,288	20,504
Debt issued at amortised cost	13	**36,275**	39,408	42,706
Other financial liabilities at fair value through profit or loss	14	**2,017**	2,625	2,868
Other liabilities		**7,030**	6,727	5,261
Current tax liabilities		**67**	76	44
Life investment contracts and other unitholder liabilities		**5,069**	4,864	5,062
Due to related body corporate entities		**7,639**	8,008	6,637
Provisions		**84**	71	65
Deferred income tax liabilities		**311**	273	184
Liabilities of disposal groups classified as held for sale	11	**–**	9	–
Total liabilities excluding loan capital		**131,590**	120,272	119,424
Loan capital				
Subordinated debt at amortised cost		**1,472**	905	1,005
Subordinated debt at fair value through profit or loss		**487**	499	522
Total loan capital		**1,959**	1,404	1,527
Total liabilities		**133,549**	121,676	120,951
Net assets		**8,748**	8,434	6,840

	Notes	**As at 30 Sep 2010 $m**	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Equity				
Contributed equity				
Ordinary share capital	15	**7,128**	6,508	5,178
Equity contribution from ultimate parent entity	15	**108**	87	72
Macquarie Income Securities	15	**391**	391	391
Reserves	16	**(342)**	(170)	(51)
Retained earnings	16	**1,377**	1,533	1,162
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**8,662**	8,349	6,752
Non-controlling interests				
Macquarie Income Preferred Securities	16	**66**	67	74
Other non-controlling interests	16	**20**	18	14
Total equity		**8,748**	8,434	6,840

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 2010

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2009		4,951	(201)	1,250	6,000	410	6,410
Total comprehensive income for the period		–	145	267	412	80	492
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	15	675	–	–	675	–	675
Contributions from ultimate parent entity in relation to share based payments	15	15	–	–	15	–	15
Dividends and distributions paid or provided	5	–	–	(355)	(355)	–	(355)
Reserves arising from group restructure of combining entities under common control	16	–	5	–	5	–	5
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	2	2
Cancellation of Macquarie Income Preferred Securities		–	–	–	–	(396)	(396)
Distributions paid or provided		–	–	–	–	(8)	(8)
		690	5	(355)	340	(402)	(62)
Balance at 30 September 2009		5,641	(51)	1,162	6,752	88	6,840
Total comprehensive (expense)/income for the period		–	(119)	417	298	(2)	296
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	15	1,330	–	–	1,330	–	1,330
Contributions from ultimate parent entity in relation to share based payments	15	15	–	–	15	–	15
Dividends and distributions paid or provided	5	–	–	(46)	(46)	–	(46)
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		–	–	–	–	4	4
Distributions paid or provided		–	–	–	–	(5)	(5)
		1,345	–	(46)	1,299	(1)	1,298
Balance at 31 March 2010		**6,986**	**(170)**	**1,533**	**8,349**	**85**	**8,434**
Total comprehensive (expense)/income for the period		**–**	**(172)**	**307**	**135**	**3**	**138**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	15	**620**	**–**	**–**	**620**	**–**	**620**
Contributions from ultimate parent entity in relation to share based payments	15	**21**	**–**	**–**	**21**	**–**	**21**
Dividends and distributions paid or provided	5		**–**	**(463)**	**(463)**	**–**	**(463)**
Non-controlling interests:							
Contributions/distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**2**	**2**
Distributions paid or provided		**–**	**–**	**–**	**–**	**(4)**	**(4)**
		641	**–**	**(463)**	**178**	**(2)**	**176**
Balance at 30 September 2010		**7,627**	**(342)**	**1,377**	**8,662**	**86**	**8,748**

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 2010

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Cash flows from operating activities				
Interest received		**2,378**	2,678	1,959
Interest and other costs of finance paid		**(1,820)**	(1,535)	(1,660)
Dividends and distributions received		**135**	67	77
Fees and other non-interest income received		**1,033**	880	748
Fees and commissions paid		**(388)**	(278)	(288)
Net (payments for)/receipts from trading portfolio assets and other financial assets/liabilities		**(4,105)**	259	2,753
Payments to suppliers		**(1,771)**	(846)	(749)
Employment expenses paid		**(874)**	(498)	(583)
Income tax paid		**(27)**	(30)	(101)
Life investment contract income/(expense)		**67**	(60)	(77)
Life investment contract premiums received and other unitholder contributions		**1,283**	1,146	1,149
Life investment contract payments		**(1,151)**	(1,911)	(1,315)
Non-current assets and disposal groups classified as held for sale – net receipts from/(payments for) operations		**38**	(41)	–
Net loan assets (granted)/repaid		**(1,244)**	(1,543)	5,281
Loan facility repaid by ultimate parent entity		**64**	151	2,400
Recovery of loans previously written off		**6**	8	11
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**9,163**	(2,136)	(7,928)
Net cash flows from/(used in) operating activities	17	**2,787**	(3,689)	1,677
Cash flows from investing activities				
Net payments for financial assets available for sale and at fair value through profit or loss		**(2,964)**	(1,326)	(6,896)
Payments for interests in associates		**(71)**	(100)	(88)
Proceeds from the disposal of associates		**62**	58	80
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		**–**	(1)	1
Payments for the acquisition of subsidiaries and businesses, excluding disposal groups, net of cash acquired		**(14)**	(55)	(200)
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**10**	47	32
Payments for life investment contracts and other unitholder investment assets		**(3,714)**	(1,998)	(3,724)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**3,567**	2,874	3,978
Payments for property, plant and equipment, lease assets and intangible assets		**(1,037)**	(118)	(34)
Net cash flows used in investing activities		**(4,161)**	(619)	(6,851)

Consolidated statement of cash flows
for the half-year ended 30 September 2010 continued

	Notes	**Half-year to 30 Sep 2010 $m**	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**619**	1,130	675
Payments to non-controlling interests		**(5)**	(6)	(199)
Proceeds from/(repayment of) subordinated debt		**598**	45	(451)
Dividends and distributions paid		**(463)**	(54)	(365)
Net cash flows from/(used in) financing activities		**749**	1,115	(340)
Net decrease in cash and cash equivalents		**(625)**	(3,193)	(5,514)
Cash and cash equivalents at the beginning of the period		**11,165**	14,358	19,872
Cash and cash equivalents at the end of the period	17	**10,540**	11,165	14,358

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 2010 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

This half-year financial report comprises the consolidated financial report of Macquarie Bank Limited (MBL 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 2010 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*.

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 2010. Certain comparatives have been restated for consistency in presentation at 30 September 2010.

Accounting standards effective in the current period

AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* were issued in March 2008 and became applicable in the current period. These Standards amend the accounting for certain aspects of business combinations and changes in ownership interests in subsidiaries. Consequential amendments were also made to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

As a result of these revised Standards:

- transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;
- contingent obligations are measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) without regard to the probability of having to make a future payment, and all subsequent changes in fair value are recognised in profit or loss;
- changes in control are considered significant economic events, thereby requiring ownership interests to be re-measured to their fair value (and the gain/loss recognised in profit or loss) when control of a subsidiary is gained or lost; and
- changes in a parent's ownership interest in a subsidiary that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity.

As a result of now applying the revised AASB 3, the definition of a business is now modified: a) to require inputs and processes to always exist, but not necessarily include all inputs or processes that the seller used; b) to clarify the meanings of inputs and processes; and c) for the integrated activities and assets to only be capable of being conducted and managed for the purpose. Distinguishing between whether assets or a business is acquired therefore involves more judgement. Some of the factors that the consolidated entity uses in identifying a business combination are:

- the nature of the consolidated entity's industry and business model, which affects the nature of an input, process or output;
- whether the acquisition included at least a majority of the critical inputs (e.g. tangible or intangible assets, and intellectual property) and processes (e.g. strategic processes, skilled and experienced workforce);
- the relative ease of replacing critical processes not acquired by either integrating within the consolidated entity's existing processes or sub-contracting them to third parties; and
- the presence of goodwill.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable:			
Other entities	**2,461**	2,227	1,971
Related body corporate entities	**63**	105	50
Interest expense and similar charges paid/payable:			
Other entities	**(1,638)**	(1,425)	(1,436)
Related body corporate entities	**(122)**	(111)	(56)
Net interest income	**764**	796	529
Fee and commission income			
Base fees	**315**	265	199
Performance fees	**7**	5	40
Mergers and acquisitions, advisory and underwriting fees	**24**	15	22
Brokerage and commissions	**172**	152	136
Other fee and commission income	**193**	131	23
Income from life investment contracts and other unitholder investment assets	**43**	32	16
Total fee and commission income	**754**	600	436
Net trading income[1]			
Equities	**149**	150	405
Commodities	**157**	310	353
Foreign exchange products	**82**	39	65
Interest rate products	**245**	165	(250)
Net trading income	**633**	664	573
Share of net profits of associates and joint ventures accounted for using the equity method	**19**	2	5

[1] Included in net trading income are fair value losses of $14 million (half-year to 31 March 2010: $354 million loss; half-year to 30 September 2009: $59 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $1 million loss (half-year to 31 March 2010: $65 million gain; half-year to 30 September 2009: $320 million loss) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**99**	18	24
Impairment charge on investment securities available for sale	**(3)**	(32)	(69)
Net gains on sale of associates (including associates held for sale) and joint ventures	**2**	9	–
Impairment charge on investments in associates (including associates held for sale) and joint ventures	**(38)**	(20)	(49)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**8**	7	131
Impairment charge on non-financial assets	**(3)**	(9)	(14)
Gain on repurchase of subordinated debt	**–**	–	55
Net operating lease income[1]	**46**	35	37
Dividends/distributions received/receivable:			
Investment securities available for sale	**8**	4	19
Management fees, group service charges and cost recoveries	**(10)**	(12)	(15)
Collective allowance for credit losses written back/(provided for) during the period (note 7)	**9**	(2)	1
Specific provisions:			
Loan assets provided for during the period (note 7)	**(62)**	(72)	(103)
Other receivables written back/(provided for) during the period	**6**	(25)	(2)
Recovery of loans previously provided for (note 7)	**9**	29	3
Recovery of other receivables previously provided for	**–**	5	–
Loan losses written off	**(32)**	(32)	(31)
Recovery of loans previously written off	**6**	8	11
Other income	**130**	63	75
Total other operating income and charges	**175**	(26)	73
Net operating income	**2,345**	2,036	1,616

[1] Includes rental income of $120 million (half-year to 31 March 2010: $154 million; half-year to 30 September 2009: $125 million) less depreciation of $74 million (half-year to 31 March 2010: $119 million; half-year to 30 September 2009: $88 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 2010 continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(742)**	(531)	(481)
Share based payments	**(49)**	(51)	(15)
Provision for annual leave	**(11)**	(3)	(5)
Provision for long service leave	**(3)**	(2)	(1)
Total employment expenses	**(805)**	(587)	(502)
Brokerage and commission expenses			
Brokerage expenses	**(224)**	(179)	(238)
Other fee and commission expenses	**(164)**	(89)	(42)
Total brokerage and commission expenses	**(388)**	(268)	(280)
Occupancy expenses			
Operating lease rentals	**(35)**	(41)	(27)
Depreciation: furniture, fittings and leasehold improvements	**(9)**	(18)	(10)
Other occupancy expenses	**(23)**	(9)	(17)
Total occupancy expenses	**(67)**	(68)	(54)
Non-salary technology expenses			
Information services	**(29)**	(26)	(19)
Depreciation: computer equipment	**(2)**	(3)	(6)
Other non-salary technology expenses	**(19)**	(24)	(10)
Total non-salary technology expenses	**(50)**	(53)	(35)
Other operating expenses			
Professional fees	**(64)**	(60)	(51)
Auditor's remuneration	**(6)**	(4)	(6)
Travel and entertainment expenses	**(34)**	(33)	(22)
Advertising and promotional expenses	**(25)**	(26)	(14)
Communication expenses	**(11)**	(8)	(8)
Amortisation of intangibles	**(19)**	(17)	(5)
Other expenses[1]	**(482)**	(437)	(352)
Total other operating expenses	**(641)**	(585)	(458)
Total operating expenses	**(1,951)**	(1,561)	(1,329)

[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, one operating division and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2010 there have been the following restructures of operating groups and divisions:

Macquarie Infrastructure and Real Assets (MIRA) (formerly Macquarie Capital Funds) – this division of Macquarie Capital was transferred to Macquarie Funds Group.

Real Estate Structured Finance (RESF) – this division of the Real Estate Banking Division was transferred to Corporate and Asset Finance.

All restructures are effective from 1 April 2010. Segment information has been prepared in conformity with the consolidated entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

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

Macquarie Capital comprises Macquarie Group's corporate advisory, equity underwriting and debt structuring and distribution businesses.

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

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

Corporate and Asset Finance is the balance sheet 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 Macquarie's retail banking and financial services businesses providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

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

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

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 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 Securities Group $m	Macquarie Capital $m	Macquarie Funds Group $m
Revenues from external customers	**143**	**8**	**610**
Inter-segmental (expense)/revenue[1]	**(65)**	**13**	**1**
Interest revenue	**46**	**6**	**79**
Interest expense	**(18)**	**–**	**(32)**
Depreciation and amortisation	**–**	**–**	**(11)**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**–**	**6**	**(1)**
Reportable segment (loss)/profit	**(67)**	**5**	**131**
Reportable segment assets	**17,980**	**394**	**9,321**
Revenues from external customers	233	12	427
Inter-segmental (expense)/revenue[1]	(34)	12	(6)
Interest revenue	22	10	74
Interest expense	(11)	–	(22)
Depreciation and amortisation	–	–	(14)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	8	2
Reportable segment profit/(loss)	66	5	52
Reportable segment assets	12,687	478	7,893
Revenues from external customers	256	(7)	706
Inter-segmental (expense)/revenue[1]	(22)	11	(11)
Interest revenue	14	(7)	74
Interest expense	(11)	–	(18)
Depreciation and amortisation	(1)	–	(3)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	4	5
Reportable segment profit/(loss)	50	(55)	33
Reportable segment assets	14,358	519	7,466

[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.

Fixed Income, Currencies and Commodities $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m	Real Estate Banking Division $m	Corporate $m	Total $m
Half-year to 30 September 2010					
743	**724**	**1,205**	**23**	**858**	**4,314**
(85)	**(247)**	**269**	**(16)**	**130**	**–**
259	**715**	**800**	**9**	**610**	**2,524**
(195)	**(94)**	**(842)**	**–**	**(579)**	**(1,760)**
(36)	**(49)**	**(13)**	**–**	**5**	**(104)**
15	**6**	**–**	**(5)**	**(2)**	**19**
158	**233**	**139**	**(25)**	**(280)**	**294**
43,535	**17,070**	**29,261**	**797**	**23,939**	**142,297**
Half-year to 31 March 2010					
942	580	1,133	27	514	3,868
(18)	(190)	102	(19)	153	–
316	611	741	8	550	2,332
(185)	(95)	(627)	(2)	(594)	(1,536)
(76)	(48)	(18)	(1)	–	(157)
7	(6)	2	(9)	(2)	2
413	122	125	(105)	(272)	406
42,060	15,331	29,860	847	20,954	130,110
Half-year to 30 September 2009					
848	446	1,109	75	442	3,875
(50)	(83)	17	(28)	166	–
321	445	753	5	416	2,021
(195)	(89)	(501)	(3)	(675)	(1,492)
(32)	(60)	(12)	(1)	–	(109)
3	1	–	(7)	(1)	5
323	128	143	(37)	(328)	257
38,508	13,235	29,589	1,274	22,842	127,791

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
			Half-year to 30 September 2010		
Revenues from external customers	**960**	**1,544**	**27**	**1,783**	**4,314**
			Half-year to 31 March 2010		
Revenues from external customers	732	1,644	(2)	1,494	3,868
			Half-year to 30 September 2009		
Revenues from external customers	1,113	1,370	13	1,379	3,875

(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.

	Revenues from external customers $m	Non-current assets[1] $m
	Half-year to 30 September 2010	
Australia	**3,069**	**201**
Asia Pacific	**240**	**18**
Europe, Middle East and Africa	**377**	**90**
Americas	**628**	**888**
Total	**4,314**	**1,197**
	Half-year to 31 March 2010	
Australia	2,500	174
Asia Pacific	322	19
Europe, Middle East and Africa	442	75
Americas	604	819
Total	3,868	1,087

Note 3

Segment reporting continued

(iii) Geographical areas continued

	Revenues from external customers $m	**Non-current assets1 $m**
	Half-year to 30 September 2009	
Australia	2,398	143
Asia Pacific	386	20
Europe, Middle East and Africa	594	60
Americas	497	164
Total	3,875	387

[1] Non-current assets consist of intangible assets and property, plant and equipment.

(iv) Major customers

The consolidated entity does not rely on any major customer.

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 4

Income tax expense

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Prima facie income tax expense on operating profit[1]	**(118)**	(143)	(86)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**37**	140	60
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	2
Share based payments expense	**(5)**	(4)	(5)
Other items	**2**	(46)	17
Total income tax expense	**(83)**	(53)	(12)

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Available for sale investments	**(7)**	(29)	(22)
Cash flow hedges	**(6)**	(10)	(32)
Share of other comprehensive income of associates and joint ventures	**–**	(13)	26
Foreign currency translation reserve	**48**	(204)	–
Total tax benefit/(expense) relating to items of other comprehensive income	**35**	(256)	(28)

[1] Prima facie income tax expense on operating profit is calculated at the rate of 30 per cent (half-year to 31 March 2010: 30 per cent; half-year to 30 September 2009: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 5
Dividends and distributions paid or provided

(i) Dividends paid

Ordinary share capital			
Interim dividend paid	**–**	35	–
Final dividend paid	**450**	–	345
Total dividends paid (note 16)	**450**	35	345

(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 15 December 2010 from retained profits at 30 September 2010, but not recognised as a liability at the end of the period, is $185 million.

(iii) Distributions paid or provided

Macquarie Income Preferred Securities			
Distributions paid (net of distributions previously provided)	**–**	–	4
Distributions provided	**2**	2	2
Total distributions paid or provided (note 16)	**2**	2	6

The Macquarie Income Preferred Securities (MIPS) represent the non-controlling interest of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIPS are recorded as movements in non-controlling interests, as disclosed in note 16 – Reserves, retained earnings and non-controlling interests. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 16 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	**7**	6	6
Distributions provided	**6**	5	4
Total distributions paid or provided (note 16)	**13**	11	10

The Macquarie Income Securities (MIS) is a stapled arrangement, which includes 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 in respect of the MIS are recognised directly in equity in accordance with AASB 132: *Financial Instruments: Presentation*. Refer to note 15 – Contributed equity, for further details on these instruments.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 6

Trading portfolio assets

Equities			
Listed	**7,159**	4,566	7,754
Unlisted	**1**	28	30
Commonwealth government bonds	**3,131**	2,455	2,948
Corporate bonds	**2,723**	2,699	1,565
Commodities	**1,478**	131	126
Foreign government bonds	**413**	305	209
Other government securities	**209**	1,063	943
Treasury notes	**58**	73	–
Bank bills	**10**	3	7
Promissory notes	**–**	1	–
Total trading portfolio assets	**15,182**	11,324	13,582

Note 7

Loan assets held at amortised cost

Due from clearing houses	**2,089**	2,217	1,800
Due from governments[1]	**100**	297	108
Due from other entities			
Other loans and advances	**39,210**	38,160	37,070
Less specific provisions for impairment	**(359)**	(332)	(372)
	38,851	37,828	36,698
Lease receivables	**3,885**	3,684	3,500
Less specific provisions for impairment	**(2)**	(5)	(11)
Total due from other entities	**42,734**	41,507	40,187
Total loan assets before collective allowance for credit losses	**44,923**	44,021	42,095
Less collective allowance for credit losses	**(220)**	(227)	(213)
Total loan assets held at amortised cost[2]	**44,703**	43,794	41,882

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

2 Included within this balance are loans of $14,390 million (31 March 2010: $15,998 million; 30 September 2009: $18,004 million) held by consolidated SPEs, which are available as security to note holders and debt providers.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Note 7			
Loan assets held at amortised cost continued			
Specific provisions for impairment			
Balance at the beginning of the period	**337**	383	410
Provided for during the period (note 2)	**62**	72	103
Loan assets written off, previously provided for	**(19)**	(79)	(63)
Recovery of loans previously provided for (note 2)	**(9)**	(29)	(3)
Transfer from related body corporate entities	**–**	–	2
Attributable to foreign currency translation	**(10)**	(10)	(66)
Balance at the end of the period	**361**	337	383
Specific provisions as a percentage of total gross loan assets	**0.80%**	0.76%	0.90%
Collective allowance for credit losses			
Balance at the beginning of the period	**227**	213	219
(Written back)/provided for during the period (note 2)	**(9)**	2	(1)
Attributable to acquisitions during the period	**3**	11	–
Attributable to foreign currency translation	**(1)**	1	(5)
Balance at the end of the period	**220**	227	213

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

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 8			
Impaired financial assets			
Impaired debt investment securities available for sale before specific provisions for impairment	**109**	143	196
Less specific provisions for impairment	**(84)**	(115)	(166)
Debt investment securities available for sale after specific provisions for impairment	**25**	28	30
Impaired loan assets and other financial assets with specific provisions for impairment	**839**	994	1,149
Less specific provisions for impairment	**(404)**	(368)	(408)
Loans assets and other financial assets after specific provisions for impairment	**435**	626	741
Total impaired financial assets	**460**	654	771

Impaired financial assets have been reported in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and include loan assets (netted with certain derivative liabilities of $nil (31 March 2010: $nil; 30 September 2009: $31 million)).

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 9

Investment securities available for sale

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Equity securities			
Listed	**506**	391	339
Unlisted	**256**	270	275
Debt securities[1, 2]	**15,356**	16,100	20,827
Total investment securities available for sale	**16,118**	16,761	21,441

1 Includes $3,682 million (31 March 2010: $2,234 million; 30 September 2009: $3,725 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $115 million (31 March 2010; $20 million: 30 September 2009: $108 million) of bank bills.

2 Included within this balance are debt securities of $91 million (31 March 2010: $nil; 30 September 2009: $nil) 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.

Note 10

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

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Loans and investments without provisions for impairment	**669**	723	761
Loans and investments with provisions for impairment	**431**	394	704
Less provisions for impairment	**(248)**	(202)	(310)
Loans and investments at recoverable amount	**183**	192	394
Total interests in associates and joint ventures accounted for using the equity method	**852**	915	1,155

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 2010 %**	As at 31 Mar 2010 %	As at 30 Sep 2009 %
Charter Hall Office REIT [1, 2, 3, a]	Australia	30 June	**–**	–	14
Diversified CMBS Investments Inc.[4, b]	USA	31 March	**57**	57	57
Macquarie Goodman Japan Limited [a]	Singapore	31 March	**50**	50	50
MGPA Limited [5, a]	Australia	30 June	**56**	56	56

1 The consolidated entity had significant influence due to its fiduciary relationship as manager of these entities.

2 Due to a restructure of ownership these interests have now been classified as investment securities available for sale.

3 Previously known as Macquarie Office Trust.

4 Voting rights for this investment are not proportional to the ownership interest. The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

5 Significant influence arises due to the consolidated entity's voting power and board representation.

a Property development/management entity

b Funds management and investing

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 11
Non-current assets and disposal groups classified as held for sale

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Non-current assets and assets of disposal groups classified as held for sale			
Associates	**–**	–	18
Other non-current assets	**–**	4	55
Assets of disposal groups classified as held for sale[1]	**–**	47	–
Total non-current assets and assets of disposal groups classified as held for sale	**–**	51	73
Liabilities of disposal groups classified as held for sale			
Total liabilities of disposal groups classified as held for sale[1]	**–**	9	–

1 The balance at 31 March 2010 represents the assets and liabilities of Advanced Markets Holdings LLC.

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

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

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2010 %**	As at 31 Mar 2010 %	As at 30 Sep 2009 %
St Hilliers Property Pty Ltd [a]	Australia	30 June	**–**	–	49

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

Voting power is equivalent to ownership interest unless otherwise stated.

a Property development/management entity

Note 12
Trading portfolio liabilities

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Listed equity securities	**3,748**	3,381	6,493
Commonwealth government securities	**642**	434	305
Corporate securities	**621**	819	51
Other government securities	**490**	287	137
Total trading portfolio liabilities	**5,501**	4,921	6,986

Note 13
Debt issued at amortised cost

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Debt issued at amortised cost[1]	**36,275**	39,408	42,706
Total debt issued at amortised cost	**36,275**	39,408	42,706

1 Included within this balance are amounts payable to SPE note holders of $12,679 million (31 March 2010: $14,419 million; 30 September 2009: $17,004 million).

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

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 14

Other financial liabilities at fair value through profit or loss

Equity linked notes	**2,011**	2,524	2,718
Debt issued at fair value	**6**	101	150
Total other financial liabilities at fair value through profit or loss	**2,017**	2,625	2,868
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:			
Australian dollars	**15,338**	18,020	20,739
United States dollars	**12,377**	14,035	15,179
Canadian dollars	**6,830**	5,789	4,189
Euro	**1,624**	1,622	2,578
Japanese yen	**1,442**	1,350	1,471
Hong Kong dollars	**279**	386	526
Great British pounds	**214**	547	350
Singapore dollars	**86**	177	423
Other currencies	**102**	107	119
Total by currency	**38,292**	42,033	45,574

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 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 15

Contributed equity

Ordinary share capital			
Opening balance of 444,085,965 (1 October 2009: 375,124,117; 1 April 2009: 337,902,108) fully paid ordinary shares	**6,508**	5,178	4,503
Issue of 10,920,790 shares to Macquarie B.H. Pty Ltd on 1 April 2009 at $18.33 per share	**–**	–	200
Issue of 26,301,219 shares to Macquarie B.H. Pty Ltd on 28 September 2009 at $18.06 per share	**–**	–	475
Issue of 30,854,431 shares to Macquarie B.H. Pty Ltd on 31 January 2010 at $18.96 per share	**–**	585	–
Issue of 38,107,417 shares to Macquarie B.H. Pty Ltd on 29 March 2010 at $19.55 per share	**–**	745	–
Issue of 3,743,316 shares to Macquarie B.H. Pty Ltd on 29 June 2010 at $18.70 per share	**70**	–	–
Issue of 13,248,543 shares to Macquarie B.H. Pty Ltd on 30 July 2010 at $18.87 per share	**250**	–	–
Issue of 15,974,441 shares to Macquarie B.H. Pty Ltd on 29 September 2010 at $18.78 per share	**300**	–	–
Closing balance of 477,052,265 (31 March 2010: 444,085,965; 30 September 2009: 375,124,117) fully paid ordinary shares	**7,128**	6,508	5,178
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**87**	72	57
Additional paid up capital	**21**	15	15
Balance at the end of the period	**108**	87	72

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 15
Contributed equity continued

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

Note 16
Reserves, retained earnings and non-controlling interests

Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**(241)**	(15)	(9)
Currency translation differences arising during the period, net of hedge	**(212)**	(226)	(6)
Balance at the end of the period	**(453)**	(241)	(15)
Available for sale reserve			
Balance at the beginning of the period	**192**	109	4
Revaluation movement for the period, net of tax	**3**	84	108
Transfer to income statement for impairment	**(4)**	(1)	2
Transfer to profit on realisation	**27**	–	(5)
Balance at the end of the period	**218**	192	109
Share based payments reserve			
Balance at the beginning of the period	**186**	186	186
Balance at the end of the period	**186**	186	186
Cash flow hedging reserve			
Balance at the beginning of the period	**(47)**	(64)	(146)
Revaluation movement for the period, net of tax	**14**	17	82
Balance at the end of the period	**(33)**	(47)	(64)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**1**	(6)	30
Share of reserves during the period	**–**	7	(36)
Balance at the end of the period	**1**	1	(6)
Reserves arising from group restructure of combining entities under common control			
Balance at the beginning of the period	**(261)**	(261)	(266)
Arising from acquisitions of subsidiaries from the Non-Banking Group (note 19)	**–**	–	5
Balance at the end of the period	**(261)**	(261)	(261)
Total reserves at the end of the period	**(342)**	(170)	(51)

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 16

Reserves, retained earnings and non-controlling interests continued

Retained earnings			
Balance at the beginning of the period	**1,533**	1,162	1,250
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**307**	417	267
Distributions paid or provided on Macquarie Income Securities (note 5)	**(13)**	(11)	(10)
Dividends paid on ordinary share capital (note 5)	**(450)**	(35)	(345)
Balance at the end of the period	**1,377**	1,533	1,162

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $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	6
Distribution provided on Macquarie Income Preferred Securities (note 5)	**(2)**	(2)	(6)
Foreign currency translation reserve	**(40)**	(39)	(32)
Total Macquarie Income Preferred Securities	**66**	67	74
Other non-controlling interests			
Ordinary share capital	**12**	9	6
Retained earnings	**8**	9	8
Total other non-controlling interests	**20**	18	14
Total non-controlling interests	**86**	85	88

[1] On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, currently pay a 6.177 per cent per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at 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 non-controlling interest, with distribution entitlements being included in non-controlling interests' share of profit after income tax. Following the cancellation of £307.5 million of MIPS in September 2009, £42.5 million MIPS remain on issue.

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m
Note 17			
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 is reconciled to related items in the consolidated statement of financial position as follows:			
Cash and balances with central banks	**9**	–	3
Due from other financial institutions			
Due from banks[1]	**7,431**	6,459	7,170
Trading securities[2]	**3,100**	4,706	7,185
Cash and cash equivalents at the end of the period	**10,540**	11,165	14,358

1 Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Reconciliation of profit after income tax to net cash flows from/(used in) operating activities			
Profit after income tax	**311**	422	275
Adjustments to profit:			
Depreciation and amortisation	**104**	157	109
Dividends received/receivable from associates	**75**	56	40
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(95)**	(5)	197
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**(8)**	(7)	(131)
Gain on repurchase of subordinated debt	**–**	–	(55)
Impairment charge on financial and non-financial assets	**114**	158	264
Interest on available for sale financial assets	**(205)**	317	(73)
(Gain)/loss on disposal of property, plant and equipment	**–**	(2)	7
Net gains on sale of investment securities available for sale and associates and joint ventures	**(101)**	(27)	(24)
Share based payments expense	**21**	15	15
Share of net profits of associates and joint ventures accounted for using the equity method	**(19)**	(2)	(5)
Changes in assets and liabilities:			
Change in dividends receivable	**52**	8	17
Change in fees and non-interest income receivable	**75**	83	143
Change in fees and commissions payable	**10**	14	(5)
Change in tax balances	**56**	24	(90)
Change in provisions for employee entitlements	**13**	6	(1)
Change in loan assets granted	**(1,244)**	(1,544)	5,282
Change in loan receivable from ultimate parent entity	**64**	151	2,400
Change in debtors, prepayments, accrued charges and creditors	**(945)**	(56)	42
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(4,807)**	(492)	1,614

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m

Note 17

Notes to the consolidated statement of cash flows continued

Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**9,161**	(2,107)	(8,085)
Change in life investment contract receivables	**155**	(858)	(259)
Net cash flows from/(used in) operating activities	**2,787**	(3,689)	1,677
Non-cash investing activity			
Acquisition of subsidiaries by means of equity issue	**–**	200	–

During the half-year to 31 March 2010, the Bank acquired certain subsidiaries from the Non-Banking Group with the issue of new shares. This increased the Bank's cost of investment in subsidiaries without any corresponding outflow of cash and cash equivalents.

	As at 30 Sep 2010 $m	As at 31 Mar 2010 $m	As at 30 Sep 2009 $m

Note 18

Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:			
Guarantees	**429**	755	583
Indemnities	**14**	7	7
Letters of credit	**210**	170	137
Performance related contingents	**66**	95	144
Total contingent liabilities[1]	**719**	1,027	871
Commitments exist in respect of:			
Undrawn credit facilities	**5,126**	3,818	3,266
Forward asset purchase	**931**	172	707
Total commitments[2]	**6,057**	3,990	3,973
Total contingent liabilities and commitments	**6,776**	5,017	4,844

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

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2010 continued

Note 19
Acquisitions and disposals of subsidiaries and businesses

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

There were no significant acquisitions during the period.

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

CMC Railroad Inc., Latitude FX Limited, Outplan Pty Ltd and Rismark Limited.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Fair value of net assets acquired[1]			
Cash, other financial assets and other assets	**172**	920	366
Goodwill and other intangible assets	**20**	563	4
Property, plant and equipment	**113**	9	–
Assets of disposal groups classified as held for sale	**5**	48	–
Payables, provisions, borrowings and other liabilities	**(277)**	(877)	(109)
Liabilities of disposal groups classified as held for sale	**(4)**	(43)	–
Non-controlling interests	**(4)**	–	(2)
Total fair value of net assets acquired	**25**	620	259
Purchase consideration			
Cash consideration and costs directly attributable to acquisition	**24**	417	203
Equity issued	**–**	200	–
Extinguishment of loan asset	**–**	–	56
Total purchase consideration	**24**	617	259
Net cash flow			
Cash consideration and costs directly attributable to acquisition	**(24)**	(417)	(203)
Less cash and cash equivalents acquired	**10**	362	3
Net cash outflow	**(14)**	(55)	(200)

[1] In relation to acquisitions of subsidiaries from the Non-Banking Group, assets and liabilities acquired are recognised at carrying amounts. In accordance with the consolidated entity's accounting policy, the difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in reserves. For the half-year to 30 September 2010 $nil (half-year to 31 March 2010: $nil; half-year to 30 September 2009: $5 million) was recognised in reserves – Reserves arising from group restructure of combining entities under common control.

The operating results of the acquisitions have not had a material impact on the results of the consolidated entity.

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

The 31 March 2010 and 30 September 2009 comparatives relate principally to subsidiaries of the Non-Banking Group, Blackmont Capital and Delaware Investments, being the significant entities acquired or consolidated due to acquisition of control.

Note 19

Acquisitions and disposals of subsidiaries and businesses continued

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

There were no significant disposals during the period.

Other entities and businesses disposed of or deconsolidated during the period are as follows:

Advanced Markets Holdings LLC, Everest Absolute Return II Limited, Latitude FX Limited and LexMac Energy Oil & Gas.

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

	Half-year to 30 Sep 2010 $m	Half-year to 31 Mar 2010 $m	Half-year to 30 Sep 2009 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash, other financial assets and other assets	**2**	58	96
Goodwill and other intangible assets	**–**	7	–
Non-current assets and assets of disposal groups classified as held for sale	**45**	15	–
Payables, provisions, borrowings and other liabilities	**–**	(26)	(63)
Liabilities of disposal groups classified as held for sale	**(40)**	–	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**7**	54	33
Net cash flow			
Cash received	**11**	47	34
Less:			
Investment retained	**(1)**	–	–
Cash and cash equivalents disposed of or deconsolidated	**–**	–	(2)
Net cash inflow	**10**	47	32

There were no significant disposals during the half-years to 31 March 2010 and 30 September 2009.

Note 20

Events occurring after balance sheet date

There were no material events subsequent to 30 September 2010 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 4 to 31 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and of its performance, as represented by the results of its operations and its cash flows, 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.

David S. Clarke, AO

Non-Executive Director and Chairman

Richard Sheppard

Managing Director and Chief Executive Officer

Sydney
28 October 2010

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

PRICEWATERHOUSECOOPERS

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 2010, 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* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

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* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2010 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
28 October 2010

Financial report
for the half-year ended 30 September 2010

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