

Interim Financial Report

Macquarie Bank

Half-year ended 30 September 2017



MACQUARIE BANK 2018 INTERIM FINANCIAL REPORT

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

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

The Interim Financial Report was authorised for issue by the Directors on 27 October 2017. The Board of Directors has the power to amend and reissue the Financial Report.

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

CONTENTS

Directors' Report	1
Operating and financial review	3
Auditor's independence declaration	12
Financial Report	13
Consolidated income statement	16
Consolidated statement of comprehensive income	17
Consolidated statement of financial position	18
Consolidated statement of changes in equity	19
Consolidated statement of cash flows	20
Notes to the consolidated financial statements	21
1 Summary of significant accounting policies	21
2 Profit for the period	23
3 Segment reporting	26
4 Income tax expense	30
5 Dividends and distributions paid or provided for	31
6 Trading portfolio assets	32
7 Investment securities available for sale	32
8 Other assets	32
9 Loan assets held at amortised cost	33
10 Impaired financial assets	34
11 Interests in associates and joint ventures accounted for using the equity method	34
12 Trading portfolio liabilities	34
13 Other liabilities	34
14 Debt issued at amortised cost	35
15 Contributed equity	36
16 Reserves, retained earnings and non-controlling interests	37
17 Notes to the consolidated statement of cash flows	38
18 Contingent liabilities and commitments	39
19 Fair values of financial assets and liabilities	40
20 Acquisitions and disposals of subsidiaries and businesses	49
21 Events after the reporting date	51
Directors' declaration	52
Independent auditor's review report	53

DIRECTORS' REPORT

Operating and financial review
Auditor's independence declaration



DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

The Directors of MBL submit their report with the financial report of the Consolidated Entity for the half-year ended 30 September 2017.

DIRECTORS

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

Independent Directors

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

Executive Voting Directors

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

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

RESULT

The financial report for the half-year ended 30 September 2017 and the results herein are prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The consolidated profit attributable to the ordinary equity holders of Macquarie Bank, in accordance with Australian Accounting Standards, for the period was \$A644 million (half-year to 31 March 2017: \$A639 million; half-year to 30 September 2016: \$A582 million).

OPERATING AND FINANCIAL REVIEW

Review of performance and financial position

Overview

Macquarie Bank's consolidated net profit attributable to ordinary equity holders of \$A644 million for the half-year ended 30 September 2017 increased 11% from \$A582 million in the prior corresponding period⁽¹⁾ and increased 1% from \$A639 million in the prior period⁽²⁾.

	Half-year to 30 Sep 2017 \$Am	Half-year to 30 Sep 2016 \$Am	Movement %
Net operating income	2,854	2,875	(1)
Total operating expenses	(1,999)	(2,037)	(2)
Income tax expense	(207)	(255)	(19)
Loss attributable to non-controlling interests	3	7	(57)
Distribution on Macquarie Income Securities	(7)	(8)	(13)
Profit attributable to ordinary equity holders	644	582	11

(1) Prior corresponding period (pcp) refers to the six months to 30 September 2016.

(2) Prior period refers to the six months to 31 March 2017.

Macquarie Bank's annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the half-year ended 30 September 2017 of \$A969 million, up 18% on the prior corresponding period.

Key drivers included:

MAM ↑52% on pcp

- the release of accruals relating to legacy business activities
- higher fees from MSIS Retail.

Partially offset by:

- higher brokerage and commission expense from MSIS Retail.

CAF ↑19% on pcp

- increased income from prepayments, realisations and investment-related income in the Principal Finance portfolio
- Asset Finance portfolio continued to perform well
- lower charges for provisions and impairments reflecting the partial reversal of collective provisions, driven by net loan repayments, and the improved credit performance of underlying portfolios.

Partially offset by:

- lower interest income as a result of the reduction in the Principal Finance portfolio size.

BFS ↑10% on pcp

- volume growth in loan and deposit portfolios and improved margins
- the non-recurrence of expenses recognised in the prior corresponding period, including impairment charges predominately on certain equity positions and intangible assets and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform.

Partially offset by:

- net overall gain on the disposal of Macquarie Life's risk insurance business to Zurich Australia Limited and the US mortgages portfolio in the prior corresponding period.

Macquarie Bank's capital markets facing businesses

Commodities and Global Markets (CGM) delivered a net profit contribution for the half-year ended 30 September 2017 of \$A319 million, down 24% on the prior corresponding period.

Key drivers included:

CGM ↓24% on pcp

- reduced income from the sale of investments, mainly in energy and related sectors
- lower volatility across the commodities platform resulting in reduced client activity and trading opportunities.

Partially offset by:

- strong client flows and revenues from interest rates and foreign exchange
- lower operating expenses reflecting reduced commodity-related trading activity, reduced average headcount and associated activity, and realisation of benefits from cost synergies following the merger of Commodities and Financial Markets and Macquarie Securities Group.

Further information on Macquarie Bank's performance is detailed on pages 5 to 6.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

CONTINUED


Net operating income

Net operating income of \$A2,854 million for the half-year ended 30 September 2017 decreased 1% from \$A2,875 million in the prior corresponding period. The decrease in other income was partially offset across fee and commission income, equity accounted income and net interest and trading income as well as lower charges for provisions and impairments.

Key drivers included:

Net interest and trading income

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
1,837	2,024	1,813

 **1%**
on prior
corresponding
period


- volume growth in loan and deposit portfolios and improved margins in BFS
- lower accounting volatility losses in Corporate.

Partially offset by:

- lower trading income in CGM as a result of lower market volatility.

Fee and commission income

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
449	451	369

 **22%**
on prior
corresponding
period


- decreased recovery of costs charged to the Consolidated Entity
- higher fees from MSIS Retail in MAM.

Partially offset by:

- reduced Life Insurance income in BFS after Macquarie Life's risk insurance business was sold to Zurich Australia Limited in September 2016.

Net operating lease income


HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
469	445	477

 **2%**
on prior
corresponding
period

- improved underlying income in CAF from the Aviation, Energy and Technology portfolios offset by foreign exchange movements.

Share of net profits/(losses) of associates and joint ventures accounted for using the equity method


HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
9	7	(26)

 significantly
on prior
corresponding
period

- increase in CGM and Corporate due to the non-recurrence of equity accounting losses recognised in the prior corresponding period.

Other operating income and charges

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
90	19	242

 **63%**
on prior
corresponding
period

- lower principal gains in CGM
- the prior corresponding period included BFS' gain on sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

Partially offset by:

- higher income from MSIS Retail in MAM
- the release of accruals related to legacy business activities in MAM
- lower charges for provisions and impairments in CAF and BFS.

Operating and financial review
Auditor's Independence declaration


Operating expenses

Total operating expenses of \$A1,999 million for the half-year ended 30 September 2017 decreased 2% from \$A2,037 million in the prior corresponding period.

Key drivers included:

Employment expenses

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
765	711	776

 **1%**
on prior
corresponding
period


- lower average headcount
- favourable foreign currency movements.

Partially offset by:

- higher performance-related profit share expense, driven by the improved overall performance of the Operating Groups.

Brokerage, commission and trading-related expenses

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
316	323	303

 **4%**
on prior
corresponding
period

- higher brokerage and commission expense from MSIS Retail in MAM.

Non-salary technology expenses


HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
65	77	81

 **20%**
on prior
corresponding
period

- the prior corresponding period included elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

Occupancy and Other operating expenses

HALF-YEAR TO		
Sep 17 \$Am	Mar 17 \$Am	Sep 16 \$Am
853	940	877

 **3%**
on prior
corresponding
period

- reduction in Occupancy expenses
- other operating expenses broadly in line.

Income tax expense

Income tax expense of \$A207 million for the half-year ended 30 September 2017 decreased 19% from \$A255 million in the prior corresponding period.

The effective tax rate for the half-year ended 30 September 2017 was 24.1%, down from 30.2% in the prior corresponding period reflecting the geographic mix and nature of earnings.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

CONTINUED

FINANCIAL POSITION

Balance sheet

Macquarie Bank's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the half-year ended 30 September 2017.

Total assets

AS AT		↑ 2% on 31 Mar 17
30 Sep 17 \$Ab	31 Mar 17 \$Ab	
171.2	167.4	

- Receivables from financial institutions of \$A38.4 billion at 30 September 2017 increased 50% from \$A25.6 billion at 31 March 2017 mainly due to an increase in reverse repurchase and stock borrowing activity in CGM, and Treasury's funding and liquidity management activities during the half-year ended 30 September 2017
- Other assets of \$A9.3 billion at 30 September 2017 increased 8% from \$A8.6 billion at 31 March 2017 mainly due to an increase in unsettled trade balances in CGM, partially offset by the sale of the Canadian mortgages portfolio in BFS
- Interests in associates and joint ventures accounted for using the equity method of \$A0.6 billion increased 185% from \$A0.2 billion at 31 March 2017 mainly due to a reclassification of an investment in CAF from Available for sale to Associates
- Trading portfolio assets of \$A18.2 billion at 30 September 2017 decreased 32% from \$A26.6 billion at 31 March 2017 mainly due to a decline in long equity positions and a reduction in the holdings of physical commodities, particularly metals
- Investment securities available for sale of \$A3.9 billion at 30 September 2017 decreased 25% from \$A5.2 billion at 31 March 2017 mainly due to Treasury's liquidity management activities and the reclassification of the investment in CAF from Available for sale to Associates
- Loan assets held at amortised cost of \$A75.8 billion at 30 September 2017 slightly increased from \$A75.6 billion at 31 March 2017 mainly due to net new loans written in BFS' mortgages and business lending portfolios, partially offset by a reduction in volumes in:
 - CGM's short and long term lending in structured commodity finance and reduced positions held with exchanges and clearing institutions; and
 - CAF's loan and finance lease portfolio decreasing 3% to \$A25.6 billion at 30 September 2017 from \$A26.5 billion at 31 March 2017 primarily due to repayments in Principal Finance transactions.

Total liabilities

AS AT		↑ 2% on 31 Mar 17
30 Sep 17 \$Ab	31 Mar 17 \$Ab	
158.6	154.8	

- Debt issued at amortised cost of \$A45.6 billion at 30 September 2017 increased 6% from \$A43.1 billion at 31 March 2017, mainly driven by Treasury's funding and liquidity management activities which included new commercial paper issuances, partially offset by the repayment of long-term debt
- Trading portfolio liabilities of \$A7.2 billion at 30 September 2017 increased 46% from \$A4.9 billion at 31 March 2017 mainly due to an increase in short equity positions and the revaluation of hedge positions
- Payables to financial institutions of \$A15.3 billion at 30 September 2017 increased 8% from \$A14.2 billion at 31 March 2017 mainly due to an increase in stock lending activity, partially offset by repayment of funding facilities
- Deposits of \$A59.0 billion at 30 September 2017 increased 2% from \$A57.7 billion at 31 March 2017 mainly due to an increase in retail cash management deposits in BFS
- Loan capital of \$A4.2 billion decreased 8% from \$A4.6 billion mainly due to the redemption of Exchangeable Capital Securities notes during the period.

Total equity

AS AT		Broadly in line with 31 Mar 17
30 Sep 17 \$Ab	31 Mar 17 \$Ab	
12.6	12.6	

- The payment of the 2017 final dividend of \$A0.6 billion was offset by the profit of the half-year ended 30 September 2017.

Operating and financial review
Auditor's Independence declaration

Funding

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

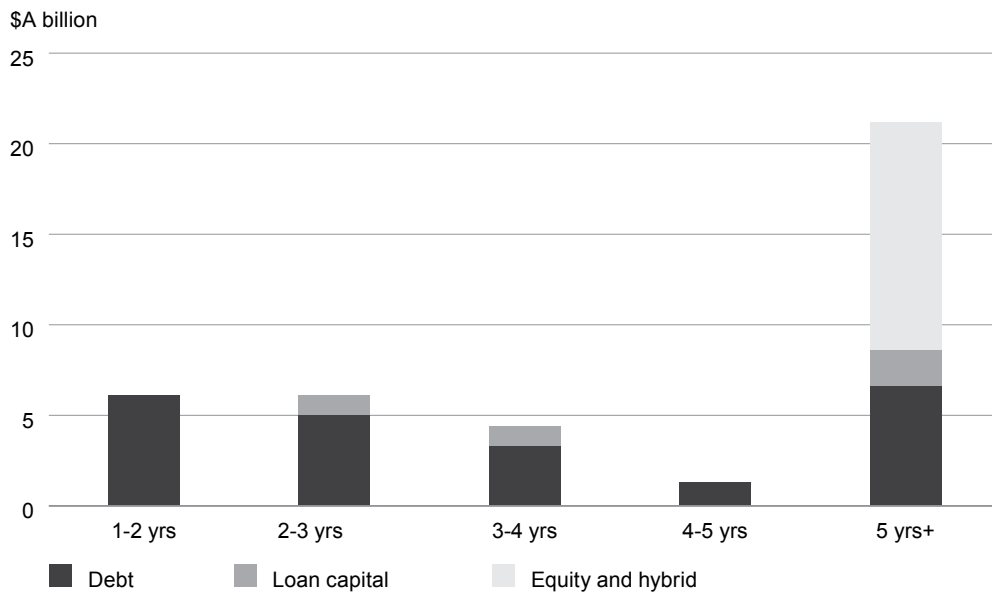
Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.2 years at 30 September 2017.

4.2yrs

The weighted average term to maturity of term funding maturing beyond one year at 30 September 2017

Term funding profile

Detail of drawn term funding maturing beyond one year



Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2017, Macquarie Bank has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2017 and 30 September 2017:

		Total \$Ab
Secured Funding	- Term securitisation and other secured finance	2.2
Issued paper	- Senior and subordinated	1.9
Total		4.1

Macquarie Bank has continued to develop its major funding markets and products during the half-year ended 30 September 2017.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

\$A4.2b

Group capital surplus

Capital

Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital, per APRA ADI Prudential Standard 110. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% is effective from 1 Jan 2018⁽¹⁾.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 30 September 2017.

Bank Group Basel III ratios as at 30 September 2017	Harmonised Basel III ⁽²⁾	APRA Basel III
Common Equity Tier 1 Capital Ratio	13.3%	11.0%
Tier 1 Capital Ratio	15.2%	12.9%
Leverage Ratio	6.9%	6.1%

- For further information relating to the capital adequacy of Macquarie Bank, refer to section 6.0 Capital of the Management Discussion and Analysis available at macq.co/1H18MDA

(1) APRA has not yet prescribed a minimum capital requirement for the leverage ratio.

(2) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

Operating and financial review
Auditor's Independence declaration

Business strategy

Consistent with our *What We Stand For* principles Macquarie Group (MGL and its subsidiaries), including Banking Group entities, adopts a business strategy focused on the medium-term with the following key aspects:

	Risk Management Approach	Strong Balance Sheet	Business Mix
	<p>Adopting a conservative approach to risk management. Macquarie Group's robust risk management framework is embedded across all Operating and Central Service Groups.</p> <p>This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie Group can survive a worst-case outcome from any new or existing activity.</p>	<p>Maintaining a strong and conservative balance sheet.</p> <p>This is consistent with Macquarie Group's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie Group remains well funded, with diversified funding sources.</p> <p>It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.</p>	<p>Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions.</p> <p>Macquarie Group has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie Group shareholders and certainty to clients.</p>
Diversification	Proven Expertise	Adjacencies	Pursuit of Growth Opportunities
<p>Operating a diversified set of businesses across different locations and service offerings including banking and financial services.</p> <p>Macquarie Group offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie Group, as highlighted in the challenging global markets of recent years.</p>	<p>Utilising proven deep expertise has allowed Macquarie Group to establish leading market positions as a global specialist in sectors including infrastructure, resources and commodities, energy, financial institutions and real estate. This is coupled with a deep knowledge of Asia-Pacific financial markets.</p>	<p>Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions.</p> <p>These include products and geographies adjacent to Macquarie Group's established areas of expertise. This results in sustainable evolutionary growth.</p>	<p>Targeting continued evolution and growth through innovation. Macquarie Group starts with real knowledge and skill, and encourages ingenuity and entrepreneurial spirit coupled with accountability. Ideas for new businesses are typically generated in the Operating businesses.</p> <p>Additionally, there are no specific businesses, markets, or regions in which Macquarie Group's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the <i>Risk Appetite Statement (RAS)</i> approved by the Board.</p>

What We Stand For – Opportunity, Accountability and Integrity. These long-held principles form the basis of Macquarie Group's expectations of our staff and adherence to them is required under our *Code of conduct*.

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

OUTLOOK

Macquarie Bank currently expects that the combined net profit contribution from Operating Groups for the financial year ending 31 March 2018 will be broadly in line with the financial year ended 31 March 2017.

The tax rate for the financial year ending 31 March 2018 is currently expected to be broadly in line with the financial year ended 31 March 2017.

Macquarie Bank's short-term outlook remains subject to market conditions, the impact of foreign exchange and potential regulatory changes and tax uncertainties.

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

EVENTS AFTER THE REPORTING DATE

There were no material events subsequent to 30 September 2017 that have not been reflected in the financial statements.

INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend for the half-year ended 30 September 2017 of \$A603 million. The dividend will be paid on 8 November 2017.

ROUNDING OF AMOUNTS

In accordance with Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Directors' Report and the half-year Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

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



Peter H Warne
Independent Director and Chairman



Mary Reemst
Managing Director and Chief Executive Officer

Sydney
27 October 2017



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2017, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* (Cth) in relation to the review, and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink that reads 'K. G. Smith' with a small flourish at the end.

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
27 October 2017

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

FINANCIAL REPORT

Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of changes in equity
Consolidated statement of cash flows
Notes to the consolidated financial statements
Directors' declaration
Independent auditor's report

2

This page has been intentionally left blank.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
 Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Interest and similar income	2	2,317	2,339	2,439
Interest expense and similar charges	2	(1,285)	(1,234)	(1,374)
Net interest income		1,032	1,105	1,065
Fee and commission income	2	449	451	369
Net trading income	2	805	919	748
Net operating lease income	2	469	445	477
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	9	7	(26)
Other operating income and charges	2	90	19	242
Net operating income		2,854	2,946	2,875
Employment expenses	2	(765)	(711)	(776)
Brokerage, commission and trading-related expenses	2	(316)	(323)	(303)
Occupancy expenses	2	(55)	(57)	(61)
Non-salary technology expenses	2	(65)	(77)	(81)
Other operating expenses	2	(798)	(883)	(816)
Total operating expenses		(1,999)	(2,051)	(2,037)
Operating profit before income tax		855	895	838
Income tax expense	4	(207)	(254)	(255)
Profit after income tax		648	641	583
Loss attributable to non-controlling interests:				
Other non-controlling interests		3	5	7
Loss attributable to non-controlling interests		3	5	7
Profit attributable to equity holders of Macquarie Bank Limited		651	646	590
Distributions paid or provided for on:				
Macquarie Income Securities	5	(7)	(7)	(8)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		644	639	582

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Profit after income tax		648	641	583
Other comprehensive (expense)/income:				
Movements in items that may be subsequently reclassified to profit or loss:				
Available for sale reserve, net of tax:				
Revaluation (losses)/gains transferred to equity	16	(2)	(3)	14
Transferred to income statement on:				
Impairment	16	4	9	13
Sale or reclassification	16	(66)	(5)	(24)
Cash flow hedges, revaluation gains/(losses) taken to equity, net of tax	16	34	89	(73)
Share of other comprehensive expense of associates and joint ventures, net of tax	16	–	–	(1)
Exchange differences on translation of foreign operations, net of hedge and tax		(31)	(47)	(82)
Movements in items that will not be reclassified to profit or loss:				
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	16	(3)	(30)	–
Total other comprehensive (expense)/income		(64)	13	(153)
Total comprehensive income		584	654	430
Total comprehensive expense attributable to non-controlling interests:				
Other non-controlling interests		3	5	7
Total comprehensive expense attributable to non-controlling interests		3	5	7
Total comprehensive income attributable to:				
Macquarie Income Securities		(7)	(7)	(8)
Total comprehensive income attributable to ordinary equity holders of Macquarie Bank Limited		580	652	429

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

Consolidated income statement
 Consolidated statement of comprehensive income
Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
 Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017

	Notes	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
Assets				
Receivables from financial institutions		38,360	25,565	30,679
Trading portfolio assets	6	18,179	26,637	27,029
Derivative assets		12,161	12,067	15,211
Investment securities available for sale	7	3,909	5,182	5,314
Other assets	8	9,335	8,646	8,102
Loan assets held at amortised cost	9	75,833	75,550	76,672
Other financial assets at fair value through profit or loss		692	760	768
Due from related body corporate entities		1,075	1,733	1,544
Property, plant and equipment		10,673	10,743	10,735
Interests in associates and joint ventures accounted for using the equity method	11	579	203	243
Intangible assets		242	193	189
Deferred tax assets		179	162	155
Total assets		171,217	167,441	176,641
Liabilities				
Trading portfolio liabilities	12	7,209	4,922	5,051
Derivative liabilities		10,663	11,101	12,908
Deposits		58,987	57,682	55,433
Other liabilities	13	9,211	9,375	7,576
Payables to financial institutions		15,341	14,236	20,826
Due to related body corporate entities		5,101	7,367	6,600
Debt issued at amortised cost	14	45,648	43,137	48,978
Other financial liabilities at fair value through profit or loss		1,789	1,934	2,591
Deferred tax liabilities		461	484	372
Total liabilities excluding loan capital		154,410	150,238	160,335
Loan capital		4,246	4,615	3,811
Total liabilities		158,656	154,853	164,146
Net assets		12,561	12,588	12,495
Equity				
Contributed equity	15	9,915	9,911	9,891
Reserves	16	312	373	330
Retained earnings	16	2,329	2,296	2,270
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		12,556	12,580	12,491
Non-controlling interests	16	5	8	4
Total equity		12,561	12,588	12,495

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Balance as at 1 April 2016		9,882	483	2,333	12,698	12	12,710
Profit/(loss) after income tax		–	–	590	590	(7)	583
Other comprehensive expense, net of tax		–	(153)	–	(153)	–	(153)
Total comprehensive (expense)/income		–	(153)	590	437	(7)	430
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,16	–	–	(652)	(652)	–	(652)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(1)	(1)	1	–
Dividends and distributions paid or provided for		–	–	–	–	(2)	(2)
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	9	–	–	9	–	9
		9	–	(653)	(644)	(1)	(645)
Balance as at 30 September 2016		9,891	330	2,270	12,491	4	12,495
Profit/(loss) after income tax		–	–	646	646	(5)	641
Other comprehensive income/(expense), net of tax		–	43	(30)	13	–	13
Total comprehensive income/(expense)		–	43	616	659	(5)	654
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,16	–	–	(589)	(589)	–	(589)
Non-controlling interests:							
Change in non-controlling ownership interests		–	–	(1)	(1)	8	7
Dividends and distributions paid or provided for		–	–	–	–	1	1
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	20	–	–	20	–	20
		20	–	(590)	(570)	9	(561)
Balance as at 31 March 2017		9,911	373	2,296	12,580	8	12,588
Profit/(loss) after income tax		–	–	651	651	(3)	648
Other comprehensive expense, net of tax		–	(61)	(3)	(64)	–	(64)
Total comprehensive (expense)/income		–	(61)	648	587	(3)	584
Transactions with equity holders:							
Dividends and distributions paid or provided for	5,16	–	–	(614)	(614)	–	(614)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(1)	(1)	(1)	(2)
Dividends and distributions paid or provided for		–	–	–	–	1	1
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	15	4	–	–	4	–	4
		4	–	(615)	(611)	–	(611)
Balance as at 30 September 2017		9,915	312	2,329	12,556	5	12,561

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

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
Consolidated statement of cash flows
 Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

	Notes	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Cash flows (used in)/from operating activities				
Interest and similar income received		2,327	2,336	2,499
Interest expense and similar charges paid		(1,316)	(1,290)	(1,268)
Fees and other operating income received		489	478	391
Fees and commissions paid		(294)	(286)	(376)
Operating lease income received		870	810	817
Dividends and distributions received		9	6	8
Employment expenses paid		(820)	(460)	(837)
Operating expenses paid		(812)	(961)	(795)
Income tax paid		(65)	(23)	(153)
Changes in operating assets and liabilities:				
Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities		(1,939)	1,366	2,703
Net movement in deposits		1,366	2,328	3,231
Net movement in debt issued at amortised cost		2,529	(5,092)	(6,270)
Net movement in payables to other financial institutions and other borrowings		(1,383)	(596)	(3,375)
Net loan assets (granted)/realised		(2,714)	1,431	(1,113)
Net margin money received/(paid)		914	(1,499)	386
Net (payments for)/proceeds from assets under operating lease		(531)	(414)	113
Life business:				
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		619	507	674
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(611)	(507)	(570)
Net cash flows used in operating activities	17	(1,362)	(1,866)	(3,935)
Cash flows from/(used in) investing activities				
Net proceeds from/(payments for) investment securities available for sale		1,361	(516)	3,063
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		22	801	686
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(195)	(40)	(112)
Payments for the acquisition of property, plant and equipment and intangible assets		(45)	(56)	(95)
Net cash flows from investing activities		1,143	189	3,542
Cash flows (used in)/from financing activities				
Proceeds from the issue of loan capital		–	980	–
Payments on redemption of loan capital		(330)	–	(221)
Proceeds from non-controlling interests		–	6	–
Dividends and distributions paid		(614)	(589)	(652)
Net cash flows (used in)/from financing activities		(944)	397	(873)
Net decrease in cash and cash equivalents		(1,163)	(1,280)	(1,266)
Cash and cash equivalents at the beginning of the period		10,164	11,444	12,710
Cash and cash equivalents at the end of the period	17	9,001	10,164	11,444

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017

NOTE 1

Summary of significant accounting policies

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

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

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2017 and any public announcements made by MBL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The Consolidated Entity is of a kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the rounding off of amounts in the financial report for a financial year or half-year. Amounts in the Directors' Report and the half-year Financial Report have been rounded off in accordance with that Legislative Instrument to the nearest million dollars unless otherwise indicated.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of Macquarie Bank for the year ended 31 March 2017 other than where disclosed. Where necessary, certain comparatives have been restated for consistency in presentation at 30 September 2017.

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In preparing this half-year financial report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial report for the year ended 31 March 2017.

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

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

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

Information on future accounting developments and their potential effect of the financial statements of the Consolidated Entity are disclosed in the 2017 Annual Report on pages 56 to 59.

AASB 9 Financial Instruments

AASB 9 *Financial Instruments* will replace AASB 139 *Financial Instruments: Recognition and Measurement* with an effective date for Macquarie Bank of 1 April 2018.

The project to manage the implementation of AASB 9 has focused on the preparation for a parallel run of AASB 9 that will begin in the six months ending 31 March 2018. The project includes the definition of significant business models and cash flow characteristics for all financial assets under the scope of AASB 9, the design and development of the Expected Credit Loss (ECL) impairment models and development of the technology solution for tracking credit migration and calculating ECL.

Until this work is sufficiently advanced, the Consolidated Entity is unable to provide a quantitative impact of the adoption of the standard, however, based on estimates on 30 September 2017 balances, the adoption is not expected to result in a material change to equity. This assessment and the transition adjustment to retained earnings is subject to the composition of financial assets held at the date of transition.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all current guidance on revenue recognition from contracts with customers with an effective date for Macquarie Bank of 1 April 2018.

An assessment has been performed on revenue streams existing in the prior financial year in addition to new revenue streams arising in the six months to 30 September 2017. Based on this assessment, the adoption of AASB 15 is not expected to have a material impact on Macquarie Bank's equity. This assessment is ongoing and any transition adjustment to retained earnings is subject to the revenue streams existing at the date of transition.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 1

Summary of significant accounting policies continued

AASB 16 Leases

AASB 16 replaces the current AASB 117 *Leases* standard with a mandatory effective date for Macquarie Bank of 1 April 2019. Macquarie Bank has the option to early adopt in the financial year beginning 1 April 2018.

An initial impact assessment has been performed based on leases existing in the prior financial year in addition to new leases entered into in the six months to 30 September 2017. Based on this assessment, the adoption of AASB 16 is not expected to have a material impact on the statement of financial position or equity. This assessment is subject to the composition of leases at the date of transition.

AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

The requirements are effective for Macquarie Bank on 1 April 2018. The Consolidated Entity has early adopted this amendment beginning 1 April 2016. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity.

AASB Interpretation 23 (Interpretation 23) Uncertainty over Income Tax Treatments

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. It requires assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances come to light.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. An initial assessment has been performed and based on this assessment it is not expected that the implementation of Interpretation 23 will materially impact Macquarie Bank's statement of financial position or income statement. This assessment is subject to the matters relevant at the date of transition.

(ii) Comparatives

Where necessary, comparative information has been restated to conform to changes in presentation in the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

	Half-year to 30 Sep 17 \$m	Half-year to 31 Mar 17 \$m	Half-year to 30 Sep 16 \$m
NOTE 2			
Profit for the period			
Net interest income			
Interest and similar income received/receivable	2,317	2,339	2,439
Interest expense and similar charges paid/payable	(1,285)	(1,234)	(1,374)
Net interest income	1,032	1,105	1,065
Fee and commission income			
Brokerage and commissions	184	179	190
Portfolio administration fee	134	122	115
Other fee and commission income ⁽¹⁾	131	150	64
Total fee and commission income	449	451	369
Net trading income⁽²⁾			
Equities	269	245	191
Commodities ⁽³⁾	378	645	507
Credit, interest rate and foreign exchange products	158	29	50
Net trading income	805	919	748
Net operating lease income			
Rental income ⁽⁴⁾	909	822	844
Depreciation on operating lease assets	(440)	(377)	(367)
Net operating lease income	469	445	477
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	9	7	(26)

(1) Includes life investment and insurance premium income of \$6 million (half-year to 31 March 2017: \$6 million; half-year to 30 September 2016: \$123 million) and related expenses of \$1 million (half-year to 31 March 2017: \$6 million; half-year to 30 September 2016: \$91 million). Includes charges from other Macquarie Bank entities under fee sharing and other arrangements.

(2) Includes fair value losses of \$57 million (half-year to 31 March 2017: \$120 million gains; half-year to 30 September 2016: \$136 million losses) relating to financial assets and financial liabilities designated as fair value through profit or loss. Half-year to 30 September 2016 includes \$31 million loss in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the credit risk of Consolidated Entity. From 1 October 2016, fair value movements due to changes in own credit risk were recognised in other comprehensive income. Fair value changes relating to derivatives are also reported in net trading income which largely offsets the fair value changes relating to financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the economic interest rate risk where hedge accounting requirements are not met.

(3) Includes transportation and storage costs of \$114 million (half-year to 31 March 2017: \$136 million; half-year to 30 September 2016: \$130 million).

(4) Includes net supplemental rent on aircraft of \$79 million (half-year to 31 March 2017: \$59 million; half-year to 30 September 2016: \$69 million).

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	Half-year to 30 Sep 17 \$m	Half-year to 31 Mar 17 \$m	Half-year to 30 Sep 16 \$m
NOTE 2			
Profit for the period continued			
Other operating income and charges			
Investment income			
Net gain on sale of investment securities available for sale	14	12	27
Net gain on sale of interests in associates and joint ventures	1	7	103
Net gain on acquisition, disposal, reclassification and change in ownership interest of investments, subsidiaries, and businesses held for sale	67	143	234
Dividends/distributions from investment securities available for sale	1	5	5
Total investment income	83	167	369
Impairments			
Investment securities available for sale	(6)	(13)	(19)
Interests in associates and joint ventures	(5)	(1)	(5)
Intangible assets and other non-financial assets	(16)	(11)	(34)
Total impairments	(27)	(25)	(58)
Loan impairments and provisions			
Individually assessed (provisions for)/reversal of impairment:			
Loan assets (Note 9)	(50)	(65)	(103)
Other receivables	(1)	(9)	4
Recovery of individually assessed impairment previously provided for:			
Loan assets (Note 9)	2	6	13
Other receivables	7	–	4
Collective allowance for credit losses reversed/(provided for):			
Loan assets (Note 9)	52	(1)	6
Other assets	–	1	(6)
Loans written off	(67)	(96)	(51)
Recovery of loans previously written off	17	29	15
Total loan impairments and provisions	(40)	(135)	(118)
Other income	74	12	49
Total other operating income and charges	90	19	242
Net operating income⁽¹⁾	2,854	2,946	2,875

(1) Prior comparative periods have been reclassified to conform to current period presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

	Half-year to 30 Sep 17 \$m	Half-year to 31 Mar 17 \$m	Half-year to 30 Sep 16 \$m
NOTE 2			
Profit for the period continued			
Employment expenses			
Salary and salary related costs including commissions, superannuation and performance-related profit share	(677)	(636)	(683)
Share-based payments	(84)	(73)	(90)
Provision for long service leave and annual leave	(4)	(2)	(3)
Total employment expenses	(765)	(711)	(776)
Brokerage, commission and trading-related expenses			
Brokerage and other trading-related expenses	(262)	(270)	(248)
Other fee and commission expenses	(54)	(53)	(55)
Total brokerage, commission and trading-related expenses	(316)	(323)	(303)
Occupancy expenses			
Operating lease rentals	(4)	(6)	(4)
Depreciation: buildings, furniture, fittings and leasehold improvements	(1)	(1)	(1)
Other occupancy expenses	(50)	(50)	(56)
Total occupancy expenses	(55)	(57)	(61)
Non-salary technology expenses			
Information services	(38)	(40)	(43)
Depreciation: equipment	(2)	(2)	(1)
Service provider and other non-salary technology expenses	(25)	(35)	(37)
Total non-salary technology expenses	(65)	(77)	(81)
Other operating expenses			
Professional fees	(89)	(100)	(85)
Travel and entertainment expenses	(26)	(25)	(26)
Advertising and promotional expenses	(12)	(8)	(6)
Auditor's remuneration	(11)	(10)	(12)
Amortisation of intangible assets	(10)	(6)	(5)
Communication expenses	(8)	(8)	(9)
Depreciation: infrastructure assets	(7)	(7)	(8)
Other expenses ⁽¹⁾	(635)	(719)	(665)
Total other operating expenses	(798)	(883)	(816)
Total operating expenses	(1,999)	(2,051)	(2,037)

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

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 3

Segment reporting

(i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about the Consolidated Entity's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the consolidated income statement. The financial information disclosed relates to ordinary activities.

For internal reporting, performance measurement and risk management purposes, Macquarie Bank is divided into four Operating Groups and a corporate segment. These segments have been set up based on the different core products and services offered. There were previously five Operating Groups and during the prior period ended 31 March 2017 Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

MAM offers a range of investment solutions with an alternate fixed income focus, for its fiduciary clients within the infrastructure debt sector and balance sheet lending to shipping, export credit agency backed debt, hedge funds and private equity investors.

CAF operates in selected international markets, providing specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

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

CGM provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

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

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

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

Below is a selection of key policies applied in determining operating segment results.

Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Consolidated Entity and Operating Groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to Operating Groups for the early repayment of term funding.

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

Deposits are a funding source for the Consolidated Entity. BFS receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms or as agreed by the Group's Chief Executive Officer or Chief Financial Officer (CFO). There is a requirement for accounting symmetry in such transactions.

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

Accounting for derivatives that economically hedge interest rate risk

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

Central service groups

Central service groups recover their costs from Operating Groups on either a time and effort allocation basis or a fee for service basis. Central service groups include COG, FMG, RMG, Legal and Governance and Central Executive.

Performance-related profit share and share-based payments expense

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

Income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

Macquarie Asset
Management
\$m

NOTE 3

Segment reporting continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the period. Prior comparative period information has been reclassified to conform to current period presentation.

Net interest and trading income	60
Fee and commission income/(expense)	43
Net operating lease income	1
Share of net profits of associates and joint ventures accounted for using the equity method	–
Other operating income and charges	
Impairment charges, write offs and provisions, net of recoveries	1
Other operating income and charges	48
Internal management revenue/(charge)	–
Net operating income/(charge)	153
Total operating expenses	(83)
Operating profit/(loss) before income tax	70
Income tax expense	–
Profit/(loss) after income tax	70
Loss attributable to non-controlling interests	–
Profit/(loss) attributable to equity holders	70
Distributions paid or provided for on MIS	–
Net profit/(loss) attributable to ordinary equity holders	70
Reportable segment assets	2,857
Net interest and trading income	53
Fee and commission income/(expense)	36
Net operating lease income	7
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–
Other operating income and charges	
Impairment charges, write offs and provisions, net of recoveries	–
Other operating income and charges	(25)
Internal management revenue/(charge)	1
Net operating income/(charge)	72
Total operating expenses	(64)
Operating profit/(loss) before income tax	8
Income tax expense	–
Profit/(loss) after income tax	8
Loss attributable to non-controlling interests	–
Profit/(loss) attributable to equity holders	8
Distributions paid or provided for on MIS	–
Net profit/(loss) attributable to ordinary equity holders	8
Reportable segment assets	2,742
Net interest and trading income	51
Fee and commission income/(expense)	29
Net operating lease income	6
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–
Other operating income and charges	
Impairment charges, write offs and provisions, net of recoveries	1
Other operating income and charges	12
Internal management revenue/(charge)	–
Net operating income/(charge)	99
Total operating expenses	(53)
Operating profit/(loss) before income tax	46
Income tax expense	–
Profit/(loss) after income tax	46
Loss attributable to non-controlling interests	–
Profit/(loss) attributable to equity holders	46
Distributions paid or provided for on MIS	–
Net profit/(loss) attributable to ordinary equity holders	46
Reportable segment assets	2,201

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

Corporate and Asset Finance \$m	Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
Half-year to 30 September 2017				
330	584	822	41	1,837
23	233	182	(32)	449
465	–	–	3	469
–	–	8	1	9
1	(8)	(56)	(5)	(67)
105	6	15	(17)	157
1	3	5	(9)	–
925	818	976	(18)	2,854
(310)	(534)	(657)	(415)	(1,999)
615	284	319	(433)	855
–	–	–	(207)	(207)
615	284	319	(640)	648
–	–	–	3	3
615	284	319	(637)	651
–	–	–	(7)	(7)
615	284	319	(644)	644
37,247	39,277	84,019	7,817	171,217
Half-year to 31 March 2017				
348	551	1,067	5	2,024
35	215	169	(4)	451
437	–	–	1	445
–	5	10	(8)	7
(50)	(13)	(105)	9	(159)
182	4	29	(12)	178
37	4	5	(47)	–
989	766	1,175	(56)	2,946
(317)	(515)	(719)	(436)	(2,051)
672	251	456	(492)	895
–	–	–	(254)	(254)
672	251	456	(746)	641
–	–	–	5	5
672	251	456	(741)	646
–	–	–	(7)	(7)
672	251	456	(748)	639
37,959	38,096	81,366	7,278	167,441
Half-year to 30 September 2016				
346	498	915	3	1,813
23	254	170	(107)	369
467	–	–	4	477
–	1	(10)	(17)	(26)
(61)	(78)	(52)	13	(177)
51	201	119	36	419
3	1	6	(10)	–
829	877	1,148	(78)	2,875
(314)	(618)	(728)	(324)	(2,037)
515	259	420	(402)	838
–	–	–	(255)	(255)
515	259	420	(657)	583
1	–	(1)	7	7
516	259	419	(650)	590
–	–	–	(8)	(8)
516	259	419	(658)	582
39,554	38,648	89,192	7,046	176,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
--	------------------------------------	------------------------------------	------------------------------------

NOTE 3

Segment reporting continued

(ii) Products and services

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

- **Lending:** corporate and structured finance, banking activities, mortgages and leasing,
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products,
- **Asset and Wealth Management:** manufacture and distribution of fund management products, and
- **Capital Markets:** underwriting, facilitation, broking and real estate/property development.

Revenues from external customers

Lending	2,906	2,886	2,834
Financial Markets	1,522	1,698	1,540
Asset and Wealth Management	286	199	579
Capital Markets	53	93	58
Total revenue from external customers⁽¹⁾	4,767	4,876	5,011

(1) Revenue from external customers includes interest and similar income, fee and commission income, net trading income, operating lease income, investment income and other income.

(iii) Geographical areas

Geographical segments have been determined based on where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

Revenues from external customers

Australia	2,281	2,150	2,581
Europe, Middle East and Africa ⁽¹⁾	1,421	1,348	1,341
Americas ⁽²⁾	688	1,004	695
Asia Pacific	377	374	394
Total	4,767	4,876	5,011

(1) Includes external revenue generated in the United Kingdom of \$1,071 million (half-year to 31 March 2017: \$1,004 million; half-year to 30 September 2016: \$952 million).

(2) Includes external revenue generated in the United States of America of \$688 million (half-year to 31 March 2017: \$981 million; half-year to 30 September 2016: \$624 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customers.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
--	------------------------------------	------------------------------------	------------------------------------

NOTE 4

Income tax expense

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

Prima facie income tax expense on operating profit ⁽¹⁾	(257)	(269)	(251)
Tax effect of amounts which are non-assessable/(non deductible) in calculating taxable income:			
Rate differential on offshore income	52	(4)	8
Other items	(2)	19	(12)
Total income tax expense	(207)	(254)	(255)

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

Available for sale reserves	16	8	11
Own credit risk	14	–	–
Cash flow hedges	(8)	(7)	(7)
Foreign currency translation reserves	1	2	–
Total tax benefit relating to items of other comprehensive income	23	3	4

(1) Prima facie income tax on operating profit is calculated at the rate of 30% (half-year to 31 March 2017: 30%; half-year to 30 September 2016: 30%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
NOTE 5			
Dividends and distributions paid or provided for			
(i) Dividends paid			
Ordinary share capital			
Final dividend paid	607	–	644
Interim dividend paid	–	582	–
Total dividends paid (Note 16)	607	582	644

(ii) Dividends not recognised at the end of the period

Since the end of the period, the Directors have resolved to pay an interim dividend for the half-year ended 30 September 2017. The aggregate amount of the proposed dividend expected to be paid on 8 November 2017 from retained profits at 30 September 2017, but not recognised as a liability at the end of the period, is \$603 million.

(iii) Distributions paid or provided for

Macquarie Income Securities⁽¹⁾

Distributions paid (net of distributions previously provided for)	4	4	5
Distributions provided for	3	3	3
Total distributions paid or provided for (Note 16)	7	7	8

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

Refer to Note 15 – Contributed equity for further details on these instruments.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
NOTE 6			
Trading portfolio assets			
Equities:			
Listed	7,142	12,003	10,340
Unlisted	181	10	42
Commodities	3,606	5,602	6,129
Commonwealth government securities	4,287	4,862	4,993
Foreign government securities and treasury notes	2,008	2,509	3,807
Corporate loans and securities	910	1,620	1,702
Other	45	31	16
Total trading portfolio assets	18,179	26,637	27,029

NOTE 7**Investment securities available for sale**

Debt securities	3,697	4,585	4,938
Equity securities:			
Listed	53	56	70
Unlisted	159	541	306
Total investment securities available for sale	3,909	5,182	5,314

NOTE 8**Other assets**

Security settlements	4,233	2,315	2,899
Debtors and prepayments	3,706	4,500	3,710
Life investment linked contracts and other unitholder assets	679	722	760
Investment properties ⁽¹⁾	370	378	278
Income tax receivable	235	254	285
Assets of disposal groups classified as held for sale	112	477	170
Total other assets	9,335	8,646	8,102

(1) The fair value of investment properties was determined by independent valuers and classified as Level 3 in the fair value hierarchy (as defined in Note 19 – Fair value of financial assets and financial liabilities).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

NOTE 9

Loan assets held at amortised cost

	As at 30 Sep 2017			As at 31 Mar 2017			As at 30 Sep 2016		
	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m
Residential mortgage loans ⁽¹⁾	31,382	(3)	31,379	30,338	(3)	30,335	30,622	(5)	30,617
Lease and retail financing ⁽¹⁾	19,792	(60)	19,732	19,579	(66)	19,513	19,801	(76)	19,725
Corporate and commercial lending	15,306	(289)	15,017	15,940	(287)	15,653	16,470	(295)	16,175
Margin money placed	6,747	–	6,747	7,270	–	7,270	7,307	–	7,307
Relationship banking mortgages	2,615	–	2,615	2,453	–	2,453	2,365	–	2,365
Investment and insurance premium lending	689	(1)	688	723	(1)	722	887	(1)	886
Total loan assets before collective allowance for credit losses	76,531	(353)	76,178	76,303	(357)	75,946	77,452	(377)	77,075
Less collective allowance for credit losses			(345)			(396)			(403)
Total loan assets held at amortised cost			75,833			75,550			76,672

(1) Includes loans of \$14,066 million (31 March 2017: \$16,332 million; 30 September 2016: \$16,637 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Individually assessed provisions for impairment			
Balance at the beginning of the period	357	377	299
Provided for during the period (Note 2)	50	65	103
Loan assets written off or sold, previously provided for	(47)	(83)	(31)
Recovery of loans previously provided for (Note 2)	(2)	(6)	(13)
Net transfer from collective provisions	–	6	19
Foreign exchange movements	(5)	(2)	–
Balance at the end of the period	353	357	377
Individually assessed provisions as a percentage of total gross loan assets	0.46%	0.47%	0.49%
Collective allowance for credit losses			
Balance at the beginning of the period	396	403	438
(Released)/provided for during the period (Note 2)	(52)	1	(6)
Sale during the period	–	–	(7)
Net transfer to specific other provisions	–	(6)	(19)
Foreign exchange movements	1	(2)	(3)
Balance at the end of the period	345	396	403

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

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
--	-----------------------------	-----------------------------	-----------------------------

NOTE 10**Impaired financial assets**

Impaired loan assets and other financial assets before individually assessed provisions for impairment	766	875	951
Less individually assessed provisions for impairment	(366)	(379)	(389)
Loan assets and other financial assets after individually assessed provisions for impairment	400	496	562
Total net impaired financial assets	400	496	562

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

Loans and investments without provisions for impairment	478	123	167
Loans and investments with provisions for impairment	179	147	146
Less provisions for impairment	(78)	(67)	(70)
Loans and investments with provisions for impairment at recoverable amount	101	80	76
Total interests in associates and joint ventures accounted for using the equity method^{(1),(2)}	579	203	243

(1) Includes \$547 million (31 March 2017: \$172 million; 30 September 2016: \$227 million) relating to interests in associates and \$32 million (31 March 2017: \$31 million; 30 September 2016: \$16 million) relating to interests in joint ventures.

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

NOTE 12**Trading portfolio liabilities**

Listed equity securities	6,610	4,321	4,396
Foreign government securities	476	530	581
Corporate securities	70	71	74
Commodities	53	–	–
Total trading portfolio liabilities	7,209	4,922	5,051

NOTE 13**Other liabilities**

Due to brokers and customers	4,298	3,440	2,931
Creditors	2,235	2,849	1,857
Accrued charges, income received in advance and other liabilities	1,077	1,162	1,009
Aircraft and rail maintenance liabilities	770	782	788
Life investment linked contracts and other unitholder liabilities	674	714	754
Income tax payable	157	211	237
Liabilities of disposal groups classified as held for sale	–	217	–
Total other liabilities	9,211	9,375	7,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
NOTE 14			
Debt issued at amortised cost			
Debt issued at amortised cost ⁽¹⁾	45,648	43,137	48,978
Total debt issued at amortised cost	45,648	43,137	48,978

(1) Included within this balance are amounts payable to SPE note holders and debt holders of \$11,148 million (31 March 2017: \$13,430 million; 30 September 2016: \$13,629 million).

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

Reconciliation of debt issued at amortised cost by major currency

(In Australian dollar equivalent)

United States dollars	24,104	18,379	22,591
Australian dollars	13,376	14,877	15,370
Euro	4,543	5,650	6,127
Swiss franc	1,453	1,912	1,997
Great British pounds	817	767	1,185
Japanese yen	572	715	806
Yuan renminbi	221	218	225
Hong Kong dollars	168	222	226
Norwegian krone	163	153	171
Canadian dollars	129	125	128
Korean won	102	107	109
Singapore dollars	–	12	–
New Zealand dollars	–	–	43
Total by currency	45,648	43,137	48,978

The Consolidated Entity's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic Negotiable Certificate of Deposits issuance.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
NOTE 15			
Contributed equity			
Ordinary share capital⁽¹⁾			
Opening balance of 589,276,303 (1 October 2016: 589,276,303; 1 April 2016: 589,276,303) fully paid ordinary shares	9,328	9,328	9,328
Closing balance of 589,276,303 (31 March 2017: 589,276,303; 30 September 2016: 589,276,303) fully paid ordinary shares	9,328	9,328	9,328

(1) Ordinary shares have no par value.

Equity contribution from ultimate parent entity

Balance at the beginning of the period	192	172	163
Additional paid in capital	4	20	9
Balance at the end of the period	196	192	172

MEREP awards are primarily settled in Macquarie Group Ltd (MGL) ordinary shares. Where MEREP Awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity or the Company, the Consolidated Entity or the Company recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital.

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
Macquarie Income Securities			
4,000,000 Macquarie Income Securities of \$100 each	400	400	400
Less transaction costs for original placement	(9)	(9)	(9)
Total Macquarie Income Securities	391	391	391
Contributed equity	9,915	9,911	9,891

The MIS listed for trading on the ASX on 19 October 1999 and became redeemable (in whole or in part) at the Company's discretion on 19 November 2004. They are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7% p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Company. They are a perpetual instrument with no conversion rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
NOTE 16			
Reserves, retained earnings and non-controlling interests			
Reserves			
Foreign currency translation reserve			
Balance at the beginning of the period	363	410	492
Exchange differences on translation of foreign operations, net of hedge and tax	(31)	(47)	(82)
Balance at the end of the period	332	363	410
Available for sale reserve			
Balance at the beginning of the period	116	115	112
Revaluation (losses)/gains, net of tax	(2)	(3)	14
Transferred to income statement on:			
Impairment, net of tax	4	9	13
Sale or reclassification, net of tax	(66)	(5)	(24)
Balance at the end of the period	52	116	115
Cash flow hedging reserve			
Balance at the beginning of the period	(106)	(195)	(122)
Revaluation gain/(loss) for the period, net of tax	34	89	(73)
Balance at the end of the period	(72)	(106)	(195)
Share of reserves of interests in associates and joint ventures accounted for using the equity method			
Balance at the beginning of the period	–	–	1
Share of other comprehensive expense of associates and joint ventures, net of tax	–	–	(1)
Balance at the end of the period	–	–	–
Total reserves at the end of the period	312	373	330
Retained earnings			
Balance at the beginning of the period	2,296	2,270	2,333
Profit attributable to equity holders of MBL	651	646	590
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(7)	(7)	(8)
Dividends paid on ordinary share capital (Note 5)	(607)	(582)	(644)
Loss on change in non-controlling ownership interest	(1)	(1)	(1)
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	(3)	(30)	–
Balance at the end of the period	2,329	2,296	2,270
	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
Non-controlling interests			
Share Capital and partnership interests	55	56	47
Accumulated losses	(50)	(48)	(43)
Total non-controlling interests⁽¹⁾	5	8	4

(1) NCI represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
--	-----------------------------	-----------------------------	-----------------------------

NOTE 17

Notes to the consolidated statement of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial period are reflected in the related items in the statement of financial position as follows:

Receivables from financial institutions ⁽¹⁾	6,489	7,606	7,196
Trading portfolio assets ⁽²⁾	298	1,061	866
Debt investment securities available for sale ⁽³⁾	842	324	764
Loan assets held at amortised cost ⁽⁴⁾	1,372	1,173	2,618
Cash and cash equivalents at the end of the period⁽⁵⁾	9,001	10,164	11,444

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

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

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$3,641 million (31 March 2017: \$5,011 million; 30 September 2016: \$5,326 million) in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit funds.

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
--	------------------------------------	------------------------------------	------------------------------------

Reconciliation of profit after income tax to net cash flows (used in)/from operating activities

Profit after income tax	648	641	583
Adjustments to profit after income tax:			
Depreciation and amortisation	460	393	382
Provision and impairment charge on financial and non-financial assets	84	145	192
Unrealised foreign exchange and fair value movement on financial assets and liabilities	14	(1,032)	299
Net gain on acquisition, disposal, reclassification and change in ownership interests of investments and assets under operating lease	(93)	(147)	(379)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(8)	(7)	26
Interest on available for sale financial assets	(2)	(26)	26
Capitalisation of development costs of intangibles	–	(24)	14
Changes in assets and liabilities:			
Change in fees and non-interest income receivable	(19)	–	13
Change in fees and commissions payable	21	11	(47)
Change in carrying values of associates and joint ventures due to dividends received	8	6	3
Change in provisions for employee entitlements	3	(6)	4
Change in tax balances	141	231	102
Change in assets under operating lease, net of depreciation and foreign exchange movements	(531)	(414)	113
Change in loan assets	(2,714)	1,431	(1,113)
Change in margin money placed	914	(1,499)	386
Change in debtors, prepayments, accrued charges and creditors	(8)	341	89
Change in net trading portfolio assets and liabilities and net derivative financial instruments	(2,774)	1,474	1,660
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	2,494	(3,384)	(6,288)
Net cash flows used in operating activities	(1,362)	(1,866)	(3,935)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

	As at 30 Sep 2017 \$m	As at 31 Mar 2017 \$m	As at 30 Sep 2016 \$m
NOTE 18			
Contingent liabilities and commitments			
The following contingent liabilities and commitments exclude derivatives.			
Contingent liabilities exist in respect of:			
Letters of credit	902	682	658
Performance related contingents	237	305	299
Guarantees	143	50	74
Indemnities	120	44	108
Total contingent liabilities^{(1),(2)}	1,402	1,081	1,139
Commitments exist in respect of:			
Undrawn credit facilities and securities underwriting ⁽³⁾	4,617	4,738	4,656
Forward asset purchases	–	816	–
Total commitments	4,617	5,554	4,656
Total contingent liabilities and commitments	6,019	6,635	5,795

- (1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.
- (2) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
- (3) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 19

Fair values of financial assets and liabilities

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

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

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

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

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

AASB 13 *Fair Value Management* requires use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

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

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gain and loss, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected, reclassified or otherwise disposed of

- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/ cash collateral on securities lent and reverse repurchase/ repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 19

Fair values of financial assets and liabilities continued

- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments, and
- in the financial statements of the Consolidated Entity, the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 19

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity. Fair values are calculated for disclosure purpose only.

	Carrying value \$m	Fair value \$m
As at 30 September 2017		
Assets		
Receivables from financial institutions	38,360	38,360
Other financial assets ⁽¹⁾	7,024	7,024
Loan assets held at amortised cost	75,833	76,092
Due from related body corporate entities	1,075	1,075
Total assets	122,292	122,551
Liabilities		
Deposits	58,987	59,005
Other financial liabilities ⁽²⁾	6,248	6,248
Payables to financial institutions	15,341	15,370
Due to related body corporate entities	5,101	5,101
Debt issued at amortised cost	45,648	45,864
Loan capital	4,246	4,449
Total liabilities	135,571	136,037
As at 31 March 2017		
Assets		
Receivables from financial institutions	25,565	25,564
Other financial assets ⁽¹⁾	5,931	5,931
Loan assets held at amortised cost	75,550	75,937
Due from related body corporate entities	1,733	1,733
Total assets	108,779	109,165
Liabilities		
Deposits	57,682	57,696
Other financial liabilities ⁽²⁾	6,077	6,077
Payables to financial institutions	14,236	14,293
Due to related body corporate entities	7,367	7,367
Debt issued at amortised cost	43,137	43,302
Loan capital	4,615	4,775
Total liabilities	133,114	133,510
As at 30 September 2016		
Assets		
Receivables from financial institutions	30,679	30,679
Other financial assets ⁽¹⁾	5,276	5,276
Loan assets held at amortised cost	76,672	77,122
Due from related body corporate entities	1,544	1,544
Total assets	114,171	114,621
Liabilities		
Deposits	55,433	55,466
Other financial liabilities ⁽²⁾	4,784	4,784
Payables to financial institutions	20,826	20,878
Due to related body corporate entities	6,600	6,600
Debt issued at amortised cost	48,978	48,951
Loan capital	3,811	3,861
Total liabilities	140,432	140,540

- (1) Excludes non-financial assets of \$1,632 million (31 March 2017: \$1,993 million; 30 September 2016: \$2,066 million) and Life investment linked contracts and other unitholder assets of \$679 million (31 March 2017: \$722 million; 30 September 2016: \$760 million) which are included in Note 8 – Other assets.
- (2) Excludes non-financial liabilities of \$2,289 million (31 March 2017: \$2,584 million; 30 September 2016: \$2,038 million) and Life investment linked contracts and other unitholder liabilities of \$674 million (31 March 2017: \$714 million; 30 September 2016: \$754 million) which are included in Note 13 – Other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 19

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<i>As at 30 September 2017</i>				
Assets				
Receivables from financial institutions	6,533	31,827	–	38,360
Other financial assets	–	7,024	–	7,024
Loan assets held at amortised cost	6,688	6,991	62,413	76,092
Due from related body corporate entities	–	1,075	–	1,075
Total assets	13,221	46,917	62,413	122,551
Liabilities				
Deposits	52,071	6,934	–	59,005
Other financial liabilities	–	6,248	–	6,248
Payables to financial institutions	1,512	11,547	2,311	15,370
Due to related body corporate entities	–	5,101	–	5,101
Debt issued at amortised cost	–	39,703	6,161	45,864
Loan capital	1,418	3,031	–	4,449
Total liabilities	55,001	72,564	8,472	136,037
<i>As at 31 March 2017</i>				
Assets				
Receivables from financial institutions	7,637	17,927	–	25,564
Other financial assets	–	5,931	–	5,931
Loan assets held at amortised cost	7,268	7,035	61,634	75,937
Due from related body corporate entities	–	1,733	–	1,733
Total assets	14,905	32,626	61,634	109,165
Liabilities				
Deposits	50,552	7,144	–	57,696
Other financial liabilities	–	6,077	–	6,077
Payables to financial institutions	1,046	10,779	2,468	14,293
Due to related body corporate entities	–	7,367	–	7,367
Debt issued at amortised cost	–	37,339	5,963	43,302
Loan capital	1,743	3,032	–	4,775
Total liabilities	53,341	71,738	8,431	133,510
<i>As at 30 September 2016</i>				
Assets				
Receivables from financial institutions	7,199	23,480	–	30,679
Other financial assets	–	5,276	–	5,276
Loan assets held at amortised cost	7,278	6,541	63,303	77,122
Due from related body corporate entities	–	1,544	–	1,544
Total assets	14,477	36,841	63,303	114,621
Liabilities				
Deposits	47,590	7,876	–	55,466
Other financial liabilities	–	4,784	–	4,784
Payables to financial institutions	1,737	16,533	2,608	20,878
Due to related body corporate entities	–	6,600	–	6,600
Debt issued at amortised cost	–	42,434	6,517	48,951
Loan capital	764	3,097	–	3,861
Total liabilities	50,091	81,324	9,125	140,540

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 19

Fair values of financial assets and liabilities continued

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
As at 30 September 2017				
Assets				
Trading portfolio assets	11,440	6,524	215	18,179
Derivative assets	754	10,848	559	12,161
Investment securities available for sale	2,390	1,138	381	3,909
Other financial assets at fair value through profit or loss	14	671	7	692
Other financial assets ⁽¹⁾	26	646	7	679
Total assets	14,624	19,827	1,169	35,620
Liabilities				
Trading portfolio liabilities	6,050	1,159	–	7,209
Derivative liabilities	436	9,942	285	10,663
Other financial liabilities at fair value through profit or loss	–	1,737	52	1,789
Other financial liabilities ⁽²⁾	–	667	7	674
Total liabilities	6,486	13,505	344	20,335
As at 31 March 2017				
Assets				
Trading portfolio assets	17,923	8,386	328	26,637
Derivative assets	770	10,949	348	12,067
Investment securities available for sale	3,176	1,628	378	5,182
Other financial assets at fair value through profit or loss	5	742	13	760
Other financial assets ⁽¹⁾	24	691	7	722
Total assets	21,898	22,396	1,074	45,368
Liabilities				
Trading portfolio liabilities	3,105	1,817	–	4,922
Derivative liabilities	686	10,214	201	11,101
Other financial liabilities at fair value through profit or loss	–	1,877	57	1,934
Other financial liabilities ⁽²⁾	–	707	7	714
Total liabilities	3,791	14,615	265	18,671
As at 30 September 2016				
Assets				
Trading portfolio assets	17,036	9,495	498	27,029
Derivative assets	688	14,117	406	15,211
Investment securities available for sale	3,353	1,528	433	5,314
Other financial assets at fair value through profit or loss	–	755	13	768
Other financial assets ⁽¹⁾	82	671	7	760
Total assets	21,159	26,566	1,357	49,082
Liabilities				
Trading portfolio liabilities	3,134	1,917	–	5,051
Derivative liabilities	378	12,265	265	12,908
Other financial liabilities at fair value through profit or loss	–	2,536	55	2,591
Other financial liabilities ⁽²⁾	–	747	7	754
Total liabilities	3,512	17,465	327	21,304

(1) This balance represents \$679 million (31 March 2017: \$722 million; 30 September 2016: \$760 million) of life investment linked contracts and other unitholder assets which are included in Note 8 – Other assets.

(2) This balance represents \$674 million (31 March 2017: \$714 million; 30 September 2016: \$754 million) of life investment linked contracts and other unitholder liabilities which are included in Note 13 – Other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 19

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial periods ended 30 September 2017, 31 March 2017 and 30 September 2016:

	Trading portfolio assets \$m	Investment securities available for sale \$m
Balance as at 1 April 2016	759	604
Purchases	145	26
Sales	(357)	(3)
Settlements	–	(103)
Transfers into level 3	69	–
Transfers out of level 3	(76)	(28)
Fair value movements recognised in the income statement ⁽¹⁾	(42)	(3)
Fair value movements recognised in other comprehensive income ⁽¹⁾	–	(60)
Balance as at 30 September 2016	498	433
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	(42)	(16)
Balance as at 1 October 2016	498	433
Purchases	72	41
Sales	(131)	(18)
Settlements	–	(59)
Transfers into level 3	–	16
Transfers out of level 3	(151)	–
Fair value movements recognised in the income statement ⁽¹⁾	40	(8)
Fair value movements recognised in other comprehensive income ⁽¹⁾	–	(27)
Balance as at 31 March 2017	328	378
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	44	16
Balance as at 1 April 2017	328	378
Purchases	96	1
Sales	(228)	(34)
Settlements	–	–
Transfers into level 3	21	24
Transfers out of level 3	(4)	(1)
Fair value movements recognised in the income statement ⁽¹⁾	2	(1)
Fair value movements recognised in other comprehensive income ⁽¹⁾	–	14
Balance as at 30 September 2017	215	381
Fair value movements for the period included in the income statement for assets and liabilities held at the end of the period ⁽¹⁾	3	–

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$559 million (31 March 2017: \$348 million; 30 September 2016: \$406 million) and derivative liabilities are \$285 million (31 March 2017: \$201 million; 30 September 2016: \$265 million).

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 19**Fair values of financial assets and liabilities continued****Reconciliation of balances in Level 3 of the fair value hierarchy continued**

Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other financial liabilities at fair value through profit or loss \$m	Other financial liabilities \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
18	79	(54)	(7)	201	1,600
–	–	–	–	122	293
–	(72)	–	–	(108)	(540)
(4)	–	1	–	–	(106)
–	–	–	–	(14)	55
–	–	–	–	(31)	(135)
(1)	–	(2)	–	(29)	(77)
–	–	–	–	–	(60)
13	7	(55)	(7)	141	1,030
–	–	(2)	–	(29)	(89)
13	7	(55)	(7)	141	1,030
4	–	–	–	(31)	86
(5)	–	–	–	(16)	(170)
–	–	(1)	–	–	(60)
–	–	–	–	22	38
–	–	–	–	2	(149)
1	–	(1)	–	29	61
–	–	–	–	–	(27)
13	7	(57)	(7)	147	809
–	–	(3)	–	27	84
13	7	(57)	(7)	147	809
1	–	2	–	47	147
(7)	–	–	–	41	(228)
–	–	–	–	–	–
–	–	–	–	(7)	38
–	–	–	–	(5)	(10)
–	–	3	–	51	55
–	–	–	–	–	14
7	7	(52)	(7)	274	825
–	–	2	–	49	54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

NOTE 19

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

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

Unrecognised gains

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

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

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Balance at the beginning of the period	127	114	111
Deferral on new transactions	30	45	22
Amounts recognised in the income statement during the period	(51)	(32)	(19)
Balance at the end of the period	106	127	114

Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
Product type	As at 30 September 2017			
Equity and equity linked products	–	7	–	(1)
Commodities and other products	67	–	(70)	–
Total	67	7	(70)	(1)
Product type	As at 31 March 2017			
Equity and equity linked products	3	16	(3)	(9)
Commodities and other products	77	–	(100)	–
Total	80	16	(103)	(9)
Product type	As at 30 September 2016			
Equity and equity linked products	4	13	(21)	(15)
Commodities and other products	110	3	(94)	(3)
Total	114	16	(115)	(18)

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 19

Fair values of financial assets and liabilities continued

Significant unobservable inputs

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
As at 30 September 2017						
Equity and equity linked products	42	9	Market comparability	Price in % ⁽¹⁾		
Commodities and other products	1,127	335	Pricing model	Volatility	0.01%	106.0%
				Correlation	(40.0%)	100.0%
			Market comparability	Price in % ⁽¹⁾		
Total	1,169	344				
As at 31 March 2017						
Equity and equity linked products	281	20	Market comparability	Price in % ⁽¹⁾		
Commodities and other products	793	245	Pricing model	Volatility	6.0%	108.0%
				Correlation	(40.0%)	100.0%
			Market comparability	Price in % ⁽¹⁾		
Total	1,074	265				
As at 30 September 2016						
Equity and equity linked products	264	19	Market comparability	Price in % ⁽¹⁾		
Commodities and other products	1,093	308	Discounted cash flows	Discount rate	8.0%	8.0%
			Pricing model	Volatility	10.0%	85.0%
				Correlation	(60.0%)	100.0%
			Market comparability	Price in % ⁽¹⁾		
Total	1,357	327				

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

Correlation

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

Volatility

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
 CONTINUED

NOTE 20

Acquisitions and disposals of subsidiaries and businesses

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

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

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

Cargill, Inc.'s global natural gas and electricity business (Cargill North American Power and Gas).

There were no other entities or businesses acquired or consolidated due to acquisition of control in half-year ended 31 March 2017 and 30 September 2016 comparatives.

Aggregate details of the entities or businesses acquired or consolidated are as follows:

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Fair value of net assets acquired			
Trading portfolio assets	51	–	–
Derivative assets	14	–	–
Other financial assets at fair value through profit or loss	21	–	–
Intangible assets	54	–	–
Total fair value of net assets acquired	140	–	–
Consideration			
Cash consideration	151	–	–
Total consideration	151	–	–
Goodwill recognised on acquisition	11	–	–
Net cash outflow			
Cash consideration	(151)	–	–
Net cash outflow	(151)	–	–

Consolidated income statement
 Consolidated statement of comprehensive income
 Consolidated statement of financial position
 Consolidated statement of changes in equity
 Consolidated statement of cash flows
Notes to the consolidated financial statements
 Directors' declaration
 Independent auditor's review report

NOTE 20

Acquisitions and disposals of subsidiaries and businesses continued

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

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

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

Macquarie Financial Ltd.

During the half-year ended 31 March 2017, other entity or business disposed of or deconsolidated due to loss of control was International Life Solutions Proprietary Limited.

During the half-year ended 30 September 2016, other entities or businesses disposed of or deconsolidated due to loss of control were Macquarie Life's risk insurance business and US Mortgages.

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

	Half-year to 30 Sep 2017 \$m	Half-year to 31 Mar 2017 \$m	Half-year to 30 Sep 2016 \$m
Carrying value of assets and liabilities disposed of or deconsolidated			
Receivables from financial institutions	34	–	36
Trading portfolio assets	–	–	77
Other assets	14	–	131
Loan assets held at amortised cost	402	–	427
Other liabilities	(1)	–	(126)
Payables to financial institutions	(99)	–	–
Debt issued at amortised cost	(337)	–	–
Total carrying value of assets and liabilities disposed of or deconsolidated	13	–	545
Consideration			
Cash consideration	14	–	368
Purchase price asset ⁽¹⁾	–	–	400
Consideration receivable	–	–	1
Total consideration	14	–	769
Direct costs relating to disposal	–	–	(21)
Net cash (outflow)/inflow			
Cash consideration ⁽¹⁾	14	400	368
Less: Cash and cash equivalents disposed of or deconsolidated	(34)	–	(36)
Cash outflow on direct costs related to disposal	–	(7)	(3)
Net cash (outflow)/inflow	(20)	393	329

(1) On the date of loss of control, Macquarie Life's risk insurance business related assets and liabilities were deconsolidated from Consolidated Entity's financial statements and a purchase price asset of \$400 million was recorded. This purchase price was subsequently received on 1 October 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2017
CONTINUED

NOTE 21

Events after the reporting date

There were no material events subsequent to 30 September 2017 that have not been reflected in the financial statements.

Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of changes in equity
Consolidated statement of cash flows
Notes to the consolidated financial statements
Directors' declaration
Independent auditor's review report

MACQUARIE BANK LIMITED DIRECTORS' DECLARATION

In the Directors' opinion

- a) the financial statements and notes set out on pages 16 to 51 are in accordance with the *Corporations Act 2001* (Cth) including:
- (i) complying with the Australian accounting standards, and
 - (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and performance for the half-year ended on that date, and
- b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

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



Peter H Warne
Independent Director
and Chairman



Mary Reemst
Managing Director
and Chief Executive Officer

Sydney
27 October 2017

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MACQUARIE BANK LIMITED



REPORT ON THE HALF-YEAR FINANCIAL REPORT

We have reviewed the accompanying half-year financial report of Macquarie Bank Limited (the Company), which comprises the consolidated statement of financial position as at 30 September 2017, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* (Cth) including giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth). As the auditor of Macquarie Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2017 and of its performance for the half-year ended on that date;
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth).

PricewaterhouseCoopers

**K.G. Smith
Partner**

Sydney
27 October 2017

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

Consolidated income statement
Consolidated statement of comprehensive income
Consolidated statement of financial position
Consolidated statement of changes in equity
Consolidated statement of cash flows
Notes to the consolidated financial statements
Directors' declaration
Independent auditor's review report

This page has been intentionally left blank.

This page has been intentionally left blank.

CONTACT DETAILS

**Macquarie Bank
Principal Administrative Office**

50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

**Registered Office
Macquarie Bank Limited**

Level 6, 50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Fax: +61 2 8237 1899

macquarie.com