MACQUARIE BANK

Interim Financial Report

Macquarie Bank
Half-year ended 30 September 2014

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

The material in this report has been prepared by Macquarie Bank Limited ABN 46 008 583 542 and is current at the date of this report. It is general background information about Macquarie Bank Limited's activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Financial report
for the half-year ended 30 September 2014
Contents

The Financial report was authorised for issue by the Directors on 31 October 2014.
The Consolidated Entity has the power to amend and reissue the Financial report.

Financial Report
for the half-year ended 30 September 2014

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Directors' Report
for the half-year ended 30 September 2014

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL, Macquarie Bank or the Bank), the Directors submit herewith the financial statements of the Bank and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial period ended on 30 September 2014 and report as follows:

Directors

At the date of this report, the Directors of Macquarie Bank are:

Independent Directors

H.K. McCann AM, Chairman
G.R. Banks AO
M.J. Coleman
P.A. Cross
D.J. Grady AM
M.J. Hawker AM
N.M. Wakefield Evans
P.H. Warne

Executive Directors

M.J. Reemst, Managing Director and Chief Executive Officer[1]
N.W. Moore

Other than Ms M.J. Reemst, the Voting Directors listed above each held office as a Director of Macquarie Bank throughout the period and until the date of this report. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr G.C. Ward was the Managing Director and Chief Executive Officer, and a Voting Director, from the beginning of the financial year, until his resignation which was effective on 30 June 2014.

Dr H.M. Nugent AO and Mr P.M. Kirby retired as Independent Voting Directors on 24 July 2014.

Result

The financial report for the half-year ended 30 September 2014 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*

The consolidated profit attributable to ordinary equity holders of the Bank, in accordance with Australian Accounting Standards, for the period was $A394 million (half-year to 31 March 2014: $A387 million; half-year to 30 September 2013: $A365 million).

[redacted]

(1) Ms M.J. Reemst was appointed the Managing Director and Chief Executive Officer, and as a Voting Director, effective from 1 July 2014.

(2) Prior corresponding period refers to the six months to 30 September 2013.

(3) Prior period refers to the six months to 31 March 2014.

Directors' Report
for the half-year ended 30 September 2014
continued

- [redacted]
- [redacted]
- [redacted]

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[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Events after the reporting period

Except as disclosed in note 20 to the financial statements, there were no material events subsequent to 30 September 2014.

Interim dividend

The Directors have declared an interim dividend for the half-year ended 30 September 2014 of $A494 million. The dividend will be paid on 5 November 2014.

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 4.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 (as amended), amounts in the Directors' report and the half-year financial report have been rounded off to the nearest million dollars unless otherwise indicated.

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

H Kevin McCann AM
Independent Director and
Chairman

Mary Reemst
Managing Director and
Chief Executive Officer

Sydney
31 October 2014

Auditor's independence declaration
for the half-year ended 30 September 2014

pwc

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2014, 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.

K. G. Smith

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
31 October 2014

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

Consolidated income statement
for the half-year ended 30 September 2014

	Notes	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Interest and similar income		**2,234**	2,214	2,102
Interest expense and similar charges		**(1,292)**	(1,347)	(1,254)
Net interest income	2	**942**	867	848
Fee and commission income	2	**804**	857	828
Net trading income	2	**766**	929	673
Share of net profits of associates and joint ventures accounted for using the equity method	2	**7**	2	12
Other operating income and charges	2	**321**	275	195
Net operating income		**2,840**	2,930	2,556
Employment expenses	2	**(859)**	(892)	(792)
Brokerage, commission and trading-related expenses	2	**(360)**	(362)	(335)
Occupancy expenses	2	**(64)**	(71)	(69)
Non-salary technology expenses	2	**(49)**	(44)	(56)
Other operating expenses	2	**(813)**	(755)	(715)
Total operating expenses		**(2,145)**	(2,124)	(1,967)
Operating profit before income tax		**695**	806	589
Income tax expense	4	**(290)**	(408)	(213)
Profit after income tax		**405**	398	376
Profit attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**(2)**	(2)	(2)
Profit attributable to non-controlling interests		**(2)**	(2)	(2)
Profit attributable to equity holders of Macquarie Bank Limited		**403**	396	374
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(9)**	(9)	(9)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**394**	387	365

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 2014

	Notes	**Half-year to 30 Sep 2014 $m**	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Profit after income tax for the period		**405**	398	376
Other comprehensive income/(expense)[1]:				
Available for sale investments, net of tax	16	**12**	(37)	19
Cash flow hedges, net of tax	16	**(19)**	16	2
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	16	**–**	(1)	1
Exchange differences on translation of foreign operations, net of hedges and tax		**203**	31	475
Total other comprehensive income for the period		**196**	9	497
Total comprehensive income for the period		**601**	407	873
Total comprehensive income for the period is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**588**	393	851
Macquarie Income Securities holders		**9**	9	9
Macquarie Income Preferred Securities holders		**4**	5	13
Total comprehensive income for the period		**601**	407	873

[1] All items of other comprehensive income may reclassify subsequently to profit or loss.

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

Consolidated statement of financial position
as at 30 September 2014

	Notes	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Assets				
Receivables from financial institutions		**18,070**	16,151	15,788
Trading portfolio assets	6	**25,384**	21,640	21,469
Derivative assets		**14,518**	12,468	14,473
Investment securities available for sale	7	**7,289**	12,182	13,612
Other assets	8	**7,458**	8,302	7,693
Loan assets held at amortised cost	9	**62,800**	57,170	54,574
Other financial assets at fair value through profit or loss		**1,798**	2,195	2,524
Due from related body corporate entities		**1,395**	2,244	861
Property, plant and equipment		**6,339**	6,045	5,983
Interests in associates and joint ventures accounted for using the equity method	11	**563**	551	588
Intangible assets		**784**	785	834
Deferred tax assets		**185**	178	234
Total assets		**146,583**	139,911	138,633
Liabilities				
Trading portfolio liabilities	12	**3,679**	2,459	1,796
Derivative liabilities		**14,412**	11,748	13,967
Deposits		**44,122**	42,302	42,573
Other liabilities	13	**7,814**	8,521	7,805
Payables to financial institutions		**13,086**	16,573	16,235
Other financial liabilities at fair value through profit or loss		**841**	937	663
Due to related body corporate entities		**6,240**	7,443	6,045
Debt issued at amortised cost	14	**43,608**	37,255	37,032
Provisions		**102**	86	110
Deferred tax liabilities		**710**	625	643
Total liabilities excluding loan capital		**134,614**	127,949	126,869
Loan capital				
Subordinated debt at amortised cost		**2,534**	2,464	2,399
Total loan capital		**2,534**	2,464	2,399
Total liabilities		**137,148**	130,413	129,268
Net assets		**9,435**	9,498	9,365
Equity				
Contributed equity	15	**8,101**	8,101	8,087
Reserves	16	**126**	(68)	(74)
Retained earnings	16	**1,129**	1,388	1,281
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**9,356**	9,421	9,294
Non-controlling interests	16	**79**	77	71
Total equity		**9,435**	9,498	9,365

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 2014

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2013		8,077	(560)	1,046	8,563	92	8,655
Profit after income tax		–	–	374	374	2	376
Other comprehensive income, net of tax		–	486	–	486	11	497
Total comprehensive income for the period		–	486	374	860	13	873
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(139)	(139)	–	(139)
Non-controlling interests:							
Distribution of equity, net of transaction costs		–	–	–	–	(32)	(32)
Distributions paid or provided for		–	–	–	–	(2)	(2)
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	10	–	–	10	–	10
		10	–	(139)	(129)	(34)	(163)
Balance at 30 September 2013		8,087	(74)	1,281	9,294	71	9,365
Profit after income tax		–	–	396	396	2	398
Other comprehensive expense, net of tax		–	6	–	6	3	9
Total comprehensive income for the period		–	6	396	402	5	407
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(289)	(289)	–	(289)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	3	3
Distributions paid or provided for		–	–	–	–	(2)	(2)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	15	14	–	–	14	–	14
		14	–	(289)	(275)	1	(274)
Balance at 31 March 2014		**8,101**	**(68)**	**1,388**	**9,421**	**77**	**9,498**
Profit after income tax		**–**	**–**	**403**	**403**	**2**	**405**
Other comprehensive income, net of tax		**–**	**194**	**–**	**194**	**2**	**196**
Total comprehensive income for the period		**–**	**194**	**403**	**597**	**4**	**601**
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	**–**	**–**	**(662)**	**(662)**	**–**	**(662)**
Non-controlling interests:							
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(2)**	**(2)**
		–	**–**	**(662)**	**(662)**	**(2)**	**(664)**
Balance at 30 September 2014		**8,101**	**126**	**1,129**	**9,356**	**79**	**9,435**

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 2014

	Notes	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Cash flows used in operating activities				
Interest received		**2,201**	2,089	2,028
Interest and other costs of finance paid		**(1,335)**	(1,314)	(1,268)
Dividends and distributions received		**76**	–	26
Fees and other non-interest income received		**1,299**	1,228	1,317
Fees and commissions paid		**(356)**	(358)	(330)
Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities		**(4,353)**	684	(1,637)
Payments to suppliers		**(910)**	(535)	(835)
Employment expenses paid		**(1,099)**	(598)	(993)
Income tax received/(paid)		**8**	(45)	(37)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		**556**	516	675
Life insurance contract payments and payments for investment assets		**(506)**	(451)	(672)
Net loan assets granted		**(5,818)**	(2,329)	(4,762)
Net increase in amounts due to other financial institutions, deposits and other borrowings		**8,346**	294	6,459
Net cash flows used in operating activities	17	**(1,891)**	(819)	(29)
Cash flows from investing activities				
Net proceeds from investment securities available for sale		**1,913**	3,365	510
Proceeds from/(payments for) the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		**46**	(16)	74
Payments for the acquisition of associates subsidiaries and businesses, net of cash acquired		**(423)**	(64)	(57)
Proceeds from property, plant and equipment, leased assets and intangible assets		**65**	88	16
Payments for property, plant and equipment, leased assets and intangible assets		**(379)**	(310)	(209)
Net cash flows from investing activities		**1,222**	3,063	334
Cash flows used in financing activities				
Proceeds from non-controlling interests		**–**	1	99
Dividends and distributions paid		**(170)**	(291)	(141)
Net cash flows used in financing activities		**(170)**	(290)	(42)
Net (decrease)/increase in cash and cash equivalents		**(839)**	1,954	263
Cash and cash equivalents at the beginning of the period		**13,385**	11,431	11,168
Cash and cash equivalents at the end of the period	17	**12,546**	13,385	11,431

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2014

Note 1

Summary of significant accounting policies

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2014 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

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

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2014 and any public announcements made by MBL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of MBL for the year ended 31 March 2014 other than where disclosed. Certain comparatives have been restated for consistency in presentation at 30 September 2014.

(ii) Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2014.

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

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

(iii) New Accounting Standards and amendments to Accounting Standards and Interpretations that are effective in the current period

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

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 amends *AASB 132 Financial Instruments: Presentation* to clarify that to set off an asset with a liability:

- the right of set-off must be available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy;
- certain gross settlement mechanisms (such as through a clearing house) may be equivalent to net settlement;
- master netting arrangements where the legal right of offset is only enforceable on the occurrence of a future event (such as default of the counterparty) continue to not meet the requirements for netting.

AASB 2012-3 is required to be retrospectively applied. Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

AASB 2013-5 defines an investment entity and provides an exception to the consolidation requirements in AASB 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity, the parent must still consolidate the investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity. The amendments also set out new disclosure requirements for investment entities.

AASB 2013-5 is required to be retrospectively applied, however adjustments are not required for subsidiary investments that are disposed of or for which control is lost before the due date of initial application, 1 April 2014.

Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

(iv) New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which specifies how and when revenue is recognised, as well as requiring enhanced disclosures. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The transitional provisions require retrospective application. The AASB is expected to issue the Australian equivalent of the Standard with the same effective date. The Consolidated Entity is continuing to assess the full impact of adopting IFRS 15.

AASB 9 Financial Instruments and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments. A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of debt instruments that (i) have cash flows solely principal and interest; and (ii) are held in a business model managed both to collect cash flows and for sale are recognised in other comprehensive income until sold, at which point they are recycled to the income statement. Interest and impairment are recognised directly in profit or loss. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

In respect of financial liabilities, the component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are presented in other comprehensive income, unless such presentation creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in credit risk) are presented in profit or loss. These requirements may be applied early without applying all other requirements of AASB 9.

All other requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to AASB 9 unamended.

AASB 9 contains guidance on hedge accounting that replaces the existing requirements of AASB 139, introduces substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Consolidated Entity is continuing to assess the full impact of adopting AASB 9.

In July 2014, the IASB added to IFRS 9 the new expected credit loss model for impairment. It is no longer necessary for a loss event to have occurred before credit losses are recognised. Instead, the entity brings to account expected credit losses and updates its expectations at each reporting date to reflect changes in credit risk since initial recognition. The AASB is expected to add these requirements to AASB 9.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014 continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,234**	2,214	2,102
Interest expense and similar charges paid/payable	**(1,292)**	(1,347)	(1,254)
Net interest income	**942**	867	848
Fee and commission income			
Base fees	**402**	415	382
Performance fees	**9**	46	10
Mergers and acquisitions, advisory and underwriting fees	**19**	15	24
Brokerage and commissions	**190**	219	248
Other fee and commission income	**184**	162	164
Total fee and commission income	**804**	857	828
Net trading income[1]			
Equities	**163**	175	176
Commodities	**376**	691	381
Credit, interest rates and foreign exchange products	**227**	63	116
Net trading income	**766**	929	673
Share of net profits of associates and joint ventures accounted for using the equity method	**7**	2	12

[1] Included in net trading income are fair value gains of $43 million (half-year to 31 March 2014: fair value gain of $39 million; half-year to 30 September 2013: fair value gain of $118 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gains on sale of investment securities available for sale	**28**	107	59
Impairment charge on investment securities available for sale	**(18)**	(19)	(71)
Net gains on sale of associates and joint ventures	**12**	7	2
Impairment charge on interest in associates and joint ventures	**(3)**	(10)	(14)
Gain on disposal of operating lease assets	**97**	13	14
Impairment charge on non-financial assets	**(31)**	(3)	(24)
Net operating lease income			
Rental income	**484**	485	447
Depreciation on operating lease assets	**(211)**	(210)	(191)
Dividends/distributions received/receivable:			
Investment securities available for sale	**9**	10	22
Collective allowance for credit losses provided for during the period (note 9)	**(19)**	(35)	(18)
Individually assessed provisions:			
Loan assets provided for during the period (note 9)	**(50)**	(67)	(39)
Other receivables provided for during the period	**(3)**	(6)	(10)
Recovery of loans previously provided for (note 9)	**18**	5	6
Loan losses written off	**(38)**	(29)	(33)
Recovery of loans previously written off	**10**	10	7
Other income	**36**	17	38
Total other operating income and charges	**321**	275	195
Net operating income	**2,840**	2,930	2,556

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Note 2			
Profit for the period continued			
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(764)**	(839)	(727)
Share-based payments	**(89)**	(54)	(62)
Provision for long service leave and annual leave	**(6)**	1	(3)
Total employment expenses	**(859)**	(892)	(792)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(278)**	(294)	(265)
Other fee and commission expenses	**(82)**	(68)	(70)
Total brokerage, commission and trading-related expenses	**(360)**	(362)	(335)
Occupancy expenses			
Operating lease rentals	**(9)**	(22)	(21)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(4)**	(4)	(5)
Other occupancy expenses	**(51)**	(45)	(43)
Total occupancy expenses	**(64)**	(71)	(69)
Non-salary technology expenses			
Information services	**(33)**	(34)	(35)
Depreciation: equipment	**(1)**	(1)	(1)
Service provider and other non-salary technology expenses	**(15)**	(9)	(20)
Total non-salary technology expenses	**(49)**	(44)	(56)
Other operating expenses			
Professional fees	**(92)**	(85)	(85)
Auditor's remuneration	**(8)**	(8)	(8)
Travel and entertainment expenses	**(31)**	(34)	(30)
Advertising and promotional expenses	**(30)**	(31)	(29)
Communication expenses	**(7)**	(7)	(7)
Amortisation of intangibles	**(22)**	(21)	(33)
Other expenses[1]	**(623)**	(569)	(523)
Total other operating expenses	**(813)**	(755)	(715)
Total operating expenses	**(2,145)**	(2,124)	(1,967)

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

Note 3

Segment reporting

(i) Operating segments

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

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

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

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

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

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

Corporate is not considered an operating group and includes Group Treasury, head office and central support functions. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non-controlling interests (NCI) and holders of loan capital.

Internal transactions

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

Internal funding arrangements

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

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

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

Transactions between Operating Groups

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

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

Internal management revenue/charges

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 3

Segment reporting continued

(i) **Operating segments** continued

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

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income	**55**	**319**	**406**
Fee and commission income	**480**	**22**	**262**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**15**	**1**	**1**
Other operating income and charges			
Impairment charges and provisions, net of recoveries	**(12)**	**(34)**	**(15)**
Other other operating income and charges	**41**	**371**	**11**
Internal management (charge)/ revenue	**(4)**	**3**	**–**
Net operating income	**575**	**682**	**665**
Total operating expenses	**(327)**	**(218)**	**(524)**
Profit/(loss) before tax	**248**	**464**	**141**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**–**	**–**	**–**
Profit/(loss) attributable to equity holders	**248**	**464**	**141**
Distributions paid or provided for on MIS	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**248**	**464**	**141**
Reportable segment assets	**4,617**	**28,529**	**32,804**
Net interest and trading income	29	378	373
Fee and commission income/(expense)	530	29	259
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(1)	(2)	–
Other operating income and charges			
Impairment charges and provisions, net of recoveries	2	(56)	(24)
Other other operating income and charges	37	266	43
Internal management revenue/(charge)	2	6	3
Net operating income/(charge)	599	621	654
Total operating expenses	(349)	(195)	(504)
Profit/(loss) before tax	250	426	150
Tax expense	–	–	–
Profit attributable to non-controlling interests	–	–	–
Profit/(loss) attributable to equity holders	250	426	150
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	250	426	150
Reportable segment assets	6,365	26,370	29,611
Net interest and trading income	45	270	366
Fee and commission income/(expense)	453	7	317
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(4)	4	1
Other operating income and charges			
Impairment charges and provisions, net of recoveries	(2)	(29)	(25)
Other other operating income and charges	27	311	6
Internal management revenue/(charge)	2	7	2
Net operating income	521	570	667
Total operating expenses	(300)	(180)	(556)
Profit/(loss) before tax	221	390	111
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Profit/(loss) attributable to equity holders	222	390	111
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	222	390	111
Reportable segment assets	6,805	25,601	29,304

Macquarie Securities Group $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
			Half-year to 30 September 2014
127	664	137	1,708
29	55	(44)	804
–	2	(12)	7
–	(72)	(1)	(134)
–	33	(1)	455
–	(1)	2	–
156	681	81	2,840
(176)	(449)	(451)	(2,145)
(20)	232	(370)	695
–	–	(290)	(290)
–	–	(2)	(2)
(20)	232	(662)	403
–	–	(9)	(9)
(20)	232	(671)	394
20,858	50,680	9,095	146,583
			Half-year to 31 March 2014
94	886	36	1,796
71	68	(100)	857
–	8	(3)	2
–	(75)	(1)	(154)
(1)	62	22	429
1	(12)	–	–
165	937	(46)	2,930
(162)	(483)	(431)	(2,124)
3	454	(477)	806
–	–	(408)	(408)
–	–	(2)	(2)
3	454	(887)	396
–	–	(9)	(9)
3	454	(896)	387
20,830	43,646	13,089	139,911
			Half-year to 30 September 2013
137	613	90	1,521
26	47	(22)	828
–	16	(5)	12
(5)	(132)	(3)	(196)
–	68	(21)	391
–	5	(16)	–
158	617	23	2,556
(143)	(428)	(360)	(1,967)
15	189	(337)	589
–	–	(213)	(213)
–	–	(3)	(2)
15	189	(553)	374
–	–	(9)	(9)
15	189	(562)	365
18,396	42,732	15,795	138,633

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
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 2014
Revenues from external customers	**811**	**1,468**	**83**	**2,180**	**4,542**
					Half-year to 31 March 2014
Revenues from external customers	852	1,719	60	2,128	4,759
					Half-year to 30 September 2013
Revenues from external customers	810	1,296	70	2,125	4,301

(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 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Revenues from external customers			
Australia	**2,406**	2,245	2,640
Europe, Middle East and Africa	**1,169**	976	471
Americas	**833**	1,322	1,088
Asia Pacific	**134**	216	102
Total	**4,542**	4,759	4,301

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

Note 4

Income tax expense

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

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Prima facie income tax expense on operating profit[1]	**(209)**	(242)	(177)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**(60)**	(197)	(1)
Other items	**(21)**	31	(35)
Total income tax expense	**(290)**	(408)	(213)

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

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Available for sale reserve	**(8)**	9	(11)
Cash flow hedges	**10**	(7)	(3)
Foreign currency translation reserve	**1**	1	(1)
Share of other comprehensive income of associates and joint ventures	**1**	–	–
Total tax benefit/(expense) relating to items of other comprehensive income	**4**	3	(15)

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent.

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

Macquarie Bank is currently subject to risk review and audit by the Australian Taxation Office (ATO). In prior years, the Bank received amended assessments from the ATO. A number of these matters have been resolved. The Bank has not received amended assessments from the ATO in the current period.

In accordance with ATO practice, the Bank has paid a portion of the primary tax and interest in respect of the unresolved amended assessments and this amount has been included in these financial statements as part of tax receivables, pending resolution.

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

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Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m

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

Ordinary share capital			
2015 interim dividend provided for[1]	494	–	–
2014 final dividend paid	159	–	–
2014 interim dividend paid	–	280	–
2013 final dividend paid	–	–	130
Total dividends paid (note 16)	653	280	130

[1] On 25 September 2014, the Directors declared an interim dividend which will be paid out of retained profit on 5 November 2014.

(ii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	5	5	5
Distributions provided for	4	4	4
Total distributions paid or provided for (note 16)	9	9	9

The Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise of the option, dividends on the preference shares are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to Directors' discretion. The distributions paid or provided for in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation*.

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

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

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 6
Trading portfolio assets

Equities			
Listed	**10,037**	7,950	7,873
Unlisted	**72**	33	37
Commodities	**5,681**	4,506	3,425
Commonwealth government securities	**5,191**	5,707	5,657
Corporate securities	**2,222**	1,448	1,575
Foreign government securities	**1,833**	1,756	2,457
Treasury notes	**240**	173	85
Promissory notes	**100**	59	67
Other government securities[1]	**8**	8	224
Bank bills	**–**	–	69
Total trading portfolio assets	**25,384**	21,640	21,469

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

Note 7
Investment securities available for sale

Equity securities			
Listed	**125**	123	193
Unlisted	**267**	275	266
Debt securities[1]	**6,897**	11,784	13,153
Total investment securities available for sale	**7,289**	12,182	13,612

[1] Included within this balance is $1,167 million (31 March 2014: $3,909 million; 30 September 2013: $2,457 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and Nil (31 March 2014: $100 million; 30 September 2013: $265 million) of bank bills.

Note 8
Other assets

Debtors and prepayments	**3,324**	3,987	3,814
Security settlements[1]	**2,411**	2,436	1,783
Life investment contracts and other unitholder assets	**1,062**	1,115	1,157
Income tax receivable	**312**	437	537
Property held for sale and development	**224**	175	238
Other	**125**	152	164
Total other assets	**7,458**	8,302	7,693

[1] Security settlements are generally receivable within three working days of the relevant trade date.

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 9
Loan assets held at amortised cost

	As at 30 Sep 2014			As at 31 Mar 2014			As at 30 Sep 2013		
	Gross $m	**Individually assessed provision for impairment $m**	**Net $m**	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Residential mortgage loans	**25,362**	**(12)**	**25,350**	23,107	(13)	23,094	21,699	(12)	21,687
Corporate and commercial lending	**16,970**	**(240)**	**16,730**	15,865	(206)	15,659	15,355	(205)	15,150
Lease and retail financing	**11,634**	**(66)**	**11,568**	10,922	(72)	10,850	10,258	(81)	10,177
Margin money placed	**6,118**	**–**	**6,118**	4,800	–	4,800	4,838	–	4,838
Relationship banking mortgages	**1,849**	**–**	**1,849**	1,613	–	1,613	1,423	–	1,423
Investment and insurance premium lending	**1,493**	**(6)**	**1,487**	1,427	(9)	1,418	1,536	(7)	1,529
Total loan assets before collective allowance for credit losses	**63,426**	**(324)**	**63,102**	57,734	(300)	57,434	55,109	(305)	54,804
Less collective allowance for credit losses			**(302)**			(264)			(230)
Total loan assets held at amortised cost[(1),(2)]			**62,800**			57,170			54,574

(1) Included within this balance are loans of $15,881 million (31 March 2014: $14,025 million; 30 September 2013: $13,103 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.
(2) Margin monies placed of $1,219 million have been reclassed from receivables from financial institutions for the Consolidated Entity for the period ended 30 September 2013.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	**300**	305	277
Provided for during the period (note 2)	**50**	67	39
Loan assets written off, previously provided for	**(19)**	(67)	(33)
Recovery of loans previously provided for (note 2)	**(18)**	(5)	(6)
Transfer from other provisions	**–**	–	10
Impact of foreign currency translation	**11**	–	18
Balance at the end of the period	**324**	300	305
Individually assessed provisions as a percentage of total gross loan assets	**0.51%**	0.52%	0.55%
Collective allowance for credit losses			
Balance at the beginning of the period	**264**	230	205
Provided for during the period (note 2)	**19**	35	18
Acquisitions during the period	**14**	–	–
Transfer from other provisions	**–**	1	–
Impact of foreign currency translation	**5**	(2)	7
Balance at the end of the period	**302**	264	230

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

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 10
Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	**7**	7	8
Less individually assessed provisions for impairment	**(6)**	(6)	(7)
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	1	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**824**	720	673
Less individually assessed provisions for impairment	**(354)**	(334)	(337)
Loan assets and other financial assets after individually assessed provisions for impairment	**470**	386	336
Total net impaired financial assets	**471**	387	337

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

Loans and investments without provisions for impairment	**474**	470	479
Loans and investments with provisions for impairment	**165**	186	275
Less provisions for impairment	**(76)**	(105)	(166)
Loans and investments at recoverable amount	**89**	81	109
Total interests in associates and joint ventures accounted for using the equity method	**563**	551	588

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

Note 12
Trading portfolio liabilities

Listed equity securities	**3,254**	1,849	1,402
Foreign government securities	**225**	363	257
Corporate securities	**140**	132	133
Commodities	**54**	115	–
Commonwealth government securities	**6**	–	4
Total trading portfolio liabilities	**3,679**	2,459	1,796

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Note 13			
Other liabilities			
Creditors	**3,931**	3,985	3,579
Due to brokers and customers	**2,049**	2,504	2,442
Life investment contracts and other unitholder liabilities	**1,037**	1,084	1,129
Accrued charges and sundry provisions	**665**	855	506
Income tax payable	**67**	37	46
Other	**65**	56	103
Other liabilities	**7,814**	8,521	7,805

Note 14
Debt issued at amortised cost

Debt issued at amortised cost[1]	**43,608**	37,255	37,032
Total debt issued at amortised cost	**43,608**	37,255	37,032

[1] Included within this balance are amounts payable to SPE note holders and debt holders of $14,541 million (31 March 2014: $12,732 million; 30 September 2013: $11,961 million).

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

Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent):

United States dollars	**20,208**	15,909	15,419
Australian dollars	**13,367**	11,849	11,473
Canadian dollars	**3,218**	3,932	4,789
Euro	**3,195**	1,577	1,499
Great British pounds	**1,721**	1,085	778
Swiss franc	**1,134**	1,137	1,087
Japanese yen	**392**	1,432	1,633
Hong Kong dollars	**116**	109	109
Korean won	**111**	122	142
Singapore dollars	**97**	103	103
Others	**49**	–	–
Total by currency	**43,608**	37,255	37,032

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

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 15
Contributed equity

Ordinary share capital			
Opening balance of 501,561,948 (1 October 2013: 501,561,948; 1 April 2013: 501,561,948) fully paid ordinary shares	**7,578**	7,578	7,578
Closing balance of 501,561,948 (31 March 2014: 501,561,948; 30 September 2013: 501,561,948) fully paid ordinary shares	**7,578**	7,578	7,578
Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**132**	118	108
Additional paid up capital	**–**	14	10
Balance at the end of the period	**132**	132	118
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
Contributed equity	**8,101**	8,101	8,087

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 16
Reserves, retained earnings and non-controlling interests

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Reserves			
Foreign currency translation reserve[1]			
Balance at the beginning of the period	**(107)**	(135)	(599)
Currency translation differences arising during the period, net of hedges and tax	**201**	28	464
Balance at the end of the period	**94**	(107)	(135)
Available for sale reserve			
Balance at the beginning of the period	**67**	104	85
Revaluation movement for the period, net of tax	**19**	17	(6)
Transfer to income statement upon impairment, net of tax	**13**	14	50
Transfer to income statement on realisation, net of tax	**(20)**	(68)	(25)
Balance at the end of the period	**79**	67	104
Cash flow hedging reserve			
Balance at the beginning of the period	**(28)**	(44)	(46)
Revaluation movement for the period, net of tax	**(19)**	16	2
Balance at the end of the period	**(47)**	(28)	(44)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**–**	1	–
Share of other comprehensive (expense)/income during the period	**–**	(1)	1
Balance at the end of the period	**–**	–	1
Total reserves at the end of the period	**126**	(68)	(74)
Retained earnings[1]			
Balance at the beginning of the period	**1,388**	1,281	1,046
Profit attributable to equity holders of MBL	**403**	396	374
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(9)**	(9)	(9)
Dividends paid on ordinary share capital (note 5)	**(653)**	(280)	(130)
Balance at the end of the period	**1,129**	1,388	1,281

(1) The prior year balances of foreign currency translation reserve and retained earnings have been restated at 31 March 2014 following a review of reserves and consideration of prior internal group restructures and entity transfers. Retained earnings is reduced by $85 million with a corresponding increase in foreign currency translation reserve as at 1 April 2013. There is no impact on total capital and reserves attributable to equity holders of Macquarie Bank Limited or total equity.

Note 16

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (31 March 2014: 6.177 per cent; 30 September 2013: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (31 March 2014: 2.35 per cent; 30 September 2013: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

These instruments are classified as equity in accordance with AASB 132 Financial Instruments: Presentation and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax. Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Macquarie Income Preferred Securities			
Proceeds on issue of Macquarie Income Preferred Securities	**109**	109	107
Less issue costs	**(1)**	(1)	(1)
	108	108	106
Foreign currency translation reserve	**(30)**	(32)	(35)
Total Macquarie Income Preferred Securities	**78**	76	71
Other non-controlling interests			
Ordinary share capital	**1**	1	–
Total other non-controlling interests	**1**	1	–
Total non-controlling interests	**79**	77	71

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $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 financial year as shown in the statements of cash flows are reconciled to related items in the statements of financial position as follows:			
Receivables from financial institutions[1]	**9,009**	6,786	6,564
Trading portfolio assets[2]	**112**	498	1,301
Debt securities[3]	**1,129**	4,208	2,347
Loan asset at amortised cost[4]	**2,296**	1,893	1,219
Cash and cash equivalents at the end of the period[5]	**12,546**	13,385	11,431

(1) Includes cash and other receivables.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes amounts due from clearing houses.
(5) Cash and cash equivalents include $3,176 million (31 March 2014: $4,093 million; 30 September 2013: $3,687 million) held by consolidated securitisation vehicles or in segregated deposit fund and escrow account which are restricted for use.

	Half-year to 30 Sep 2014 $m	Half-year to 31 Mar 2014 $m	Half-year to 30 Sep 2013 $m
Reconciliation of profit after income tax to net cash flows used in operating activities			
Profit after income tax	**405**	398	376
Adjustments to profit after income tax:			
Depreciation and amortisation	**238**	236	230
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**58**	(408)	71
Provision and impairment charge on financial and non-financial assets	**144**	164	203
Interest on available for sale financial assets	**(34)**	(89)	(60)
Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets	**(137)**	(127)	(75)
Share-based payments expense	**–**	(10)	10
Share of net profits of associates and joint ventures accounted for using the equity method	**(7)**	(2)	(12)
Changes in assets and liabilities:			
Change in dividends receivable	**65**	(36)	(23)
Change in values of associates due to dividends received	**2**	24	27
Change in fees and non-interest income receivable	**20**	(54)	(48)
Change in fees and commissions payable	**4**	4	5
Change in tax balances	**298**	348	191
Change in provisions for employee entitlements	**15**	(23)	6
Change in loan assets	**(5,828)**	(2,339)	(4,769)
Change in debtors, prepayments, accrued charges and creditors	**(243)**	407	35
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(5,188)**	422	(2,650)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**8,297**	266	6,454
Net cash flows used in operating activities	**(1,891)**	(819)	(29)

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m

Note 18

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives and matters where the likelihood of an obligation arising is remote.

	As at 30 Sep 2014 $m	As at 31 Mar 2014 $m	As at 30 Sep 2013 $m
Contingent liabilities exist in respect of:			
Letters of credit	**505**	543	431
Performance related contingents	**341**	342	130
Guarantees	**292**	376	475
Indemnities	**15**	44	1
Total contingent liabilities[1]	**1,153**	1,305	1,037
Commitments exist in respect of:			
Undrawn credit facilities	**3,512**	3,166	2,563
Forward asset purchases	**532**	87	136
Total commitments[2]	**4,044**	3,253	2,699
Total contingent liabilities and commitments	**5,197**	4,558	3,736

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19
Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

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

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt;
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations;
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA).

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

Note 19

Fair values of financial assets and liabilities continued

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

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

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19

Fair values of financial assets and liabilities continued

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

	Carrying value $m	Fair value $m
Assets	**As at 30 September 2014**	
Receivables from financial institutions	18,070	18,070
Other financial assets	7,458	7,458
Loan assets held at amortised cost	62,800	62,846
Due from related body corporate entities	1,395	1,395
Total assets	89,723	89,769
Liabilities		
Deposits	44,122	44,132
Other financial liabilities	7,814	7,814
Payables to financial institutions	13,086	13,122
Due to related body corporate entities	6,240	6,240
Debt issued at amortised cost	43,608	44,127
Loan capital	2,534	2,686
Total liabilities	117,404	118,121

The fair values for "Receivables from financial institutions" and "Deposits" have been predominantly classified as Level 1 except for $8,974 million (March 2014: $9,256 million) under Receivables from financial institutions and $11,406 million (March 2014: $10,768 million) under Deposits which have been classified as Level 2.

Fair values for "Other financial assets", "Other financial liabilities", "Due from related body corporate entities", "Payables to financial institutions", "Due to related body corporate entities", "Debt issued at amortised cost" and "Loan capital" have been predominantly classified as Level 2 except for $1,998 million (March 2014: $1,587 million) in Payables to financial institutions, $2,690 million (March 2014: $3,279 million) in Debt issued at amortised cost and $942 million (March 2014: $306 million) in Loan capital has been classified as Level 1 and $6,906 million (March 2014: $5,999 million) in Debt issued at amortised cost is classified as Level 3.

Loan assets at amortised cost are primarily Level 3 except for $10,110 million (March 2014: $3,193 million) which has been classified as Level 2 and $6,124 million (March 2014: $4,800 million) which has been classified as Level 1.

Note 19

Fair values of financial assets and liabilities continued

	Carrying value $m	Fair value $m
Assets	As at 31 March 2014	
Receivables from financial institutions	16,151	16,151
Other financial assets	6,155	6,155
Loan assets held at amortised cost	57,170	57,323
Due from related body corporate entities	2,244	2,244
Total assets	81,720	81,873
Liabilities		
Deposits	42,302	42,314
Other financial liabilities	5,946	5,946
Payables to financial institutions	16,573	16,617
Due to related body corporate entities	7,443	7,443
Debt issued at amortised cost	37,255	37,768
Loan capital	2,464	2,645
Total liabilities	111,983	112,733
Assets	As at 30 September 2013	
Receivables from financial institutions	15,788	15,788
Other financial assets	4,921	4,921
Loan assets held at amortised cost	54,574	54,889
Due from related body corporate entities	861	861
Total assets	76,144	76,459
Liabilities		
Deposits	42,573	42,588
Other financial liabilities	5,487	5,487
Payables to financial institutions	16,235	16,307
Due to related body corporate entities	6,045	6,045
Debt issued at amortised cost	37,032	37,458
Loan capital	2,399	2,524
Total liabilities	109,771	110,409

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19

Fair values of financial assets and liabilities continued

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

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				As at 30 September 2014
Trading portfolio assets	15,010	9,693	681	25,384
Derivative assets	1,312	12,698	508	14,518
Investment securities available for sale	4,172	2,457	660	7,289
Other financial assets at fair value through profit or loss	192	1,502	104	1,798
Other financial assets[1]	281	781	–	1,062
Total assets	20,967	27,131	1,953	50,051
Liabilities				
Trading portfolio liabilities	1,716	1,961	2	3,679
Derivative liabilities	1,550	12,483	379	14,412
Other financial liabilities at fair value through profit or loss	–	816	25	841
Other financial liabilities[1]	284	753	–	1,037
Total liabilities	3,550	16,013	406	19,969
Assets				As at 31 March 2014
Trading portfolio assets	13,909	7,029	702	21,640
Derivative assets	589	11,799	80	12,468
Investment securities available for sale	8,225	3,550	407	12,182
Other financial assets at fair value through profit or loss	229	1,813	153	2,195
Other financial assets[1]	353	762	–	1,115
Total assets	23,305	24,953	1,342	49,600
Liabilities				
Trading portfolio liabilities	1,086	1,373	–	2,459
Derivative liabilities	738	10,924	86	11,748
Other financial liabilities at fair value through profit or loss	–	905	32	937
Other financial liabilities[1]	351	733	–	1,084
Total liabilities	2,175	13,935	118	16,228
Assets				As at 30 September 2013
Trading portfolio assets	15,567	5,780	122	21,469
Derivative assets	1,066	13,268	139	14,473
Investment securities available for sale	9,153	4,311	148	13,612
Other financial assets at fair value through profit or loss	462	2,011	51	2,524
Other financial assets[1]	381	776	–	1,157
Total assets	26,629	26,146	460	53,235
Liabilities				
Trading portfolio liabilities	604	1,192	–	1,796
Derivative liabilities	1,225	12,679	63	13,967
Other financial liabilities at fair value through profit or loss	–	613	50	663
Other financial liabilities[1]	380	749	–	1,129
Total liabilities	2,209	15,233	113	17,555

(1) Relates to life insurance contracts and other unitholder investment assets and liabilities.

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Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19
Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the period ended 30 September 2014, 31 March 2014 and 30 September 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the period	702	407
Purchases	450	155
Sales	(344)	(162)
Issues	–	–
Settlements	–	(11)
Transfers into level 3	81	270
Transfers out of level 3	(217)	–
Fair value (losses)/gains recognised in the income statement[1]	9	(4)
Fair value (losses)/gains recognised in other comprehensive income[1]	–	5
Balance at the end of the period	681	660
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	9	(3)
Balance at the beginning of the period	122	148
Purchases	278	180
Sales	10	(63)
Issues	–	4
Settlements	–	(3)
Transfers into level 3	285	127
Transfers out of level 3	(5)	–
Fair value gains/(losses) recognised in the income statement[1]	12	2
Fair value gains/(losses) recognised in other comprehensive income[1]	–	12
Balance at the end of the period	702	407
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	12	1
Balance at the beginning of the period	253	268
Purchases	68	10
Sales	(138)	(3)
Settlements	–	–
Transfers into level 3	27	–
Transfers out of level 3	(85)	(111)
Fair value (losses)/gains recognised in the income statement[1]	(3)	–
Fair value (losses)/gains recognised in other comprehensive income[1]	–	(16)
Balance at the end of the period	122	148
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	(3)	–

(1) The consolidated entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $508 million (31 March 2014: $80 million; 30 September 2013: $139 million) and derivative liabilities are $379 million (31 March 2014: $86 million; 30 September 2013: $63 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
				Half-year to 30 September 2014
153	**–**	**(32)**	**(6)**	**1,224**
–	**(2)**	**–**	**177**	**780**
(5)	**–**	**7**	**(13)**	**(517)**
–	**–**	**–**	**(4)**	**(4)**
12	**–**	**–**	**–**	**1**
–	**–**	**–**	**4**	**355**
(61)	**–**	**–**	**(19)**	**(297)**
5	**–**	**–**	**(10)**	**–**
–	**–**	**–**	**–**	**5**
104	**(2)**	**(25)**	**129**	**1,547**
5	**–**	**–**	**(13)**	**(2)**
				Half-year to 31 March 2014
51	–	(50)	76	347
62	–	–	(79)	441
(22)	–	17	2	(56)
–	–	–	(5)	(1)
–	–	3	5	5
63	–	–	(23)	452
–	–	–	(7)	(12)
(1)	–	(2)	25	36
–	–	–	–	12
153	–	(32)	(6)	1,224
(3)	–	–	24	34
				Half-year to 30 September 2013
69	–	(70)	14	534
–	–	–	44	122
(19)	–	23	(4)	(141)
–	–	(1)	(24)	(25)
–	–	–	34	61
(6)	–	–	6	(196)
7	–	(2)	6	8
–	–	–	–	(16)
51	–	(50)	76	347
4	–	(4)	1	(2)

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

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

Unrecognised gains

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

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

	Half-year to 30 Sep 2014 $m	Half-year to 31 March 2014 $m	Half-year to 30 Sep 2013 $m
Balance at the beginning of the financial year	**8**	18	24
Deferral on new transactions	**18**	–	2
Amounts recognised in the income statement during the year	**(11)**	(10)	(8)
Balance at the end of the financial year	**15**	8	18

Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		**Unfavourable changes**	
	Profit or loss $m	**Equity $m**	**Profit or loss $m**	**Equity $m**
Product type			**As at 30 September 2014**	
Equity and equity linked products	**14**	**5**	**(15)**	**1**
Other products	**63**	**–**	**(61)**	**–**
Total	**77**	**5**	**(76)**	**1**
Product type			As at 31 March 2014	
Equity and equity linked products	–	10	–	(10)
Other products	17	–	(11)	–
Total	17	10	(11)	(10)
Product type			As at 30 September 2013	
Equity and equity linked products	2	2	(2)	2
Other products	16	–	(14)	–
Total	18	2	(16)	2

Note 19

Fair values of financial assets and liabilities continued

Significant unobservable inputs

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

					Range of inputs	
	Assets $m	**Liabilities $m**	**Valuation technique(s)**	**Significant unobservable inputs**	**Minimum value**	**Maximum value**
					As at 30 September 2014	
Equity and equity linked products	**262**	**25**	Discounted cash flows	Discount rate	0.0%	0.0%
			Pricing model	Volatility	28.6%	59.6%
			Market comparability	Price in %	(2.0)%	10.7%
Other products	**1,691**	**381**	Pricing model	Volatility	10.3%	110.0%
				Correlation	–	1.00
			Market comparability	Price in %	0.0%	129.0%
Total	**1,953**	**406**				
					As at 31 March 2014	
Equity and equity linked products	179	34	Discounted cash flows	Discount rate	13.0%	13.0%
			Pricing model	Volatility	9.2%	95.0%
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	0.00	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	1,342	118				
					As at 30 September 2013	
Equity and equity linked products	142	56	Discounted cash flows	Discount rate	13.5%	13.5%
			Pricing model	Volatility	38%	55%
			Market comparability	Price in %	94.8%	113.4%
Other products	318	57	Pricing model	Volatility	8.5%	92.0%
				Correlation	0.15	1.00
			Market comparability	Price in %	5%	337%
Total	460	113				

Notes to the consolidated financial statements
for the half-year ended 30 September 2014
continued

Note 19

Fair values of financial assets and liabilities continued

Correlation

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

Volatility and skew

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

Forward prices

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

Note 20

Events after the reporting period

On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances.

BCN may also be converted into a variable number of MGL's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. They can also be exchanged earlier on an acquisition event (where a person acquires control of MGL or MBL) or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

The BCN pay discretionary, semi-annual floating rate cash distributions equal to 6 month BBSW plus 330bps margin, adjusting for franking credits, paid semi annually.

Directors' declaration
for the half-year ended 30 September 2014

In the Directors' opinion

a) financial statements and notes for the half-year ended 30 September 2014 set out on pages 5 to 40 are in accordance with the *Corporations Act 2001 (Cth)* including:
   i) complying with the accounting standards; and
   ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2014 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; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 10).

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

H Kevin McCann, AM
Independent Director and
Chairman

Mary Reemst
Managing Director and
Chief Executive Officer

Sydney
31 October 2014

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Bank Limited, which comprises the consolidated statement of financial position as at 30 September 2014, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Macquarie Bank Limited (the consolidated entity). The consolidated entity comprises both Macquarie Bank Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001 (Cth)* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*. As the auditor of Macquarie Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2014 and of its performance for the half-year ended on that date;
b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001 (Cth)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. G. Smith

K.G. Smith
Partner

Sydney
31 October 2014

CONTACT DETAILS

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