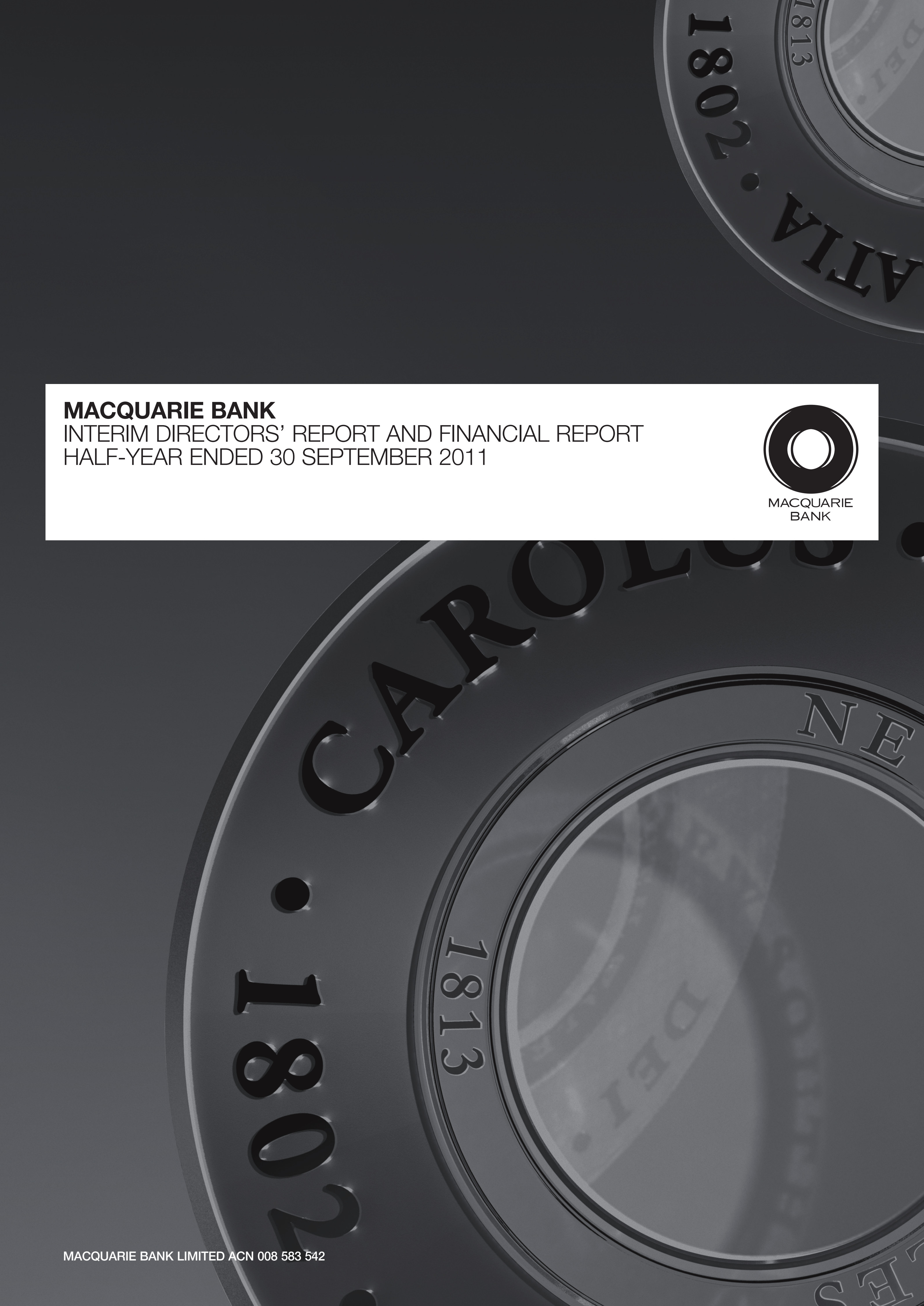

MACQUARIE BANK
INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF-YEAR ENDED 30 SEPTEMBER 2011

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 2011
Contents

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

Financial report
for the half-year ended 30 September 2011

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

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

Directors

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

Executive Directors

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

N.W. Moore

Independent Directors

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

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

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

Result

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

The consolidated profit attributable to ordinary equity holders of the Bank, in accordance with Australian Accounting Standards, for the period was $209 million (half-year to 31 March 2011: $509 million; half-year to 30 September 2010: $294 million).

Review of operations

Consolidated profit attributable to ordinary equity holders of $209 million for the half-year ended 30 September 2011 decreased 29 per cent from $294 million in the prior corresponding period and decreased 59 per cent from $509 million in the prior period. The result was achieved during a period of challenging trading and market conditions.

Net operating income of $2,137 million for the half-year ended 30 September 2011 decreased 9 per cent from $2,345 million in the prior corresponding period and decreased 13 per cent from $2,450 million in the prior period.

Total operating expenses of $1,854 million for the half-year ended 30 September 2011 decreased 5 per cent from $1,951 million in the prior corresponding period and increased 7 per cent from $1,739 million in the prior period.

The Bank has met its externally imposed capital requirements throughout the period. The Bank is well capitalised, and as at 30 September 2011, it had a Tier 1 capital ratio of 12.1 per cent and a total capital ratio of 15.2 per cent.

Events after the reporting period

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

Interim dividend

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2011 of $194 million. The dividend will be paid on 14 December 2011.

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

Auditor's independence declaration

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

Rounding of amounts

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

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

H Kevin McCann, AM
Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
28 October 2011

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

pwc

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

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

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

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

DH Armstrong
Partner

PricewaterhouseCoopers

Sydney
28 October 2011

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

	Notes	**Half-year to 30 Sep 2011 $m**	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Interest and similar income		**2,701**	2,617	2,524
Interest expense and similar charges		**(1,872)**	(1,730)	(1,760)
Net interest income	2	**829**	887	764
Fee and commission income	2	**625**	553	754
Net trading income	2	**408**	646	633
Share of net profits of associates and joint ventures accounted for using the equity method	2	**15**	26	19
Other operating income and charges	2	**260**	338	175
Net operating income		**2,137**	2,450	2,345
Employment expenses	2	**(732)**	(748)	(805)
Brokerage and commission expenses	2	**(318)**	(281)	(388)
Occupancy expenses	2	**(72)**	(72)	(67)
Non-salary technology expenses	2	**(49)**	(48)	(50)
Other operating expenses	2	**(683)**	(590)	(641)
Total operating expenses		**(1,854)**	(1,739)	(1,951)
Operating profit before income tax		**283**	711	394
Income tax expense	4	**(58)**	(189)	(83)
Profit after income tax		**225**	522	311
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Other non-controlling interests		**(1)**	2	(2)
Profit attributable to non-controlling interests		**(3)**	–	(4)
Profit attributable to equity holders of Macquarie Bank Limited		**222**	522	307
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(13)**	(13)	(13)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**209**	509	294

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

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

	Notes	**Half-year to 30 Sep 2011 $m**	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Profit after income tax for the period		**225**	522	311
Other comprehensive (expense)/income:				
Available for sale investments, net of tax	15	**(163)**	89	26
Cash flow hedges, net of tax	15	**1**	7	14
Share of other comprehensive income of associates and joint ventures, net of tax	15	**2**	–	–
Exchange differences on translation of foreign operations, net of tax		**273**	(193)	(213)
Total other comprehensive income/(expense) for the period		**113**	(97)	(173)
Total comprehensive income for the period		**338**	425	138
Total comprehensive income/(expense) for the period is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**319**	415	122
Macquarie Income Securities holders		**13**	13	13
Macquarie Income Preferred Securities holders		**5**	(1)	1
Other non-controlling interests		**1**	(2)	2
Total comprehensive income for the period		**338**	425	138

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

Consolidated statement of financial position
as at 30 September 2011

	Notes	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Assets				
Due from financial institutions		**9,024**	7,579	7,595
Cash collateral on securities borrowed and reverse repurchase agreements		**5,894**	7,418	8,272
Trading portfolio assets	6	**14,375**	14,423	15,182
Loan assets held at amortised cost	7	**44,934**	45,382	44,703
Other financial assets at fair value through profit or loss		**9,097**	10,607	9,447
Derivative financial instruments – positive values		**34,064**	21,145	23,431
Other assets		**9,173**	6,839	6,100
Investment securities available for sale	9	**19,409**	15,003	16,118
Life investment contracts and other unitholder investment assets		**4,760**	5,062	5,052
Due from related body corporate entities		**1,313**	2,443	2,334
Interests in associates and joint ventures accounted for using the equity method	10	**771**	856	852
Property, plant and equipment		**4,648**	2,363	1,881
Intangible assets		**934**	866	951
Deferred income tax assets		**108**	376	379
Total assets		**158,504**	140,362	142,297
Liabilities				
Due to financial institutions		**4,995**	1,580	2,647
Cash collateral on securities lent and repurchase agreements		**8,571**	6,103	5,837
Trading portfolio liabilities	11	**4,346**	5,732	5,501
Derivative financial instruments – negative values		**32,171**	21,455	24,284
Deposits		**37,833**	35,106	34,829
Debt issued at amortised cost	12	**37,365**	36,943	36,275
Other financial liabilities at fair value through profit or loss	13	**2,103**	2,909	2,017
Other liabilities		**9,059**	7,463	7,030
Current tax liabilities		**27**	67	67
Life investment contracts and other unitholder liabilities		**4,759**	5,055	5,069
Due to related body corporate entities		**4,856**	6,471	7,639
Provisions		**87**	80	84
Deferred income tax liabilities		**296**	393	311
Total liabilities excluding loan capital		**146,468**	129,357	131,590
Loan capital				
Subordinated debt at amortised cost		**2,447**	1,430	1,472
Subordinated debt at fair value through profit or loss		**149**	467	487
Total loan capital		**2,596**	1,897	1,959
Total liabilities		**149,064**	131,254	133,549
Net assets		**9,440**	9,108	8,748

	Notes	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Equity				
Contributed equity				
Ordinary share capital	14	**7,578**	7,278	7,128
Equity contribution from ultimate parent entity	14	**111**	102	108
Macquarie Income Securities	14	**391**	391	391
Reserves	15	**(326)**	(436)	(342)
Retained earnings	15	**1,613**	1,701	1,377
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**9,367**	9,036	8,662
Non-controlling interests				
Macquarie Income Preferred Securities	15	**66**	63	66
Other non-controlling interests	15	**7**	9	20
Total equity		**9,440**	9,108	8,748

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

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

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2010		6,986	(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	14	620	–	–	620	–	620
Contributions from ultimate parent entity in relation to share-based payments	14	21	–	–	21	–	21
Dividends and distributions paid or provided for	5	–	–	(463)	(463)	–	(463)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	2	2
Distributions paid or provided for		–	–	–	–	(4)	(4)
		641	–	(463)	178	(2)	176
Balance at 30 September 2010		7,627	(342)	1,377	8,662	86	8,748
Total comprehensive (expense)/income for the period		–	(94)	522	428	(3)	425
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	150	–	–	150	–	150
Contributions from ultimate parent entity in relation to share-based payments	14	(6)	–	–	(6)	–	(6)
Dividends and distributions paid or provided for	5	–	–	(198)	(198)	–	(198)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(11)	(11)
		144	–	(198)	(54)	(11)	(65)
Balance at 31 March 2011		**7,771**	**(436)**	**1,701**	**9,036**	**72**	**9,108**
Total comprehensive income for the period		**–**	**110**	**222**	**332**	**6**	**338**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	14	**300**	**–**	**–**	**300**	**–**	**300**
Contributions from ultimate parent entity in relation to share-based payments	14	**9**	**–**	**–**	**9**	**–**	**9**
Dividends and distributions paid or provided for	5	**–**	**–**	**(310)**	**(310)**	**–**	**(310)**
Non-controlling interests:							
Distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(2)**	**(2)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(3)**	**(3)**
		309	**–**	**(310)**	**(1)**	**(5)**	**(6)**
Balance at 30 September 2011		**8,080**	**(326)**	**1,613**	**9,367**	**73**	**9,440**

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

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

	Notes	**Half-year to 30 Sep 2011 $m**	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Cash flows from operating activities				
Interest received		**2,825**	2,626	2,378
Interest and other costs of finance paid		**(1,839)**	(1,711)	(1,820)
Dividends and distributions received		**67**	85	135
Fees and other non-interest income received		**915**	781	1,033
Fees and commissions paid		**(320)**	(289)	(388)
Net receipts from/(payments for) trading portfolio assets and other financial assets/liabilities		**82**	1,206	(4,105)
Payments (to)/from suppliers		**(591)**	308	(1,733)
Employment expenses paid		**(1,073)**	(444)	(874)
Income tax paid		**(105)**	(121)	(27)
Life investment contract income		**126**	59	67
Life investment contract premiums received and other unitholder contributions		**1,882**	1,292	1,283
Life investment contract payments		**(2,063)**	(1,260)	(1,151)
Net loan assets granted		**(1,065)**	(2,430)	(1,244)
Loan facility repaid by ultimate parent entity		**737**	448	64
Recovery of loans previously written off		**7**	6	6
Net increase in amounts due to other financial institutions, deposits and other borrowings		**4,166**	903	9,163
Net cash flows from operating activities	16	**3,751**	1,459	2,787
Cash flows from investing activities				
Net receipts from/(payments for) investment securities available for sale and financial assets at fair value through profit or loss		**1,412**	(814)	(2,964)
Net proceeds from/(payments for) the acquisition and disposal of associates		**49**	(198)	(9)
Payments for the acquisition of subsidiaries and businesses, excluding disposal groups, net of cash acquired		**(242)**	(19)	(14)
(Payments for)/proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**(2)**	32	10
Payments for life investment contracts and other unitholder investment assets		**(3,180)**	(2,660)	(3,714)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**3,273**	2,578	3,567
Net payments for property, plant and equipment, lease assets and intangible assets		**(4)**	(793)	(1,037)
Net cash flows from/(used in) investing activities		**1,306**	(1,874)	(4,161)

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

	Notes	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**300**	151	619
Payments to non-controlling interests		**(3)**	(3)	(5)
Net proceeds from issue/(repayment) of subordinated debt		**609**	(47)	598
Dividends and distributions paid		**(313)**	(201)	(463)
Net cash flows from/(used in) financing activities		**593**	(100)	749
Net increase/(decrease) in cash and cash equivalents		**5,650**	(515)	(625)
Cash and cash equivalents at the beginning of the period		**10,025**	10,540	11,165
Cash and cash equivalents at the end of the period	16	**15,675**	10,025	10,540

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

Note 1

Basis of preparation

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

This half-year financial report comprises the consolidated financial report of Macquarie 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 2011 and any public announcements made by MBL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

The Consolidated Entity is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 (as amended), relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' report and the half-year financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

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

Accounting Standards effective in the current period

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

AASB 2010-3 amendments confirm that:

– contingent consideration arising in a business combination that had been accounted for in accordance with AASB 3 (2004) that has not been settled or otherwise resolved at the adoption date of AASB 3 (2008) continues to be accounted for in accordance with AASB 3 (2004);

– the accounting policy choice to measure non-controlling interests (NCI) upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets is limited to instruments that give rise to a present ownership interest and which currently entitle the holder to a share of net assets in the event of liquidation. The accounting policy choice does not apply to other instruments, such as written options classified as equity instruments – these are generally measured at fair value or otherwise in accordance with the relevant Standards;

– AASB 3 (2008) application guidance applies to unreplaced and voluntarily replaced share-based payment awards; and

– consequential amendments to AASB 121, AASB 128 and AASB 131 as a result of the issue of AASB 127 (2008) relating to disposals of all or part of a foreign operation and accounting for a loss of significant influence/joint control is applied prospectively.

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

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

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,701**	2,617	2,524
Interest expense and similar charges paid/payable	**(1,872)**	(1,730)	(1,760)
Net interest income	**829**	887	764
Fee and commission income			
Base fees	**292**	283	315
Performance fees	**11**	18	7
Mergers and acquisitions, advisory and underwriting fees	**23**	26	24
Brokerage and commissions	**165**	166	172
Other fee and commission income	**103**	25	193
Income from life investment contracts and other unitholder investment assets	**31**	35	43
Total fee and commission income	**625**	553	754
Net trading income[1]			
Equities	**152**	196	149
Commodities	**207**	396	157
Foreign exchange products	**107**	109	82
Interest rate products	**(58)**	(55)	245
Net trading income	**408**	646	633
Share of net profits of associates and joint ventures accounted for using the equity method	**15**	26	19

[1] Included in net trading income are fair value gains of $214 million (half-year to 31 March 2011: $407 million gain; half-year to 30 September 2010: $14 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $2 million gain (half-year to 31 March 2011: $8 million loss; half-year to 30 September 2010: $1 million loss) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

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

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**56**	106	99
Impairment charge on investment securities available for sale	**(27)**	(26)	(3)
Net gains on sale of associates and joint ventures	**5**	11	2
Impairment (charge)/reversal on interests in associates and joint ventures	**(12)**	20	(38)
(Loss)/gain on acquiring, disposing and change in ownership interest in subsidiaries	**(2)**	33	8
Gain on re-measurement of retained investments[1]	**–**	18	–
Impairment charge on non-financial assets	**(7)**	(3)	(3)
Net operating lease income[2]	**183**	105	46
Dividends/distributions received/receivable:			
Investment securities available for sale	**10**	22	8
Management fees, group service charges and cost recoveries	**–**	(8)	(10)
Collective allowance for credit losses (provided for)/written back during the period (note 7)	**(6)**	9	9
Individually assessed provisions:			
Loan assets provided for during the period (note 7)	**(29)**	(27)	(62)
Other receivables written back/(provided for) during the period	**1**	(6)	6
Recovery of loans previously provided for (note 7)	**5**	7	9
Recovery of other receivables previously provided for	**–**	11	–
Loan losses written off	**(32)**	(38)	(32)
Recovery of loans previously written off	**7**	6	6
Other income	**108**	98	130
Total other operating income and charges	**260**	338	175
Net operating income	**2,137**	2,450	2,345

1 In the half-year to 31 March 2011, this included gain on re-measurement of retained ownership interest to fair value on the loss of control of investment in a subsidiary.

2 Includes rental income of $297 million (half-year to 31 March 2011: $137 million; half-year to 30 September 2010: $120 million) less depreciation of $114 million (half-year to 31 March 2011: $32 million; half-year to 30 September 2010: $74 million) in relation to operating leases where the Consolidated Entity is the lessor.

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Note 2			
Profit for the period continued			
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(679)**	(695)	(742)
Share-based payments	**(46)**	(52)	(49)
Provision for annual leave	**(5)**	(1)	(11)
Provision for long service leave	**(2)**	–	(3)
Total employment expenses	**(732)**	(748)	(805)
Brokerage and commission expenses			
Brokerage expenses	**(247)**	(249)	(224)
Other fee and commission expenses	**(71)**	(32)	(164)
Total brokerage and commission expenses	**(318)**	(281)	(388)
Occupancy expenses			
Operating lease rentals	**(39)**	(37)	(35)
Depreciation: furniture, fittings and leasehold improvements	**(9)**	(10)	(9)
Other occupancy expenses	**(24)**	(25)	(23)
Total occupancy expenses	**(72)**	(72)	(67)
Non-salary technology expenses			
Information services	**(27)**	(28)	(29)
Depreciation: computer equipment	**(3)**	–	(2)
Other non-salary technology expenses	**(19)**	(20)	(19)
Total non-salary technology expenses	**(49)**	(48)	(50)
Other operating expenses			
Professional fees	**(57)**	(77)	(64)
Auditor's remuneration	**(7)**	(6)	(6)
Travel and entertainment expenses	**(32)**	(34)	(34)
Advertising and promotional expenses	**(24)**	(25)	(25)
Communication expenses	**(9)**	(9)	(11)
Amortisation of intangibles	**(29)**	(37)	(19)
Other expenses[1]	**(525)**	(402)	(482)
Total other operating expenses	**(683)**	(590)	(641)
Total operating expenses	**(1,854)**	(1,739)	(1,951)

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

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

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

Corporate and Asset Finance is the lending and leasing business of Macquarie Group.

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

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

Macquarie Capital comprises Macquarie Group's corporate advisory, equity underwriting, debt structuring and distribution businesses, private equity placements and principal products. Due to the non-banking nature of Macquarie Capital, its activities in the Consolidated Entity have ceased.

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

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

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

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

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

Note 3

Segment reporting continued

(i) **Operating segments** continued

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

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Revenues from external customers	**506**	**940**	**1,131**
Inter-segmental (expense)/revenue[1]	**(8)**	**(272)**	**604**
Interest revenue	**141**	**793**	**770**
Interest expense	**(31)**	**(126)**	**(1,022)**
Depreciation and amortisation	**(9)**	**(118)**	**(9)**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**–**	**2**	**(1)**
Reportable segment profit/(loss)	**189**	**359**	**139**
Reportable segment assets	**9,719**	**21,509**	**28,201**

Revenues from external customers	471	775	1,292
Inter-segmental (expense)/revenue[1]	(24)	(250)	499
Interest revenue	90	726	788
Interest expense	(22)	(92)	(925)
Depreciation and amortisation	(12)	(59)	(24)
Share of net profits of associates and joint ventures accounted for using the equity method	14	3	1
Reportable segment profit/(loss)	111	272	142
Reportable segment assets	9,930	18,284	28,859

Revenues from external customers	579	724	1,236
Inter-segmental (expense)/revenue[1]	–	(247)	269
Interest revenue	80	715	798
Interest expense	(33)	(94)	(733)
Depreciation and amortisation	(11)	(49)	(13)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	6	–
Reportable segment profit/(loss)	138	233	136
Reportable segment assets	9,370	17,070	29,408

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

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Real Estate Banking Division $m	Corporate $m	Total $m
					Half-year to 30 September 2011
156	**–**	**745**	**21**	**572**	**4,071**
(36)	**–**	**(175)**	**(10)**	**(103)**	**-**
65	**–**	**319**	**8**	**605**	**2,701**
(31)	**–**	**(145)**	**–**	**(517)**	**(1,872)**
(1)	**–**	**(10)**	**–**	**(8)**	**(155)**
–	**–**	**8**	**3**	**3**	**15**
(70)	**–**	**8**	**(7)**	**(409)**	**209**
18,531	**–**	**56,647**	**407**	**23,490**	**158,504**
					Half-year to 31 March 2011
163	–	1,101	48	479	4,329
(59)	–	(140)	(15)	(11)	–
56	–	366	7	584	2,617
(20)	–	(166)	–	(505)	(1,730)
(1)	–	(10)	–	27	(79)
–	–	–	3	5	26
(65)	–	391	(14)	(328)	509
17,510	–	42,978	458	22,343	140,362
					Half-year to 30 September 2010
144	–	744	23	864	4,314
(65)	–	(85)	(14)	142	–
46	–	259	9	617	2,524
(18)	–	(197)	–	(685)	(1,760)
–	–	(10)	–	(21)	(104)
–	–	15	(8)	4	19
(67)	–	158	(26)	(278)	294
17,980	–	43,535	597	24,337	142,297

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

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
			Half-year to 30 September 2011		
Revenues from external customers	**733**	**1,432**	**8**	**1,898**	**4,071**
			Half-year to 31 March 2011		
Revenues from external customers	917	1,558	40	1,814	4,329
			Half-year to 30 September 2010		
Revenues from external customers	960	1,544	27	1,783	4,314

(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 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Revenues from external customers			
Australia	**2,471**	2,652	3,040
Asia Pacific	**117**	80	158
Europe, Middle East and Africa	**443**	585	484
Americas	**1,040**	1,012	632
Total	**4,071**	4,329	4,314

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

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

Note 4

Income tax expense

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Prima facie income tax expense on operating profit[1]	**(85)**	(213)	(118)
Tax effect of amounts which are non-assessable/(not deductible) in calculating taxable income:			
Rate differential on offshore income	**64**	20	37
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	–	1
Share-based payments expense	**(10)**	(3)	(5)
Other items	**(28)**	7	2
Total income tax expense	**(58)**	(189)	(83)

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Available for sale reserves	**58**	(37)	(7)
Cash flow hedges	**(4)**	(4)	(6)
Foreign currency translation reserve	**(3)**	6	48
Share of other comprehensive income of associates and joint ventures	**(1)**	–	–
Total tax benefit/(expense) relating to items of other comprehensive income	**50**	(35)	35

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

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

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

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

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid

Ordinary share capital			
Interim dividend paid	**–**	185	–
Final dividend paid	**297**	–	450
Total dividends paid (note 15)	**297**	185	450

(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 14 December 2011 from retained profits at 30 September 2011, but not recognised as a liability at the end of the period, is $194 million.

(iii) Distributions paid or provided for

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

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 for in respect of the MIS are recognised directly in equity in accordance with AASB 132: *Financial Instruments: Presentation*. Refer to note 14 – Contributed equity, for further details on these instruments.

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

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid/provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 15 – Reserves, retained earnings and non-controlling interests. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 15 – Reserves, retained earnings and non-controlling interests, for further details on these instruments.

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

Note 6

Trading portfolio assets

Equities			
Listed	**4,925**	6,305	7,159
Unlisted	**37**	71	1
Commonwealth government bonds	**2,993**	1,818	3,131
Corporate bonds	**2,790**	2,915	2,723
Commodities	**1,435**	2,002	1,478
Foreign government bonds[1]	**1,078**	508	413
Other government securities[2]	**823**	197	209
Promissory notes	**175**	508	–
Bank bills	**65**	40	10
Treasury notes	**53**	58	58
Certificates of deposit	**1**	1	–
Total trading portfolio assets	**14,375**	14,423	15,182

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

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

Note 7

Loan assets held at amortised cost

Due from clearing houses	**1,431**	1,789	2,089
Due from governments[1]	**174**	538	100
Due from other entities			
Other loans and advances	**39,514**	39,564	39,210
Less individually assessed provisions for impairment	**(349)**	(312)	(359)
	39,165	39,252	38,851
Lease receivables	**4,384**	4,017	3,885
Less individually assessed provisions for impairment	**(2)**	(2)	(2)
Total due from other entities	**43,547**	43,267	42,734
Total loan assets before collective allowance for credit losses	**45,152**	45,594	44,923
Less collective allowance for credit losses	**(218)**	(212)	(220)
Total loan assets held at amortised cost[2]	**44,934**	45,382	44,703

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

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

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

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

Note 7
Loan assets held at amortised cost continued

Individually assessed provisions for impairment			
Balance at the beginning of the period	**314**	361	337
Provided for during the period (note 2)	**29**	27	62
Loan assets written off, previously provided for	**(1)**	(60)	(19)
Recovery of loans previously provided for (note 2)	**(5)**	(7)	(9)
Impact of foreign currency translation	**14**	(7)	(10)
Balance at the end of the period	**351**	314	361
Individually assessed provisions as a percentage of total gross loan assets	**0.77%**	0.68%	0.80%
Collective allowance for credit losses			
Balance at the beginning of the period	**212**	220	227
Provided for/(written back) during the period (note 2)	**6**	(9)	(9)
Loan assets written off, previously provided for	**–**	(5)	–
Attributable to acquisitions during the period	**–**	6	3
Impact of foreign currency translation	**–**	–	(1)
Balance at the end of the period	**218**	212	220

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

Note 8
Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	**121**	117	109
Less individually assessed provisions for impairment	**(86)**	(86)	(84)
Debt investment securities available for sale after individually assessed provisions for impairment	**35**	31	25
Impaired loan assets and other financial assets with individually assessed provisions for impairment	**739**	723	839
Less individually assessed provisions for impairment	**(369)**	(359)	(404)
Loan assets and other financial assets after individually assessed provisions for impairment	**370**	364	435
Total net impaired financial assets	**405**	395	460

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

Note 9

Investment securities available for sale

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Equity securities			
Listed	**481**	511	506
Unlisted	**369**	394	256
Debt securities[1, 2]	**18,559**	14,098	15,356
Total investment securities available for sale	**19,409**	15,003	16,118

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

2 Included within this balance are debt securities of $79 million (31 March 2011: $107 million; 30 September 2010: $91 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal title to these assets, but has full economic exposure to them.

Note 10

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

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Loans and investments without provisions for impairment	**601**	665	669
Loans and investments with provisions for impairment	**306**	323	431
Less provisions for impairment	**(136)**	(132)	(248)
Loans and investments at recoverable amount	**170**	191	183
Total interests in associates and joint ventures accounted for using the equity method	**771**	856	852

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

			Ownership interest		
Name of entity	**Country of incorporation**	**Reporting date**	**As at 30 Sep 2011 %**	As at 31 Mar 2011 %	As at 30 Sep 2010 %
Diversified CMBS Investments Inc[1, a]	USA	31 March	**57**	57	57
Macquarie Goodman Japan Pte Limited[b]	Singapore	31 March	**–**	–	50
MGPA Limited[2, b]	Bermuda	30 June	**56**	56	56

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

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

a Funds management and investing

b Property development/management

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

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Note 11			
Trading portfolio liabilities			
Listed equity securities	**2,894**	4,424	3,748
Commonwealth government securities	**1,101**	340	642
Corporate securities	**261**	472	621
Other government securities	**90**	496	490
Total trading portfolio liabilities	**4,346**	5,732	5,501
Note 12			
Debt issued at amortised cost			
Debt issued at amortised cost[1]	**37,365**	36,943	36,275
Total debt issued at amortised cost	**37,365**	36,943	36,275

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

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

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

Note 13

Other financial liabilities at fair value through profit or loss

Debt issued at fair value	**41**	2	6
Equity linked notes	**2,062**	2,907	2,011
Total other financial liabilities at fair value through profit or loss	**2,103**	2,909	2,017
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	**15,770**	14,298	12,377
Australian dollars	**13,504**	14,257	15,338
Canadian dollars	**6,690**	7,242	6,830
Japanese yen	**1,584**	1,384	1,442
Euro	**1,247**	2,284	1,624
Great British pounds	**201**	135	214
Hong Kong dollars	**191**	164	279
Singapore dollars	**133**	62	86
Other currencies	**148**	26	102
Total by currency	**39,468**	39,852	38,292

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

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

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

Note 14
Contributed equity

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Ordinary share capital			
Opening balance of 485,069,369 (1 October 2010: 477,052,265; 1 April 2010: 444,085,965) fully paid ordinary shares	**7,278**	7,128	6,508
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
Issue of 8,017,104 shares to Macquarie B.H. Pty Ltd on 29 March 2011 at $18.71 per share	**–**	150	–
Issue of 16,492,579 shares to Macquarie B.H. Pty Ltd on 30 June 2011 at $18.19 per share	**300**	–	–
Closing balance of 501,561,948 (31 March 2011: 485,069,369; 30 September 2010: 477,052,265) fully paid ordinary shares	**7,578**	7,278	7,128
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**102**	108	87
Additional paid up capital/(return of capital)	**9**	(6)	21
Balance at the end of the period	**111**	102	108
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

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

Note 15

Reserves, retained earnings and non-controlling interests

Reserves

Foreign currency translation reserve			
Balance at the beginning of the period	**(643)**	(453)	(241)
Currency translation differences arising during the period, net of hedge and net of tax	**270**	(190)	(212)
Balance at the end of the period	**(373)**	(643)	(453)
Available for sale reserve			
Balance at the beginning of the period	**307**	218	192
Revaluation movement for the period, net of tax	**(98)**	171	3
Transfer to income statement for impairment, net of tax	**(2)**	(2)	(4)
Transfer to income statement for hedged item components	**(57)**	–	–
Transfer to profit on realisation	**(6)**	(80)	27
Balance at the end of the period	**144**	307	218
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	**(26)**	(33)	(47)
Revaluation movement for the period, net of tax	**1**	7	14
Balance at the end of the period	**(25)**	(26)	(33)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**1**	1	1
Share of other comprehensive income during the period	**2**	–	–
Balance at the end of the period	**3**	1	1
Reserves arising from group restructure of combining entities under common control			
Balance at the beginning of the period	**(261)**	(261)	(261)
Balance at the end of the period	**(261)**	(261)	(261)
Total reserves at the end of the period	**(326)**	(436)	(342)

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

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

Note 15
Reserves, retained earnings and non-controlling interests continued

Retained earnings			
Balance at the beginning of the period	**1,701**	1,377	1,533
Profit attributable to equity holders of MBL	**222**	522	307
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(13)**	(13)	(13)
Dividends paid on ordinary share capital (note 5)	**(297)**	(185)	(450)
Balance at the end of the period	**1,613**	1,701	1,377

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $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**	4	2
Distribution provided for on Macquarie Income Preferred Securities (note 5)	**(2)**	(4)	(2)
Foreign currency translation reserve	**(40)**	(43)	(40)
Total Macquarie Income Preferred Securities	**66**	63	66
Other non-controlling interests			
Ordinary share capital	**10**	13	12
Retained earnings	**(3)**	(4)	8
Total other non-controlling interests	**7**	9	20
Total non-controlling interests	**73**	72	86

[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. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax.

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

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 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Due from financial institutions[1]	**8,996**	7,548	7,440
Trading portfolio assets and debt securities[2]	**6,679**	2,477	3,100
Cash and cash equivalents at the end of the period	**15,675**	10,025	10,540

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

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Reconciliation of profit after income tax to net cash flows from operating activities			
Profit after income tax	**225**	522	311
Adjustments to profit after income tax:			
Depreciation and amortisation	**155**	79	104
Dividends received/receivable from associates	**57**	90	75
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(180)**	(11)	(95)
Loss/(gain) on acquiring, disposing and change in ownership interest in subsidiaries	**2**	(33)	(8)
Impairment charge on financial and non-financial assets	**107**	53	114
Interest on available for sale financial assets	**19**	68	(205)
Gain on disposal of property, plant and equipment	**(29)**	–	–
Net gains on sale of investment securities available for sale and associates and joint ventures	**(61)**	(135)	(101)
Share-based payments expense	**9**	(6)	21
Share of net profits of associates and joint ventures accounted for using the equity method	**(15)**	(26)	(19)
Changes in assets and liabilities:			
Change in dividends receivable	**(112)**	(27)	52
Change in fees and non-interest income receivable	**(83)**	27	75
Change in fees and commissions payable	**(2)**	–	10
Change in tax balances	**(47)**	68	56
Change in provisions for employee entitlements	**7**	(3)	13
Change in loan assets	**(1,065)**	(2,430)	(1,244)
Change in loan receivable from ultimate parent entity	**737**	448	64
Change in debtors, prepayments, accrued charges and creditors	**(136)**	1,036	(945)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(55)**	820	(4,807)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**4,305**	865	9,161
Change in life investment contract receivables	**(87)**	54	155
Net cash flows from operating activities	**3,751**	1,459	2,787

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

Note 17
Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2011 $m	As at 31 Mar 2011 $m	As at 30 Sep 2010 $m
Contingent liabilities exist in respect of:			
Guarantees	**469**	446	429
Indemnities	**–**	13	14
Letters of credit	**175**	149	210
Performance related contingents	**95**	89	66
Total contingent liabilities[1]	**739**	697	719
Commitments exist in respect of:			
Undrawn credit facilities	**3,408**	5,317	5,126
Forward asset purchase	**168**	200	931
Total commitments[2]	**3,576**	5,517	6,057
Total contingent liabilities and commitments	**4,315**	6,214	6,776

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

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

Note 18

Acquisitions and disposals of subsidiaries and businesses

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

Macquarie AirFinance Limited

On 1 April 2011, a subsidiary of the Bank acquired 100 per cent interest in Macquarie AirFinance Ltd, an aircraft lessor. This was purchased from a subsidiary of the Non-Banking group.

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

Macquarie Precision Marketing (Japan) Limited and SCC Swiss Commercial Capital AG.

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Fair value of net assets acquired			
Cash, other financial assets and other assets	**192**	(144)	172
Goodwill and other intangible assets	**31**	36	20
Property, plant and equipment	**2,135**	(11)	113
Assets of disposal groups classified as held for sale	**–**	–	5
Payables, provisions, borrowings and other liabilities	**(1,988)**	135	(277)
Liabilities of disposal groups classified as held for sale	**–**	–	(4)
Non-controlling interests	**–**	–	(4)
Total fair value of net assets acquired	**370**	16	25
Consideration			
Cash consideration	**367**	14	24
Deferred consideration	**4**	–	–
Fair value of previously held interest	**–**	1	–
Total purchase consideration	**371**	15	24
Net cash flow			
Cash consideration	**(367)**	(14)	(24)
Less:			
Cash and cash equivalents acquired	**125**	(5)	10
Net cash outflow	**(242)**	(19)	(14)

Included in the current period results for the Consolidated Entity is profit of $27 million and revenue of $141 million from Macquarie AirFinance Limited since the date of acquisition on 1 April 2011. The operating results of the remaining acquisitions have not had a material impact on the results of the Consolidated Entity.

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

The 31 March 2011 comparatives relate to Innovest Kapitalanlage AG and the 30 September 2010 comparatives relate to CMC Railroad Inc., Latitude FX Limited, Outplan Pty Ltd and Rismark Limited. There were no significant entities or businesses acquired or consolidated due to acquisition of control during the periods ended 31 March 2011 and 30 September 2010.

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

Note 18

Acquisitions and disposals of subsidiaries and businesses continued

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

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

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

Biocarbon Group Pte. Limited, Garrison Energy Center LLC and Macquarie Real Estate Korea Ltd.

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

	Half-year to 30 Sep 2011 $m	Half-year to 31 Mar 2011 $m	Half-year to 30 Sep 2010 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash, other financial assets and other assets	**10**	184	2
Goodwill and other intangible assets	**–**	24	–
Property, plant and equipment	**–**	1	–
Assets of disposal groups classified as held for sale	**–**	–	45
Payables, provisions, borrowings and other liabilities	**–**	(61)	–
Liabilities of disposal groups classified as held for sale	**–**	–	(40)
Non-controlling interests	**–**	(8)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**10**	140	7
Consideration			
Cash consideration	**7**	96	11
Consideration received in equity	**–**	86	–
Total consideration	**7**	182	11
Net cash flow			
Cash consideration	**7**	96	11
Less:			
Investment retained	**–**	1	(1)
Cash and cash equivalents disposed of or deconsolidated	**(9)**	(65)	–
Net cash (outflow)/inflow	**(2)**	32	10

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the half-year to 31 March 2011 and 30 September 2010.

Note 19

Events after the Reporting Period

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

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

In the Directors' opinion

(a) the financial statements and notes for the half-year ended 30 September 2011 set out on pages 4 to 32 are in accordance with the *Corporations Act 2001 (Cth)*, including:

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

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

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

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

H Kevin McCann, AM
Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
28 October 2011

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

pwc

Report on the half-year Financial Report

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

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

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

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 2011 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
28 October 2011

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