MACQUARIE BANK LIMITED

A.B.N. 46 008 583 542

Interim Directors' report and financial report

Half year ended 30 September 2005

MACQUARIE BANK

This interim financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards ("AIFRS") including the requirements of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Whilst the interim financial report does not include all the notes of the type normally included in an annual financial report, a comprehensive summary of Macquarie Bank Limited's revised accounting policies adopted under AIFRS has been included and a reconciliation with the previous Australian Generally Accepted Accounting Principles and AIFRS.

The annual report of Macquarie Bank Limited for the year ended 31 March 2005 was prepared based on previous Australian Generally Accepted Accounting Principles. The interim report should be read in conjunction with the annual report of Macquarie Bank Limited for 31 March 2005. In addition, reference should be made to any public announcements made by Macquarie Bank Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

MACQUARIE BANK LIMITED
and its controlled entities

TABLE OF CONTENTS

MACQUARIE BANK LIMITED
and its controlled entities

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2005

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Bank Limited ("the Bank"), the Directors submit herewith the balance sheet as at 30 September 2005, the statement of changes in equity, the income statement and the cash flow statement of the Bank and its controlled entities (together "the economic entity") for the half year ended on that date ("the period") and report as follows:

DIRECTORS

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

Executive Directors:
D.S. Clarke, AO, *Executive Chairman*
A.E. Moss, AO, *Managing Director and Chief Executive Officer*
M.R.G. Johnson, *Deputy Chairman*
L.G. Cox, AO

Independent Directors:*
J.G. Allpass
P.M. Kirby
C.B. Livingstone
B.R. Martin
H.K. McCann, AM
J.R. Niland, AC
H.M. Nugent, AO

* In accordance with the Bank's definition of independence (as set out in the Corporate Governance Statement contained in the 2005 Annual Review).

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

RESULT

The financial report for the half year ended 30 September 2005, and the results herein, are prepared in accordance with Australian Equivalents to International Financial Reporting Standards ("AIFRS") in line with the provisions of AASB 1: *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

Financial reports of the economic entity until 31 March 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("previous AGAAP"). Previous AGAAP differs in certain respects from AIFRS. When preparing the economic entity's interim financial report for the half year ended 30 September 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures have been restated to reflect these adjustments. The economic entity has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* ("AASB 132") and AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139") only from 1 April 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the economic entity's equity and its net income are provided in Note 25 to this financial report.

The consolidated profit attributable to ordinary equity holders, in accordance with AIFRSs, for the period was $482 million (comparatives restated for AIFRS: 31 March 2005: $556 million, 30 September 2004: $256 million).

INTERIM DIVIDEND

The Directors have declared a 90% franked interim dividend of 90 cents per ordinary share (Sep 2004: 90% franked 61 cents per ordinary share), to be paid on 16 December 2005.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2005
(continued)

REVIEW OF OPERATIONS

For the half year ended 30 September 2005, the economic entity achieved a consolidated profit attributable to ordinary equity holders of $482 million. The result was down 13% on the prior period but up 88% on the prior corresponding period.

Total income from ordinary activities was $2,160 million, a decrease of 9% on the prior period and an increase of 57% on the prior corresponding period. Total expenses from ordinary activities were $1,477 million, which was 7% down on the prior period and 46% up on the prior corresponding period. Basic earnings per share ("EPS") was 212.9 cents, 15% down on the prior period and 81% up on the prior corresponding period.

The Bank continued its international expansion, with international income more than double that of the prior corresponding period. Seventy five per cent of investment banking advisory deals were sourced outside Australia. International staff numbers grew 32 per cent to over 2,000 from September 2004, now representing 29% of total staff.

Market conditions continued to be broadly favourable. Strong equity market conditions prevailed during the period, influencing the Equity Markets Group's businesses in Asia and Australia. Institutional and retail stockbroking businesses were also strongly up, benefiting from the equity market conditions in the regions in which they operated. Market conditions were favourable for most of the Treasury and Commodities businesses. Investment banking activity levels were robust and success rates high on the transactions in which the Bank was involved. Specialist fund activity was strong as were the performance fees generated by a number of the Bank's managed funds.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' 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 Class Order 98/0100 (as amended by Class Order 04/667 dated 15 July 2004 and 05/641 dated 26 July 2005), amounts in the directors' report and the financial report have been rounded off to the nearest million dollars unless otherwise indicated.

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

David Clarke
Executive Chairman

Allan Moss
Managing Director and
Chief Executive Officer

Sydney
14 November 2005

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Auditors' Independence Statement

As lead auditor for the audit of Macquarie Bank Limited for the half year ended 30 September 2005, I confirm that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit for the reporting period other than a contravention covered by ASIC Class Order 05/910, and

b) no contraventions of any applicable code of professional conduct in relation to the audit for the reporting period.

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

I Hammond
Partner
PricewaterhouseCoopers

Sydney
14 November 2005

MACQUARIE BANK LIMITED
and its controlled entities

Consolidated income statement
for the half year ended 30 September 2005

	Notes	**Half year to 30 Sep 2005 $m**	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
Interest and similar income	2	**1,462**	1,318	1,247
Interest expense and similar charges	2	**(1,167)**	(1,034)	(995)
Net interest income		**295**	284	252
Fee and commission income	2	**1,445**	1,352	898
Fee and commission expense	2	**(201)**	(231)	(198)
Net fee and commission income		**1,244**	1,121	700
Net trading income	2	**479**	395	339
Share of net profits of associates and joint ventures using the equity method	2	**39**	5	12
Other operating income	2	**121**	612	113
Other operating expenses	2	**(18)**	(45)	(36)
Net other operating income		**103**	567	77
Total income from ordinary activities		**2,160**	2,372	1,380
Employment expenses	2	**(1,170)**	(1,281)	(764)
Occupancy expenses	2	**(59)**	(53)	(48)
Non-salary technology expenses	2	**(61)**	(59)	(45)
Professional fees, travel and communication expenses	2	**(93)**	(110)	(80)
Other expenses	2	**(94)**	(81)	(73)
Total expenses from ordinary activities		**(1,477)**	(1,584)	(1,010)
Operating profit before income tax		**683**	788	370
Income tax expense	5	**(160)**	(190)	(98)
Profit for the half year		**523**	598	272
Profit attributable to minority interests		**(26)**	(27)	(2)
Profit attributable to equity holders of Macquarie Bank Limited		**497**	571	270
Distributions paid or provided on Macquarie Income Securities	6	**(15)**	(15)	(14)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**482**	556	256
			Cents per share	
Basic earnings per share	7	**212.9**	250.4	117.8
Diluted earnings per share	7	**203.5**	242.3	116.4

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

MACQUARIE BANK LIMITED

and its controlled entities

Consolidated balance sheet
as at 30 September 2005

	Notes	**As at 30 Sep 2005 $m**	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
ASSETS				
Cash and balances with central banks		**4**	4	1
Due from banks		**2,734**	3,969	1,010
Cash collateral on securities borrowed and reverse repurchase agreements		**10,651**	8,927	7,398
Trading portfolio assets	8	**12,439**	7,800	7,039
Other securities	9		1,712	2,216
Loan assets held at amortised cost	10	**31,410**	28,425	25,108
Other financial assets at fair value through profit and loss	12	**1,870**		
Derivative financial instruments – positive values		**6,899**	5,690	5,679
Other assets		**4,660**	3,691	3,387
Investment securities available for sale	13	**3,517**		
Intangible assets		**122**	371	382
Life insurance policy and other unit holder assets		**5,170**	4,473	4,533
Equity investments			116	138
Interest in associates and joint ventures using the equity method	14	**2,935**	2,117	1,239
Property, plant and equipment		**267**	148	106
Deferred income tax assets		**238**	203	178
Assets and disposal groups classified as held for sale	15	**1,304**	334	736
Total assets		**84,220**	67,980	59,150
LIABILITIES				
Due to banks		**1,629**	1,548	1,113
Cash collateral on securities lent and repurchase agreements		**5,098**	1,983	2,715
Trading portfolio liabilities	16	**8,514**	7,681	4,076
Derivative financial instruments – negative values		**6,877**	6,224	5,359
Deposits		**8,545**	7,240	6,503
Notes payable	17		28,161	25,902
Debt issued at amortised cost	17	**30,427**		
Other financial liabilities at fair value through profit and loss	18	**4,627**		
Other liabilities		**5,904**	4,581	3,626
Current tax liabilities		**262**	41	33
Life insurance policy and other unit holder liabilities		**5,135**	4,429	4,476
Provisions		**122**	119	87
Deferred income tax liabilities		**116**	189	100
Liabilities of disposal groups classified as held for sale	15	**644**	-	354
Total liabilities excluding loan capital		**77,900**	62,196	54,344
Loan capital				
Subordinated debt at amortised cost		**1,061**	1,359	915
Subordinated debt at fair value through profit and loss		**266**		
Total liabilities		**79,227**	63,555	55,259
Net assets		**4,993**	4,425	3,891
EQUITY				
Contributed equity				
Ordinary share capital	19	**1,830**	1,600	1,474
Treasury shares	19	**(1)**	(1)	(14)
Macquarie Income Securities	19	**391**	391	391
Reserves	20	**125**	49	35
Retained earnings	20	**1,708**	1,523	1,101
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**4,053**	3,562	2,987
Minority interest in disposal groups classified as held for sale		**135**	-	-
Minority interest	20	**805**	863	904
Total equity		**4,993**	4,425	3,891

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

MACQUARIE BANK LIMITED
and its controlled entities

Consolidated statement of changes in equity for the half year ended 30 September 2005

	Notes	**Half year to 30 Sep 2005 $m**	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
Total equity at the beginning of the half year		**4,425**	3,891	2,797
Adjustments on adoption of AASB 132 and AASB 139 net of tax:				
Retained profits		**16**		
Reserves		**71**		
Available-for-sale investments, net of tax		**2**		
Associates and joint ventures		**(3)**	(2)	14
Cash flow hedges, net of tax		**(12)**		
Exchange differences on translation of foreign operations		**(41)**	(15)	(24)
Net income recognised directly in equity		**33**	(17)	(10)
Profit for the half year		**523**	598	272
Total recognised income and expense for the half year		**556**	581	262
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs		**226**	139	78
Dividends paid and distributions paid or provided		**(328)**	(149)	(165)
Minority interest:				
(Reduction)/contribution of equity net of transaction costs		**(17)**	(26)	907
Distributions		**(23)**	(27)	(1)
Other equity movements:				
Share based payments		**19**	16	13
Minority interests from disposal groups classified as held for sale		**135**	-	-
Total equity at the end of the half year		**4,993**	4,425	3,891
Total recognised income and expense for the half year is attributable to:				
Ordinary equity holders of Macquarie Bank Limited		**560**	554	269
Macquarie Income Securities holders		**15**	15	14
Minority interest		**(19)**	12	(21)
Total recognised income and expense for the half year		**556**	581	262

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

MACQUARIE BANK LIMITED
and its controlled entities

Consolidated cash flow statement
for the half year ended 30 September 2005

	Notes	**Half year to 30 Sep 2005 $m**	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
Cash flows from operating activities				
Interest received		**1,358**	1,364	1,209
Interest and other costs of finance (paid)		**(1,068)**	(1,027)	(1,009)
Dividends and distributions received		**42**	7	93
Fees and other non-interest income received		**1,214**	976	811
Fees and commissions (paid)		**(254)**	(216)	(198)
Net (payments)/receipts from trading securities and other financial instruments		**(3,103)**	1,647	759
(Payments) to suppliers		**(404)**	(293)	(414)
Employment expenses (paid)		**(1,187)**	(451)	(928)
Income tax (paid)/rebates		**(132)**	(123)	2
Life insurance investment income		**78**	69	81
Life insurance premiums received and other unit holder contributions		**811**	564	768
Life insurance policy (payments)		**(1,070)**	(601)	(857)
Assets and disposal groups classified as held for sale – net (payments)/receipts from operations		**(15)**	14	14
Loan assets (granted)		**(3,902)**	(3,132)	(3,331)
Recovery of loans previously written-off		**-**	4	1
Net increase in money market and other deposit accounts		**8,322**	4,128	3,051
Net cash flows from operating activities		**690**	2,930	52
Cash flows from investing activities				
(Payments) for other securities and assets available for sale		**(3,625)**	(449)	(652)
Proceeds from the realisation of other securities and assets available for sale		**3,656**	304	300
(Payments) for interests in associates		**(905)**	(375)	(138)
Proceeds from the sale of associates		**358**	5	41
Proceeds from the sale of controlled entities		**-**	-	4
Proceeds on sale of assets and disposal groups classified as held for sale		**194**	213	222
(Payments) for acquisition of controlled entities, excluding disposal groups, net of cash acquired		**(72)**	-	(510)
(Payments) for the purchase of assets and disposal groups classified as held for sale, net of cash acquired		**(175)**	(2)	(538)
(Payments) for life insurance investments and other unit holder investments		**(3,585)**	(3,044)	(2,423)
Proceeds from the sale of life insurance investments		**3,784**	2,998	2,506
(Payments) for fixed assets		**(192)**	(19)	(64)
Proceeds from the sale of fixed assets		**4**	30	3
Net cash flows from investing activities		**(558)**	(339)	(1,249)
Cash flows from financing activities				
Assets and disposal groups classified as held for sale – net proceeds from borrowings		**-**	-	27
Proceeds from the issue of ordinary share capital		**172**	103	64
Proceeds from the issue of Macquarie Income Preferred Securities		**-**	-	894
(Payment) of issue costs on Macquarie Income Preferred Securities		**-**		(10)
(Payments to)/proceeds from other minority interest		**(7)**	3	8
(Repayment) of subordinated debt		**(26)**	-	(65)
Issue of subordinated debt		**-**	441	-
Dividends and distributions (paid)		**(298)**	(126)	(137)
Net cash flows from financing activities		**(159)**	421	781
Net (decrease)/increase in cash		**(27)**	3,012	(416)
Cash and cash equivalents at the beginning of the half year		**5,150**	2,138	2,554
Cash and cash equivalents at the end of the half year		**5,123**	5,150	2,138

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

1. Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 30 September 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth).*

This financial report comprises the consolidated financial report of Macquarie Bank Limited ("the Bank") and the entities it controlled at the end of, or during, the period (together, "the economic entity").

This interim 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 report for the year ended 31 March 2005 and any public announcements made by the Bank during the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth).*

i) Basis of preparation

The principal accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards ("AIFRS")

This interim financial report is the first economic entity financial report to be prepared in accordance with AIFRS. AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards (*"AASB 1*")* has been applied in preparing this financial report.

Financial reports of the economic entity until 31 March 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("previous AGAAP"). Previous AGAAP differs in certain respects from AIFRS. When preparing the economic entity's interim financial report for the half year ended 30 September 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures have been restated to reflect these adjustments. The economic entity has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* ("AASB 132") and AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139") only from 1 April 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the economic entity's equity and its net income are given in note 25: Explanation of transition to Australian equivalents to IFRSs.

Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and other certain assets and liabilities (including derivative instruments) at fair value through profit and loss.

ii) Principles of consolidation

Controlled entities

The consolidated financial report comprises the financial report of the Bank and its controlled entities (together, "the economic entity). Controlled entities are all those entities (including special purpose entities) over which the Bank has the power to govern directly or indirectly decision-making in relation to financial and operating policies, so as to require that entity to conform with the Bank's objectives. The effects of all transactions between entities in the economic entity have been eliminated in full. Minority interest in the results and equity of controlled entities, where the Bank owns less than 100% of the issued capital, are shown separately in the consolidated income statement and balance sheet.

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

1. Summary of significant accounting policies (continued)

Securitisations
Securitised positions are held through a number of Special Purpose Entities ("SPEs"), which are generally categorised as Mortgage SPEs and Other SPEs, which include certain managed funds and repackaging vehicles. As the Bank is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the Bank's consolidated balance sheet and income statement.

Interest in associates and joint ventures using the equity method
Associates and joint ventures are entities over which the economic entity has significant influence or joint control, but not control, and are accounted for under the equity method except for those which are held for sale. The equity method of accounting is applied on consolidation and involves the recognition of the economic entity's share of its associates' and joint ventures' post-acquisition profits or losses in the income statement, and its share of post-acquisition movements in reserves.

iii) Foreign currency translations
Functional and presentation currency
Items included in the financial statements of each of the economic entity's entities are typically measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Bank's functional and the economic entity's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as a result of meeting cash flow hedge or net investment hedge accounting requirements.

Translation differences on non-monetary items (such as equities) held at fair value through profit and loss, are reported as part of the fair value gain or loss in the profit and loss account. Translation differences on non-monetary items (such as equities) classified as available-for-sale financial assets, are included in the fair value reserve in equity unless they form part of fair value hedge relationships.

Controlled and other entities
The results and financial position of all the economic entity's foreign entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in a separate component of equity - the foreign currency translation reserve.

On consolidation, exchange differences from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to the foreign currency translation reserve.

iv) Segment reporting
For internal reporting and risk management purposes, the economic entity is divided into six operating groups: Banking & Property, Equity Markets, Financial Services, Funds Management, Investment Banking and Treasury & Commodities. These operating groups do not meet the definition of reportable segments under AASB 114*: Segment Reporting* as they provide certain products to customers which have the same, or similar, risk and return characteristics. For the purposes of segment reporting disclosures, the economic entity's activities are reported within the following segments: Asset and Wealth Management, Financial Markets, Investment Banking and Lending.

1. Summary of significant accounting policies (continued)

v) Revenue recognition

Interest income

Interest income arising from loans and deposits is brought to account using the effective interest rate method. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised over the expected life of the instrument.

Fees earned from financing transactions in respect of risk margins are deferred and recognised as interest income, using the effective interest rate method, over the expected term of the arrangement.

Fee income

Corporate advice and other fee income is brought to account as work is completed and a fee is agreed with clients.

Dividends and distributions

Dividends and distributions are recognised as income in the income statement upon declaration.

vi) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax base of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or where a benefit arises due to unused tax losses, but are only recognised in both cases to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts being payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled.

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation regime in Australia, effective from 1 October 2002. Under the terms and conditions of the tax contribution agreement, the Bank, as the head entity of the tax consolidated group, will charge or reimburse its wholly-owned subsidiaries for current tax liabilities or assets it incurs in connection with their activities. As a consequence, the Bank will recognise the current tax balances of its wholly-owned subsidiaries as if those were its own in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax contribution agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable.

No provision is made for additional taxes which could become payable if certain retained earnings or reserves of foreign controlled entities were to be distributed. It is not expected that any substantial amount will be distributed from these retained earnings or reserves in the foreseeable future.

vii) Securities borrowing/lending and repurchase/reverse repurchase agreements

As part of its trading activities, the economic entity lends and borrows securities on a collateralised basis. The securities subject to the borrowing/lending are not derecognised from the balance sheets of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as an asset, while cash received from third parties on securities lent is recorded as a liability.

Repurchase transactions, where the Bank sells securities under an agreement to repurchase, and reverse repurchase transactions, where the Bank purchases securities under an agreement to resell, are also conducted on a collateralised basis. The securities subject to the repurchase/reverse repurchase agreements are not derecognised from the balance sheets of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on the reverse repurchase agreement is recorded as an asset, while cash received from third parties on the repurchase agreement is recorded as a liability.

1. Summary of significant accounting policies (continued)

Fees and interest relating to stock borrowing/lending and repurchase/reverse repurchase agreements are recognised in the income statement, using the effective interest rate method, over the expected life of the agreements.

The Bank continually reviews the fair value of the securities on which the above transactions are based and, where appropriate, requests or provides additional collateral to support the transactions, in accordance with the underlying agreements.

viii) Trading portfolio

Trading portfolio assets comprise debt and equity securities, bank bills, treasury notes, bullion and commodities purchased with the intent of being actively traded ("long positions"). Trading portfolio liabilities comprise obligations to deliver assets across the same trading categories, which the Bank has short-sold and are actively traded ("short positions").

Items included in the trading portfolio are carried at fair value. Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as trading income or expense in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is also recorded as trading income or expense. Interest income and expense on the trading portfolio is recognised in the income statement as interest income or expense.

ix) Derivative instruments

Derivative instruments entered into by the economic entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. The economic entity uses these derivative instruments for the risk management of existing financial assets and liabilities.

From 1 April 2004 to 31 March 2005

The economic entity has used the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. The economic entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP, refer to the annual report for the year ended 31 March 2005.

Adjustments on transition date: 1 April 2005

The nature of the main adjustments to comply with AASB 132 and AASB 139 are that derivatives be measured on a fair value basis. Changes in fair value would have been taken either to the income statement or an equity reserve (refer below). At the date of transition, changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

From 1 April 2005

All derivatives, including those used for balance sheet hedging purposes, are recognised on the balance sheet and are disclosed as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Movements in the carrying amounts of derivatives are recognised in the income statement, unless the derivative meets the requirements for hedge accounting.

Cash flow hedges

For a derivative designated as hedging a cash flow exposure arising from a recognised asset or liability (or a highly probable forecast transaction), the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity in the cash flow hedge reserve and reclassified into the income statement when the hedged item is brought to account. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

1. Summary of significant accounting policies (continued)

Fair value hedges
For a derivative designated as hedging a fair value exposure arising from a recognised asset or liability (or a firm commitment), the gain or loss on the derivative is recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Net investment hedges
For a derivative designated as hedging a net investment in a foreign operation, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in the foreign currency translation reserve and subsequently reclassified into the income statement when the foreign operation is disposed. The ineffective portion is recognised in the income statement immediately.

x) Investments and other financial assets
From 1 April 2004 to 31 March 2005
The economic entity has used the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. The economic entity has applied previous AGAAP in the comparative information on financial assets within the scope of AASB 132 and AASB 139. For further information on previous AGAAP, refer to the annual report for the year ended 31 March 2005.

Adjustments on transition date: 1 April 2005
The nature of the main adjustments to comply with AASB 132 and AASB 139 are that, with the exception of assets classified as held-for-sale and loans and receivables, fair value would have been the measurement basis. At the date of transition, changes to carrying amounts were recognised directly in retained earnings or reserves (refer below).

From 1 April 2005
With the exception of trading portfolio assets and derivatives which are classified separately in the balance sheet, the economic entity classifies its remaining investments in financial assets in the following categories: loan assets held at amortised cost, other financial assets at fair value through profit and loss, investment securities available for sale and assets classified as held for sale. The classification depends on the purpose for which the investment was acquired, which is determined at initial recognition and, except for fair value though profit and loss, is re-evaluated at each reporting date.

Loan assets held at amortised cost
Loan assets which are held at amortised cost in the balance sheet are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit and loss
This category includes those assets which have been designated by management at fair value through profit and loss on initial recognition. The policy of management is to designate a financial asset as such if the asset contains embedded derivatives which must otherwise be separated and carried at fair value or by doing so eliminates, or significantly reduces, a measurement or recognition inconsistency that would otherwise arise.

Investment securities available for sale
Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs, or impacts of changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity, until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (or the securities are unlisted), the economic entity establishes fair value by using valuation techniques, including recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

1. Summary of significant accounting policies (continued)

Assets classified as held for sale
This category includes controlled entities and interests in associates whose carrying amount will be recovered principally through a sale transaction rather than continuing use. The policy of management is to classify these assets as held for sale when it is highly probable that the asset will be sold within the twelve months subsequent to being classified as such.

Assets and liabilities, including those within a disposal group, classified as held for sale are each presented separately on the face of the balance sheet. The revenue and expenses from disposal groups are presented net within the income statement and notes thereto.

Assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain would be recognised for any subsequent increase in fair value less costs to sell, limited by the previous cumulative impairment loss recognised. A gain or loss not previously recognised by the date of sale would be recognised at the date of derecognition.

xi) Loan impairment review
All loan assets are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where specific impairment is identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

xii) Life insurance business
The following are key accounting policies in relation to the life insurance business:
Disclosure
The consolidated financial statements recognise the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Bank in accordance with AASB 139: *Financial Instruments: Recognition and Measurement ("AASB 139")*, and AASB 1038: *Life Insurance Contracts ("AASB 1038")* which apply to investment contracts and assets backing insurance liabilities respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets
Investments assets are carried at fair value through profit and loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), the Bank establishes fair value by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the income statement in the financial year in which the changes occur.

Restriction on assets
Investments held in the Life Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the Life Insurance Act 1995 are met.

Policy liabilities
Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities respectively.

1. Summary of significant accounting policies (continued)

xiii) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Assets are reviewed for impairment annually. Historical cost includes expenditure directly attributable to the acquisition of the asset.

Depreciation on assets is calculated on a straight-line basis to allocate their cost to their residual values over their estimated useful lives, at the following rates:

Furniture and fittings	10%
Leasehold improvements*	20%
Computer equipment	33.3%
Plant and equipment	20%
Personal computers	50%
Art	1%

* Where remaining lease terms are less than five years, leasehold improvements are depreciated over the lease term.

Useful lives and residual values are reviewed annually and reassessed in light of commercial and technological developments. If an asset's carrying value is greater than its recoverable amount due to a useful life, residual value or impairment adjustment, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such restatements and on disposal of fixed assets are recognised in the income statement.

xiv) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the economic entity's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of controlled entities is included in intangible assets on the balance sheet. Goodwill on acquisitions of associates is included in the carry value of investments in associates. Goodwill acquired in business combinations is not amortised but tested for impairment annually, or more frequently if events indicate that it might be impaired. In this event, it is carried at cost less accumulated impairment losses.

Identifiable intangibles

- Licences and trading rights are carried at cost less accumulated impairment. These assets are not being amortised on the basis that they have indefinite lives.
- Management rights have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight line method to allocate the cost of management rights over their estimated useful life not exceeding twenty years.

Identifiable intangibles with indefinite lives are subject to annual impairment testing, or more frequently if events indicate that there may be an impairment.

Software

Certain internal and external costs directly incurred in acquiring and developing certain software have been capitalised and are being amortised over their useful life, usually for a period of 3 years. Costs incurred on software maintenance are expensed as incurred. The costs of repairs and maintenance are expensed as incurred.

xv) Financial liabilities

The economic entity has on issue debt securities and instruments which are initially recognised at fair value, net of transaction costs incurred. These instruments are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Other financial liabilities at fair value through profit and loss

This category includes those financial liabilities which have been designated by management at fair value through profit and loss on initial recognition. The policy of management is to designate a financial liability as such if the liability contains embedded derivatives which must otherwise be separated and carried at fair value or by doing so eliminates, or significantly reduces, a measurement or recognition inconsistency that would otherwise arise.

1. Summary of significant accounting policies (continued)

xvi) Provisions

Employee benefits

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long term benefits are recognised at the present value of expected future payments to be made. In determining this amount, consideration is given to expected future salary levels, on-costs and employee service histories. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible the expected future cash flows.

Dividends

Provisions for dividends to be paid by the Bank are recognised on the balance sheet as a liability and a reduction in retained earnings when the dividend has been declared or publicly recommended by the Directors.

xvii) Funds under management

Within the economic entity certain controlled entities act as a custodian and/or single responsible entity for a number of investment funds and trusts. As at 30 September 2005, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the economic entity (measured based on the gross assets of the individual funds) exceeds $112.0 billion (31 March 2005: $96.7 billion). This includes $5.2 billion (31 March 2005: $4.4 billion) in respect of life insurance statutory funds and certain other funds that are consolidated in the financial report. Other investment funds and trusts have not been consolidated in the financial report because individual entities within the economic entity do not have control of the funds and trusts.

Commissions and fees earned in respect of the economic entity’s funds management activities are brought to account on a services provided basis.

xviii) Share based payments

The Bank operates share-based compensation plans, which include options granted to employees and shares granted to employees under share acquisition plans. The Bank recognises an expense for shares and options granted to employees. The shares and options are measured at their grant dates based on their fair value and in the case of options, using the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

The Bank annually revises its estimates of the number of options that are expected to become exercisable. Where appropriate, the impact of revised estimates are reflected in the income statement over the remaining vesting period, with a corresponding adjustment to the share based payments reserve in equity.

These rules are mandatory to options granted after 7 November 2002 that vest after 1 January 2005.

xix) Cash and cash equivalents

Cash and cash equivalents include Cash and balances with central banks, short-term amounts included in Due from banks, bank accepted bills and negotiable certificates of deposits issued by a bank, with a maturity of less than 3 months, included in Trading portfolio assets and Investment securities available for sale.

xx) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

xxi) Rounding of amounts

The company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 (as amended by Class Order 04/667 dated 15 July 2004 and 05/641 dated 26 July 2005), relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
2. Profit for the half year			
Net interest income			
Interest and similar income received/receivable	**1,462**	1,318	1,247
Interest expense and similar charges paid/payable	**(1,167)**	(1,034)	(995)
Net interest income	**295**	284	252
Net fee and commission income			
Fee and commission income	**1,436**	1,341	886
Fee and commission expense	**(201)**	(231)	(198)
Income from life insurance and other unit holder businesses	**9**	11	12
Net fee and commission income	**1,244**	1,121	700
Net trading income			
Equities	**286**	215	160
Commodities	**65**	75	90
Foreign exchange products	**88**	82	76
Interest rate products	**40**	23	13
Net trading income	**479**	395	339
Share of net profits of associates and joint **ventures using the equity method**	**39**	5	12
Other operating income			
Net gains on sale of other securities and equity investments		17	17
Net gains on sale of investment securities available for sale	**48**		
Net gains on sale of associates and joint ventures*	**55**	531	27
Net income from disposal groups held for sale**	**(16)**	4	(4)
Gain on deconsolidation of controlled entities and businesses held for sale	**3**	25	28
Life insurance and other investment income earned on shareholder funds	**3**	5	3
Dividends/distributions received/receivable from investment securities	**15**	14	19
Other income	**13**	16	23
Total other operating income	**121**	612	113
Other operating expenses			
Provision for diminution of investment securities	**-**	(1)	4
Collective allowance for credit losses provided for during the period (refer note 10)	**(1)**	(19)	(15)
Specific provisions			
- provided for during the period (refer note 10)	**(17)**	(23)	(27)
- recovery of loans previously provided for (refer note 10)	**11**	10	8
- loan losses written-off	**(3)**	(1)	(3)
- recovery of loans previously written-off	**1**	1	1
Total net charge for provisions	**(9)**	(33)	(32)
Other expenses	**(9)**	(12)	(4)
Total other operating expenses	**(18)**	(45)	(36)
Net other operating income	**103**	567	77
Total income from ordinary activities	**2,160**	2,372	1,380

* Included within net gains on sale of associates and joint ventures for the half year to 31 March 2005 is the profit of $300 million arising from the merger of Macquarie Goodman Industrial Trust and Macquarie Goodman Management Limited. This amount also includes profits arising on the dilution of the Bank's holdings in its equity accounted associates, Macquarie Communications Infrastructure Group and Macquarie Airports Trust, which occurred after further capital raising activities by the associates.

** Included within net income from disposal groups held for sale are the net income and expenses from disposal groups. Refer to Note 15 – Assets and disposal groups classified as held for sale for the name of each group.

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
2. Profit for the half year (continued)			
Employment expenses			
Salary, salary related costs including commissions, superannuation, performance-related profit share and staff training	**(1,136)**	(1,248)	(741)
Share based payments	**(19)**	(29)	(13)
Provision for annual leave	**(10)**	(2)	(7)
Provision for long service leave	**(5)**	(2)	(3)
Total employment expenses	**(1,170)**	(1,281)	(764)
Occupancy expenses			
Operating lease rentals	**(42)**	(37)	(37)
Depreciation: furniture, fittings and leasehold improvements	**(9)**	(7)	(6)
Other occupancy expenses	**(8)**	(9)	(5)
Total occupancy expenses	**(59)**	(53)	(48)
Non-salary technology expenses			
Information services	**(27)**	(24)	(19)
Depreciation: computer equipment and software	**(16)**	(13)	(12)
Other non-salary technology expenses	**(18)**	(22)	(14)
Total non-salary technology expenses	**(61)**	(59)	(45)
Professional fees, travel and communication expenses			
Professional fees	**(39)**	(56)	(38)
Auditors' remuneration	**(4)**	(4)	(4)
Travel expenses	**(36)**	(34)	(26)
Communication expenses	**(12)**	(14)	(10)
Depreciation: communication equipment	**(2)**	(2)	(2)
Total professional fees, travel and communication expenses	**(93)**	(110)	(80)
Other expenses			
Other expenses	**(94)**	(81)	(73)
Total other expenses	**(94)**	(81)	(73)
Total expenses from ordinary activities	**(1,477)**	(1,584)	(1,010)

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
3. Revenue from operating activities			
Interest and similar income	**1,462**	1,318	1,247
Fee and commission income	**1,436**	1,341	886
Investment revenue and management fees from life insurance and other unit holder businesses	**136**	131	126
Net trading income	**479**	395	339
Profit on the sale of other securities and equity investments, investment securities and associates and joint ventures	**103**	548	44
Other income (excluding profit on the sale of other securities and equity investments)	**57**	69	81
Total revenue from operating activities	**3,673**	3,802	2,723

4. Segment reporting

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment or the relevant portion that can be allocated to a segment on a reasonable basis. Segment assets include all assets used by a segment. The carrying amount of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

Any transfers between segments have been determined on an arms-length basis and eliminated on consolidation.

The segment information has been prepared in conformity with the economic entity's accounting policies as disclosed in note 1 – Summary of significant accounting policies.

Primary segment - business
For internal reporting and risk management purposes, the economic entity is divided into six operating Groups ("the Groups"). The Groups do not meet the definition of *business segment* for the purposes of reporting in accordance with AASB 114: *Segment Reporting*, because the Groups provide certain products to customers which have the same, or similar, risk and return characteristics.

For the purposes of determining business segments the activities of the economic 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;
- Investment Banking: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development; and
- Lending: banking activities, mortgages, margin lending and leasing.

	Asset and Wealth Management $m	**Financial Markets $m**	**Investment Banking $m**	**Lending $m**	**Total $m**
Half year to 30 September 2005					
Total revenue from ordinary activities	**851**	**967**	**807**	**1,048**	**3,673**
Total income from ordinary activities	**672**	**478**	**760**	**250**	**2,160**
Profit for the half year	**153**	**146**	**176**	**48**	**523**

4. Segment reporting (continued)

	Asset and Wealth Management	Financial Markets	Investment Banking	Lending	Total
	$m	$m	$m	$m	$m
Half year to 31 March 2005					
Total revenue from ordinary activities	1,106	692	903	1,101	3,802
Total income from ordinary activities	975	376	789	232	2,372
Profit for the half year	240	96	218	44	598
Half year to 30 September 2004					
Total revenue from ordinary activities	536	689	527	971	2,723
Total income from ordinary activities	373	284	487	236	1,380
Profit for the half year	65	76	84	47	272

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m

5. Income tax expense

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
a) Income tax expense			
Current tax	**(302)**	(116)	(59)
Deferred tax	**142**	(74)	(39)
Total	**(160)**	(190)	(98)
Deferred income tax revenue/(expense) included in income tax expense comprises:			
Increase/(decrease) in deferred tax assets	**37**	22	(18)
Increase/(decrease) in deferred tax liabilities	**105**	(96)	(21)
Total	**142**	(74)	(39)

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
b) Reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit*	**(205)**	(236)	(111)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Rate differential on offshore income	**44**	29	25
Distribution provided on Macquarie Income Preferred Securities and related distributions	**8**	8	-
Non-deductible options expense	**(6)**	(5)	(3)
Other items	**(1)**	14	(9)
Total income tax expense	**(160)**	(190)	(98)

c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity:

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
Current tax – credited directly to equity	**-**	-	-
Net deferred tax – debited (credited) directly to equity	**29**	-	5
	29	-	5

* Prima facie income tax on operating profit is calculated at the rate of 30% (31 March 2005 and 30 September 2004: 30%). The consolidated entity has a tax year ending on 30 September.

5. Income tax expense (continued)

Pursuant to a resolution of the Bank, the consolidated entity's Australian tax liabilities are determined pursuant to tax consolidation legislation. The Bank together with all eligible Australian resident wholly-owned controlled entities of the Bank represent a Tax Consolidated Group ("the TC Group"), with the Bank as the Head Entity. As a consequence, the relevant controlled entities are not liable to make income tax payments and do not recognise any tax balances. Payments made by the relevant TC Group entities in respect of the period are shown as payments of the Bank. Under the terms and conditions of a tax funding agreement, the Bank charges each controlled entity for all tax liabilities incurred in respect of their activities and reimburses each controlled entity for tax assets received.

Should the Bank be in default of its tax payment obligations, or a default is probable, the tax balances of the controlled entities will be determined in accordance with the terms and conditions of a tax sharing agreement between the Bank and entities in the Group.

During the period, there have been no changes to the Australian Tax Office's review of the economic entity's research and development syndicates. The outcome of this matter is not expected to have a material impact.

In relation to the Macquarie Income Securities ("MIS"), the Federal Court has held that amounts totalling $129 million are not deductible and special leave to appeal to the High Court has been lodged. Tax of $42 million on this amount has been fully provided.

In preparing this financial report the Directors have considered the information currently available and have taken legal advice as to the economic entity's tax liability and in accordance with this believe that provisions made are adequate.

6. Dividends paid and distributions paid or provided

i) Dividends paid

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
Ordinary share capital			
Interim dividend paid ($0.61 (2004: $0.52) per share)	**-**	134	-
Final dividend paid ($1.00 (2004: $0.70) per share)	**224**	-	151
Special dividend paid ($0.40 (2004: nil) per share)	**89**	-	-
Total dividends paid	**313**	134	151

All dividends in the above table were 90% franked at the 30% corporate tax rate.

The Bank's Dividend Reinvestment Plan ("DRP") remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs, at the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 19 – Contributed equity.

	Half year to 30 Sep 2005	Half year to 31 Mar 2005	Half year to 30 Sep 2004
6. Dividends paid and distributions paid or provided (continued)			
	Cents per ordinary share		
Cash dividends per ordinary share (including interim dividend not provided for)	**90**	140	61

ii) Dividends not recognised at the end of the half year

In addition to the above dividends, since the end of the half year the directors have recommended the payment of the 2006 interim dividend of $0.90 per fully paid ordinary share, 90% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 16 December 2005 out of retained profits at 30 September 2005, but not recognised as a liability at the end of the half year, is $207 million. This amount has been estimated based on the number of shares eligible to participate as at 30 September 2005.

	Half year to 30 Sep 2005 $m	Half year to 31 Mar 2005 $m	Half year to 30 Sep 2004 $m
iii) Distributions paid or provided			
Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	**9**	9	8
Distributions provided	**6**	6	6
Total distributions paid or provided	**15**	15	14

The distributions paid/provided in respect of the Macquarie Income Securities are classified as distributions on an equity instrument in accordance with AASB 132: *Financial Instruments: Disclosure and Presentation*.

Macquarie Income Preferred Securities			
Distributions paid (net of distributions previously provided)	**-**	-	-
Distributions provided	**23**	27	1
Total distributions paid or provided	**23**	27	1

The Macquarie Income Preferred Securities represent a minority interest of the consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Preferred Securities are recorded as movements in minority interest, as disclosed in note 20 – Reserves, retained earnings and minority interests.

7. Earnings per share

	Half year to 30 Sep 2005	Half year to 31 Mar 2005	Half year to 30 Sep 2004
		Cents per share	
Basic earnings per share	**212.9**	250.4	117.8
Diluted earnings per share	**203.5**	242.3	116.4
	$m	$m	$m
Reconciliation of earnings used in the calculation of basic earnings per share			
Profit for the half year	**523**	598	272
(Profit) attributable to minority interests:			
Macquarie Income Preferred Securities	**(23)**	(27)	(1)
Other equity holders	**(3)**	-	(1)
Distributions paid or provided on:			
Macquarie Income Securities	**(15)**	(15)	(14)
Total earnings used in the calculation of basic earnings per share	**482**	556	256
Reconciliation of earnings used in the calculation of diluted earnings per share			
Earnings used in calculating basic earnings per share	**482**	556	256
Other non-discretionary changes in earnings arising from dilutive potential ordinary shares	**-**	-	-
Total earnings used in the calculation of diluted earnings per share	**482**	556	256
		Number of shares	
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	**226,346,261**	222,005,971	217,402,861
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid ordinary shares	**226,346,261**	222,005,971	217,402,861
Potential ordinary shares:			
Weighted average options	**10,563,305**	7,428,353	2,434,317
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**236,909,566**	229,434,324	219,837,178

Information concerning the classification of securities

Options granted to employees under the Employee Option Plan are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive.

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
8. Trading portfolio assets			
Trading securities			
Certificates of deposit	**939**	956	985
Other government securities	**938**	647	904
Commonwealth government bonds	**92**	137	373
Bank bills	**202**	424	332
Foreign government bonds	**126**	79	58
Promissory notes	**1,670**	874	811
Bills discounted	**841**	624	882
Equities and other securities	**7,582**	3,996	2,665
Total trading securities	**12,390**	7,737	7,010
Other trading assets			
Other commodities	**49**	63	29
Total other trading assets	**49**	63	29
Total trading portfolio assets	**12,439**	7,800	7,039

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
9. Other securities			
Listed			
Shares and units in unit trusts at cost		4	4
Less provision for diminution		(2)	(3)
Shares and units in unit trusts at recoverable amount		2	1
Shares and units in unit trusts at cost requiring no provision for diminution		30	29
Total listed other securities		32	30
Unlisted			
Shares and units in unit trusts at cost		6	4
Less provision for diminution		(2)	(2)
Shares and units in unit trusts at recoverable amount		4	2
Shares and units in unit trusts at cost requiring no provision for diminution		920	905
Debt investment securities		756	1,279
Total unlisted other securities		1,680	2,186
Total other securities		1,712	2,216

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
10. Loan assets held at amortised cost			
Due from clearing houses	**1,535**	653	506
Due from governments*	**286**	436	529
Due from other entities			
Other loans and advances	**28,239**	26,200	23,034
Less specific provisions	**(40)**	(45)	(53)
	28,199	26,155	22,981
Lease receivables	**1,450**	1,290	1,182
Total due from other entities	**29,649**	27,445	24,163
Total gross loan assets	**31,470**	28,534	25,198
Less collective allowance for credit losses	**(60)**	(109)	(90)
Total loan assets held at amortised cost	**31,410**	28,425	25,108

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

Specific provisions			
Balance at the beginning of the period	**45**	53	36
Provided for during the period	**17**	23	27
Loan assets written off, previously provided for	**(5)**	(20)	(2)
Recovery of loans previously provided for	**(11)**	(10)	(8)
Transfer to provision against interest in associates and joint ventures using the equity method	**(5)**	-	-
Attributable to foreign currency translation	**(1)**	(1)	-
Total specific provisions	**40**	45	53
Specific provisions as a percentage of gross loan assets	**0.13%**	0.16%	0.21%

The specific provisions relate to doubtful loan assets that have been identified and provided for.

Collective allowance for credit losses			
Balance at the beginning of the period	**109**	90	75
Adjustment on adoption of AASB 139	**(50)**	-	-
Provided for/(written back) during the period	**1**	19	15
Total collective allowance for credit losses	**60**	109	90

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
11. Impaired assets			

Impaired assets are disclosed using the definitions and categories of the Australian Prudential Regulation Authority. Impaired assets include loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments, which are classified as:

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Non-accrual loans without specific provisions for impairment	**10**	1	5
Non-accrual loans with specific provisions for impairment	**95**	86	76
Less specific provisions	**(40)**	(45)	(53)
Total non-accrual loans with specific provisions for impairment	**55**	41	23
Total net impaired assets	**65**	42	28
Revenue forgone on impaired assets			
Interest	**2**	1	-
Total revenue forgone on impaired assets	**2**	1	-

12. Other financial assets at fair value through profit and loss

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Investment securities	**410**		
Loan assets	**1,460**		
Total other financial assets at fair value through profit and loss	**1,870**		

13. Investment securities available for sale

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Equity securities			
Listed	**143**		
Unlisted	**222**		
Debt securities	**3,152**		
Total investment securities available for sale	**3,517**		

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m

14. Interest in associates and joint ventures using the equity method

Interest in associates and joint ventures using the equity method			
Loans and investments without provisions for impairment	**2,829**	2,110	1,174
Loans and investments – at cost	**127**	25	79
Less provision for impairment	**(21)**	(18)	(14)
Loans and investments at recoverable amount	**106**	7	65
Total interest in associates and joint ventures using the equity method	**2,935**	2,117	1,239

Summarised information of certain interests in material associates and joint ventures is as follows:

Name of entity	**Participating interest %**	**As at 30 Sep 2005 $m**	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
AM Office Unit Trust	**85**	**81**	-	-
CH4 Gas Limited	**39**	**26**	25	19
Concept Blue Joint Venture	**50**	**-**	12	7
Connect East	**3**	**17**	-	-
Diversified CMBS Investments Inc.	**57**	**373**	381	322
Dynasty Property Investment Limited	**24**	**73**	-	-
Macquarie Direct Property No. 11 - East Coast Portfolio	**1**	**-**	4	28
European Directories SA	**18**	**149**	-	-
First China Property Group Limited	**50**	**10**	13	11
Four Corners Capital Management LLC	**67**	**15**	-	-
Macquarie Airports	**29**	**420**	387	215
Macquarie Capital Alliance Group	**10**	**94**	-	-
Macquarie Capital Partners LLC	**50**	**14**	13	12
Macquarie Central Office CR-REIT (Korea)	**12**	**12**	12	21
Macquarie Communications Infrastructure Group	**40**	**149**	196	60
Macquarie Countrywide Trust	**8**	**183**	173	86
Macquarie DDR Management LLC	**50**	**24**	22	-
Macquarie Essential Assets Partnership	**7**	**14**	12	9
Macquarie European Infrastructure Fund	**5**	**40**	40	38
Macquarie Global Property Advisors Limited	**49**	**10**	7	-
Macquarie Goodman Group Limited	**8**	**395**	352	-
Macquarie Goodman Management Limited	**40**	**-**	-	48
Macquarie Industrie Beteilgungen Holding SA	**39**	**57**	13	-
Macquarie Infrastructure Company Trust	**7**	**51**	51	-
Macquarie Infrastructure Group	**1**	**110**	2	5
Macquarie International Infrastructure Fund Limited	**13**	**79**	-	-
Macquarie Leisure Trust	**5**	**11**	9	9
Macquarie Office Trust	**4**	**101**	79	61
Medallist Developments Inc.	**80**	**69**	70	86
Medallist Development Trust	**70**	**24**	27	31
PH Direct Property Trust	**17**	**11**	-	-
Prime Real Estate Investment Trust	**20**	**143**	-	-
RP Data Limited	**50**	**22**	21	-

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m

15. Assets and disposal groups classified as held for sale

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Associates	**568**	334	-
Total associates	**568**	334	-
Disposal groups held for sale			
District Energy	**-**	-	334
Atlantic Aviation	**-**	-	402
Korea Power Investment Co. Limited	**30**	-	-
Macquarie East Daegu Investment Company	**216**	-	-
Macquarie Regional Radioworks Pty Limited	**490**	-	-
Total disposal groups held for sale	**736**	-	736
Total assets and disposal groups classified as held for sale	**1,304**	334	736

Summarised information of certain material assets and disposal groups classified as held for sale is as follows:

Name of entity	**Participating interest %**	**As at 30 Sep 2005 $m**	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
CJ CableNet Yangchon Broadcasting Co. Limited	**6**	**32**	-	-
Creative Broadcast Services Limited	**35**	**93**	-	-
Korea Independent Energy Corporation	**28**	**345**	-	-
Macquarie Airports (Brussels) S.A.	**3**	**27**	86	-
Macquarie UK Broadcast Holdings	**4**	**32**	106	-
Macquarie UK Broadcast Services Plc	**4**	**31**	102	-
Macquarie Renewables Limited	**50**	**-**	40	-
Other		**8**	-	-
Total associates classified as held for sale		**568**	334	-

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Liabilities of disposal groups classified as held for sale			
District Energy	**-**	-	258
Atlantic Aviation	**-**	**-**	96
Korea Power Investment Co. Limited	**204**	**-**	-
Macquarie East Daegu Investment Company	**155**	**-**	-
Macquarie Regional Radioworks Pty Limited	**285**	**-**	-
Total liabilities of disposal groups classified as held for sale	**644**	-	354

16. Trading portfolio liabilities

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Listed equity securities	**3,433**	3,228	1,887
Commonwealth government securities	**4,528**	4,214	1,732
Other government securities	**493**	169	375
Corporate securities	**60**	70	82
Total trading portfolio liabilities	**8,514**	7,681	4,076

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
17. Notes payable and debt issued at amortised cost			
Notes payable		28,161	25,902
Debt issued at amortised cost	**30,427**		
Total	**30,427**	28,161	25,902
18. Other financial liabilities at fair value through profit and loss			
Debt issued at fair value	**4,627**		
Total other financial assets at fair value through profit and loss	**4,627**		
Reconciliation of notes payable, debt issued at amortised cost and other financial liabilities at fair value through profit and loss by major currency:			
United States dollars	**5,648**	7,326	8,363
Australian dollars	**21,521**	14,373	11,360
Hong Kong dollars	**1,204**	889	1,421
Great British pounds	**2,192**	2,035	1,852
Japanese yen	**437**	529	512
Euro	**3,446**	2,844	2,293
Other currencies	**606**	165	101
Total by currency	**35,054**	28,161	25,902

The Bank’s primary program for domestic and international debt issuance is its multi-currency, multi-jurisdictional Debt Instrument Program. Securities are issued for terms varying from one day to 30 years.

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
19. Contributed equity			
Ordinary share capital			
Opening balance of 223,683,592 (Mar 2004: 215,916,285) fully paid ordinary shares	**1,600**	1,474	1,382
On-market purchase of 151,967 (2004: 735,118) shares pursuant to the Macquarie Bank Staff Share Acquisition Plan (“MBSSAP”) and Non Executive Directors Share Acquisition Plan (“NEDSAP”) at $60.26 (2004: $33.03) per share	**(9)**	-	(24)
Allocation of 151,967 (2004: 735,118) shares to employees pursuant to the MBSSAP and NEDSAP at $60.26 (2004: $33.03) per share	**9**	-	24
Issue of 5,502,652 (2004: 3,002,108) shares on exercise of options	**168**	102	64
Issue of 24,300 shares pursuant to the Employee Share Plan at $48.89 per share	**-**	1	-
Issue of 842,601 shares on 2 July 2004 pursuant to the Dividend Reinvestment Plan (“DRP”) at $33.46 per share	**-**	-	28
Issue of 513,354 shares on 17 December 2004 pursuant to the DRP at $44.25 per share	**-**	23	-
Issue of 1,133,173 shares on 1 July 2005 pursuant to the DRP at $51.27 per share	**58**	-	-
Transfer from share based payments reserve for expensed options that have been exercised	**4**	-	-
Closing balance of 230,319,417 (Sep 2004: 219,760,994) fully paid ordinary shares	**1,830**	1,600	1,474
Treasury Shares	**(1)**	(1)	(14)
Macquarie Income Securities	**391**	391	391

20. Reserves, retained earnings and minority interests

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Reserves			
Foreign currency translation reserve			
Opening balance	**(1)**	(1)	-
Currency translation differences arising during the period, net of hedge	**4**	-	(1)
Transfer to net profit	**-**	-	-
Total foreign currency translation reserve	**3**	(1)	(1)
Available for sale reserve			
Opening balance	**-**		
Adjustment on adoption of AASB 132 and AASB 139, net of tax (refer note 25)	**67**		
Revaluation movement through period, net of tax	**2**		
Transfer to net profit	**-**		
Total available for sale reserve	**69**		
Share-based payments reserve			
Opening balance	**39**	23	10
Option expense	**19**	18	11
Transfer to share capital on exercise of expensed options	**(4)**	-	-
Employee benefit plan expense	**-**	11	2
Vested treasury shares	**-**	(13)	-
Total share-based payments reserve	**54**	39	23
Cash flow hedging reserve			
Opening balance	**-**		
Adjustment on adoption of AASB 132 and AASB 139 (refer note 25)	**4**		
Revaluation movement through period, net of tax	**(12)**		
Transfer to net profit	**-**		
Total cash flow hedging reserve	**(8)**		
Share of reserves of interests in associates and joint ventures using the equity method			
Opening balance	**11**	13	(1)
Share of reserves during the period	**(3)**	(2)	14
Transfer to net profit	**(1)**	-	-
Total share of reserves of interests in associates and joint ventures using the equity method	**7**	11	13
Total reserves	**125**	49	35
Retained earnings			
Balance at the beginning of the financial period	**1,523**	1,101	996
Adjustment on adoption of AASB 132 and AASB 139 (refer note 25)	**16**	-	-
Profit attributable to equity holders of Macquarie Bank Limited	**497**	571	270
Distributions paid or provided on Macquarie Income Securities	**(15)**	(15)	(14)
Amounts transferred to/(from) reserves	**-**	-	-
Dividends paid on ordinary share capital	**(313)**	(134)	(151)
Total retained earnings	**1,708**	1,523	1,101

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m

20. Reserves, retained earnings and minority interests (continued)

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Minority interest			
Macquarie Income Preferred Securities*			
Proceeds on issue of Macquarie Income Preferred Securities	**894**	894	894
Issue costs	**(10)**	(10)	(10)
	884	884	884
Retained profits	**23**	28	1
Distribution provided on Macquarie Income Preferred Securities	**(23)**	(28)	(1)
Foreign currency translation reserve	**(83)**	(38)	(23)
Total Macquarie Income Preferred Securities	**801**	846	861
Other minority interests			
Ordinary share capital	**40**	9	22
Units in unit trusts	**-**	9	24
Accumulated losses	**(36)**	(1)	(3)
Total other minority interests	**4**	17	43
Total minority interest	**805**	863	904

* On 22 September 2004, Macquarie Capital Funding L.P., a member of the economic entity established to facilitate capital raising, issued £350 million of tier 1 capital-eligible securities (“Macquarie Income Preferred Securities”, “the Securities”). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank’s discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank’s discretion. The first coupon was paid on 15 April 2005.

The issue is reflected in the economic entity’s financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m

21. Contingent liabilities and assets

The following details of contingent liabilities and assets exclude derivatives which have been recognised by the economic entity.

Contingent liabilities exist in respect of:			
Guarantees (a)	**168**	195	203
Indemnities	**509**	77	52
Undrawn credit facilities	**3,420**	3,857	2,838
Undrawn credit facilities – revocable at any time	**2,757**	2,366	1,439
Other contingent liabilities (b)	**30**	538	427
Total contingent liabilities	**6,884**	7,033	4,959

Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary, appropriate provisions have been made in the financial statements. The economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. Information regarding the Australian Tax Office audit of the Bank and other matters is included in note 5 – Income tax expense.

(a) All external guarantees and letters of credit are provided by the Bank. Included in external guarantees are guarantees backed by cash of $21 million (Sept 2004: $26 million).

(b) Other contingent liabilities include letters of credit, commitments certain of draw down and performance related contingents.

Of the total contingent liabilities above, $6.7 billion (Mar 2005: $6.8 billion) also represent contingent assets of the Bank. Such commitments to provide credit may in the normal course convert to loans and other assets of the Bank.

22. Average interest-bearing assets and liabilities and related interest

	Half year to 30 Sep 2005			Half year to 31 Mar 2005			Half year to 30 Sep 2004		
	Average balance $m	Income/ (expense) $m	Average rate %	Average balance $m	Income/ (expense) $m	Average rate %	Average balance $m	Income/ (expense) $m	Average rate %
ASSETS									
Interest bearing assets									
Due from banks	**1,888**	**40**	**4.2**	1,368	21	3.1	1,438	19	2.6
Cash collateral on securities borrowed and reverse repurchase agreements	**8,937**	**209**	**4.7**	6,747	157	4.7	8,833	200	4.5
Trading portfolio assets	**3,493**	**98**	**5.6**	3,873	105	5.4	4,796	130	5.4
Other securities			**-**	2,175	72	6.6	2,068	68	6.6
Loan assets held at amortised cost	**28,346**	**1,025**	**7.2**	27,386	950	6.9	23,697	826	7.0
Other assets	**155**	**4**	**5.2**	37	1	5.4	205	4	4.0
Investment securities available for sale	**3,014**	**86**	**5.8**						
Total interest bearing assets	**45,833**	**1,462**		41,586	1,306		41,037	1,247	
Total non-interest bearing assets	**32,670**			18,696			17,599		
Total assets	**78,503**			60,282			58,636		
LIABILITIES									
Interest bearing liabilities									
Due to banks	**1,309**	**(26)**	**4.0**	1,343	(31)	4.6	1,156	(20)	3.5
Cash collateral on securities lent and repurchase agreements	**3,148**	**(70)**	**4.5**	5,847	(142)	4.9	8,348	(200)	4.8
Trading portfolio liabilities	**5,159**	**(139)**	**5.4**						
Deposits	**8,167**	**(176)**	**4.3**	6,467	(133)	4.1	5,595	(108)	3.9
Notes payable				27,164	(687)	5.1	25,665	(626)	4.9
Debt issued at amortised cost	**30,064**	**(722)**	**4.8**						
Other liabilities	**170**	**(3)**	**3.5**	831	(18)	4.3	789	(19)	4.8
Loan capital									
Subordinated debt at amortised cost	**1,329**	**(31)**	**4.7**	956	(23)	4.8	915	(22)	4.8
Total interest bearing liabilities	**49,346**	**(1,167)**		42,608	(1,034)		42,468	(995)	
Total non-interest bearing liabilities	**24,440**			13,444			13,100		
Total liabilities	**73,786**			56,052			55,568		
Net assets	**4,717**			4,230			3,068		
EQUITY									
Contributed equity									
Ordinary share capital	**1,704**			1,559			1,424		
Treasury shares	**(1)**			(7)			(7)		
Macquarie Income Securities	**391**			391			391		
Reserves	**110**			35			10		
Retained earnings	**1,597**			1,350			1,090		
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**3,801**			3,328			2,908		
Minority interest from disposal groups classified as held for sale	**90**								
Minority interest	**826**			902			160		
Total equity	**4,717**			4,230			3,068		

23. Acquisition and disposal of controlled entities

Entities acquired or consolidated due to change in control:

a) Coin Software Pty Limited
On 9 June 2005, a controlled entity of the Bank acquired 100% of Coin Software Pty Limited at a cost of $30 million.

b) Daego East Circulation Road Company
On 16 June 2005, a consortium controlled by the Bank, Macquarie East Daegu Investment Company (MEDIC), acquired the D4 Circulation Road in Korea. The Bank's investment in MEDIC was $27 million. The bank owns 65% of MEDIC.

c) Open Telecommunications Limited
On 5 July 2005, a controlled entity of the Bank acquired 68% of Open Telecommunications Limited at a cost of $5 million.

d) Korea Power Investment Co. Limited ("KPIC")
On 12 July 2005, the Bank acquired a 28% interest in KPIC, the principal asset of which is an investment in Korean Independent Energy Corporation. The Bank's investment in KPIC was $55 million. The Bank controls KPIC through the existence of a call option held over the remaining 72% of the equity.

e) ATM Solutions Australasia
On 1 August 2005, a controlled entity of the Bank acquired 100% of ATM Solutions Australasia Pty Limited at a cost of $44 million.

The results of these entities have not had a material impact on the results of the economic entity.

Aggregate details of the acquisitions (including disposal groups) are as follows:

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Fair value of net assets acquired			
Cash and other financial assets	**95**	-	79
Fixed assets	**374**	-	400
Intangible assets	**277**	-	721
Payables and provisions	**(15)**	-	(216)
Lease liabilities	**(13)**	-	-
Borrowings	**(406)**	-	(62)
Outside equity interest	**(151)**	-	-
Total fair value of net assets acquired	**161**	-	922
Purchase consideration			
Cash consideration	**161**	-	922
Deferred consideration	**-**	-	-
Total purchase consideration	**161**	-	922
Reconciliation of cash movement			
Cash consideration	**(161)**	-	(922)
Less: cash acquired	**53**	-	19
Total cash outflow	**(108)**	-	(903)

The fair value of assets and liabilities acquired may differ to those that will be disclosed in the 31 March 2006 Financial Report as a result of variations being finalised subsequent to acquisition and revisions in the final allocation of the purchase consideration.

The 30 September 2004 comparatives relate to the acquisitions of District Energy, Atlantic Aviation, RG Capital Radio and DMG Regional Radio.

Notes to the financial statements
30 September 2005
23. Acquisition and disposal of controlled entities (continued)

Entities disposed of or deconsolidated due to change in control:

There were no significant disposals in the period.

Aggregate details of the disposals and deconsolidations are as follows:

	As at 30 Sep 2005 $m	As at 31 Mar 2005 $m	As at 30 Sep 2004 $m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash and other financial assets	-	59	155
Fixed assets	-	319	1,879
Intangible assets	-	340	26
Payables and provisions	-	(175)	(683)
Borrowings	-	(328)	(1,022)
Minority interest	-	(13)	-
Total carrying value of assets and liabilities disposed of or deconsolidated	-	202	355
Reconciliation of cash movement			
Cash received*	-	239	289
Less:			
Investment retained	-	-	-
Cash deconsolidated	-	(26)	(63)
Total cash inflow/(outflow)	-	213	226

* Cash received includes the repayment of intercompany debt.

The 31 March 2005 comparatives relate to the deconsolidation of District Energy and Atlantic Aviation, while the 30 September 2004 comparatives relate to the deconsolidation of South East Water, Arlanda Express and CH4 Gas Limited.

24. Events occurring after reporting date

There were no material post balance sheet events occurring after the reporting date requiring disclosure in these financial statements.

25. Explanation of transition to Australian equivalents to IFRSs ("AIFRS")

The economic entity has prepared these financial statements using Australian Standards that are equivalent to International Financial Reporting Standards and their related pronouncements ("AIFRS"). As these financial statements are for the first half year reported in accordance with AIFRS, it is necessary to explain how the transition from previous Australian generally accepted accounting principles ("previous AGAAP") to AIFRS affected the previously reported financial position, financial performance and cash flows since 31 March 2004 (i.e. the balance sheets as at 31 March 2004, 30 September 2004 and 31 March 2005; and the income statements and statements of cash flows for the half-year ended 30 September 2004 and for the financial year ended 31 March 2005).

In accordance with AIFRS, the comparative information has been restated using the new accounting standards from 1 April 2004, with the exception of AASB 132: *Financial Instruments: Disclosure and Presentation* ("AASB 132") and AASB 139: *Financial Instruments: Recognition and Measurement* ("AASB 139"). As permitted by the transitional provisions of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1"), management has elected not to apply AASB 132 and AASB 139 to the comparative information, and therefore apply these standards from 1 April 2005. Comparative information for financial instruments has been prepared on the basis of the economic entity's accounting policies under previous AGAAP. Adjustments required on transition to AIFRS have been made retrospectively, mostly against opening retained earnings, at the respective dates.

AIFRS has not changed the economics of the business, or the risks being carried, or affected the economic entity's ability to borrow funds or make dividend distributions.

Regulatory capital

Many of the changes below will have an impact on the economic entity's assets and equity items that are included in the calculation of regulatory capital. The Australian Prudential Regulation Authority ("APRA") has advised that it will not finalise any AIFRS-related changes to the existing prudential framework until it has completed relevant consultations.

In late February 2005, APRA issued its first AIFRS consultation paper dealing with fair value measurement, loan impairment, hedging and certain other issues. Some of APRA's proposals either require further clarification or require consideration of additional aspects before becoming final. The Bank's initial review indicates most recommendations will not have a significant impact on the economic entity's regulatory capital. APRA has subsequently determined that any revisions to prudential standards as a result of AIFRS will first apply from 1 July 2006.

The more significant issues for the economic entity (e.g. Tier 1 capital instruments and securitisations) have very recently been addressed by APRA in a second consultation paper. The Bank's initial review indicates the recommendations will not have a significant impact, as APRA have proposed de-coupling the regulatory capital treatments from the accounting treatments. In the interim, APRA-regulated institutions will need to continue to comply with, and report in terms of, current prudential standards unless an application is made for transitional reporting arrangements.

SECTION 1: CONSOLIDATED INCOME STATEMENTS (restated on AIFRS basis)

	Year to 31 March 2005 $m	Half year to 31 March 2005 $m	Half year to 30 September 2004 $m
Interest and similar income	**2,565**	1,318	1,247
Interest expense and similar charges	**(2,029)**	(1,034)	(995)
Net interest income	**536**	284	252
Fee and commission income	**2,250**	1,352	898
Fee and commission expense	**(429)**	(231)	(198)
Net fee and commission income	**1,821**	1,121	700
Net trading income	**734**	395	339
Share of net profits of associates and joint ventures using the equity method	**17**	5	12
Other operating income	**725**	612	113
Other operating expenses	**(81)**	(45)	(36)
Total income from ordinary activities	**3,752**	2,372	1,380
Employment expenses	**(2,045)**	(1,281)	(764)
Occupancy expenses	**(101)**	(53)	(48)
Non salary technology expenses	**(104)**	(59)	(45)
Professional fees, travel and communication expenses	**(190)**	(110)	(80)
Other expenses	**(154)**	(81)	(73)
Total expenses from ordinary activities	**(2,594)**	(1,584)	(1,010)
Operating profit before income tax	**1,158**	788	370
Income tax expense	**(288)**	(190)	(98)
Profit for the half year	**870**	598	272
Profit attributable to minority interests	**(29)**	(27)	(2)
Profit attributable to equity holders of Macquarie Bank Limited	**841**	571	270
Distributions paid or provided on Macquarie Income Securities	**(29)**	(15)	(14)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**812**	556	256

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 1: CONSOLIDATED BALANCE SHEETS (restated on AIFRS basis)

	As at 1 April 2005 $m	As at 31 March 2005 $m	As at 30 Sept 2004 $m	As at 1 April 2004 $m
ASSETS				
Cash and balances with central banks	4	4	1	1
Due from banks	3,969	3,969	1,010	1,504
Cash collateral on securities borrowed and reverse repurchase agreements	8,927	8,927	7,398	8,598
Trading portfolio assets	6,303	7,800	7,039	7,423
Other securities		1,712	2,216	2,168
Loan assets held at amortised cost	28,100	28,425	25,108	21,806
Other financial assets at fair value through profit and loss	1,367			
Derivative financial instruments – positive values	6,157	5,690	5,679	6,725
Other assets	3,137	3,691	3,387	3,172
Investment securities available for sale	2,646			
Intangible assets	371	371	382	20
Life insurance policy and other unit holder assets	4,370	4,473	4,533	4,534
Equity investments		116	138	110
Interest in associates and joint ventures using the equity method	2,220	2,117	1,239	631
Property, plant and equipment	148	148	106	70
Deferred income tax assets	201	203	178	189
Assets and disposal groups classified as held for sale	334	334	736	1,967
TOTAL ASSETS	68,254	67,980	59,150	58,918
LIABILITIES				
Due to banks	1,564	1,548	1,113	970
Cash collateral on securities lent and repurchase agreements	1,983	1,983	2,715	2,597
Trading portfolio liabilities	7,681	7,681	4,076	5,750
Derivative financial instruments – negative values	6,408	6,224	5,359	7,032
Deposits	7,286	7,240	6,503	5,771
Notes payable		28,161	25,902	23,505
Debt issued at amortised cost	25,975			
Other financial liabilities at fair value through profit and loss	2,236			
Other liabilities	4,440	4,581	3,626	3,179
Current tax liabilities	41	41	33	51
Life insurance policy and other unit holder liabilities	4,442	4,429	4,476	4,476
Provision for distributions				
Provisions	119	119	87	80
Deferred income tax liabilities	217	189	100	68
Liabilities of disposal groups classified as held for sale	-		354	1,682
Subordinated debt at amortised cost	1,095	1,359	915	960
Subordinated debt at fair value through profit and loss	264			
TOTAL LIABILITIES	63,751	63,555	55,259	56,121
NET ASSETS	4,503	4,425	3,891	2,797
EQUITY				
Ordinary share capital	1,600	1,600	1,474	1,382
Treasury shares	(1)	(1)	(14)	(1)
Macquarie Income Securities	391	391	391	391
Available for sale reserve	67			
Share based payment reserve	39	39	23	10
Cash flow hedge reserve	4			
Other reserves	10	10	12	(1)
Retained earnings	1,539	1,523	1,101	996
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	3,649	3,562	2,987	2,777
Minority interests	854	863	904	20
TOTAL EQUITY	4,503	4,425	3,891	2,797

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: RECONCILIATIONS FROM PREVIOUS AGAAP TO AIFRS

The pages that follow contain detailed reconciliations from previous AGAAP to AIFRS in accordance with AASB 1. The balance sheet reconciliations contain two columns for each period as well as the previous AGAAP and restated AIFRS amounts. The "reclassify" column includes reclassification and analysis of amounts from their previous AGAAP balance sheet lines to the appropriate AIFRS balance sheet lines. The "remeasure" column sets out the effects of the recognition and measurement changes required by the transition to AIFRS. The "remeasure" columns are further categorised into the type of adjustment. The income statement reconciliations contain an Adjustment column for each period as well as the previous AGAAP and restated AIFRS amounts. The Adjustment column is further categorized into items giving rise to remeasurement adjustments, together with a column comprising reclassification adjustments.

The tables on pages 53 to 59 provide more information on each type of adjustment that are referenced in the remeasure analysis.

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: CONSOLIDATED INCOME STATEMENT RECONCILIATIONS FOR PERIODS DURING THE 2005 FINANCIAL YEAR

	Full year to 31 March 2005 $m			Half year to 31 March 2005 $m			Half year to 30 September 2004 $m		
	AGAAP	**Adjustments**	**AIFRS**	**AGAAP**	**Adjustments**	**AIFRS**	**AGAAP**	**Adjustments**	**AIFRS**
Interest and similar income	1,636	929	2,565	833	485	1,318	803	444	1,247
Interest expense and similar charges	(1,266)	(763)	(2,029)	(638)	(396)	(1,034)	(628)	(367)	(995)
Net interest income	**370**	**166**	**536**	**195**	**89**	**284**	**175**	**77**	**252**
Fee and commission income	2,371	(121)	2,250	1,419	(67)	1,352	952	(54)	898
Fee and commission expense	(468)	39	(429)	(254)	23	(231)	(214)	16	(198)
Net fee and commission income	**1,903**	**(82)**	**1,821**	**1,165**	**(44)**	**1,121**	**738**	**(38)**	**700**
Net trading income	734	-	734	398	(3)	395	336	3	339
Share of net profits of associates and joint ventures using the equity method	35	(18)	17	18	(13)	5	17	(5)	12
Other operating income	825	(100)	725	628	(16)	612	197	(84)	113
Other operating expenses	(118)	37	(81)	(63)	18	(45)	(55)	19	(36)
Total income from ordinary activities	**3,749**	**3**	**3,752**	**2,341**	**31**	**2,372**	**1,408**	**(28)**	**1,380**
Employment expenses	(1,958)	(87)	(2,045)	(1,224)	(57)	(1,281)	(734)	(30)	(764)
Occupancy expenses	(107)	6	(101)	(56)	3	(53)	(51)	3	(48)
Non salary technology expenses	(104)	-	(104)	(59)	-	(59)	(45)	-	(45)
Professional fees, travel and communication expenses	(192)	2	(190)	(110)	-	(110)	(82)	2	(80)
Other expenses	(227)	73	(154)	(136)	55	(81)	(91)	18	(73)
Total expenses from ordinary activities	(2,588)	(6)	(2,594)	(1,585)	1	(1,584)	(1,003)	(7)	(1,010)
Operating profit before income tax	**1,161**	**(3)**	**1,158**	**756**	**32**	**788**	**405**	**(35)**	**370**
Income tax expense	(280)	(8)	(288)	(175)	(15)	(190)	(105)	7	(98)
Profit for the half year	**881**	**(11)**	**870**	**581**	**17**	**598**	**300**	**(28)**	**272**
Profit attributable to minority interests	(29)	-	(29)	(27)	-	(27)	(2)	-	(2)
Profit attributable to equity holders of Macquarie Bank Limited	**852**	**(11)**	**841**	**554**	**17**	**571**	**298**	**(28)**	**270**
Distributions paid or provided on Macquarie Income Securities	(29)	-	(29)	(15)	-	(15)	(14)	-	(14)
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**823**	**(11)**	**812**	**539**	**17**	**556**	**284**	**(28)**	**256**

SECTION 2: ANALYSIS OF ADJUSTMENTS COLUMN IN THE CONSOLIDATED INCOME STATEMENT RECONCILIATION FOR THE HALF YEAR TO 31 MARCH 2005

	Half year to 31 March 2005 $m						
	Share based payments (a)	**Consolidation of SPEs (b)**	**Employee benefit plans (d)**	**Treasury Shares (g)**	**Equity Accounting (e)**	**Reclassification**	**Total Adjustment**
Interest and similar income	-	498	-	-	(10)	(3)	**485**
Interest expense and similar charges	-	(421)	-	-	-	25	**(396)**
Net interest income	**-**	**77**	**-**	**-**	**(10)**	**22**	**89**
Fee and commission income	-	(63)	-	(1)	(3)	-	**(67)**
Fee and commission expense	-	(12)	-	-	-	35	**23**
Net fee and commission income	**-**	**(75)**	**-**	**(1)**	**(3)**	**35**	**(44)**
Net trading income	-	1	-	-	-	(4)	**(3)**
Share of net profits of associates and joint ventures using the equity method	-	-	-	-	(13)	-	**(13)**
Other operating income	-	(3)	-	-	88	(101)	**(16)**
Other operating expenses	-	-	-	-	-	18	**18**
Total income from ordinary activities	**-**	**-**	**-**	**(1)**	**62**	**(30)**	**31**
Employment expenses	(18)	-	(11)	-	-	(28)	**(57)**
Occupancy expenses	-	-	-	-	-	3	**3**
Non salary technology expenses	-	-	-	-	-	-	**-**
Professional fees, travel and communication expenses	-	-	-	-	-	-	**-**
Other expenses	-	-	-	-	-	55	**55**
Total expenses from ordinary activities	**(18)**	**-**	**(11)**	**-**	**-**	**30**	**1**
Operating profit before income tax	**(18)**	**-**	**(11)**	**(1)**	**62**	**-**	**32**
Income tax expense	-	-	3	-	(18)	-	**(15)**
Profit for the half year	**(18)**	**-**	**(8)**	**(1)**	**44**	**-**	**17**
Profit attributable to minority interests	-	-	-	-	-	-	**-**
Profit attributable to equity holders of Macquarie Bank Limited	**(18)**	**-**	**(8)**	**(1)**	**44**	**-**	**17**
Distributions paid or provided on Macquarie Income Securities	-	-	-	-	-	-	**-**
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**(18)**	**-**	**(8)**	**(1)**	**44**	**-**	**17**

(a) refers to Adjustment A on page 53, and following for other letters

SECTION 2: ANALYSIS OF ADJUSTMENTS COLUMN IN THE CONSOLIDATED INCOME STATEMENT RECONCILIATION FOR THE HALF YEAR TO 30 SEPTEMBER 2004

	Half year to 30 September 2004 $m						
	Share based payments (a)	Consolidation of SPEs (b)	Employee benefit plans (d)	Treasury Shares (g)	Equity Accounting (e)	Reclassification	Total Adjustment
Interest and similar income	-	444	-	-	-	-	**444**
Interest expense and similar charges	-	(380)	-	-	-	13	**(367)**
Net interest income	-	**64**	-	-	-	13	**77**
Fee and commission income	-	(52)	-	-	(2)	-	**(54)**
Fee and commission expense	-	(11)	-	-	-	**27**	**16**
Net fee and commission income	-	**(63)**	-	-	**(2)**	**27**	**(38)**
Net trading income	-	3	-	-	-	-	**3**
Share of net profits of associates and joint ventures using the equity method	-	-	-	-	(5)	-	**(5)**
Other operating income	-	(4)	-	-	(15)	(65)	**(84)**
Other operating expenses	-	-	-	-		19	**19**
Total income from ordinary activities	-	-	-	-	**(22)**	**(6)**	**(28)**
Employment expenses	(11)	-	(2)	-	-	(17)	**(30)**
Occupancy expenses	-	-	-	-	-	3	**3**
Non salary technology expenses	-	-	-	-	-	-	-
Professional fees, travel and communication expenses	-	-	-	-	-	2	**2**
Other expenses	-	-	-	-	-	18	**18**
Total expenses from ordinary activities	**(11)**	-	**(2)**	-	-	**6**	**(7)**
Operating profit before income tax	**(11)**	-	**(2)**	-	**(22)**	-	**(35)**
Income tax expense	-	-	1	-	6	-	**7**
Profit for the half year	**(11)**	-	**(1)**	-	**(16)**	-	**(28)**
Profit attributed to minority interests	-	-	-	-	-	-	-
Profit attributable to equity holders of Macquarie Bank Limited	**(11)**	-	**(1)**	-	**(16)**	-	**(28)**
Distributions paid or provided on Macquarie Income Securities	-	-	-	-	-	-	-
Profit attributable to ordinary equity holders of Macquarie Bank Limited	**(11)**	-	**(1)**	-	**(16)**	-	**(28)**

(a) refers to Adjustment A on page 53, and following for other letters

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: CONSOLIDATED BALANCE SHEET RECONCILIATIONS AS AT PERIODS FROM 1 APRIL 2004 TO 1 APRIL 2005

	As at 1 April 2005 $m				As at 31 March 2005 $m				As at 30 September 2004 $m				As at 1 April 2004 $m			
	AIFRS except 132/139	**Re-classify**	**Re-measure**	**AIFRS**	**AGAAP**	**Re-classify**	**Re-measure**	**AIFRS**	**AGAAP**	**Re-classify**	**Re-measure**	**AIFRS**	**AGAAP**	**Re-classify**	**Re-measure**	**AIFRS**
ASSETS																
Cash and liquid assets	-	-	-	**-**	859	(859)	-	**-**	690	(690)	-	**-**	647	(647)	-	**-**
Cash and balances with central banks	4	-	-	**4**	-	4	-	**4**	-	1	-	**1**	-	1	-	**1**
Due from banks	3,969	-	-	**3,969**	-	3,824	145	**3,969**	-	980	30	**1,010**	-	1,490	14	**1,504**
Cash collateral on securities borrowed and reverse repurchase agreements	8,927	-	-	**8,927**	8,927	-	-	**8,927**	7,398	-	-	**7,398**	8,598	-	-	**8,598**
Trading portfolio assets	7,800	(1,497)	-	**6,303**	7,175	-	625	**7,800**	6,342	(2)	699	**7,039**	6,891	(31)	563	**7,423**
Other securities	1,712	(1,712)	-	**-**	2,520	(1,655)	847	**1,712**	2,288	(886)	814	**2,216**	1,847	(416)	737	**2,168**
Loan assets held at amortised cost	28,425	(350)	25	**28,100**	16,463	(2,767)	14,729	**28,425**	12,110	(253)	13,251	**25,108**	10,777	(667)	11,696	**21,806**
Other financial assets at fair value through profit and loss	-	1,367	-	**1,367**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Derivative financial instruments – positive values	5,690	308	159	**6,157**	5,651	6	33	**5,690**	5,677	-	2	**5,679**	6,694	35	(4)	**6,725**
Other assets	3,691	(554)	-	**3,137**	4,065	(355)	(19)	**3,691**	3,613	(248)	22	**3,387**	3,531	(388)	29	**3,172**
Investment securities available for sale	-	2,554	92	**2,646**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Intangible assets	371	-	-	**371**	339	32	-	**371**	706	(324)	-	**382**	-	20	-	**20**
Life insurance policy and other unit holder assets	4,370	-	-	**4,370**	2,129	-	2,344	**4,473**	2,184	-	2,349	**4,533**	2,350	-	2,184	**4,534**
Equity investments	116	(116)	-	**-**	152	(36)	-	**116**	169	(31)	-	**138**	138	(28)	-	**110**
Interest in associates and joint ventures using the equity method	2,220	-	-	**2,220**	664	1,453	-	**2,117**	273	1,026	(60)	**1,239**	169	519	(57)	**631**
Property, plant and equipment	148	-	-	**148**	168	(15)	(5)	**148**	503	(392)	(5)	**106**	1,945	(1,871)	(4)	**70**
Deferred income tax assets	203	-	(2)	**201**	201	-	2	**203**	161	(3)	20	**178**	184	(10)	15	**189**
Assets and disposal groups classified as held for sale	334	-	-	**334**	-	334	-	**334**	-	736	-	**736**	-	1,967	-	**1,967**
TOTAL ASSETS	**67,980**	**-**	**274**	**68,254**	**49,313**	**(34)**	**18,701**	**67,980**	**42,114**	**(86)**	**17,122**	**59,150**	**43,771**	**(26)**	**15,173**	**58,918**

SECTION 2: CONSOLIDATED BALANCE SHEET RECONCILIATIONS AS AT PERIODS FROM 1 APRIL 2004 TO 1 APRIL 2005 (CONT.)

	As at 1 April 2005 $m				As at 31 March 2005 $m				As at 30 September 2004 $m				As at 1 April 2004 $m			
	AIFRS except 132/139	Re-classify	Re-measure	AIFRS	AGAAP	Re-classify	Re-measure	AIFRS	AGAAP	Re-classify	Re-measure	AIFRS	AGAAP	Re-classify	Re-measure	AIFRS
LIABILITIES																
Due to banks	1,548	16	-	**1,564**	1,553	-	(5)	**1,548**	1,118	(1)	(4)	**1,113**	1,935	(961)	(4)	**970**
Cash collateral on securities lent and repurchase agreements	1,983	-	-	**1,983**	1,983	-	-	**1,983**	2,715	-	-	**2,715**	2,597	-	-	**2,597**
Trading portfolio liabilities	7,681	-	-	**7,681**	7,681	-	-	**7,681**	4,076	-	-	**4,076**	5,750	-	-	**5,750**
Derivative financial instruments – negative values	6,224	41	143	**6,408**	5,226	(4)	1,002	**6,224**	4,559	(4)	804	**5,359**	5,821	2	1,209	**7,032**
Deposits	7,240	46	-	**7,286**	5,403	-	1,837	**7,240**	4,738	5	1,760	**6,503**	4,215	(4)	1,560	**5,771**
Notes payable	28,161	(28,161)	-	**-**	13,866	-	14,295	**28,161**	13,070	(165)	12,997	**25,902**	12,608	-	10,897	**23,505**
Debt issued at amortised cost	-	25,975	-	**25,975**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other financial liabilities at fair value through profit and loss	-	2,239	(3)	**2,236**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other liabilities	4,581	(156)	15	**4,440**	5,380	(30)	(769)	**4,581**	4,477	(112)	(739)	**3,626**	4,215	(398)	(638)	**3,179**
Current tax liabilities	41	-	-	**41**	41	-	-	**41**	35	(2)	-	**33**	53	(2)	-	**51**
Life insurance policy and other unit holder liabilities	4,429	9	4	**4,442**	2,081	-	2,348	**4,429**	2,124	-	2,352	**4,476**	2,291	-	2,185	**4,476**
Provision for distributions	-	-	-	**-**	34	(34)	-	**-**	7	(7)	-	**-**	6	(6)	-	**-**
Provisions	119	-	-	**119**	85	34	-	**119**	80	7	-	**87**	74	6	-	**80**
Deferred income tax liabilities	189	-	28	**217**	189	-	-	**189**	258	(161)	3	**100**	413	(345)	-	**68**
Liabilities of disposal groups classified as held for sale	-	-	-	**-**	-	-	-	**-**	-	354	-	**354**	-	1,682	-	**1,682**
Subordinated debt at amortised cost	1,359	(264)	-	**1,095**	1,359	-	-	**1,359**	915	-	-	**915**	960	-	-	**960**
Subordinated debt at fair value through profit and loss	-	264	-	**264**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
TOTAL LIABILITIES	**63,555**	**9**	**187**	**63,751**	**44,881**	**(34)**	**18,708**	**63,555**	**38,172**	**(86)**	**17,173**	**55,259**	**40,938**	**(26)**	**15,209**	**56,121**
NET ASSETS	**4,425**	**(9)**	**87**	**4,503**	**4,432**	**-**	**(7)**	**4,425**	**3,942**	**-**	**(51)**	**3,891**	**2,833**	**-**	**(36)**	**2,797**
EQUITY																
Ordinary share capital	1,600	-	-	**1,600**	1,600	-	-	**1,600**	1,474	-	-	**1,474**	1,382	-	-	**1,382**
Treasury shares	(1)	-	-	**(1)**	-	-	(1)	**(1)**	-	-	(14)	**(14)**	-	-	(1)	**(1)**
Macquarie Income Securities	391	-	-	**391**	391	-	-	**391**	391	-	-	**391**	391	-	-	**391**
Available for sale reserve	-	-	67	**67**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Share based payment reserve	39	-	-	**39**	-	-	39	**39**	-	-	23	**23**	-	-	10	**10**
Cash flow hedge reserve	-	-	4	**4**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other reserves	10	-	-	**10**	-	-	10	**10**	-	-	12	**12**	-	-	(1)	**(1)**
Retained earnings	1,523	-	16	**1,539**	1,578	-	(55)	**1,523**	1,173	-	(72)	**1,101**	1,040	-	(44)	**996**
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**3,562**	-	**87**	**3,649**	**3,569**	-	**(7)**	**3,562**	**3,038**	-	**(51)**	**2,987**	**2,813**	-	**(36)**	**2,777**
Minority interests	863	(9)	-	**854**	863	-	-	**863**	904	-	-	**904**	20	-	-	**20**
TOTAL EQUITY	**4,425**	**(9)**	**87**	**4,503**	**4,432**	**-**	**(7)**	**4,425**	**3,942**	**-**	**(51)**	**3,891**	**2,833**	**-**	**(36)**	**2,797**

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: ANALYSIS OF REMEASURE COLUMN IN CONSOLIDATED BALANCE SHEET AS AT 1 APRIL 2005

	As at 1 April 2005 $m						
	Effective Yield (j)	**Loan Loss (k)**	**Derivatives and other financial instruments at fair value (i)**	**Available for Sale (l)**	**Deferred acquisition costs (m)**	**Profit share (f)**	**Total Remeasure**
Loan assets held at amortised cost	(25)	50	-	-	-	-	**25**
Derivative financial instruments – positive values	-	-	159	-	-	-	**159**
Investment securities available for sale	-	-	-	92	-	-	**92**
Deferred income tax assets	8	(15)	-	-	-	5	**(2)**
TOTAL ASSETS	**(17)**	**35**	**159**	**92**	-	**5**	**274**
Derivative financial instruments –negative values	-	-	143	-	-	-	**143**
Other financial liabilities at fair value through profit and loss	-	-	(3)	-	-	-	**(3)**
Other liabilities	-	-	-	-	-	15	**15**
Life insurance policy and other unit holder liabilities	-	-	-	-	4	-	**4**
Deferred income tax liabilities	-	-	4	25	(1)	-	**28**
TOTAL LIABILITIES	-	-	**144**	**25**	**3**	**15**	**187**
NET ASSETS	**(17)**	**35**	**15**	**67**	**(3)**	**(10)**	**87**
Available for sale reserve	-	-	-	67	-	-	**67**
Cash flow hedge reserve	-	-	4	-	-	-	**4**
Retained earnings	(17)	35	11	-	(3)	(10)	**16**
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**(17)**	**35**	**15**	**67**	**(3)**	**(10)**	**87**
TOTAL EQUITY	**(17)**	**35**	**15**	**67**	**(3)**	**(10)**	**87**

(a) refers to Adjustment A on page 53, and following for other letters

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: ANALYSIS OF REMEASURE COLUMN IN CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005

	As at 31 March 2005 $m						
	Roll forward from 30 September 2004	**Share based payments (a)**	**Consolidation of SPEs (b)**	**Employee benefit plans (d)**	**Treasury shares (g)**	**Equity Accounting (e)**	**Total Remeasure**
Due from banks	-	-	145	-	-	-	**145**
Trading portfolio assets	-	-	625	-	-	-	**625**
Other securities	-	-	847	-	-	-	**847**
Loan assets held at amortised cost	-	-	14,729	-	-	-	**14,729**
Derivative financial instruments – positive values	-	-	33	-	-	-	**33**
Other assets	-	-	(19)	-	-	-	**(19)**
Life insurance policy and other unit holder assets	(3)	-	2,348	-	(1)	-	**2,344**
Interest in associates and joint ventures using the equity method	(60)	-	-	-	-	60	-
Property, plant and equipment	(5)	-	-	-	-	-	**(5)**
Deferred income tax assets	20	-	-	-	-	(18)	**2**
TOTAL ASSETS	**(48)**	-	**18,708**	-	**(1)**	**42**	**18,701**
Due to banks	-	-	(5)	-	-	-	**(5)**
Derivative financial instruments – negative values	-	-	1,002	-	-	-	**1,002**
Deposits	-	-	1,837	-	-	-	**1,837**
Notes payable	-	-	14,295	-	-	-	**14,295**
Other liabilities	-	-	(769)	-	-	-	**(769)**
Life insurance policy and other unit holder liabilities	-	-	2,348	-	-	-	**2,348**
Deferred income tax liabilities	3	-	-	(3)	-	-	-
TOTAL LIABILITIES	**3**	-	**18,708**	**(3)**	-	-	**18,708**
NET ASSETS	**(51)**	-	-	**3**	**(1)**	**42**	**(7)**
Treasury shares	(14)	-	-	13	-	-	**(1)**
Share based payment reserve	23	18	-	(2)	-	-	**39**
Other reserves	12	-	-	-	-	(2)	**10**
Retained earnings	(72)	(18)	-	(8)	(1)	44	**(55)**
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**(51)**	-	-	**3**	**(1)**	**42**	**(7)**
TOTAL EQUITY	**(51)**	-	-	**3**	**(1)**	**42**	**(7)**

(a) refers to Adjustment A on page 53, and following for other letters

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: ANALYSIS OF REMEASURE COLUMN IN CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2004

	As at 30 September 2004 $m						
	Roll forward from 1 April 2004	**Share based payments (a)**	**Consolidation of SPEs (b)**	**Foreign currency translation (c)**	**Employee benefit plans (d)**	**Equity Accounting (e)**	**Total Remeasure**
Due from banks		-	30	-	-	-	**30**
Trading portfolio assets	-	-	699	-	-	-	**699**
Other securities	-	-	814	-	-	-	**814**
Loan assets held at amortised cost	-	-	13,251	-	-	-	**13,251**
Derivative financial instruments – positive values	-	-	2	-	-	-	**2**
Other assets	-	-	22	-	-	-	**22**
Life insurance policy and other unit holder assets	(3)	-	2,352	-	-	-	**2,349**
Interest in associates and joint ventures using the equity method	(57)	-	-	-	-	(3)	**(60)**
Property, plant and equipment	(4)	-	-	(1)	-	-	**(5)**
Deferred income tax assets	15	-	-	-	4	1	**20**
TOTAL ASSETS	**(49)**	-	**17,170**	**(1)**	**4**	**(2)**	**17,122**
Due to banks	-	-	(4)	-	-	-	**(4)**
Derivative financial instruments – negative values	-	-	804	-	-	-	**804**
Deposits	-	-	1,760	-	-	-	**1,760**
Notes payable	-	-	12,997	-	-	-	**12,997**
Other liabilities	(13)	-	(739)	-	13	-	**(739)**
Life insurance policy and other unit holder liabilities	-	-	2,352	-	-	-	**2,352**
Deferred income tax liabilities	-	-	-	-	3	-	**3**
TOTAL LIABILITIES	**(13)**	-	**17,170**	-	**16**	-	**17,173**
NET ASSETS	**(36)**	-	-	**(1)**	**(12)**	**(2)**	**(51)**
Treasury shares	(1)	-	-	-	(13)	-	**(14)**
Share based payment reserve	10	11	-	-	2	-	**23**
Other reserves	(1)	-	-	(1)	-	14	**12**
Retained earnings	(44)	(11)	-	-	(1)	(16)	**(72)**
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	**(36)**	-	-	**(1)**	**(12)**	**(2)**	**(51)**
TOTAL EQUITY	**(36)**	-	-	**(1)**	**(12)**	**(2)**	**(51)**

(a) refers to Adjustment A on page 53, and following for other letters

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

SECTION 2: ANALYSIS OF REMEASURE COLUMN IN CONSOLIDATED BALANCE SHEET AS AT 1 APRIL 2004

	As at 1 April 2004 $m						
	Share based payments (a)	**Consolidation of SPEs (b)**	**Foreign currency translation (c)**	**Employee benefit plans (d)**	**Treasury shares (g)**	**Equity accounting (e)**	**Total Remeasure**
Due from banks	-	14	-	-	-	-	**14**
Trading portfolio assets	-	563	-	-	-	-	**563**
Other securities	-	737	-	-	-	-	**737**
Loan assets held at amortised cost	-	11,696	-	-	-	-	**11,696**
Derivative financial instruments – positive values	-	(4)	-	-	-	-	**(4)**
Other assets	-	29	-	-	-	-	**29**
Life insurance policy and other unit holder assets	-	2,187	-	-	(3)	-	**2,184**
Interest in associates and joint ventures using the equity method	-	-	-	-	-	(57)	**(57)**
Property, plant and equipment	-	-	(4)	-	-	-	**(4)**
Deferred income tax assets	-	-	-	(4)	1	18	**15**
TOTAL ASSETS	-	**15,222**	**(4)**	**(4)**	**(2)**	**(39)**	**15,173**
Due to banks	-	(4)	-	-	-	-	**(4)**
Derivative financial instruments – negative values	-	1,209	-	-	-	-	**1,209**
Deposits	-	1,560	-	-	-	-	**1,560**
Notes payable	-	10,897	-	-	-	-	**10,897**
Other liabilities	-	(625)	-	(13)	-	-	**(638)**
Life insurance policy and other unit holder liabilities	-	2,185	-	-	-	-	**2,185**
Deferred income tax liabilities	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	**15,222**	-	**(13)**	-	-	**15,209**
NET ASSETS	-	-	**(4)**	**9**	**(2)**	**(39)**	**(36)**
Treasury shares	-	-	-	-	(1)	-	**(1)**
Share based payment reserve	10	-	-	-	-	-	**10**
Other reserves	-	-	-	-	-	(1)	**(1)**
Retained earnings	(10)	-	(4)	9	(1)	(38)	**(44)**
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	-	-	**(4)**	**9**	**(2)**	**(39)**	**(36)**
TOTAL EQUITY	-	-	**(4)**	**9**	**(2)**	**(39)**	**(36)**

(a) refers to Adjustment A on page 53, and following for other letters

SECTION 2: ANALYSIS OF AIFRS IMPACT ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The adoption of AIFRS has impacted the statement of cash flows. The main differences to previous AGAAP arise due to

- Consolidation of special purpose entities (refer Adjustment B on page 53)
- Reclassifications of financial assets and liabilities in accordance with the requirements of AASB 139

The definition of cash and cash equivalents under AIFRS differs from the previous AGAAP definition and has been expanded to include bank accepted bills and negotiable certificates of deposits issued by a bank, with a maturity of less than 3 months, included in Trading Portfolio Assets and Investment Securities Available for Sale. The revised definition of cash and cash equivalents is included within Note 1 to the financial statements.

The impact of AIFRS is reflected below.

FOR THE HALF YEAR TO 31 MARCH 2005

	Half year to 31 March 2005 $m		
	AGAAP	**Adjustments**	**AIFRS**
Cash flows from operating activities	1,875	1,055	2,930
Cash flows from investing activities	(1,964)	1,625	(339)
Cash flows from financing activities	2,986	(2,565)	421
Cash movement	**2,897**	**115**	**3,012**
Cash at beginning of period	2,107	31	2,138
Cash at end of period	5,004	146	5,150

FOR THE HALF YEAR TO 30 SEPTEMBER 2004

	Half year to 30 September 2004 $m		
	AGAAP	**Adjustments**	**AIFRS**
Cash flows from operating activities	411	(359)	52
Cash flows from investing activities	(2,774)	1,525	(1,249)
Cash flows from financing activities	1,930	(1,149)	781
Cash movement	**(433)**	**17**	**(416)**
Cash at beginning of period	2540	14	2,554
Cash at end of period	2,107	31	2,138

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

The tables below provide additional explanatory comment to the adjustments quantified on the previous pages.

Changes applicable in comparative period commencing 1 April 2004

The table below summarises the nature of the more significant adjustments made to the economic entity's consolidated statements of financial position as at 1 April 2004, 30 September 2004 and 31 March 2005, and consolidated income statements and consolidated statements of cash flows for the half-year ended 30 September 2004 and financial year ended 31 March 2005. This includes all material AIFRS changes except for those arising from AASB 132 and AASB 139. The table provided in the section 'Changes applicable from 1 April 2005' describes (but does not quantify) the main adjustments that would have been needed to make the comparative information for the half-year ended 30 September 2004 and for the financial year ended 31 March 2005 comply with AASB 132 and AASB 139. The amount of the adjustments arising on transition to AIFRS as at 1 April 2004 noted below are referenced to each line item affected in the accompanying restated consolidated balance sheets and consolidated income statements. In addition, the table below summarises some of the more significant reclassifications made in the current, and to be made in future financial statements. While policy decisions have been made, interpretations on some issues are still evolving, and consequently changes in interpretations could still occur in the future that may impact existing policies.

	Description	**Impact**
Adjustment A	**Share based payments:** Under previous AGAAP, options granted to employees for nil monetary consideration were not recognised. Shares granted to employees (in lieu of profit share entitlements) under share acquisition plans were recognised as an expense. Under AIFRS, the economic entity recognises an expense for shares and options granted to employees. As permitted by the transitional provisions of AIFRS, management has elected not to apply the new rules to options granted on or before 7 November 2002, and options granted after 7 November 2002 that vest before 1 January 2005.	On transition, an options reserve (equity) has been created, with an offsetting adjustment to retained earnings. This adjustment reflects the amount to have been amortised for the period from 7 November 2002 to 31 March 2004. After transition, an options reserve and an employee expense is recognised each period for the amount allocated to that period. In the future, the annual expense may increase as the number of unvested options granted each period since November 2002 increases. Assuming that the current Employee Option Plan continues, the full impact of unvested options will be reflected from the financial year ending 31 March 2008.
Adjustment B	**Consolidation of certain Special Purpose Entities ("SPEs"):** Under previous AGAAP, a number of SPEs were not consolidated. Under AIFRS, a different interpretation of the consolidation rules applicable to SPEs required a reassessment of the accounting for existing securitisations – both of the Bank's own assets and of its customers' assets. Most of the Bank's mortgage securitisations and some other SPEs are now consolidated by the economic entity, because the economic entity is exposed to the majority of the residual income and/or residual risk associated with the SPE.	<u>Mortgage SPEs</u> The underlying mortgage loans and liabilities to noteholders (along with derivatives) held by the SPEs are reported on the Bank's consolidated balance sheet. Derivatives are carried at fair value from 1 April 2005. The income statement no longer reports management fees and other fees earned from the SPEs. Instead, the income statement reports gross interest income earned on mortgage loans, interest expense accrued to noteholders, movements in the fair values of derivatives (unless rules for cash flow hedging are met), and any remaining net margin is reflected in profit and loss. <u>Other SPEs</u> Other consolidated SPEs relate to certain managed funds and repackaging vehicles. For these other SPEs, the underlying SPE assets and liabilities are recorded in the Bank's balance sheet. There is no profit impact arising from consolidation of these SPEs.

	Description	Impact
Adjustment C	**Foreign currency translation:** Under previous AGAAP, the economic entity considered its foreign operations to generally be integrated operations. Consequently, monetary items were translated using the period end spot exchange rates, non-monetary items were translated using the historical exchange rates, and resulting foreign exchange differences were immediately recognised in earnings. Under AIFRS, the functional currency of each foreign operation is determined based on a hierarchy of factors. Generally, a foreign operation's functional currency is determined to be the currency of the country where it is located as the revenues are determined by the local market conditions and in the local currency, and a majority of operating costs are denominated in the local currency.	For foreign operations determined to have a functional currency of the country where they are located, the method of translating from their functional currency to Australian dollars has changed. As permitted by the transitional provisions of AIFRS, management has elected to reset the foreign currency translation reserve to nil on transition. As discussed below at Adjustment I, the economic entity has applied hedge accounting to its net investments.
Adjustment D	**Consolidation of employee benefit trusts and plans:** Employees may sacrifice part of their cash remuneration entitlement in return for fully paid ordinary shares of MBL. Plans are established to purchase MBL shares on market and allocate them to the employees. Under previous AGAAP, an accrued liability and expense was recognised for the cash remuneration entitlement. When the monies were paid to the Plan Company, the accrual was utilised. These plans were not consolidated by the economic entity as the beneficial ownership remains with the employees who participate in the plans, as administered by the Plan Company on their behalf. Under AIFRS, UIG-112 *Consolidation – Special Purpose Entities* was amended so that equity compensation plans are included within its scope. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement is required to consolidate that trust.	The underlying net assets of some of the employee benefit plans are reported on the Bank's consolidated balance sheet. For those arrangements not subject to any vesting conditions, there has been no transition adjustment to retained earnings, because the assets held by the plan (i.e. MBL shares) are recognised as a reduction in equity and obligations of the plan (to deliver fully vested MBL shares) are recognised as an increase in equity as a share-based payment. Subsequent to transition, there is also no impact on net assets; however, these transactions are reflected within equity each period as: – equity decreases for shares bought on market by the Plan Company; and – equity increases for fully vested shares delivered in satisfaction of the accrued employee benefit liabilities (a share-based payment). For certain arrangements subject to vesting conditions, on transition, the accrued liability (representing the unvested component) has been reversed. Subsequent to transition, this unvested component is recognised as a share-based payment transaction over the vesting period. The assets held by the plan (i.e. MBL shares) are recognised as a reduction in equity. Due to an acceleration in vesting conditions, the unrecognised expense has been brought to account in the half year ended 31 March 2005.

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

	Description	Impact
Adjustment E	**Investments in entities that are also managed by the economic entity:** The economic entity holds an ownership interest in some of the funds that it manages. Consequently, the economic entity is required to determine the degree of influence it has over the funds' operating and financial policies. Under previous AGAAP, the economic entity considered that it did not significantly influence such funds where it had an ownership interest carrying voting rights of less than 20%, because the manager acts in a fiduciary capacity. This interpretation was applied where its position as manager could be terminated without cause by a vote of unit holders. Under AIFRS, the current interpretation is that typically a manager significantly influences the fund when it has any level of ownership interest carrying voting rights and controls the fund when voting rights exceed 50%. Under both previous AGAAP and AIFRS, where the investment in associate is held for sale, equity accounting is not applied, and the investment is measured at the lower of carrying amount and fair value.	On transition, the investments have been measured using the equity method of accounting, instead of being carried at historical cost (subject to an annual test of recoverable amount). After transition, the investments will continue to be carried using the equity method of accounting. Consequently, the carrying amount will change each period for the economic entity's share of earnings, and other equity movements of the fund after the acquisition of the investment. Some investments that are unit trusts have availed themselves of the exemption in AASB 128*: Investments in Associates* from applying the equity method of accounting to investments they hold in associates (and thereby have chosen to carry such investments at fair value through profit and loss under AASB 139: *Financial Instruments: Recognition and Measurement*). This accounting policy has been changed in the economic entity's financial statements to follow the economic entity's policy for accounting for investments in associates (i.e. the equity method of accounting is applied), except where the economic entity carries similar investments at fair value through profit and loss. If an accounting policy must be applied consistently to all transactions/balances of a specified nature, and a fund applies a policy that is different to the economic entity's policy (e.g. investment properties can be carried at either fair value or on a cost basis), then the fund's policy is changed in the economic entity's financial statements to follow the economic entity's policy.
Adjustment F	**Profit share:** The economic entity has in place a profit share scheme whereby profit share payable to staff is calculated with reference to the economic entity's net profit after tax (before profit share) and excess return over the cost of equity. Under both previous AGAAP and AIFRS, a liability for profit share is recognised at each reporting date based on the estimates of the obligation calculated by the agreed formula.	There has been an increase in the accrual for profit share as a result of the remeasurement of certain assets and liabilities at date of transition to AIFRS on 1 April 2005 which has been included within opening retained earnings.
Adjustment G	**MBL shares held by consolidated entities (Treasury shares):** Under previous AGAAP, MBL shares held directly by the economic entity's life insurance statutory funds were recognised in the consolidated statement of financial position at net market value. Also, some entities that previously were not consolidated by the economic entity, but now under AIFRS are consolidated, directly hold MBL shares. Under AIFRS, an entity that holds its own issued shares presents them as a reduction in equity and cannot revalue them.	MBL shares held as investments by consolidated entities in the economic entity are reclassified as a reduction in equity. On transition, the carrying amounts of the shares are restated to their historical cost. After transition, the carrying amounts are not changed.

	Description	Impact
Adjustment H	**Taxation:** A "balance sheet" approach has been adopted under AIFRS, replacing the "statement of financial performance" approach applied under previous AGAAP. The new method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.	There have been some increases in the levels of deferred tax assets and liabilities. For example, additional deferred tax balances have been created from: carrying investments in associates and joint venture entities using the equity method of accounting and, as a consequence of applying AASB 139 at 1 April 2005, from: • adoption of the effective yield method of interest recognition; • remeasurement of loan loss provision; • unrealised movements in the fair value of available for sale assets; • choosing to carry some financial instruments at fair value through profit and loss; and • using cash flow hedge accounting.

MACQUARIE BANK LIMITED

Notes to the financial statements
30 September 2005

Changes applicable from 1 April 2005

The table below summarises the nature of the more significant adjustments made to the economic entity's consolidated statement of financial position as at 1 April 2005 (the effects of tax and profit share have been compiled and adjusted separately), in addition to the table above. This includes all material AIFRS changes arising only from AASB 132 and AASB 139. The amounts of the adjustments arising on transition to AIFRS as at 1 April 2005 are referenced to each line item affected in the accompanying restated consolidated balance sheet. In addition, the table below summarises some of the more significant reclassifications made in the current, and to be made in future financial statements. While policy decisions have been made, interpretations on some issues are still evolving, and consequently changes in interpretations could still occur in the future that may impact existing policies.

	Description	Impact *(excluding the effect of tax and profit share)*
Adjustment I	**Derivatives and other financial instruments at fair value:** **<u>Derivatives</u>** Under previous AGAAP, non-trading derivatives were measured on an accruals basis. Non-trading derivatives include those for which hedge accounting was applied. Under AIFRS, all derivatives, including those used for balance sheet hedging purposes, are recognised on balance sheet and carried at fair value. Movements in the carrying amounts of derivatives are recognised in earnings, unless cash flow or net investment hedge accounting is applied.	A hybrid approach has been adopted to address the earnings volatility arising from carrying all derivatives at fair value. This includes choosing to carry another financial instrument with offsetting exposure at fair value (i.e. designate the instrument as one that is carried at fair value through profit and loss), applying fair value hedge accounting to some exposures, applying cash flow hedge accounting to other exposures, and accepting a level of volatility. The key areas where the economic entity has applied hedge accounting are: – cash flow hedging for interest rate risk arising from the consolidated mortgage securitisation vehicles and other structured products; – fair value hedging for foreign exchange risk arising from investments in foreign-denominated equity instruments; and – net investment hedging for foreign exchange risk arising from foreign operations. These new rules have introduced some volatility in profit and loss, and equity reserves based on changes in interest rates and foreign exchange rates.
	<u>Financial instruments designated at fair value</u> One of the solutions for dealing with the volatility arising from carrying all derivatives at fair value is to irrevocably choose to carry some financial assets or financial liabilities with a natural offsetting exposure at fair value through the profit and loss. Consequently, as permitted by the transitional provisions of AIFRS, management has designated (at the date of transition) certain financial assets and financial liabilities to be carried at fair value through profit and loss.	Certain financial instruments have been reclassified to fair value through the profit and loss. On transition, these have been remeasured to their fair value, with an offsetting adjustment to retained earnings. After transition, measuring these financial instruments at fair value means those changes to interest rates and credit spreads impact earnings immediately. Since this approach is being taken to minimise the impact of volatility from carrying derivatives at fair value, any retained earnings adjustment on transition (and any subsequent impact on earnings) is largely offset by revaluing derivatives used to mitigate these risks.
Adjustment J	**Interest income and expense** **(effective interest rate or effective yield):** Under previous AGAAP, certain upfront fees and associated transaction costs were recognised immediately on origination of the loans.	Certain fees and transaction costs are no longer recognised upfront as revenue or expense, but are amortised over the life of the loan on an effective interest method.

	Under AIFRS, these fees and associated transaction costs are capitalised and included in the loan's effective interest rate and recognised over the expected life of the loan.	On adoption, this has decreased loans and receivables with a corresponding reduction in retained earnings that will be brought to account in the income statement over the remaining life of the loans.

	Description	**Impact** ***(excluding the effect of tax and profit share)***
Adjustment K	**Provisions for loan impairment:** AIFRS requires an incurred loss model for general loan provisioning. Provisions are recognised only in respect of those losses for which there is objective evidence of impairment and must be calculated based on the discounted values of expected future cash flows. Specific provisions continue to be recognised under AIFRS. Under previous AGAAP, the economic entity's general provision for credit losses was maintained at 55 basis points of risk-weighted assets.	The methodology to calculate this incurred loss provision has been developed. The application of this methodology has resulted in a substantial reduction in the provision at 1 April 2005.
Adjustment L	**Available for sale financial instruments:** Certain equity investments and debt investment securities carried at historical cost/amortised cost under previous AGAAP have been reclassified to available for sale financial instruments under AIFRS. Available for sale financial instruments are carried at fair value with changes in fair value recognised in an equity reserve, and transferred to earnings when the financial instruments are sold. This treatment does not apply to investments in associates, joint ventures, or subsidiaries that are accounted for according to AASB 128: *Investments in Associates*, AASB 131: *Interests in Joint Ventures*, AASB 127: *Consolidated and Separate Financial Statements.*	On adoption, the carrying amount of those financial instruments to be treated as available for sale have increased with an equity reserve (after tax) being created for an equivalent amount. The amounts have also been reclassified from the various categories used previously. Following adoption, carrying available for sale financial instruments at fair value will result in volatility in the equity reserve, depending on future movements in fair values.
Adjustment M	**Deferred acquisition costs:** Under previous AGAAP costs incurred in writing contracts by the life insurance business were deferred and amortised over the life of the contract whereas upfront fees were recognised immediately. Under AIFRS, such fees and costs relating to investment style contracts are included in the effective interest rate and recognised over the life of the contract.	Certain fees are no longer recognised upfront as revenue, but are amortised over the life of the contract through the yield. On adoption, this has decreased life insurance income and increased life insurance and other policy holder liabilities.

<table>
<tr><th></th><th>Description</th><th>Impact (excluding the effect of tax and profit share)</th></tr>
<tr><td>Adjustments with no Impact to opening retained earnings</td><td>Debt vs. equity classification:

<u>MIS securities</u></td><td>

Under previous AGAAP, the MIS were classified as equity. Under AIFRS, there has been no change in classification; the MIS continues to be classified as equity.</td></tr>
<tr><td></td><td><u>MIPS securities</u>
Hybrid capital (Macquarie Income Preferred Securities) was raised in a foreign currency, which was classified as outside equity interest in the economic entity.</td><td>Under previous AGAAP, the hybrid capital was classified as equity. Under AIFRS, there has been no change in classification; the hybrid capital continues to be classified as equity and continues to be included within minority interest.</td></tr>
<tr><td></td><td><u>Hedging of MIPS securities</u>
Economically, the interest rate risk and foreign exchange risk is hedged through the use of derivatives and existing foreign currency denominated assets. Under previous AGAAP, hedge accounting was applied. However, under AIFRS, hedging own equity issued is not permitted.</td><td>Under AIFRS (as noted above), all derivatives (interest rate swaps and forward exchange contracts) are carried at fair value. Even though hedge accounting is not permitted for derivatives used to hedge risks arising from the MIPS, changes in the fair value of foreign exchange contracts due to changes in the spot rate are expected to naturally offset the changes from retranslating foreign currency denominated assets. Changes in fair value of foreign exchange contracts due to time value results in some volatility in earnings, but this has not been material. Changes in the fair value of the interest rate swaps is recognised in earnings, creating volatility.

On adoption, the interest rate swaps have been adjusted from their accrual value to fair value with an offsetting credit to opening retained earnings.</td></tr>
<tr><td></td><td><u>Non-current assets held for sale:</u>
The economic entity invests in certain entities and assets that are expected to be sold. Under previous AGAAP, these entities were consolidated when the economic entity held a controlling interest. Under AIFRS, when the carrying amount of such investments are to be recovered principally through sale rather than continuing use, they are classified as ‘held for sale’. In such circumstances, the investments continue to be consolidated where a controlling interest is held. However, the total underlying assets and total underlying liabilities are each presented in the consolidated balance sheet as two separate line items.

The revenue and expenses from these disposal groups are also presented net within the income statement and notes thereto.

Further, in contrast to previous AGAAP, depreciation/amortisation on depreciable (intangible and tangible) assets is not recognised, and the carrying amount of the net assets is subject to a ceiling test of fair value less costs to sell.</td><td>On adoption, the underlying assets and liabilities of entities controlled by the economic entity, and that meet the criteria to be classified as held for sale, are no longer presented according to their individual classifications. Instead, the individual assets are grouped together and the individual liabilities are grouped together, and presented as two line items in the consolidated balance sheet – total assets and disposal groups held for sale and total liabilities associated with assets and disposal groups held for sale.

Prior comparatives in the income statement are also restated with the net income (revenue less expenses) included within other income.</td></tr>
</table>

Reclassifications

The adoption of AIFRS has resulted in a number of reclassifications within the balance sheet, income statement and statement of cash flows from the presentation adopted by previous AGAAP. The main reclassifications for the periods ending 30 September 2004 and 31 March 2005 include:

- interests in associates from other securities and loans;
- due from banks from loan assets;
- held for sale assets and disposal groups from other securities and various asset categories; and
- liabilities within disposal groups from various liability categories.

Notes to the financial statements
30 September 2005

The reclassifications at 1 April 2005 arise from the adoption of AASB 139 in the asset and liability classifications outlined in Note 1 to the financial statements.

An income statement reclassification between fees and commissions and employment cost expense has been recognised for commissions paid to Macquarie employees.

MACQUARIE BANK LIMITED
and its controlled entities

DIRECTORS' DECLARATION

In the Directors' opinion

(a) the financial statements and notes set out on pages 6 to 60 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and

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

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

David Clarke
Executive Chairman

Allan Moss
Managing Director and
Chief Executive Officer

Sydney
14 November 2005

PRICEWATERHOUSECOOPERS

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Independent review report to the members of Macquarie Bank Limited

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Macquarie Bank Limited (the Company) for the half-year ended 30 September 2005 included on Macquarie Bank Limited's web site. The Company's directors are responsible for the integrity of the Macquarie Bank Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Macquarie Bank Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Macquarie Bank Group (defined below) as at 30 September 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Macquarie Bank Group (the consolidated entity), for the half-year ended 30 September 2005. The consolidated entity comprises both Macquarie Bank Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

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

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Ian Hammond
Partner

Sydney
14 November 2005

MACQUARIE BANK LIMITED

and its controlled entities

TEN YEAR HISTORY

With the exception of 31 March 2005, the financial information presented below has been based on the Australian standards adopted at each reporting date. The financial information for the full year ended 31 March 2005 and half year ended 30 September 2005 is based on the reported results using the Australian Standards that are equivalent to International Financial Reporting Standards and their related pronouncements.

	Years ended 31 March									First half
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005(e)**	**2006**
Income statement ($ million)										
Total income from ordinary activities	530	665	815	1,186	1,472	1,600	1,890	2,465	3,752	**2,160**
Total expenses from ordinary activities	392	498	597	885	1,147	1,245	1,430	1,780	2,594	**1,477**
Operating profit before income tax	138	167	218	301	325	355	460	685	1,158	**683**
Income tax expense	21	26	53	79	53	76	96	161	288	**160**
Profit for the period	117	141	165	222	272	279	364	524	870	**523**
Macquarie Income Preferred Securities distributions	-	-	-	-	-	-	-	-	28	**23**
Other minority interests	-	-	-	-	(1)	-	3	3	1	**3**
Macquarie Income Securities distributions	-	-	-	12	31	29	28	27	29	**15**
Profit attributable to ordinary equity holders	117	141	165	210	242	250	333	494	812	**482**
Balance sheet ($ million)										
Total assets	6,142	7,929	9,456	23,389	27,848	30,234	32,462	43,771	67,980	**84,220**
Total liabilities	5,642	7,348	8,805	22,154	26,510	27,817	29,877	40,938	63,555	**79,227**
Net assets	500	581	651	1,235	1,338	2,417	2,585	2,833	4,425	**4,993**
Risk-weighted assets	4,686	4,967	4,987	8,511	9,860	10,651	10,030	13,361	19,771	**23,089**
Total loan assets	2,682	3,158	4,002	6,518	7,785	9,209	9,839	10,777	28,425	**31,410**
Impaired assets (net of provisions)	46	12	44	23	31	49	16	61	42	**65**
Share information*										
Cash dividends per share (cents per share)										
Interim	18	21	30	34	41	41	41	52	61	**90**
Final	25	30	38	52	52	52	52	70	100	**n/a**
Special	-	-	-	-	-	-	50	-	40	**-**
Total	43	51	68	86	93	93	143	122	201	**90**
Basic earnings per share (cents per share)	74.89	88.09	101.33	124.33	138.88	132.83	164.84	233.02	369.60	**212.9**
Share price at period end ($) (a)	8.50	14.35	19.10	26.40	27.63	33.26	24.70	35.80	48.03	**75.35**
Ordinary share capital (million shares) (b)	151.4	157.6	161.1	171.2	175.9	198.5	204.5	215.9	223.7	**230.3**
Market capitalisation at period end (fully paid ordinary shares) ($ million)	1,287	2,262	3,077	4,520	4,860	6,602	5,051	7,729	10,744	**17,353**
Ratios										
Return on average ordinary shareholders' funds	25.5%	26.1%	26.8%	28.1%	27.1%	18.7%	18.7%	22.3%	29.8%	**28.3%**
Payout ratio (excluding special dividend)	60.5%	57.9%	67.2%	70.0%	67.5%	73.6%	87.4(d)%	53.2%	53.2%	**43.3%**
Tier 1 ratio	12.9%	11.7%	13.0%	14.5%	12.9%	17.8%	19.0%	16.2%	14.4%	**12.9%**
Capital adequacy ratio	13.2%	16.4%	17.3%	18.4%	16.0%	19.4%	21.4%	19.9%	21.2%	**16.5%**
Impaired assets as % of loan assets (excluding mortgage securitisation SPV's)	1.7%	0.4%	1.1%	0.3%	0.4%	0.5%	0.2%	0.6%	0.3%	**0.4%**
Net loan losses as % of loan assets (excluding mortgage securitisation SPV's)	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.0%	0.3%	0.2%	**0.1%**
Assets under management ($ billion) (f)	16.9	21.4	22.8	26.3	30.9	41.3	52.3	62.6	96.7	**112.0**
Staff numbers (c)	1,965	2,474	3,119	4,070	4,467	4,726	4,802	5,716	6,556	**7,125**

(a) The Bank's ordinary shares were quoted on the Australian Stock Exchange on 29 July 1996
(b) Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.
(c) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).
(d) The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the payout ratio would have been 56.8%.
(e) Restated for AIFRS
(f) The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.