MACQUARIE BANK

Interim Financial Report

Macquarie Bank
Half-year ended 30 September 2016

MACQUARIE BANK LIMITED ACN 008 583 542

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.

Interim Financial Report
for the half-year ended 30 September 2016
Contents

The Financial report was authorised for issue by the Directors on 28 October 2016.
The Board of Directors has the power to amend and reissue the Financial report.

Interim Financial Report
for the half-year ended 30 September 2016

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Directors' Report
for the half-year ended 30 September 2016

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (Macquarie, Macquarie Bank, MBL or the Company), the Directors submit herewith the financial statements of the Bank and its subsidiaries (the Consolidated Entity, the Group) at the end of, and during, the financial period ended on 30 September 2016 and report as follows:

Directors

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

Independent Directors

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

Executive Voting Directors

M.J. Reemst, Managing Director and Chief Executive Officer

N.W. Moore

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

Result

The financial report for the half-year ended 30 September 2016 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 the ordinary equity holders of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was $A582 million (half-year to 31 March 2016: $A644 million; half-year to 30 September 2015: $A1,446 million).

Operating and Financial Review

Review of performance and financial position

Performance

Consolidated net profit attributable to ordinary equity holders from continuing operations of $A582 million for the half-year ended 30 September 2016 increased from $A406 million in the prior corresponding period[(1)] and decreased from $A644 million in the prior period[(2)]. The result in the prior corresponding period also included profit from discontinued operations of $A1,040 million.

Continuing operations

Macquarie Bank Limited's annuity-style businesses – Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) – generated a combined net profit contribution for the half-year ended 30 September 2016 of $A821 million, broadly in line with the prior corresponding period. While CAF benefited from acquisitions of a portfolio of aircraft from AWAS Aviation Capital Limited ('the AWAS portfolio acquisition'; transition completed by 31 March 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a lower overall net profit contribution mainly driven by lower income due to the timing of prepayments and realisations as well as lower loan volumes, resulting in a reduced contribution from the Lending portfolio. BFS' net profit contribution benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform, partially offset by increased expenses mainly due to elevated project activity as well as a change in approach to the capitalisation of software expenses in relation to the Core Banking platform, and increased impairment charges on loans, equity investments and intangible assets. Additionally, BFS disposed of Macquarie Life's[(3)] risk insurance business and its remaining US mortgages portfolio during the half-year ended 30 September 2016, generating an overall net gain on the disposals.

Macquarie Bank's capital markets facing businesses – Macquarie Securities Group (MSG) and Commodities and Financial Markets (CFM) – delivered a combined net profit contribution for the half-year ended 30 September 2016 of $A419 million, a decrease of 3% on the prior corresponding period. MSG's net profit contribution decreased significantly on the prior corresponding period, which benefited from strong trading revenues, particularly in Asia, while trading opportunities in the half-year ended 30 September 2016 were limited due to market uncertainty. CFM reported a higher net profit contribution driven by increased income from the sale of equity investments and reduced provisions for impairment compared to the prior corresponding period.

(1) Prior corresponding period refers to the six months to 30 September 2015.
(2) Prior period refers to the six months to 31 March 2016.
(3) This reference relates to the disposal of Macquarie Life limited's (Macquarie Life) risk insurance business to Zurich Australia Limited.

Directors' Report
for the half-year ended 30 September 2016
continued

Net operating income of $A2,875 million for the half-year ended 30 September 2016 increased 3% from $A2,782 million in the prior corresponding period. Higher net operating lease income, an increase in net gains on sale of investments and businesses, and lower provisions for impairment were partially offset by decreases across net interest and trading income and fee and commission income.

Combined net interest and trading income of $A1,803 million for the half-year ended 30 September 2016 decreased 19% from $A2,225 million in the prior corresponding period. The reduction was across a number of operating groups[4]. MSG was impacted by limited trading opportunities due to market uncertainty. In CAF, there was an overall decline in net interest and trading income mainly driven by the timing of prepayments and realisations, and lower loan volumes in the Lending portfolio, as well as increased funding costs due to the AWAS portfolio acquisition, partially offset by the contribution from the Esanda dealer finance portfolio. CFM also reported lower net interest and trading income compared to the prior corresponding period due to reduced client flow, particularly in oil. Partially offsetting these declines was increased net interest and trading income in BFS, mainly driven by volume growth in the Australian loan and deposit portfolios.

Total fee and commission income of $A368 million for the half-year ended 30 September 2016 decreased 15% from $A434 million in the prior corresponding period mainly driven by decreased brokerage and commissions income as market uncertainty impacted the levels of client trading activity, particularly in Asia.

Net operating lease income of $A477 million for the half-year ended 30 September 2016 increased 23% from $A388 million in the prior corresponding period, mainly driven by the AWAS portfolio acquisition by CAF.

Other operating income of $A253 million for the half-year ended 30 September 2016 was a significant improvement from a charge of $A261 million in the prior corresponding period. The primary drivers were increased gains on the sale of investments and businesses; and lower provisions for impairment mainly due to reduced exposures to underperforming commodity-related loans in CFM. Gains on the sale of businesses and investments included a significant gain from BFS' sale of Macquarie Life's risk insurance business, as well as increased contributions from CFM, partially offset by a loss on the sale of BFS' US mortgages portfolio.

Total operating expenses of $A2,037 million for the half-year ended 30 September 2016 was broadly in line with $A2,033 million in the prior corresponding period.

Employment expenses of $A776 million for the half-year ended 30 September 2016 decreased 6% from $A825 million in the prior corresponding period mainly driven by lower performance-related profit share expense.

Brokerage, commission and trading-related expenses of $A303 million for the half-year ended 30 September 2016 decreased 5% from $A320 million in the prior corresponding period mainly due to decreased trading-related activity.

Other operating expenses of $A816 million for the half-year ended 30 September 2016 increased 10% from $A740 million in the prior corresponding period mainly due to the impact of portfolio acquisitions in CAF.

Income tax expense of $A255 million for the half-year ended 30 September 2016 decreased 25% from $A338 million in the prior corresponding period, resulting in an effective tax rate of 30.2%. The decrease was mainly due to changes in the geographic composition of earnings, with increased income being generated in Australia and lower income in the US.

Discontinued operations

Profit from discontinued operations (net of income tax) of $A1,040 million in the prior corresponding period represents profit from the sale of the Macquarie Investment Management (MIM) business to Macquarie Financial Holdings Pty Limited and its subsidiaries on 15 April 2015, as well as profit earned by MIM up until the sale date.

Financial position

Balance sheet

The Group's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2016.

Total assets of $A176.6 billion at 30 September 2016 decreased 3% from $A181.6 billion at 31 March 2016 mainly due to a reduction in Loan assets held at amortised cost, Derivative assets and Investment securities available for sale. These decreases were partially offset by an increase in Trading portfolio assets and Other assets.

Loan assets held at amortised cost of $A76.7 billion at 30 September 2016 decreased 3% from $A78.9 billion at 31 March 2016. Most businesses saw a reduction in volumes, including:

- CAF's loan and finance lease portfolios decreased 2% to $A28.0 billion at 30 September 2016 from $A28.7 billion at 31 March 2016 mainly due to repayments in the Lending portfolio, and
- BFS' disposal of the US mortgage portfolio and the run-down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes.

Derivative assets at 30 September 2016 of $A15.2 billion (down 16% from $A18.0 billion at 31 March 2016) and Derivative liabilities of $A12.9 billion (down 12% from $A14.7 billion at 31 March 2016) both decreased mainly as a result of price movements in underlying physical commodities, particularly oil and gas, as well as the revaluation of interest rate and foreign currency derivatives in CFM.

Investment securities available for sale of $A5.3 billion at 30 September 2016 decreased 41% from $A9.0 billion at 31 March 2016 mainly due to Treasury's funding and liquidity management activities during the period.

[4] The operating groups of MBL comprise MAM, CAF, BFS, MSG and CFM. In addition, there is a Corporate segment, which includes head office and central service groups including Group Treasury.

Other notable decreases in asset balances since 31 March 2016 included lower Property, plant and equipment mainly due to the sale of eight aircraft in CAF.

Trading portfolio assets of $A27.0 billion at 30 September 2016 increased 17% from $A23.1 billion at 31 March 2016 mainly due to an increase in holdings of physical commodities, particularly oil, base and precious metals, and an increase in holdings of government and corporate bonds within CFM. In addition, Other assets of $A8.1 billion at 30 September 2016 increased 17% from $A6.9 billion at 31 March 2016 as a result of an increase in recent trading activity in both CFM and MSG.

Total liabilities decreased 3% to $A164.1 billion at 30 September 2016 from $A168.9 billion at 31 March 2016 mainly driven by Treasury's funding and liquidity management activities during the period including the repayment of Debt issued at amortised cost (down 11% to $A49.0 billion at 30 September 2016 from $A55.1 billion at 31 March 2016) resulting from the reduction in Total assets combined with an increase in Deposits (up 6% to $A55.4 billion at 30 September 2016 from $A52.2 billion at 31 March 2016).

Total equity decreased 2% to $A12.5 billion at 30 September 2016 from $A12.7 billion at 31 March 2016. The decrease was mainly due to a reduction in reserves and retained earnings during the half-year.

Funding

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.4 years at 30 September 2016.

As at 30 September 2016, customer deposits(5) represented $A46.1 billion, or 43% of the Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A7.3 billion, or 7% of total funding, and other debt funding maturing within 12 months represented $A8.6 billion, or 8% of total funding.

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2016, MBL has continued to raise term wholesale funding across various products and currencies.

Macquarie has continued to develop and expand its major funding markets and products with new issuances in the US, Europe and Australia.

From 1 April 2016 to 30 September 2016, the Group raised $A4.0 billion of term funding, including $A2.4 billion of AWAS Term Loan, $A0.8 billion of secured funding, $A0.5 billion of senior and subordinated debt and $A0.3 billion of syndicated loan facility.

Macquarie's liquidity risk management framework is designed to ensure that MBL is able to meet its funding requirements as they fall due under a range of market conditions.

Capital

The Consolidated Entity is well capitalised and as at 30 September 2016, Macquarie Bank had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 12.6% and a Harmonised Basel III Tier 1 Capital Ratio of 13.7%, with an Australian Prudential Regulation Authority (APRA) Basel III Common Equity Tier 1 Capital Ratio of 10.4% and an APRA Basel III Tier 1 Capital Ratio of 11.5%. Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of capital to risk-weighted assets of 8%, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which may be higher than these levels. Macquarie Bank's internal capital policy set by the Board requires capital floors above the regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the half-year.

Business strategy

Consistent with the principles of Opportunity, Accountability and Integrity, Macquarie Bank employs a business strategy focused on the medium-term with the following key aspects:

- **conducting a mix of annuity-style and capital markets facing businesses** that deliver solid returns in a range of market conditions. In recent years Macquarie Bank has strongly developed its annuity-style businesses, providing steady returns to the business and Macquarie Group Limited (Macquarie, Macquarie Group, MGL or Group) shareholders and certainty to clients
- **operating a diversified set of businesses** across different locations and service offerings including banking and financial services. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to the Company, as highlighted in the challenging global markets of recent years
- **using proven deep expertise** has allowed the Company to establish leading market positions as a global specialist in a wide range of sectors including infrastructure, resources and commodities, energy, financial institutions and real estate, with a deep knowledge of Asia-Pacific financial markets
- **expanding progressively by pursuing adjacencies** through new organic opportunities and selective acquisitions in products and geographies that are adjacent to its established areas of expertise, by building expertise in these disciplines and expanding into associated activities. This results in sustainable evolutionary growth

(5) Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

Directors' Report
for the half-year ended 30 September 2016
continued

- **pursuing growth opportunities** through recognising the value of ideas and innovation. The Company starts with real knowledge and skill and encourages innovation, ingenuity and entrepreneurial spirit coupled with accountability. The Company seeks to identify opportunity and realise it for clients, community, shareholders and its people. Ideas for new businesses are typically generated in the operating businesses. Additionally, there are no specific businesses, markets, or regions in which the Company's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the *Risk Appetite Statement (RAS)* approved by the Board
- **using a conservative approach to risk management** through the Company's strong risk management framework embedded across all operating groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and the Company can survive a worst-case outcome from any new or existing activity
- **maintaining a strong and conservative balance sheet** consistent with its longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. The Company remains well funded with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

Outlook

Macquarie currently expects the combined net profit contribution from operating groups for the financial year ending 31 March 2017 to be up on the financial year ended 31 March 2016.

The tax rate for the financial year ending 31 March 2017 is currently expected to be down on the tax rate for the financial year ended 31 March 2016.

The Group's short-term outlook remains subject to a range of challenges including market conditions, the impact of foreign exchange and potential regulatory changes and tax uncertainties.

Macquarie Bank remains well positioned to deliver superior performance in the medium term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet and a proven risk management framework and culture.

Events after the reporting date

There were no material events subsequent to 30 September 2016 that have not been reflected in the financial statements.

Interim dividend

The Directors have declared an interim dividend for the half-year ended 30 September 2016 of $A582 million. The dividend will be paid on the 9 November 2016.

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 5.

Rounding of amounts

In accordance with *Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, 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.

Peter H Warne
Independent Director and
Chairman

Mary Reemst
Managing Director and
Chief Executive Officer

Sydney
28 October 2016

Auditor's independence declaration
for the half-year ended 30 September 2016

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2016, 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
28 October 2016

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

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Consolidated income statement
for the half-year ended 30 September 2016

	Notes	**Half-year to 30 Sep 2016 $m**	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Interest and similar income	2	**2,484**	2,617	2,466
Interest expense and similar charges	2	**(1,421)**	(1,528)	(1,383)
Net interest income		**1,063**	1,089	1,083
Fee and commission income	2	**368**	496	434
Net trading income	2	**740**	982	1,142
Net operating lease income	2	**477**	493	388
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	2	**(26)**	26	(4)
Other operating income and charges	2	**253**	(225)	(261)
Net operating income		**2,875**	2,861	2,782
Employment expenses	2	**(776)**	(603)	(825)
Brokerage, commission and trading-related expenses	2	**(303)**	(320)	(320)
Occupancy expenses	2	**(61)**	(56)	(56)
Non-salary technology expenses	2	**(81)**	(59)	(92)
Other operating expenses	2	**(816)**	(836)	(740)
Total operating expenses		**(2,037)**	(1,874)	(2,033)
Operating profit from continuing operations before income tax		**838**	987	749
Income tax expense	4	**(255)**	(343)	(338)
Profit from continuing operations (net of income tax)		**583**	644	411
Profit from discontinued operations (net of income tax)	21	**–**	–	1,040
Profit from continuing operations and discontinued operations after income tax		**583**	644	1,451
(Profit)/loss attributable to non-controlling interests:				
Macquarie Income Preferred Securities	5	**–**	–	(1)
Other non-controlling interests		**7**	8	4
Loss attributable to non-controlling interests		**7**	8	3
Profit attributable to equity holders of Macquarie Bank Limited		**590**	652	1,454
Distributions paid or provided for on:				
Macquarie Income Securities	5	**(8)**	(8)	(8)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**582**	644	1,446
From continuing operations		**582**	644	406
From discontinued operations	21	**–**	–	1,040

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 2016

	Notes	**Half-year to 30 Sep 2016 $m**	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Profit from continuing operations and discontinued operations after income tax		**583**	644	1,451
Other comprehensive (expense)/income[1]:				
Available for sale investments, net of tax		**3**	6	35
Cash flow hedges, net of tax	16	**(73)**	(56)	22
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	16	**(1)**	(1)	1
Exchange differences on translation of foreign operations, net of hedge and tax		**(82)**	(573)	450
Other comprehensive income/(expense) from discontinued operations, net of tax		**–**	25	(25)
Total other comprehensive (expense)/income		**(153)**	(599)	483
Total comprehensive income		**430**	45	1,934
Total comprehensive income is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**429**	45	1,925
Macquarie Income Securities holders		**8**	8	8
Macquarie Income Preferred Securities holders		**–**	–	5
Other non-controlling interests		**(7)**	(8)	(4)
Total comprehensive income		**430**	45	1,934

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

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

Consolidated statement of financial position
as at 30 September 2016

	Notes	**As at 30 Sep 2016 $m**	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Assets				
Receivables from financial institutions		**30,679**	30,956	33,904
Trading portfolio assets	6	**27,029**	23,062	31,224
Derivative assets		**15,211**	17,962	22,200
Investment securities available for sale	7	**5,314**	9,008	8,188
Other assets	8	**8,102**	6,918	7,472
Loan assets held at amortised cost	9	**76,672**	78,913	75,098
Other financial assets at fair value through profit or loss		**768**	1,057	1,242
Due from related body corporate entities		**1,544**	1,610	1,710
Property, plant and equipment		**10,735**	11,304	10,009
Interests in associates and joint ventures accounted for using the equity method	11	**243**	426	652
Intangible assets		**189**	224	185
Deferred tax assets		**155**	169	231
Total assets		**176,641**	181,609	192,115
Liabilities				
Trading portfolio liabilities	12	**5,051**	4,794	8,504
Derivative liabilities		**12,908**	14,713	19,906
Deposits		**55,433**	52,228	51,899
Other liabilities	13	**7,576**	7,121	9,408
Payables to financial institutions		**20,826**	20,555	19,112
Debt issued at amortised cost	14	**48,978**	55,142	56,264
Other financial liabilities at fair value through profit or loss		**2,591**	2,307	1,841
Due to related body corporate entities		**6,600**	7,555	8,298
Deferred tax liabilities		**372**	406	422
Total liabilities excluding loan capital		**160,335**	164,821	175,654
Loan capital		**3,811**	4,078	4,591
Total liabilities		**164,146**	168,899	180,245
Net assets		**12,495**	12,710	11,870
Equity				
Contributed equity	15	**9,891**	9,882	9,083
Reserves	16	**330**	483	1,082
Retained earnings	16	**2,270**	2,333	1,689
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**12,491**	12,698	11,854
Non-controlling interests	16	**4**	12	16
Total equity		**12,495**	12,710	11,870

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 2016

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 April 2015		9,082	603	1,831	11,516	83	11,599
Profit/(loss) from continuing operations and discontinued operations after income tax		–	–	1,454	1,454	(3)	1,451
Other comprehensive income, net of tax		–	479	–	479	4	483
Total comprehensive income		–	479	1,454	1,933	1	1,934
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5,16	–	–	(1,588)	(1,588)	–	(1,588)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(8)	(8)	(67)	(75)
Dividends and distributions paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	1	–	–	1	–	1
		1	–	(1,596)	(1,595)	(68)	(1,663)
Balance at 30 September 2015		9,083	1,082	1,689	11,854	16	11,870
Profit/(loss) from continuing operations and discontinued operations after income tax		–	–	652	652	(8)	644
Other comprehensive expense, net of tax		–	(599)	–	(599)	–	(599)
Total comprehensive (expense)/income		–	(599)	652	53	(8)	45
Transactions with equity holders in their capacity as equity holders:							
Contribution of ordinary equity, net of transaction costs	15	800	–	–	800	–	800
Dividends and distributions paid or provided for	5,16	–	–	(8)	(8)	–	(8)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	–	–	4	4
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	15	(1)	–	–	(1)	–	(1)
		799	–	(8)	791	4	795
Balance at 31 March 2016		**9,882**	**483**	**2,333**	**12,698**	**12**	**12,710**
Profit/(loss) from continuing operations and discontinued operations after income tax		**–**	**–**	**590**	**590**	**(7)**	**583**
Other comprehensive expense, net of tax		**–**	**(153)**	**–**	**(153)**	**–**	**(153)**
Total comprehensive (expense)/income		**–**	**(153)**	**590**	**437**	**(7)**	**430**
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5,16	**–**	**–**	**(652)**	**(652)**	**–**	**(652)**
Non-controlling interests:							
Changes in non-controlling ownership interests		**–**	**–**	**(1)**	**(1)**	**1**	**–**
Dividends and distributions paid or provided for		**–**	**–**	**–**	**–**	**(2)**	**(2)**
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	**9**	**–**	**–**	**9**	**–**	**9**
		9	**–**	**(653)**	**(644)**	**(1)**	**(645)**
Balance at 30 September 2016		**9,891**	**330**	**2,270**	**12,491**	**4**	**12,495**

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 2016

	Notes	**Half-year to 30 Sep 2016 $m**	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Cash flows (used in)/from operating activities				
Interest received		**2,544**	2,657	2,405
Interest and other costs of finance paid		**(1,315)**	(1,485)	(1,357)
Dividends and distributions received		**8**	36	17
Fees and other non-interest income received		**393**	507	397
Fees and commissions paid		**(376)**	(279)	(341)
Operating lease income received		**817**	874	687
Net receipts/(payments) on trading portfolio assets and other financial assets/liabilities		**2,703**	1,143	(2,522)
Payments to suppliers		**(795)**	(1,798)	(534)
Employment expenses paid		**(837)**	(491)	(979)
Income tax paid		**(153)**	(129)	(436)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		**674**	330	686
Life investment contract payments, acquisition of investment assets and other unitholder redemptions		**(570)**	(335)	(635)
Net loan assets (granted)/realised		**(1,113)**	1,659	(2,739)
Net margin money received/(placed)		**386**	1,314	(1,019)
Net (decrease)/increase in payables to other financial institutions, deposits and other borrowings		**(6,414)**	5,395	9,626
Proceeds from the disposal of operating lease assets		**225**	36	–
Payments for the acquisition of operating lease assets		**(112)**	(242)	(488)
Net cash flows (used in)/from operating activities	17	**(3,935)**	9,192	2,768
Cash flows from/(used in) investing activities				
Net proceeds from/(payments to) investment securities available for sale		**3,063**	(2,092)	(457)
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		**686**	40	1,001
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		**(112)**	(9,600)	(2,827)
Proceeds from the disposal of property, plant and equipment, finance lease assets and intangible assets		**–**	4	22
Payments for the acquisition of property, plant and equipment, finance lease assets and intangible assets		**(95)**	–	(52)
Net cash flows from/(used in) investing activities		**3,542**	(11,648)	(2,313)
Cash flows (used in)/from financing activities				
Proceeds from the issue of ordinary shares		**–**	800	–
Proceeds from the issue of loan capital		**–**	–	963
Redemption of loan capital		**(221)**	(178)	–
Payments to non-controlling interests		**–**	(7)	(63)
Dividends and distributions paid		**(652)**	(6)	(1,461)
Net cash flows (used in)/from financing activities		**(873)**	609	(561)
Net decrease in cash and cash equivalents		**(1,266)**	(1,847)	(106)
Cash and cash equivalents at the beginning of the period		**12,710**	14,557	14,663
Cash and cash equivalents at the end of the period	17	**11,444**	12,710	14,557

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 2016

Note 1

Summary of significant accounting policies

Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2016 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 (Macquarie, Macquarie Bank, MBL or the Company) and the entities it controlled at the end of, or during, the period (the Consolidated Entity or the Bank).

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 2016 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, 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 Legislative Instrument to the nearest million dollars unless otherwise indicated.

The accounting policies 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 2016 other than where disclosed. Where necessary, certain comparatives have been restated for consistency in presentation at 30 September 2016.

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 2016.

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 Macquarie's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

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

AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

AASB 2015-5 introduces a choice in application of the equity method by a non-investment entity investor to an investment entity investee. When a non-investment entity investor applies the equity method to an investment entity associate or joint venture, the investor may retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries, or reverse the fair value measurement to conform to the accounting policies of the investor.

AASB 2015-5 is required to be retrospectively applied. Application in the current period did not have a material impact on the financial position nor performance of the Consolidated Entity.

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

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* will replace AASB 139 *Financial Instruments: Recognition and Measurement* with an effective date of 1 April 2018. The new standard results in changes to accounting policies for financial assets and liabilities covering three broad areas including classification and measurement, impairment and hedge accounting.

Transition: The Consolidated Entity does not intend to early adopt AASB 9. Changes in accounting policies from the adoption of the standard will be applied from 1 April 2018 with no restatement of comparative periods. Differences arising in the carrying value of financial assets and liabilities will be recognised as an adjustment to opening retained earnings and reserves at 1 April 2018.

AASB 9 allows an entity to early adopt the guidance on recognising fair value gains and losses relating to the entity's own credit risk on fair value liabilities through other comprehensive income separately from the other requirements of AASB 9. The Consolidated Entity is currently assessing whether to early adopt this requirement of AASB 9.

The key changes to accounting policies from the transition are included in the 2016 Annual Report on pages 48 and 49.

Implementation Project: A project was initiated in 2015 to ensure the implementation of AASB 9 while considering all available accounting and regulatory guidance. The project is jointly sponsored by the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). A steering committee has been set up that is responsible for governance of the project and includes senior executives from the Financial Management Group, Risk Management Group and Corporate Operations Group.

The key responsibilities of the steering committee include setting scope and milestones for the project, ensuring proper resourcing, setting accounting policy, making key project decisions and communicating the impact of the program.

The classification and measurement stream is currently performing an in depth assessment of business models and testing for financial assets. This will determine those financial assets that will be carried at amortised cost and those that will be carried at fair value. The current focus is on finalising the accounting policy and the detailed design of the future operating model.

The impairment stream of the project is currently focused on policy decisions and the development of impairment models. Until the models have been developed and tested, the Consolidated Entity will not provide a quantitative assessment of the potential impact of the adoption of the standard.

The hedging stream is currently focused on assessing the impact of the new requirements.

AASB 15 Revenue from Contracts with Customers

AASB 15 specifies how and when revenue is recognised, based on the concept of recognising revenue for performance obligations as they are satisfied. This could affect the timing and amount recognised for asset management fees, and contracts with multiple services. AASB 15 also requires enhanced disclosures.

AASB 15 is effective for annual periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018.

The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 16 Leases

AASB 16 will replace AASB 117 *Leases*. It requires recognition of a right of use asset along with the associated lease liability where the Consolidated Entity is a lessee. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting would largely remain unchanged. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Consolidated Entity will first apply AASB 16 in the financial year beginning 1 April 2019.
The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Note 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	**2,484**	2,617	2,466
Interest expense and similar charges paid/payable	**(1,421)**	(1,528)	(1,383)
Net interest income	**1,063**	1,089	1,083
Fee and commission income			
Base fees	**21**	29	17
Performance fees	**–**	–	20
Mergers and acquisitions, advisory and underwriting fees	**21**	17	15
Brokerage and commissions	**190**	217	219
Other fee and commission income	**136**	233	163
Total fee and commission income(1)	**368**	496	434
Net trading income(2)			
Equities	**191**	230	370
Commodities(3)	**507**	733	533
Credit, interest rate and foreign exchange products	**42**	19	239
Net trading income	**740**	982	1,142
Net operating lease income			
Rental income(4)	**844**	874	687
Depreciation on operating lease assets	**(367)**	(381)	(299)
Net operating lease income	**477**	493	388
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(26)**	26	(4)

(1) Includes life investment income and insurance premium income of $123 million (half-year to 31 March 2016: $114 million; half-year to 30 September 2015: $116 million) and related expenses of $91 million (half-year to 31 March 2016: $81 million; half-year to 30 September 2015: $80 million).

(2) Included in net trading income are fair value losses of $136 million (half-year to 31 March 2016: $121 million; half-year to 30 September 2015: $17 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This amount includes $31 million loss (half-year to 31 March 2016: $49 million gain; half-year to 30 September 2015: $nil) in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the Consolidated Entity's credit risk. 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 except for changes in the Consolidated Entity's credit risk. 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.

(3) Includes transportation and storage costs of $130 million (half-year to 31 March 2016: $105 million; half-year to 30 September 2015: $195 million).

(4) Includes net supplemental rent on aircraft (adjusted for maintenance expense) of $69 million (half-year to 31 March 2016: $80 million; half-year to 30 September 2015: $50 million).

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m

Note 2

Profit for the period continued

Other operating income and charges			
Net gain on sale of investment securities available for sale	**27**	9	19
Impairment charge on investment securities available for sale	**(19)**	(26)	(7)
Net gain on sale of interests in associates and joint ventures	**103**	1	19
Impairment charge on interest in associates and joint ventures	**(5)**	(2)	(2)
Gain on disposal of operating lease assets	**15**	5	3
Net gain/(loss) on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale[1]	**234**	3	(27)
Impairment charge on intangibles and other non-financial assets	**(34)**	(43)	(17)
Dividends/distributions received/receivable from investment securities available for sale	**5**	21	17
Collective allowance for credit losses released/(provided for):			
Loan assets (Note 9)	**6**	(4)	(2)
Individually assessed provisions and write-offs:			
Loan assets provided for during the period (Note 9)	**(103)**	(186)	(232)
Other receivables provided for during the period	**(3)**	(2)	(4)
Recovery of loans previously provided for (Note 9)	**13**	10	9
Recovery of other receivables previously provided for	**4**	–	–
Loans written off	**(51)**	(63)	(46)
Recovery of loans previously written off	**15**	13	10
Other income/(charges)	**46**	39	(1)
Total other operating income and charges[2]	**253**	(225)	(261)
Net operating income	**2,875**	2,861	2,782

(1) Includes $240 million gain on sale of Macquarie Life’s risk insurance business. Refer Note 20 – Acquisitions and disposals of subsidiaries and businesses.

(2) Prior comparative periods have been restated to conform to current period presentation. Refer to Note 2 page 14 for net operating lease income previously reported as a component of total other operating income and charges.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

Note 2
Profit for the period continued

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(683)**	(552)	(745)
Share-based payments	**(90)**	(54)	(78)
(Provision for)/reversal of long service leave and annual leave	**(3)**	3	(2)
Total employment expenses	**(776)**	(603)	(825)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	**(248)**	(263)	(268)
Other fee and commission expenses	**(55)**	(57)	(52)
Total brokerage, commission and trading-related expenses	**(303)**	(320)	(320)
Occupancy expenses			
Operating lease rentals	**(4)**	(4)	(3)
Depreciation: buildings, furniture, fittings and leasehold improvements	**(1)**	–	(3)
Other occupancy expenses	**(56)**	(52)	(50)
Total occupancy expenses	**(61)**	(56)	(56)
Non-salary technology expenses			
Information services	**(43)**	(39)	(35)
Depreciation: equipment	**(1)**	(1)	(2)
Service provider and other non-salary technology expenses	**(37)**	(19)	(55)
Total non-salary technology expenses	**(81)**	(59)	(92)
Other operating expenses			
Professional fees	**(85)**	(124)	(77)
Auditor's remuneration	**(12)**	(13)	(9)
Travel and entertainment expenses	**(26)**	(29)	(28)
Advertising and promotional expenses	**(6)**	(11)	(8)
Communication expenses	**(9)**	(8)	(7)
Amortisation of intangibles	**(5)**	(8)	(26)
Depreciation: infrastructure assets	**(8)**	(11)	–
Other expenses[1]	**(665)**	(632)	(585)
Total other operating expenses	**(816)**	(836)	(740)
Total operating expenses	**(2,037)**	(1,874)	(2,033)

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

Note 3

Segment reporting

(i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about Macquarie Bank's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations is included in Note 21 – Discontinued Operations.

For internal reporting, performance measurement and risk management purposes, Macquarie Bank is divided into five operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The operating groups comprise:

Macquarie Asset Management (MAM) specialises in manufacturing and distributing a range of tailored fund, debt and equity-based products to institutions, private banks and retail investors.

Corporate and Asset Finance (CAF) delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment.

Banking and Financial Services (BFS) provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisors, brokers and business clients.

Macquarie Securities Group (MSG) is a global institutional securities house with strong Asia-Pacific foundations covering cash equity and trading activities.

Commodities and Financial Markets (CFM) provides clients with risk and capital solutions across physical and financial markets.

The **Corporate** segment, which is not considered an operating group, includes head office and central service groups including Group Treasury. The Corporate segment also holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and not allocated to any of the operating groups.

Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

All transactions and transfers between segments are generally 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 key policies applied in determining operating segment results.

Internal funding arrangements

Operating groups are fully debt funded. Group Treasury has the responsibility for managing funding for the Group, and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to operating groups for the early repayment of term funding.

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 Bank.

Deposits are a funding source for Macquarie. BFS 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 or as agreed by the Group's Chief Executive Officer or Chief Financial Officer (CFO). 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.

Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (Corporate and Asset Finance and Banking and Financial Services), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at the consolidated entity level; however for segment reporting, derivatives are accounted for on an accruals basis in the operating group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the consolidated entity level.

Central service groups

Central service groups recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis. Central service groups include Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) is recognised in the Corporate segment and not allocated to operating groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and not allocated to operating groups. However, to recognise an operating group's contribution to permanent income tax differences, an internal management revenue or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
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 Asset Management $m	Corporate and Asset Finance $m
Net interest and trading income/(expense)	**52**	**346**
Fee and commission income/(expense)	**28**	**23**
Net operating lease income	**6**	**467**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**–**	**–**
Other operating income and charges		
Impairment charges, write-offs and provisions, net of recoveries	**1**	**(61)**
Other other operating income and charges	**12**	**51**
Internal management revenue/(charge)	**–**	**3**
Net operating income/(charge)	**99**	**829**
Total operating expenses	**(53)**	**(314)**
Profit/(loss) before tax	**46**	**515**
Tax expense	**–**	**–**
Profit/(loss) after income tax	**46**	**515**
(Profit)/loss attributable to non-controlling interests	**–**	**1**
Profit/(loss) attributable to equity holders	**46**	**516**
Distributions paid or provided for on MIS	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders from continuing operations	**46**	**516**
Reportable segment assets	**2,201**	**39,554**
Net interest and trading income	46	381
Fee and commission income/(expense)	32	30
Net operating lease income	6	486
Share of net profits of associates and joint ventures accounted for using the equity method	–	5
Other operating income and charges		
Impairment charges, write-offs and provisions, net of recoveries	–	(144)
Other other operating income and charges	5	38
Internal management revenue/(charge)	2	58
Net operating income	91	854
Total operating expenses	(59)	(340)
Profit/(loss) before tax	32	514
Tax expense	–	–
Profit/(loss) after income tax	32	514
Profit attributable to non-controlling interests	–	1
Profit/(loss) attributable to equity holders	32	515
Distributions paid or provided for on MIS	–	–
Net profit/(loss) attributable to ordinary equity holders from continuing operations	32	515
Reportable segment assets	2,848	40,854
Net interest and trading income	67	453
Fee and commission income/(expense)	22	14
Net operating lease income	6	379
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	2
Other operating income and charges		
Impairment charges, write-offs and provisions, net of recoveries	2	(24)
Other other operating income and charges	3	29
Internal management revenue/(charge)	–	2
Net operating income/(charge)	100	855
Total operating expenses	(57)	(249)
Profit/(loss) before tax	43	606
Tax expense	–	–
Profit/(loss) after income tax	43	606
Profit attributable to non-controlling interests	–	–
Profit/(loss) attributable to equity holders	43	606
Distributions paid or provided for on MIS	–	–
Net profit/(loss) attributable to ordinary equity holders from continuing operations	43	606
Reportable segment assets	3,296	34,585

Banking and Financial Services $m	Macquarie Securities Group $m	Commodities and Financial Markets $m	Corporate $m	Total $m
			Half-year to 30 September 2016	
498	**165**	**750**	**(8)**	**1,803**
254	**58**	**112**	**(107)**	**368**
–	**–**	**–**	**4**	**477**
1	**–**	**(10)**	**(17)**	**(26)**
(78)	**7**	**(59)**	**13**	**(177)**
201	**–**	**119**	**47**	**430**
1	**–**	**6**	**(10)**	**–**
877	**230**	**918**	**(78)**	**2,875**
(618)	**(221)**	**(507)**	**(324)**	**(2,037)**
259	**9**	**411**	**(402)**	**838**
–	**–**	**–**	**(255)**	**(255)**
259	**9**	**411**	**(657)**	**583**
–	**–**	**(1)**	**7**	**7**
259	**9**	**410**	**(650)**	**590**
–	**–**	**–**	**(8)**	**(8)**
259	**9**	**410**	**(658)**	**582**
38,648	**26,181**	**63,011**	**7,046**	**176,641**
			Half-year to 31 March 2016	
485	140	890	129	2,071
243	94	101	(4)	496
–	–	–	1	493
1	–	9	11	26
(29)	–	(154)	24	(303)
23	–	1	11	78
4	2	–	(66)	–
727	236	847	106	2,861
(548)	(220)	(562)	(145)	(1,874)
179	16	285	(39)	987
–	–	–	(343)	(343)
179	16	285	(382)	644
–	–	–	7	8
179	16	285	(375)	652
–	–	–	(8)	(8)
179	16	285	(383)	644
39,520	18,203	69,155	11,029	181,609
			Half-year to 30 September 2015	
456	379	783	87	2,225
281	35	99	(17)	434
–	–	–	3	388
–	–	(4)	(2)	(4)
(14)	(1)	(174)	(80)	(291)
12	–	44	(58)	30
–	(6)	2	2	–
735	407	750	(65)	2,782
(566)	(223)	(503)	(435)	(2,033)
169	184	247	(500)	749
–	–	–	(338)	(338)
169	184	247	(838)	411
–	–	–	3	3
169	184	247	(835)	414
–	–	–	(8)	(8)
169	184	247	(843)	406
39,896	30,571	73,445	10,322	192,115

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

Note 3
Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:
- **Asset and Wealth Management:** distribution and manufacture of funds management products
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products
- **Capital Markets:** corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development, and
- **Lending:** banking activities, mortgages, and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Half-year to 30 September 2016
Revenues from external customers	**587**	**1,580**	**58**	**2,834**	**5,059**
					Half-year to 31 March 2016
Revenues from external customers	342	1,782	105	2,989	5,218
					Half-year to 30 September 2015
Revenues from external customers	419	1,956	69	2,586	5,030

(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 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Revenues from external customers			
Australia	**2,629**	3,000	1,979
Europe, Middle East and Africa[1]	**1,341**	1,305	1,283
Americas[2]	**695**	559	1,296
Asia Pacific	**394**	354	472
Total	**5,059**	5,218	5,030

(1) Included within this balance is external revenue generated in the UK of $952 million (half-year to 31 March 2016: $792 million; half-year to 30 September 2015: $1,004 million).

(2) Included within this balance is external revenue generated in the USA of $624 million (half-year to 31 March 2016: $739 million; half-year to 30 September 2015: $1,079 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Note 4

Income tax expense

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
(i) Numerical income tax expense is attributable to:			
Profit from continuing operations	**(255)**	(343)	(338)
Profit from discontinued operations	**–**	–	(10)
Total income tax expense	**(255)**	(343)	(348)
(ii) Numerical reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit[1]	**(251)**	(296)	(540)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:			
Rate differential on offshore income	**8**	(44)	(117)
Other items	**(12)**	(3)	6
Gain on sale of discontinued operations	**–**	–	303
Total income tax expense	**(255)**	(343)	(348)
(iii) Tax benefit/(expense) relating to items of other comprehensive income			
Available for sale reserve	**11**	(4)	(16)
Cash flow hedges	**(7)**	(4)	(10)
Foreign currency translation reserve	**–**	2	1
Share of other comprehensive income of associates and joint ventures	**–**	–	–
Total tax benefit/(expense) relating to items of other comprehensive income	**4**	(6)	(25)

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

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

The Bank has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid

Ordinary share capital			
Final dividend paid	**644**	–	440
2016 special dividend paid[1]	**–**	–	1,140
Total dividends paid (Note 16)	**644**	–	1,580

[1] This is the distribution of the Macquarie Investment Management business within the MAM segment through a special dividend. Includes cash distribution of $1,009 million and in-specie distribution of $131 million. Refer to Note 21 – Discontinued operations for further information.

(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 for the half-year ended 30 September 2016. The aggregate amount of the proposed dividend expected to be paid on 9 November 2016 from retained profits at 30 September 2016, but not recognised as a liability at the end of the period, is $582 million.

(iii) Distributions paid or provided for

Macquarie Income Securities			
Distributions paid (net of distributions previously provided for)	**5**	5	5
Distributions provided for	**3**	3	3
Total distributions paid or provided for (Note 16)	**8**	8	8

Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Bank.

Macquarie Income Preferred Securities			
Distributions paid (net of distributions previously provided)	**–**	–	1
Total distributions paid	**–**	–	1

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. MIPS were redeemed in June 2015.

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m

Note 6
Trading portfolio assets

Equities			
Listed	**10,340**	9,733	14,566
Unlisted	**42**	44	53
Commodities	**6,129**	4,462	5,967
Commonwealth government securities	**4,993**	4,857	4,850
Foreign government securities and treasury notes	**3,807**	2,121	2,541
Corporate loans and securities	**1,702**	1,833	3,189
Other	**16**	12	58
Total trading portfolio assets	**27,029**	23,062	31,224

Note 7
Investment securities available for sale

Debt securities[(1)]	**4,938**	8,582	7,794
Equity securities			
Listed	**70**	90	79
Unlisted	**306**	336	315
Total investment securities available for sale	**5,314**	9,008	8,188

(1) Included within this balance is $936 million (31 March 2016: $3,842 million; 30 September 2015: $3,252 million) of Negotiable Certificates of Deposit (NCD) issued by financial institutions.

Note 8
Other assets

Debtors and prepayments	**3,674**	2,995	3,730
Security settlements	**2,899**	2,186	2,313
Life investment linked contracts and other unitholder assets	**760**	850	968
Income tax receivable	**285**	300	167
Investment property	**278**	284	224
Interests in associates held for sale	**170**	241	–
Other	**36**	62	70
Total other assets	**8,102**	6,918	7,472

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

Note 9
Loan assets held at amortised cost

	As at 30 Sep 2016			As at 31 Mar 2016			As at 30 Sep 2015		
	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	30,622	(5)	30,617	31,378	(14)	31,364	31,389	(13)	31,376
Lease and retail financing	19,801	(76)	19,725	19,326	(53)	19,273	12,251	(34)	12,217
Corporate and commercial lending	16,470	(295)	16,175	17,280	(230)	17,050	19,636	(621)	19,015
Margin money placed	7,307	–	7,307	8,417	–	8,417	9,280	–	9,280
Relationship banking mortgages	2,365	–	2,365	2,241	–	2,241	2,221	–	2,221
Investment and insurance premium lending	887	(1)	886	1,008	(2)	1,006	1,379	(1)	1,378
Total loan assets before collective allowance for credit losses	77,452	(377)	77,075	79,650	(299)	79,351	76,156	(669)	75,487
Less collective allowance for credit losses			(403)			(438)			(389)
Total loan assets held at amortised cost[(1)]			76,672			78,913			75,098

(1) Included within this balance are loans of $16,637 million (31 March 2016: $18,087 million; 30 September 2015: $17,944 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Individually assessed provisions for impairment			
Balance at the beginning of the period	299	669	531
Provided for during the period (Note 2)	103	186	232
Loan assets written off or sold, previously provided for	(31)	(500)	(110)
Recovery of loans previously provided for (Note 2)	(13)	(10)	(9)
Net transfer from collective provisions	19	–	–
Foreign exchange movements	–	(46)	25
Balance at the end of the period	377	299	669
Individually assessed provisions as a percentage of total gross loan assets	0.49%	0.37%	0.88%
Collective allowance for credit losses			
Balance at the beginning of the period	438	389	363
(Released)/provided for during the period (Note 2)	(6)	4	2
(Sale)/acquisitions during the period	(7)	56	10
Net transfer (to specific)/from other provisions	(19)	–	5
Foreign exchange movements	(3)	(11)	9
Balance at the end of the period	403	438	389

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 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m

Note 10

Impaired financial assets

Impaired loan assets and other financial assets before individually assessed provisions for impairment	**951**	719	1,367
Less individually assessed provisions for impairment	**(389)**	(320)	(693)
Loan assets and other financial assets after individually assessed provisions for impairment	**562**	399	674
Total net impaired financial assets	**562**	399	674

Note 11

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

Loans and investments without provisions for impairment	**167**	355	547
Loans and investments with provisions for impairment	**146**	156	227
Less provisions for impairment	**(70)**	(85)	(122)
Loans and investments at recoverable amount	**76**	71	105
Total interests in associates and joint ventures accounted for using the equity method[(1),(2)]	**243**	426	652

(1) Includes $227 million (31 March 2016: $403 million; 30 September 2015: $618 million) relating to interests in associates and $16 million (31 March 2016: $23 million; 30 September 2015: $34 million) relating to interests in joint ventures.

(2) Financial statements of associates have various reporting dates. There are no associates individually material to the Consolidated Entity.

Note 12

Trading portfolio liabilities

Listed equity securities	**4,396**	4,231	7,731
Foreign government securities	**581**	492	633
Corporate securities	**74**	71	120
Commodities	**–**	–	20
Total trading portfolio liabilities	**5,051**	4,794	8,504

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m

Note 13
Other liabilities

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Due to brokers and customers	**2,931**	2,148	1,995
Creditors	**1,857**	1,929	4,423
Accrued charges, income received in advance and other	**1,009**	1,158	1,105
Aircraft and rail maintenance liabilities	**788**	772	728
Life investment linked contracts and other unitholder liabilities	**754**	771	906
Income tax payable	**237**	343	251
Total other liabilities	**7,576**	7,121	9,408

Note 14
Debt issued at amortised cost

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Debt issued at amortised cost[1]	**48,978**	55,142	56,264
Total debt issued at amortised cost	**48,978**	55,142	56,264

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $13,629 million (31 March 2016: $14,939 million; 30 September 2015: $16,553 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)

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
United States dollars	**22,591**	25,278	25,746
Australian dollars	**15,370**	15,887	16,204
Euro	**6,127**	7,295	6,307
Swiss franc	**1,997**	2,013	1,855
Great British pounds	**1,185**	3,055	3,480
Japanese yen	**806**	724	729
Hong Kong dollars	**226**	224	260
Yuan renminbi	**225**	230	235
Norwegian krone	**171**	164	169
Canadian dollars	**128**	129	1,095
Korean won	**109**	104	111
New Zealand dollars	**43**	–	14
Singapore dollars	**–**	39	59
Total by currency	**48,978**	55,142	56,264

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.

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m

Note 15

Contributed equity

Ordinary share capital[1]			
Opening balance of 589,276,303 (1 October 2015: 552,066,999; 1 April 2015: 552,066,999) fully paid ordinary shares	**9,328**	8,528	8,528
Issue of 27,906,978 shares to Macquarie B.H. Pty Limited on 16 December 2015 at $21.50 per share	**–**	600	–
Issue of 9,302,326 shares to Macquarie B.H. Pty Limited on 23 March 2016 at $21.50 per share	**–**	200	–
Closing balance of 589,276,303 (31 March 2016: 589,276,303; 30 September 2015: 552,066,999) fully paid ordinary shares	**9,328**	9,328	8,528

(1) Ordinary shares have no par value.

Equity contribution from ultimate parent entity			
Balance at the beginning of the period	**163**	164	163
Additional paid in capital/(return of capital)	**9**	(1)	1
Balance at the end of the period	**172**	163	164

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
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	**9,891**	9,882	9,083

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m

Note 16
Reserves, retained earnings and non-controlling interests

Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	**492**	1,040	619
Exchange differences on translation of foreign operations, net of hedge and tax	**(82)**	(548)	421
Balance at the end of the period	**410**	492	1,040
Available for sale reserve			
Balance at the beginning of the period	**112**	106	71
Revaluation movement for the period, net of tax	**14**	(6)	44
Transfer to income statement on impairment, net of tax	**13**	18	5
Transfer to income statement on realisation, net of tax	**(24)**	(6)	(14)
Balance at the end of the period	**115**	112	106
Cash flow hedging reserve			
Balance at the beginning of the period	**(122)**	(66)	(88)
Revaluation movement for the period, net of tax	**(73)**	(56)	22
Balance at the end of the period	**(195)**	(122)	(66)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	**1**	2	1
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	**(1)**	(1)	1
Balance at the end of the period	**–**	1	2
Total reserves at the end of the period	**330**	483	1,082
Retained earnings			
Balance at the beginning of the period	**2,333**	1,689	1,831
Profit attributable to equity holders of MBL	**590**	652	1,454
Distributions paid or provided for on Macquarie Income Securities (Note 5)	**(8)**	(8)	(8)
Dividends paid on ordinary share capital (Note 5)	**(644)**	–	(1,580)
Loss on change in ownership interest	**(1)**	–	(8)
Balance at the end of the period	**2,270**	2,333	1,689

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Non-controlling interests			
Ordinary share capital	**47**	46	42
Retained earnings	**(43)**	(34)	(26)
Total non-controlling interests[1]	**4**	12	16

[1] Other non-controlling interests represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m

Note 17

Notes to the consolidated statement of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the period as shown in the consolidated statement of cash flows are reconciled to related items in the consolidated statement of financial position as follows:

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Receivables from financial institutions(1)	**7,196**	7,573	8,140
Trading portfolio assets(2)	**866**	247	785
Debt investment securities available for sale (3)	**764**	1,491	2,562
Loan assets held at amortised cost(4)	**2,618**	3,399	3,070
Cash and cash equivalents at the end of the period(5)	**11,444**	12,710	14,557

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes margin balances at call.
(5) Cash and cash equivalents include $5,326 million (31 March 2016: $5,480 million; 30 September 2015: $5,908 million) in escrow accounts which are restricted for use and held by collaterised securitisation vehicles in segregated deposit funds.

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Reconciliation of profit after income tax to net cash flows (used in)/from operating activities			
Profit after income tax	**582**	644	1,451
Adjustments to profit after income tax:			
Depreciation and amortisation	**382**	400	331
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**299**	398	(49)
Provision and impairment charge on financial and non-financial assets	**192**	326	291
Interest on available for sale financial assets	**26**	16	(56)
Profit from discontinued operations	**–**	–	(1,040)
Net gain on sale of investment securities available for sale, associates and joint ventures and operating lease assets	**(379)**	(22)	(10)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**26**	(26)	4
Write-off/(capitalisation) of development costs of intangibles	**14**	(69)	–
Changes in assets and liabilities:			
Change in values of associates due to dividends received	**3**	12	–
Change in fees and non-interest income receivable	**13**	8	19
Change in fees and commissions payable	**(47)**	40	(21)
Change in tax balances	**102**	214	(98)
Change in provisions for employee entitlements	**4**	(6)	2
Change in lease assets, net of depreciation, foreign exchange and impairment	**113**	(207)	(487)
Change in loan assets	**(1,113)**	1,661	(2,741)
Change in margin money placed	**386**	1,314	(1,019)
Change in debtors, prepayments, accrued charges and creditors	**89**	(693)	160
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**1,660**	(295)	(3,616)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**(6,287)**	5,477	9,647
Net cash flows (used in)/from operating activities	**(3,935)**	9,192	2,768

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m

Note 18
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	As at 30 Sep 2016 $m	As at 31 Mar 2016 $m	As at 30 Sep 2015 $m
Contingent liabilities exist in respect of:			
Letters of credit	**658**	708	684
Performance related contingents	**299**	315	268
Indemnities	**108**	58	103
Guarantees	**74**	150	162
Total contingent liabilities[1],[2]	**1,139**	1,231	1,217
Commitments exist in respect of:			
Undrawn credit facilities and securities underwriting[3]	**4,656**	4,806	3,745
Forward asset purchases	**–**	761	3,057
Total commitments	**4,656**	5,567	6,802
Total contingent liabilities and commitments	**5,795**	6,798	8,019

(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. Other than those recognised liabilities, 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) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 19

Fair values of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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)
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 Consolidated Entity 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 gain and loss, 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, and
- 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). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

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 included within receivables from financial institutions and payables to financial institutions, 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 loan capital issued at amortised cost 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
- 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, and
- in the financial statements of the Consolidated Entity, the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

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 2016**	
Receivables from financial institutions	**30,679**	**30,679**
Other financial assets	**5,276**	**5,276**
Loan assets held at amortised cost	**76,672**	**77,122**
Due from related body corporate entities	**1,544**	**1,544**
Total assets	**114,171**	**114,621**
Liabilities		
Deposits	**55,433**	**55,466**
Other financial liabilities	**4,784**	**4,784**
Payables to financial institutions	**20,826**	**20,878**
Due to related body corporate entities	**6,600**	**6,600**
Debt issued at amortised cost	**48,978**	**48,951**
Loan capital	**3,811**	**3,861**
Total liabilities	**140,432**	**140,540**
Assets	As at 31 March 2016	
Receivables from financial institutions	30,956	30,956
Other financial assets	4,300	4,300
Loan assets held at amortised cost	78,913	79,212
Due from related body corporate entities	1,610	1,610
Total assets	115,779	116,078
Liabilities		
Deposits	52,228	52,250
Other financial liabilities	3,876	3,876
Payables to financial institutions	20,555	20,540
Due to related body corporate entities	7,555	7,555
Debt issued at amortised cost	55,142	54,766
Loan capital	4,078	4,046
Total liabilities	143,434	143,033
Assets	As at 30 September 2015	
Receivables from financial institutions	33,904	33,904
Other financial assets	5,584	5,584
Loan assets held at amortised cost	75,098	75,206
Due from related body corporate entities	1,710	1,710
Total assets	116,296	116,404
Liabilities		
Deposits	51,899	51,906
Other financial liabilities	6,270	6,270
Payables to financial institutions	19,112	19,179
Due to related body corporate entities	8,298	8,298
Debt issued at amortised cost	56,264	56,309
Loan capital	4,591	4,668
Total liabilities	146,434	146,630

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
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 held at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**As at 30 September 2016**
Receivables from financial institutions	**7,199**	**23,480**	**–**	**30,679**
Other financial assets	**–**	**5,276**	**–**	**5,276**
Loan assets held at amortised cost	**7,278**	**6,541**	**63,303**	**77,122**
Due from related body corporate entities	**–**	**1,544**	**–**	**1,544**
Total assets	**14,477**	**36,841**	**63,303**	**114,621**
Liabilities				
Deposits	**47,590**	**7,876**	**–**	**55,466**
Other financial liabilities	**–**	**4,784**	**–**	**4,784**
Payables to financial institutions	**1,737**	**19,141**	**–**	**20,878**
Due to related body corporate entities	**–**	**6,600**	**–**	**6,600**
Debt issued at amortised cost	**–**	**42,434**	**6,517**	**48,951**
Loan capital	**764**	**3,097**	**–**	**3,861**
Total liabilities	**50,091**	**83,932**	**6,517**	**140,540**
Assets				As at 31 March 2016
Receivables from financial institutions	7,591	23,365	–	30,956
Other financial assets	–	4,300	–	4,300
Loan assets held at amortised cost	8,382	7,897	62,933	79,212
Due from related body corporate entities	–	1,610	–	1,610
Total assets	15,973	37,172	62,933	116,078
Liabilities				
Deposits	43,366	8,884	–	52,250
Other financial liabilities	–	3,876	–	3,876
Payables to financial institutions	1,572	18,968	–	20,540
Due to related body corporate entities	–	7,555	–	7,555
Debt issued at amortised cost	–	47,795	6,971	54,766
Loan capital	734	3,312	–	4,046
Total liabilities	45,672	90,390	6,971	143,033
Assets				As at 30 September 2015
Receivables from financial institutions	8,180	25,724	–	33,904
Other financial assets	–	5,584	–	5,584
Loan assets held at amortised cost	9,280	9,490	56,436	75,206
Due from related body corporate entities	–	1,710	–	1,710
Total assets	17,460	42,508	56,436	116,404
Liabilities				
Deposits	41,570	10,336	–	51,906
Other financial liabilities	–	6,270	–	6,270
Payables to financial institutions	4,074	15,105	–	19,179
Due to related body corporate entities	–	8,298	–	8,298
Debt issued at amortised cost	931	48,103	7,275	56,309
Loan capital	794	3,874	–	4,668
Total liabilities	47,369	91,986	7,275	146,630

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 2016**	
Trading portfolio assets	**17,036**	**9,495**	**498**	**27,029**
Derivative assets	**688**	**14,117**	**406**	**15,211**
Investment securities available for sale	**3,353**	**1,528**	**433**	**5,314**
Other financial assets at fair value through profit or loss	**–**	**755**	**13**	**768**
Other financial assets(1)	**82**	**671**	**7**	**760**
Total assets	**21,159**	**26,566**	**1,357**	**49,082**
Liabilities				
Trading portfolio liabilities	**3,134**	**1,917**	**–**	**5,051**
Derivative liabilities	**378**	**12,265**	**265**	**12,908**
Other financial liabilities at fair value through profit or loss	**–**	**2,536**	**55**	**2,591**
Other financial liabilities(2)	**–**	**747**	**7**	**754**
Total liabilities	**3,512**	**17,465**	**327**	**21,304**
Assets			As at 31 March 2016	
Trading portfolio assets	15,037	7,266	759	23,062
Derivative assets	940	16,620	402	17,962
Investment securities available for sale	6,710	1,694	604	9,008
Other financial assets at fair value through profit or loss	–	1,039	18	1,057
Other financial assets(1)	71	772	79	922
Total assets	22,758	27,391	1,862	52,011
Liabilities				
Trading portfolio liabilities	2,750	2,044	–	4,794
Derivative liabilities	1,168	13,344	201	14,713
Other financial liabilities at fair value through profit or loss	–	2,253	54	2,307
Other financial liabilities(2)	–	764	7	771
Total liabilities	3,918	18,405	262	22,585
Assets			As at 30 September 2015	
Trading portfolio assets	20,021	9,928	1,275	31,224
Derivative assets	1,212	20,624	364	22,200
Investment securities available for sale	5,874	1,661	653	8,188
Other financial assets at fair value through profit or loss	42	1,047	153	1,242
Other financial assets(1)	162	804	–	966
Total assets	27,311	34,064	2,445	63,820
Liabilities				
Trading portfolio liabilities	5,623	2,881	–	8,504
Derivative liabilities	1,357	18,278	271	19,906
Other financial liabilities at fair value through profit or loss	–	1,822	19	1,841
Other financial liabilities(2)	161	745	–	906
Total liabilities	7,141	23,726	290	31,157

(1) This balance includes $760 million (31 March 2016: $850 million; 30 September 2015: $966 million) of life investment linked contracts and other unitholder assets which are included in Note 8 – Other assets.

(2) This balance includes $754 million (31 March 2016: $771 million; 30 September 2015: $906 million) of life investment linked contracts and other unitholder liabilities which are included in Note 13 – Other liabilities.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
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 financial periods ended 30 September 2016, 31 March 2016 and 30 September 2015:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1 April 2015	657	685
Purchases	332	39
Sales	(131)	(123)
Settlements	–	(20)
Transfers into level 3	455	154
Transfers out of level 3	(73)	(124)
Reclassifications	–	23
Fair value gains/(losses) recognised in the income statement[1]	35	2
Fair value gains recognised in other comprehensive income[1]	–	17
Balance at 30 September 2015	1,275	653
Fair value gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	35	–
Balance at 1 October 2015	1,275	653
Purchases	19	(20)
Sales	(41)	41
Settlements	–	(16)
Transfers into level 3	–	–
Transfers out of level 3	(360)	(103)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement[1]	(134)	4
Fair value gains recognised in other comprehensive income[1]	–	45
Balance at 31 March 2016	759	604
Fair value (losses)/gains for the period included in the income statement for assets and liabilities held at the end of the period[1]	(134)	6
Balance at 1 April 2016	**759**	**604**
Purchases	**145**	**26**
Sales	**(357)**	**(3)**
Settlements	**–**	**(103)**
Transfers into level 3	**69**	**–**
Transfers out of level 3	**(76)**	**(28)**
Fair value losses recognised in the income statement[1]	**(42)**	**(3)**
Fair value losses recognised in other comprehensive income[1]	**–**	**(60)**
Balance at 30 September 2016	**498**	**433**
Fair value losses for the period included in the income statement for assets and liabilities held at the end of the period[1]	**(42)**	**(16)**

(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 $406 million (31 March 2016: $402 million; 30 September 2015: $364 million) and derivative liabilities are $265 million (31 March 2016: $201 million; 30 September 2015: $271 million).

Assets disposals group classified as held for sale $m	Other financial assets at fair value through profit or loss $m	Other financial assets $m	Other financial liabilities at fair value through profit or loss $m	Other financial liabilities $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
68	157	–	(22)	–	88	1,633
–	–	–	–	–	45	416
–	(37)	–	–	–	(51)	(342)
–	–	–	2	–	–	(18)
–	–	–	–	–	(26)	583
–	–	–	–	–	(15)	(212)
(56)	33	–	–	–	–	–
(12)	–	–	1	–	52	78
–	–	–	–	–	–	17
–	153	–	(19)	–	93	2,155
–	–	–	1	–	52	88
–	153	–	(19)	–	93	2,155
–	–	–	(45)	–	71	25
–	32	–	8	–	(109)	(69)
–	–	–	(2)	–	–	(18)
–	7	7	–	(7)	37	44
–	(108)	–	–	–	44	(527)
–	(65)	65	–	–	–	–
–	(1)	7	4	–	65	(55)
–	–	–	–	–	–	45
–	18	79	(54)	(7)	201	1,600
–	–	7	5	(1)	72	(45)
–	**18**	**79**	**(54)**	**(7)**	**201**	**1,600**
–	**–**	**–**	**–**	**–**	**122**	**293**
–	**–**	**(72)**	**–**	**–**	**(108)**	**(540)**
–	**(4)**	**–**	**1**	**–**	**–**	**(106)**
–	**–**	**–**	**–**	**–**	**(14)**	**55**
–	**–**	**–**	**–**	**–**	**(31)**	**(135)**
–	**(1)**	**–**	**(2)**	**–**	**(29)**	**(77)**
–	**–**	**–**	**–**	**–**	**–**	**(60)**
–	**13**	**7**	**(55)**	**(7)**	**141**	**1,030**
–	**–**	**–**	**(2)**	**–**	**(29)**	**(89)**

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
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 2016 $m	Half-year to 31 March 2016 $m	Half-year to 30 Sep 2015 $m
Balance at the beginning of the period	**111**	69	53
Deferral on new transactions	**22**	75	30
Amounts recognised in the income statement during the period	**(19)**	(33)	(14)
Balance at the end of the period	**114**	111	69

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 2016**	
Equity and equity linked products	**4**	**13**	**(21)**	**(15)**
Other products	**110**	**3**	**(94)**	**(3)**
Total	**114**	**16**	**(115)**	**(18)**
Product type			As at 31 March 2016	
Equity and equity linked products	2	10	(2)	(12)
Other products	199	26	(149)	(18)
Total	201	36	(151)	(30)
Product type			As at 30 September 2015	
Equity and equity linked products	3	2	(3)	(1)
Other products	160	39	(139)	(31)
Total	163	41	(142)	(32)

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 2016	
Equity and equity linked products	**264**	**19**	Discounted cash flows	Discount rate	**–**	**–**
			Market comparability	Price in %(1)		
Other products	**1,093**	**308**	Discounted cash flows	Discount rate	**8.0%**	**8.0%**
			Pricing model	Volatility	**10.0%**	**85.0%**
				Correlation	**(0.6)**	**1.0**
			Market comparability	Price in %(1)		
Total	**1,357**	**327**				
					As at 31 March 2016	
Equity and equity linked products	92	20	Discounted cash flows	Discount rate	10.0%	10.0%
				Earnings multiple	11.6x	11.6x
			Market comparability	Price in %(1)		
Other products	1,770	242	Discounted cash flows	Discount rate	7.0%	20.0%
			Pricing model	Volatility	(51.0%)	200.0%
				Correlation	(0.6)	1.0
			Market comparability	Price in %(1)		
Total	1,862	262				
					As at 30 September 2015	
Equity and equity linked products	307	21	Discounted cash flows	Discount rate	–	–
			Market comparability	Price in %(1)		
Other products	2,138	269	Discounted cash flows	Discount rate	7.0%	20.0%
			Pricing model	Volatility	11.0%	150.0%
				Correlation	(0.5)	1.0
			Market comparability	Price in %(1)		
Total	2,445	290				

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
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

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.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

Note 20

Acquisitions and disposals of subsidiaries and businesses

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

There were no significant or other entities or businesses acquired or consolidated due to acquisition of control during the period.

During half-year end 31 March 2016 other entities or businesses acquired or consolidated due to acquisition of control were Esanda Dealer Finance Portfolio, AWAS Aviation Capital Portfolio.

The Esanda Dealer Finance portfolio was acquired from Australia and New Zealand Banking Group Limited. The portfolio comprised retail receivables and motor vehicle dealer finance.

During half-year end 30 September 2015 other entities or businesses acquired or consolidated due to acquisition of control were AWAS Aviation Capital Portfolio, Energetics Topco Limited and Advantage Funding Management Co. Inc.

The AWAS Aviation Capital Limited acquisition comprised of 83 commercial passenger aircraft.

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

Macquarie Life's risk insurance business and US Mortgages.

Note 20

Acquisitions and disposals of subsidiaries and businesses continued

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

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Receivables from financial institutions	**36**	–	106
Trading portfolio assets	**77**	–	–
Other assets	**134**	6	333
Loan assets held at amortised cost	**427**	–	–
Other financial assets at fair value through profit or loss	**–**	–	114
Property, plant and equipment	**–**	7	25
Interests in associates and joint ventures accounted for using the equity method	**–**	–	71
Intangible assets	**–**	2	571
Other liabilities	**(101)**	–	(795)
Provisions	**(25)**	–	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**548**	15	425
Consideration			
Cash consideration	**369**	15	1,337
Purchase price asset[(1)]	**400**	–	–
Total consideration	**769**	15	1,337
Direct costs relating to disposal	**(18)**	–	–
In specie distribution	**–**	–	131
Net cash inflow			
Cash consideration	**369**	15	1,337
Less cash and cash equivalents disposed of or deconsolidated	**(36)**	–	–
Cash outflow on direct costs related to disposal	**(3)**	–	–
Net cash inflow	**330**	15	1,337

(1) On 22 September 2016, the Federal Court approved the sale of Macquarie Life's risk insurance business to Zurich Australia Limited leading to loss of control. In management's judgement, the business carried out in Statutory Fund 4, is a separate entity on the basis that:

- it has its own capital and regulatory requirements, and
- information about its financial position and performance is presented separately in the financial statements of the related subsidiary.

On the date of loss of control, the related assets and liabilities were deconsolidated from Macquarie's financial statements and a purchase price asset of $400 million was recorded, with a corresponding gain on loss of control of $240 million. Macquarie received the purchase price on 1 October 2016.

The 31 March 2016 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control: Vineyards business.

The 30 September 2015 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control: MIM business, Macquarie Almond Orchards business.

Notes to the consolidated financial statements
for the half-year ended 30 September 2016
continued

Note 21
Discontinued operations

(a) Description

On 15 April 2015, the Consolidated Entity disposed of its Macquarie Investment Management (MIM) business to the Macquarie Financial Holdings Pty Limited Group which is a fully owned subsidiary of the Macquarie Group. MIM was previously operating within the MAM operating segment and offering asset and wealth management services within the products and services segment. MIM offers investment management expertise across a number of asset classes including fixed interest, credit and currencies, equities, infrastructure securities and multi-asset allocation solutions. MIM delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

The details of MIM are as follows:

(b) Income statement and cash flow information

	Half-year to 30 Sep 2016 $m	Half-year to 31 Mar 2016 $m	Half-year to 30 Sep 2015 $m
Net operating income	**–**	–	71
Total operating expenses	**–**	–	(30)
Operating profit before income tax	**–**	–	41
Gain on disposal	**–**	–	1,009
Profit from discontinued operations before income tax	**–**	–	1,050
Income tax expense	**–**	–	(10)
Profit from discontinued operations (net of income tax)(1)	**–**	–	1,040
Cash flow from operating activities	**–**	–	31
Cash flow used in financing activities	**–**	–	(184)
Net (decrease)/increase in cash and cash equivalents	**–**	–	(153)
Cash and cash equivalents at the beginning of the period	**–**	–	153
Cash and cash equivalents at the end of the period	**–**	–	–

(1) Profit from discontinued operations includes income and expenses recorded in the Corporate segment that relate to MIM and its subsidiaries.

Note 22
Events after the reporting date

There were no material events subsequent to 30 September 2016 that have not been reflected in the financial statements.

Director's declaration
for the half-year ended 30 September 2016

In the Directors' opinion

a) the financial statements and notes for the half-year ended 30 September 2016 set out on pages 7 to 42 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 2016 and performance for the half-year ended on that date

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 set out on page 12).

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

Peter H Warne
Independent Director and
Chairman

Mary Reemst
Managing Director and
Chief Executive Officer

Sydney
28 October 2016

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 (the Company), which comprises the consolidated statement of financial position as at 30 September 2016, 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 the Consolidated Entity. The Consolidated Entity comprises 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 2016 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 2016 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
28 October 2016

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