

# Interim Financial Report

Macquarie Bank  
Half-year ended 30 September 2015



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**MACQUARIE BANK 2015 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 and is current at the date of this report. It is general background information about Macquarie Bank Limited's activities, is given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

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# Interim Financial Report

## for the half-year ended 30 September 2015

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# Interim Financial Report

## for the half-year ended 30 September 2015

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# Directors' Report

## for the half-year ended 30 September 2015

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In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (Macquarie, MBL or the Company), the Directors submit herewith the financial statements of the Bank and its subsidiaries (the Consolidated Entity, the Group) at the end of, and during, the financial period ended on 30 September 2015 and report as follows:

### Directors

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

#### Independent Directors

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

#### Executive Directors

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

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

On 24 September 2015, MBL announced that Kevin McCann will retire as Chairman and a Voting Director of MBL effective 31 March 2016, with Peter Warne to replace him as Chairman on his retirement.

### Result

The financial report for the half-year ended 30 September 2015 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 holder of the Bank, in accordance with Australian Accounting Standards, for the period was \$A1,446 million (half-year to 31 March 2015: \$A702 million; half-year to 30 September 2014: \$A394 million).

## Operating and Financial Review

### Review of performance and financial position

#### Performance

Consolidated net profit attributable to the ordinary equity holder of \$A1,446 million for the half-year ended 30 September 2015 increased from \$A394 million in the prior corresponding period<sup>(1)</sup> and increased from \$A702 million in the prior period<sup>(2)</sup>. This result represents profit from continuing operations of \$A406 million (compared to \$A339 million in the prior corresponding period) and profit from discontinued operations of \$A1,040 million (compared to \$A55 million in the prior corresponding period).

#### Continuing operations

**Macquarie Bank's annuity-style businesses** – Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) – continued to perform well, generating a combined net profit contribution<sup>(3)</sup> for the half-year ended 30 September 2015 of \$A818 million, an increase of 28 percent on the prior corresponding period with most businesses favourably impacted by the depreciation of the Australian dollar relative to the prior corresponding period. MAM benefited from increased activity in the Macquarie Specialised Investment Solutions business, while CAF's higher net profit contribution was in part driven by higher volumes and the accretion of interest income on loans acquired at a discount. BFS reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

**Macquarie Bank's capital markets facing businesses** – Macquarie Securities Group (MSG) and Commodities and Financial Markets (CFM) – delivered a combined net profit contribution for the half-year ended 30 September 2015 of \$A431 million, an increase of 104 percent on the prior corresponding period. In addition to the overall favourable impact of the depreciation of the Australian dollar on most businesses, MSG's net profit contribution was up significantly on the prior corresponding period due to increased income from improved trading opportunities driven by increased market volatility, particularly in China. CFM reported an increased net profit contribution in part driven by improved trading conditions resulting from increased volatility in commodities markets during the period, partially offset by higher provisions for impairments taken on certain underperforming commodity related loans.

<sup>(1)</sup> Prior corresponding period refers to the six months to 30 September 2014.

<sup>(2)</sup> Prior period refers to the six months to 31 March 2015.

<sup>(3)</sup> Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

# Directors' Report

## for the half-year ended 30 September 2015

### continued

Net operating income of \$A2,782 million for the half-year ended 30 September 2015 increased 17 percent from \$A2,386 million in the prior corresponding period. Key drivers of the movements from the prior corresponding period were:

- a 30 percent increase in combined net interest and trading income to \$A2,225 million for the half-year ended 30 September 2015 from \$A1,714 million in the prior corresponding period. Most operating groups<sup>(4)</sup> contributed to the increase, with the key drivers being:
  - improved trading opportunities in MSG driven by increased market volatility, particularly in China
  - increased volatility in commodities markets leading to improved trading conditions for CFM, and
  - the accretion of interest income on loans acquired at a discount and the favourable impact of the depreciation of the Australian dollar, partially offset by increased funding costs associated with the growth of the operating lease portfolio.
- an 18 percent increase in fee and commission income to \$A434 million for the half-year ended 30 September 2015 from \$A368 million in the prior corresponding period primarily due to increased brokerage and commissions income resulting from improved market turnover and the favourable impact of the depreciation of the Australian dollar on fees earned in MSG
- a 59 percent decrease in other operating income and charges to \$A127 million for the half-year ended 30 September 2015 from \$A309 million in the prior corresponding period primarily driven by:
  - an increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to \$A265 million for the half-year ended 30 September 2015 from \$A82 million in the prior corresponding period mainly due to the underperformance of certain commodity related loans in CFM and an increase to the collective provision central management overlay in Corporate<sup>(4)</sup> to account for changes in current economic conditions
  - the non-recurrence of gains on the disposal of operating lease assets of \$A90 million in CAF in the prior corresponding period, partly offset by
  - a 31 percent increase in net operating lease income to \$A372 million for the half-year ended 30 September 2015 from \$A285 million in the prior corresponding period primarily due to the favourable impact of the depreciation of the Australian dollar and the contribution of aircraft acquired to date from AWAS Aviation Capital Limited (AWAS) during the period, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

<sup>(4)</sup> The operating groups of MBL comprise MAM, CAF, BFS, MSG and CFM. In addition, there is a Corporate segment, which includes head office and central support functions including Group Treasury.

Total operating expenses increased 14 percent from \$A1,791 million in the prior corresponding period to \$A2,033 million for the half-year ended 30 September 2015 mainly due to the following:

- an 18 percent increase in employment expenses to \$A825 million for the half-year ended 30 September 2015 from \$A699 million in the prior corresponding period primarily due to higher staff compensation resulting from the improved performance of the Bank and the impact of the depreciation of the Australian dollar on offshore expenses
- a 13 percent increase in brokerage, commission and trading-related expenses from \$A283 million in the prior corresponding period to \$A320 million for the half-year ended 30 September 2015 mainly driven by increased trading activity in MSG, and
- an increase in non-salary technology expenses from \$A45 million in the prior corresponding period to \$A92 million for the half-year ended 30 September 2015 primarily due to ongoing investment in technology projects to support business growth, including the development of a new Core Banking system in BFS.

Income tax expense for the half-year ended 30 September 2015 was \$A338 million, up 38 percent from \$A245 million in the prior corresponding period, resulting in an effective tax rate of 44.9 percent.

#### Discontinued operations

Profit from discontinued operations (net of income tax) of \$A1,040 million for the half-year ended 30 September 2015 represents profit from the sale of the Macquarie Investment Management (MIM) business to Macquarie Financial Holdings Pty Limited and its subsidiaries on 15 April 2015, as well as profit earned by MIM up until the sale date. Profit of \$A55 million in the prior corresponding period and \$A135 million in the prior period represents profit from the MIM business.

#### Financial position

##### Balance Sheet

Growth in the Bank's balance sheet has largely been driven by increased business activity across lending, asset financing and trading portfolios as well as the impact of the depreciation of the Australian dollar. Total assets of \$A192.1 billion at 30 September 2015 increased 11 percent from \$A172.6 billion at 31 March 2015, while total liabilities increased 12 percent from \$A161.0 billion at 31 March 2015 to \$A180.2 billion at 30 September 2015.

Other key drivers of the movement in the balance sheet include:

- Group Treasury funding and liquidity management initiatives during the half-year to 30 September 2015 including new issuances of long term debt issued at amortised cost (partially offset by a decrease in short term debt) that led to an increase in debt investments available for sale and cash and liquid asset holdings
- increased stock borrowing activity in MSG, particularly in Europe, resulting in an increase in receivables from financial institutions and trading liabilities

- changes in interest rates, foreign exchange rates and commodity prices during the period resulted in an increase in derivative assets and liabilities in CFM
- increased lending and asset financing activity across the Bank, leading to growth in loan assets held at amortised cost, including:
  - BFS' Australian mortgage portfolio, which increased 13 percent from \$A24.5 billion at 31 March 2015 to \$A27.6 billion at 30 September 2015 and included the acquisition of a residential mortgage portfolio of \$A1.2 billion during the period. This growth was partially offset by a reduction in the Canadian and United States (US) mortgage portfolios, which are in run-off and closed at a combined \$A2.6 billion at 30 September 2015, down 31 percent from \$A3.8 billion at 31 March 2015, and
  - CAF's loan and finance lease portfolios, which increased four percent from \$A22.2 billion at 31 March 2015 to \$A23.0 billion at 30 September 2015 mainly driven by the impact of the depreciation of the Australian dollar and the acquisition of Advantage Funding in July 2015.
- aircraft acquired to date from AWAS and the impact of the depreciation of the Australian dollar resulted in growth of the operating lease portfolios within CAF of 46 percent from \$A6.3 billion at 31 March 2015 to \$A9.2 billion at 30 September 2015. The acquisition of aircraft from AWAS also led to an increase in payables to financial institutions as a result of funding requirements
- increased deposits in BFS' business banking mainly due to organic growth, and
- increased loan capital primarily due to a \$US750 million subordinated debt issuance that qualifies as Tier 2 capital under Basel III rules.

Total equity increased \$A0.3 billion from \$A11.6 billion at 31 March 2015 to \$A11.9 billion at 30 September 2015, largely due to a net increase in the foreign currency translation reserve that resulted from the depreciation of the Australian dollar during the period.

### **Funding**

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) increased from 4.0 years at 31 March 2015 to 4.1 years at 30 September 2015.

As at 30 September 2015, customer deposits<sup>(5)</sup> represented \$A42.8 billion, or 40 percent of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented \$A11.5 billion, or 11 percent of total funding, and other debt funding maturing within 12 months represented \$A7.0 billion, or seven percent of total funding.

Macquarie has a liability-driven approach to balance sheet management, where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2015, MBL has continued to raise term wholesale funding.

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

Since 31 March 2015, MBL Group raised \$A9.0 billion of term funding, including \$A6.1 billion of term wholesale funding and \$A2.9 billion of term secured finance. Wholesale term issuance of \$A6.1 billion includes \$A3.4 billion in unsecured debt issuance in the US market and \$A2.7 billion in private placements and structured notes. Term secured finance of \$A2.9 billion includes \$A1.9 billion of PUMA RMBS, \$A0.8 billion of SMART auto and equipment ABS and \$A0.2 billion other secured funding.

Macquarie also raised \$4.0 billion through the AWAS acquisition debt facility.

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

### **Capital**

The Consolidated Entity is well capitalised and as at 30 September 2015, Macquarie Bank had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 11.6 percent and a Tier 1 Capital Ratio of 12.8 percent, with an Australian Prudential Regulation Authority (APRA) Common Equity Tier 1 Capital Ratio of 9.9 percent and an APRA Tier 1 Capital Ratio of 11.1 percent. Under Basel III rules, the APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of capital to risk weighted assets of eight percent, with at least six percent of this capital in the form of Tier 1 capital and at least 4.5 percent of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which may be higher than these levels. Macquarie Bank's internal capital policy set by the Board requires capital floors above the regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the period.

- <sup>(5)</sup> Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

# Directors' Report

## for the half-year ended 30 September 2015

### continued

#### Business strategies

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

- **conducting a mix of annuity-style and capital markets facing businesses** that deliver solid returns in a range of market conditions. In recent years Macquarie Bank has strongly developed its annuity-style businesses, providing steady returns to the business and Macquarie Group Limited (Macquarie, Macquarie Group or MGL) shareholders and certainty to clients
- **operating a diversified set of businesses** across different locations and service offerings including banking and financial services. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to the Group, as highlighted in the challenging global markets of recent years
- **utilising proven deep expertise** has allowed the Group to establish leading market positions as a global specialist in a wide range of sectors, including resources and commodities, energy, financial institutions and real estate, with a deep knowledge of Asia-Pacific financial markets
- **expanding progressively by pursuing adjacencies** through new organic opportunities and selective acquisitions in products and geographies that are adjacent to its established areas of expertise, by building expertise in these disciplines and expanding into associated activities. This results in sustainable evolutionary growth
- **pursuing growth opportunities** through recognising the value of ideas and innovation. The Company starts with real knowledge and skill and encourages innovation, ingenuity and entrepreneurial spirit coupled with accountability. The Company seeks to identify opportunity and realise it for clients, community, shareholders and its people. Ideas for new businesses are typically generated in the operating businesses. Additionally, there are no specific businesses, markets, or regions in which the 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 Board-approved Risk Appetite Statement
- **utilising a conservative approach to risk management** through the Group's strong risk management framework embedded across all operating groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and the Group can survive a worst-case outcome from any new or existing activity
- **maintaining a strong and conservative balance sheet** consistent with its longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. The Company remains well funded, with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

#### Outlook

While the impact of future market conditions makes forecasting difficult, it is currently expected that the combined net profit contribution from operating groups for the financial year ending 31 March 2016 will be up on the financial year ended 31 March 2015.

The tax rate for the financial year ending 31 March 2016 is currently expected to be down on the tax rate for the financial year ended 31 March 2015.

The Group's short term outlook remains subject to a range of challenges including: market conditions; the impact of foreign exchange; the cost of its continued conservative approach to funding and capital; 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.

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## Events after the reporting period

Except as disclosed in Note 22 to the financial statements in the Interim Financial Report, there were no material events subsequent to 30 September 2015.

## Interim dividend

The recommendation is for no MBL interim dividend to be paid.

## Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is set out on page 6.

## Rounding of amounts

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

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



**H Kevin McCann AM**  
Independent Director and  
Chairman



**Mary Reemst**  
Managing Director and  
Chief Executive Officer  
  
Sydney  
30 October 2015

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# Auditor's independence declaration

## for the half-year ended 30 September 2015



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As lead auditor for the review of Macquarie Bank Limited for the half-year ended 30 September 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in cursive script that reads 'K. G. Smith'.

**K.G. Smith**  
Partner  
PricewaterhouseCoopers  
Sydney  
30 October 2015

# Consolidated income statement

## for the half-year ended 30 September 2015

|                                                                                            | Notes | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------------------------------------------|-------|------------------------------------|------------------------------------|------------------------------------|
| Interest and similar income                                                                | 2     | 2,466                              | 2,409                              | 2,232                              |
| Interest expense and similar charges                                                       | 2     | (1,383)                            | (1,339)                            | (1,291)                            |
| Net interest income                                                                        |       | 1,083                              | 1,070                              | 941                                |
| Fee and commission income                                                                  | 2     | 434                                | 526                                | 368                                |
| Net trading income                                                                         | 2     | 1,142                              | 1,087                              | 773                                |
| Share of net losses of associates and joint ventures accounted for using the equity method | 2     | (4)                                | (12)                               | (5)                                |
| Other operating income and charges                                                         | 2     | 127                                | 238                                | 309                                |
| Net operating income                                                                       |       | 2,782                              | 2,909                              | 2,386                              |
| Employment expenses                                                                        | 2     | (825)                              | (767)                              | (699)                              |
| Brokerage, commission and trading-related expenses                                         | 2     | (320)                              | (318)                              | (283)                              |
| Occupancy expenses                                                                         | 2     | (57)                               | (64)                               | (56)                               |
| Non-salary technology expenses                                                             | 2     | (92)                               | (65)                               | (45)                               |
| Other operating expenses                                                                   | 2     | (739)                              | (772)                              | (708)                              |
| Total operating expenses                                                                   |       | (2,033)                            | (1,986)                            | (1,791)                            |
| <b>Operating profit before income tax</b>                                                  |       | <b>749</b>                         | <b>923</b>                         | <b>595</b>                         |
| Income tax expense                                                                         | 4     | (338)                              | (344)                              | (245)                              |
| <b>Profit from ordinary activities after income tax</b>                                    |       | <b>411</b>                         | <b>579</b>                         | <b>350</b>                         |
| Profit from discontinued operations (net of income tax)                                    | 21    | 1,040                              | 135                                | 55                                 |
| <b>Profit from ordinary activities and discontinued operations after income tax</b>        |       | <b>1,451</b>                       | <b>714</b>                         | <b>405</b>                         |
| (Profit)/loss attributable to non-controlling interests:                                   |       |                                    |                                    |                                    |
| Macquarie Income Preferred Securities                                                      | 5     | (1)                                | (3)                                | (2)                                |
| Other non-controlling interests                                                            |       | 4                                  | –                                  | –                                  |
| Loss/(profit) attributable to non-controlling interests                                    |       | 3                                  | (3)                                | (2)                                |
| <b>Profit attributable to equity holders of Macquarie Bank Limited</b>                     |       | <b>1,454</b>                       | <b>711</b>                         | <b>403</b>                         |
| Distributions paid or provided for on:                                                     |       |                                    |                                    |                                    |
| Macquarie Income Securities                                                                | 5     | (8)                                | (9)                                | (9)                                |
| <b>Profit attributable to ordinary equity holders of Macquarie Bank Limited</b>            |       | <b>1,446</b>                       | <b>702</b>                         | <b>394</b>                         |
| From continuing operations                                                                 |       | 406                                | 567                                | 339                                |
| From discontinued operations                                                               | 21    | 1,040                              | 135                                | 55                                 |

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 2015

|                                                                                                    | Notes | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|----------------------------------------------------------------------------------------------------|-------|------------------------------------|------------------------------------|------------------------------------|
| <b>Profit from ordinary activities and discontinued operations after income tax for the period</b> |       | <b>1,451</b>                       | 714                                | 405                                |
| Other comprehensive income/(expense) <sup>(1)</sup> :                                              |       |                                    |                                    |                                    |
| Available for sale investments, net of tax                                                         | 16    | 35                                 | (8)                                | 12                                 |
| Cash flow hedges, net of tax                                                                       | 16    | 22                                 | (41)                               | (19)                               |
| Share of other comprehensive income of associates and joint ventures, net of tax                   | 16    | 1                                  | 1                                  | –                                  |
| Exchange differences on translation of foreign operations, net of hedges and tax                   |       | 450                                | 501                                | 203                                |
| Other comprehensive (expense)/income from discontinued operations, net of tax                      |       | (25)                               | 28                                 | –                                  |
| <b>Total other comprehensive income for the period</b>                                             |       | <b>483</b>                         | 481                                | 196                                |
| <b>Total comprehensive income for the period</b>                                                   |       | <b>1,934</b>                       | 1,195                              | 601                                |
| Total comprehensive income/(expense) for the period is attributable to:                            |       |                                    |                                    |                                    |
| Ordinary equity holders of Macquarie Bank Limited                                                  |       | 1,925                              | 1,179                              | 588                                |
| Macquarie Income Securities holders                                                                |       | 8                                  | 9                                  | 9                                  |
| Macquarie Income Preferred Securities holders                                                      |       | 5                                  | 7                                  | 4                                  |
| Other non-controlling interests                                                                    |       | (4)                                | –                                  | –                                  |
| <b>Total comprehensive income for the period</b>                                                   |       | <b>1,934</b>                       | 1,195                              | 601                                |

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

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

# Consolidated statement of financial position

## as at 30 September 2015

|                                                                                            | Notes | As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------------------------------------------|-------|-----------------------------|-----------------------------|-----------------------------|
| <b>Assets</b>                                                                              |       |                             |                             |                             |
| Receivables from financial institutions                                                    |       | 33,904                      | 25,981                      | 18,070                      |
| Trading portfolio assets                                                                   | 6     | 31,224                      | 30,039                      | 25,384                      |
| Derivative assets                                                                          |       | 22,200                      | 19,952                      | 14,518                      |
| Investment securities available for sale                                                   | 7     | 8,188                       | 6,345                       | 7,289                       |
| Other assets                                                                               | 8     | 7,472                       | 7,818                       | 7,458                       |
| Loan assets held at amortised cost                                                         | 9     | 75,098                      | 71,206                      | 62,800                      |
| Other financial assets at fair value through profit or loss                                |       | 1,242                       | 1,323                       | 1,798                       |
| Due from related body corporate entities                                                   |       | 1,710                       | 1,163                       | 1,395                       |
| Property, plant and equipment                                                              |       | 10,009                      | 6,743                       | 6,339                       |
| Interests in associates and joint ventures accounted for using the equity method           | 11    | 652                         | 471                         | 563                         |
| Intangible assets                                                                          |       | 185                         | 229                         | 784                         |
| Deferred tax assets                                                                        |       | 231                         | 238                         | 185                         |
| Assets of disposals group classified as held for sale                                      |       | –                           | 1,072                       | –                           |
| <b>Total assets</b>                                                                        |       | <b>192,115</b>              | <b>172,580</b>              | <b>146,583</b>              |
| <b>Liabilities</b>                                                                         |       |                             |                             |                             |
| Trading portfolio liabilities                                                              | 12    | 8,504                       | 5,045                       | 3,679                       |
| Derivative liabilities                                                                     |       | 19,906                      | 18,100                      | 14,412                      |
| Deposits                                                                                   |       | 51,899                      | 47,333                      | 44,122                      |
| Other liabilities                                                                          | 13    | 9,326                       | 9,179                       | 7,814                       |
| Payables to financial institutions                                                         |       | 19,112                      | 14,874                      | 13,086                      |
| Other financial liabilities at fair value through profit or loss                           |       | 1,841                       | 1,237                       | 841                         |
| Due to related body corporate entities                                                     |       | 8,298                       | 7,700                       | 6,240                       |
| Debt issued at amortised cost                                                              | 14    | 56,264                      | 53,033                      | 43,608                      |
| Provisions                                                                                 |       | 82                          | 83                          | 102                         |
| Deferred tax liabilities                                                                   |       | 422                         | 378                         | 710                         |
| Liabilities of disposals group classified as held for sale                                 |       | –                           | 779                         | –                           |
| <b>Total liabilities excluding loan capital</b>                                            |       | <b>175,654</b>              | <b>157,741</b>              | <b>134,614</b>              |
| <b>Loan capital</b>                                                                        |       |                             |                             |                             |
| Subordinated debt issued at amortised cost                                                 |       | 4,591                       | 3,240                       | 2,534                       |
| <b>Total loan capital</b>                                                                  |       | <b>4,591</b>                | <b>3,240</b>                | <b>2,534</b>                |
| <b>Total liabilities</b>                                                                   |       | <b>180,245</b>              | <b>160,981</b>              | <b>137,148</b>              |
| <b>Net assets</b>                                                                          |       | <b>11,870</b>               | <b>11,599</b>               | <b>9,435</b>                |
| <b>Equity</b>                                                                              |       |                             |                             |                             |
| Contributed equity                                                                         | 15    | 9,083                       | 9,082                       | 8,101                       |
| Reserves                                                                                   | 16    | 1,082                       | 603                         | 126                         |
| Retained earnings                                                                          | 16    | 1,689                       | 1,831                       | 1,129                       |
| <b>Total capital and reserves attributable to equity holders of Macquarie Bank Limited</b> |       | <b>11,854</b>               | <b>11,516</b>               | <b>9,356</b>                |
| Non-controlling interests                                                                  | 16    | 16                          | 83                          | 79                          |
| <b>Total equity</b>                                                                        |       | <b>11,870</b>               | <b>11,599</b>               | <b>9,435</b>                |

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 2015

|                                                                                     | Notes | Contributed<br>equity<br>\$m | Reserves<br>\$m | Retained<br>earnings<br>\$m | Total<br>\$m  | Non-<br>controlling<br>interests<br>\$m | Total<br>equity<br>\$m |
|-------------------------------------------------------------------------------------|-------|------------------------------|-----------------|-----------------------------|---------------|-----------------------------------------|------------------------|
| Balance at 1 April 2014                                                             |       | 8,101                        | (68)            | 1,388                       | 9,421         | 77                                      | 9,498                  |
| Profit from ordinary activities and discontinued operations after income tax        |       | –                            | –               | 403                         | 403           | 2                                       | 405                    |
| Other comprehensive income, net of tax                                              |       | –                            | 194             | –                           | 194           | 2                                       | 196                    |
| Total comprehensive income for the period                                           |       | –                            | 194             | 403                         | 597           | 4                                       | 601                    |
| Transactions with equity holders in their capacity as equity holders:               |       |                              |                 |                             |               |                                         |                        |
| Dividends and distributions paid or provided for                                    | 5,16  | –                            | –               | (662)                       | (662)         | –                                       | (662)                  |
| Non-controlling interests:                                                          |       |                              |                 |                             |               |                                         |                        |
| Distributions paid or provided for                                                  |       | –                            | –               | –                           | –             | (2)                                     | (2)                    |
|                                                                                     |       | –                            | –               | (662)                       | (662)         | (2)                                     | (664)                  |
| <b>Balance at 30 September 2014</b>                                                 |       | <b>8,101</b>                 | <b>126</b>      | <b>1,129</b>                | <b>9,356</b>  | <b>79</b>                               | <b>9,435</b>           |
| Profit from ordinary activities and discontinued operations after income tax        |       | –                            | –               | 711                         | 711           | 3                                       | 714                    |
| Other comprehensive income, net of tax                                              |       | –                            | 477             | –                           | 477           | 4                                       | 481                    |
| Total comprehensive income for the period                                           |       | –                            | 477             | 711                         | 1,188         | 7                                       | 1,195                  |
| Transactions with equity holders in their capacity as equity holders:               |       |                              |                 |                             |               |                                         |                        |
| Contribution of ordinary equity, net of transaction costs                           |       | 950                          | –               | –                           | 950           | –                                       | 950                    |
| Dividends and distributions paid or provided for                                    | 5,16  | –                            | –               | (9)                         | (9)           | –                                       | (9)                    |
| Non-controlling interests:                                                          |       |                              |                 |                             |               |                                         |                        |
| Distributions paid or provided for                                                  |       | –                            | –               | –                           | –             | (3)                                     | (3)                    |
| Other equity movements:                                                             |       |                              |                 |                             |               |                                         |                        |
| Contribution from ultimate parent entity in relation to share-based payments        | 15    | 31                           | –               | –                           | 31            | –                                       | 31                     |
|                                                                                     |       | 981                          | –               | (9)                         | 972           | (3)                                     | 969                    |
| <b>Balance at 31 March 2015</b>                                                     |       | <b>9,082</b>                 | <b>603</b>      | <b>1,831</b>                | <b>11,516</b> | <b>83</b>                               | <b>11,599</b>          |
| Profit/(loss) from ordinary activities and discontinued operations after income tax |       | –                            | –               | 1,454                       | 1,454         | (3)                                     | 1,451                  |
| Other comprehensive income, net of tax                                              |       | –                            | 479             | –                           | 479           | 4                                       | 483                    |
| Total comprehensive income for the period                                           |       | –                            | 479             | 1,454                       | 1,933         | 1                                       | 1,934                  |
| Transactions with equity holders in their capacity as equity holders:               |       |                              |                 |                             |               |                                         |                        |
| Dividends and distributions paid or provided for                                    | 5,16  | –                            | –               | (1,588)                     | (1,588)       | –                                       | (1,588)                |
| Non-controlling interests:                                                          |       |                              |                 |                             |               |                                         |                        |
| Changes in non controlling ownership interest                                       |       | –                            | –               | (8)                         | (8)           | (67)                                    | (75)                   |
| Distributions paid or provided for                                                  |       | –                            | –               | –                           | –             | (1)                                     | (1)                    |
| Other equity movements:                                                             |       |                              |                 |                             |               |                                         |                        |
| Contributions from ultimate parent entity in relation to share-based payments       | 15    | 1                            | –               | –                           | 1             | –                                       | 1                      |
|                                                                                     |       | 1                            | –               | (1,596)                     | (1,595)       | (68)                                    | (1,663)                |
| <b>Balance at 30 September 2015</b>                                                 |       | <b>9,083</b>                 | <b>1,082</b>    | <b>1,689</b>                | <b>11,854</b> | <b>16</b>                               | <b>11,870</b>          |

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

# Consolidated statement of cash flows

## for the half-year ended 30 September 2015

|                                                                                                              | Notes | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------------------------------------------------------------|-------|------------------------------------|------------------------------------|------------------------------------|
| <b>Cash flows from/(used in) operating activities</b>                                                        |       |                                    |                                    |                                    |
| Interest received                                                                                            |       | 2,405                              | 2,196                              | 2,201                              |
| Interest and other costs of finance paid                                                                     |       | (1,357)                            | (1,335)                            | (1,335)                            |
| Dividends and distributions received                                                                         |       | 111                                | 28                                 | 11                                 |
| Fees and other non-interest income received                                                                  |       | 1,084                              | 1,641                              | 1,299                              |
| Fees and commissions paid                                                                                    |       | (341)                              | (413)                              | (356)                              |
| Net payments for trading portfolio assets and other financial assets/liabilities                             |       | (2,616)                            | (7,019)                            | (4,288)                            |
| Payments to suppliers                                                                                        |       | (534)                              | (629)                              | (910)                              |
| Employment expenses paid                                                                                     |       | (979)                              | (774)                              | (1,099)                            |
| Income tax (paid)/refund                                                                                     |       | (436)                              | (135)                              | 8                                  |
| Life investment contract premiums received, disposal of investment assets and other unitholder contributions |       | 686                                | 836                                | 556                                |
| Life investment contract payments, acquisition of investment assets and other unitholder redemptions         |       | (635)                              | (825)                              | (506)                              |
| Net loan assets granted and margin money placed                                                              |       | (3,758)                            | (6,529)                            | (5,818)                            |
| Net increase in amounts due to other financial institutions, deposits and other borrowings                   |       | 9,626                              | 12,277                             | 8,346                              |
| Proceeds from the disposal of operating lease assets                                                         |       | –                                  | 34                                 | 30                                 |
| Payments for the acquisition of operating lease assets                                                       |       | (488)                              | (583)                              | (312)                              |
| Net cash flows from/(used in) operating activities                                                           | 17    | 2,768                              | (1,230)                            | (2,173)                            |
| <b>Cash flows (used in)/from investing activities</b>                                                        |       |                                    |                                    |                                    |
| Net (payments for)/proceeds from investment securities available for sale                                    |       | (457)                              | 1,190                              | 1,913                              |
| Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated            |       | 1,001                              | 1,377                              | 46                                 |
| Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired                |       | (2,542)                            | (61)                               | (423)                              |
| Proceeds from the disposal of property, plant and equipment, and intangible assets                           |       | 22                                 | 11                                 | 35                                 |
| Payments for the acquisition of property, plant and equipment, and intangible assets                         |       | (337)                              | (35)                               | (67)                               |
| Net cash flows (used in)/from investing activities                                                           |       | (2,313)                            | 2,482                              | 1,504                              |
| <b>Cash flows (used in)/from financing activities</b>                                                        |       |                                    |                                    |                                    |
| Proceeds from the issue of ordinary shares                                                                   |       | –                                  | 950                                | –                                  |
| Payments to non-controlling interests                                                                        |       | (63)                               | –                                  | –                                  |
| Net proceeds from the issue of subordinated debt                                                             |       | 963                                | 421                                | –                                  |
| Dividends and distributions paid                                                                             |       | (1,461)                            | (506)                              | (170)                              |
| Net cash flows (used in)/from financing activities                                                           |       | (561)                              | 865                                | (170)                              |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                                  |       | <b>(106)</b>                       | <b>2,117</b>                       | <b>(839)</b>                       |
| Cash and cash equivalents at the beginning of the period                                                     |       | 14,663                             | 12,546                             | 13,385                             |
| <b>Cash and cash equivalents at the end of the period</b>                                                    | 17    | <b>14,557</b>                      | <b>14,663</b>                      | <b>12,546</b>                      |

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 2015

### Note 1

#### Summary of significant accounting policies

##### Basis of preparation

This general purpose financial report for the half-year reporting period ended 30 September 2015 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

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

This half-year financial report does not include all the notes of the type normally included in an annual financial report.

Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 March 2015 and any public announcements made by MBL during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report of MBL for the year ended 31 March 2015 other than where disclosed. Where necessary, certain comparatives have been restated for consistency in presentation at 30 September 2015.

##### 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 2015.

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

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

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

###### AASB 9 Financial Instruments

AASB 9 will replace AASB 139 *Financial Instruments: Recognition and Measurement*. It will lead to changes in the accounting for financial instruments, primarily relating to:

**Financial assets:** A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the asset gives rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of debt instruments that:

- (i) have cash flows solely of principal and interest, and
- (ii) are held in a business model managed both to collect cash flows and for sale

are recognised in other comprehensive income until sold, when they are recycled to the income statement. Interest and impairment are recognised directly in profit or loss. Changes in the fair value of equity investments that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The combined effect of the application of the business model and the contractual cash flow characteristics tests will result in some differences in the assets measured at amortised cost vs. fair value compared with AASB 139.

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

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**Impairment:** The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is recognised for expected credit losses (ECL), resulting from possible defaults within the next 12 months. Subsequently, when there is a significant increase in credit risk, an allowance is required for ECL resulting from possible defaults over the expected life of the financial instrument. The assessment of credit risk, and the estimation of ECL, are to be unbiased and probability-weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. As a result, the impairment allowance is intended to be more forward-looking and the resulting impairment charge will tend to be more volatile than under AASB 139.

**Hedge accounting:** Hedge accounting is more closely aligned with financial risk management, and may be applied to a greater variety of hedging instruments and risks.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018. When AASB 9 is first applied, the Consolidated Entity has an accounting policy choice to apply AASB 9 hedge accounting or to continue applying AASB 139 hedge accounting. This accounting policy choice is available until the Accounting Standard on macro hedging is finalised, and is to be applied consistently to all hedge relationships.

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

#### AASB 15 Revenue from Contracts with Customers

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

In September 2015, the IASB issued an amendment to the Standard, which defers the mandatory effective date of IFRS 15 to 1 January 2018. The AASB has recently decided to issue a similar amendment to defer the mandatory effective date. The Consolidated Entity is now expecting to first apply AASB 15 in the financial year beginning 1 April 2018.

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

#### AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

AASB 2014-10 amends AASB 128 and AASB 10 to require that when an investor sells or contributes assets that constitute a business to its associate or joint venture, a full gain or loss is recognised. When the assets transferred do not constitute a business, the gain or loss recognised is limited to the interest sold. In determining whether the assets sold or contributed are a business, it is irrelevant whether the items transferred exist within a subsidiary.

AASB 2014-10 is effective for annual reporting periods beginning on or after 1 January 2016.

In August 2015, the IASB issued an Exposure Draft to defer indefinitely the effective date of these amendments. Early application remains permitted. The AASB is considering deferring to a later effective date.

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

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

AASB 2015-5 is effective for annual reporting periods beginning on or after 1 January 2016. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2016. Initial application is not expected to result in any material impact for the Consolidated Entity.

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

|                                                                                                   | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|---------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Note 2</b>                                                                                     |                                    |                                    |                                    |
| <b>Profit for the period</b>                                                                      |                                    |                                    |                                    |
| <b>Net interest income</b>                                                                        |                                    |                                    |                                    |
| Interest and similar income received/receivable                                                   | 2,466                              | 2,409                              | 2,232                              |
| Interest expense and similar charges paid/payable                                                 | (1,383)                            | (1,339)                            | (1,291)                            |
| Net interest income                                                                               | 1,083                              | 1,070                              | 941                                |
| <b>Fee and commission income</b>                                                                  |                                    |                                    |                                    |
| Base fees                                                                                         | 17                                 | 22                                 | 17                                 |
| Performance fees                                                                                  | 20                                 | –                                  | –                                  |
| Mergers and acquisitions, advisory and underwriting fees                                          | 15                                 | 25                                 | 18                                 |
| Brokerage and commissions <sup>(1)</sup>                                                          | 219                                | 219                                | 189                                |
| Other fee and commission income                                                                   | 163                                | 260                                | 144                                |
| Total fee and commission income                                                                   | 434                                | 526                                | 368                                |
| <b>Net trading income<sup>(2)</sup></b>                                                           |                                    |                                    |                                    |
| Equities                                                                                          | 370                                | 230                                | 163                                |
| Commodities <sup>(3)</sup>                                                                        | 533                                | 652                                | 376                                |
| Credit, interest rates and foreign exchange products                                              | 239                                | 205                                | 234                                |
| Net trading income                                                                                | 1,142                              | 1,087                              | 773                                |
| <b>Share of net losses of associates and joint ventures accounted for using the equity method</b> |                                    |                                    |                                    |
|                                                                                                   | (4)                                | (12)                               | (5)                                |

<sup>(1)</sup> Includes life investment premium of \$136 million (half-year to 31 March 2015: \$113 million; half-year to 30 September 2014: \$113 million) and related expenses of \$80 million (half-year to 31 March 2015: \$70 million; half-year to 30 September 2014: \$69 million).

<sup>(2)</sup> Included in net trading income are fair value losses of \$17 million (half-year to 31 March 2015: fair value loss of \$66 million; half-year to 30 September 2014: fair value gain of \$43 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met.

<sup>(3)</sup> Net of transportation costs \$195 million (half-year to 31 March 2015: \$158 million; half-year to 30 September 2014: \$89 million).

| Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|------------------------------------|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|------------------------------------|

## Note 2

### Profit for the period continued

#### Other operating income and charges

|                                                                                                                                               |              |              |              |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Net gains on sale of investment securities available for sale                                                                                 | 19           | 5            | 28           |
| Impairment charge on investment securities available for sale                                                                                 | (7)          | (35)         | (19)         |
| Net gains on sale of associates and joint ventures                                                                                            | 19           | 26           | 12           |
| Impairment (charge)/reversal on interest in associates and joint ventures                                                                     | (2)          | (24)         | 4            |
| Gain on disposal of operating lease assets                                                                                                    | 3            | 141          | 90           |
| (Loss)/gain on acquiring, disposing, classification and change in ownership interest in subsidiaries, associates and businesses held for sale | (32)         | 140          | 4            |
| Impairment charge on intangibles and other non-financial assets                                                                               | (17)         | (56)         | (16)         |
| Net operating lease income:                                                                                                                   |              |              |              |
| Rental income                                                                                                                                 | 671          | 554          | 496          |
| Depreciation on operating lease assets                                                                                                        | (299)        | (229)        | (211)        |
| Dividends/distributions received/receivable:                                                                                                  |              |              |              |
| Investment securities available for sale                                                                                                      | 17           | 20           | 7            |
| Collective allowance for credit losses provided for during the period:                                                                        |              |              |              |
| Loan assets (Note 9)                                                                                                                          | (2)          | (52)         | (19)         |
| Debt investment securities available for sale                                                                                                 | –            | (13)         | –            |
| Individually assessed provisions and write offs:                                                                                              |              |              |              |
| Loan assets provided for during the period (Note 9)                                                                                           | (232)        | (228)        | (50)         |
| Other receivables provided for during the period                                                                                              | (4)          | (15)         | (3)          |
| Recovery of loans previously provided for (Note 9)                                                                                            | 9            | 9            | 18           |
| Loan written off                                                                                                                              | (46)         | (40)         | (38)         |
| Recovery of loans previously written off                                                                                                      | 10           | 14           | 10           |
| Other income/(charges)                                                                                                                        | 20           | 21           | (4)          |
| Total other operating income and charges                                                                                                      | 127          | 238          | 309          |
| <b>Net operating income</b>                                                                                                                   | <b>2,782</b> | <b>2,909</b> | <b>2,386</b> |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

|                                                                                                            | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Note 2</b>                                                                                              |                                    |                                    |                                    |
| <b>Profit for the period</b> continued                                                                     |                                    |                                    |                                    |
| <b>Employment expenses</b>                                                                                 |                                    |                                    |                                    |
| Salary and salary related costs including commissions, superannuation and performance-related profit share | (745)                              | (703)                              | (610)                              |
| Share-based payments                                                                                       | (78)                               | (65)                               | (83)                               |
| (Provision for)/reversal of long service leave and annual leave                                            | (2)                                | 1                                  | (6)                                |
| Total employment expenses                                                                                  | (825)                              | (767)                              | (699)                              |
| <b>Brokerage, commission and trading-related expenses</b>                                                  |                                    |                                    |                                    |
| Brokerage and other trading-related expenses                                                               | (268)                              | (265)                              | (230)                              |
| Other fee and commission expenses                                                                          | (52)                               | (53)                               | (53)                               |
| Total brokerage, commission and trading-related expenses                                                   | (320)                              | (318)                              | (283)                              |
| <b>Occupancy expenses</b>                                                                                  |                                    |                                    |                                    |
| Operating lease rentals                                                                                    | (3)                                | (4)                                | (6)                                |
| Depreciation: buildings, furniture, fittings and leasehold improvements                                    | (4)                                | (12)                               | (3)                                |
| Other occupancy expenses                                                                                   | (50)                               | (48)                               | (47)                               |
| Total occupancy expenses                                                                                   | (57)                               | (64)                               | (56)                               |
| <b>Non-salary technology expenses</b>                                                                      |                                    |                                    |                                    |
| Information services                                                                                       | (35)                               | (34)                               | (30)                               |
| Depreciation: equipment                                                                                    | (2)                                | –                                  | (1)                                |
| Service provider and other non-salary technology expenses                                                  | (55)                               | (31)                               | (14)                               |
| Total non-salary technology expenses                                                                       | (92)                               | (65)                               | (45)                               |
| <b>Other operating expenses</b>                                                                            |                                    |                                    |                                    |
| Professional fees                                                                                          | (77)                               | (92)                               | (71)                               |
| Auditor's remuneration                                                                                     | (9)                                | (9)                                | (7)                                |
| Travel and entertainment expenses                                                                          | (28)                               | (29)                               | (26)                               |
| Advertising and promotional expenses                                                                       | (8)                                | (12)                               | (10)                               |
| Communication expenses                                                                                     | (7)                                | (7)                                | (6)                                |
| Amortisation of intangibles                                                                                | (26)                               | (25)                               | (14)                               |
| Other expenses <sup>(1)</sup>                                                                              | (584)                              | (598)                              | (574)                              |
| Total other operating expenses                                                                             | (739)                              | (772)                              | (708)                              |
| <b>Total operating expenses</b>                                                                            | <b>(2,033)</b>                     | <b>(1,986)</b>                     | <b>(1,791)</b>                     |

<sup>(1)</sup> Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and central support functions.

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## Note 3

### Segment reporting

#### (i) Operating segments

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

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

The operating groups of Macquarie Bank comprise:

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

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

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

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

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

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

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

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

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

#### **Internal funding arrangements**

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

Generally, operating groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Bank.

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

#### **Transactions between operating groups**

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

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

#### **Central support functions**

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

#### **Performance-related profit share and share-based payments expense**

Performance-related profit share and share-based payments expense relating to the 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 2015

### continued

|                                                                                                         | Macquarie Asset<br>Management<br>\$m | Corporate and<br>Asset Finance<br>\$m | Banking and<br>Financial<br>Services<br>\$m |
|---------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------------|
| <b>Note 3</b>                                                                                           |                                      |                                       |                                             |
| <b>Segment reporting</b> continued                                                                      |                                      |                                       |                                             |
| <b>(i) Operating segments</b> continued                                                                 |                                      |                                       |                                             |
| The following is an analysis of the Consolidated Entity's results by reportable segment for the period: |                                      |                                       |                                             |
| Net interest and trading income                                                                         | 67                                   | 453                                   | 456                                         |
| Fee and commission income/(expense)                                                                     | 22                                   | 14                                    | 281                                         |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method    | –                                    | 2                                     | –                                           |
| Other operating income and charges                                                                      |                                      |                                       |                                             |
| Impairment charges and provisions, net of recoveries                                                    | 2                                    | (24)                                  | (14)                                        |
| Other other operating income and charges                                                                | 9                                    | 408                                   | 12                                          |
| Internal management revenue/(charge)                                                                    | –                                    | 2                                     | –                                           |
| Net operating income/(charge)                                                                           | 100                                  | 855                                   | 735                                         |
| Total operating expenses                                                                                | (57)                                 | (249)                                 | (566)                                       |
| Profit/(loss) before tax                                                                                | 43                                   | 606                                   | 169                                         |
| Tax expense                                                                                             |                                      |                                       |                                             |
| Profit after income tax                                                                                 |                                      |                                       |                                             |
| Loss attributable to non-controlling interests                                                          |                                      |                                       |                                             |
| Profit attributable to equity holders                                                                   |                                      |                                       |                                             |
| Distributions paid or provided for on MIS                                                               |                                      |                                       |                                             |
| <b>Net profit attributable to ordinary equity holders from continuing operations</b>                    |                                      |                                       |                                             |
| <b>Reportable segment assets</b>                                                                        | <b>3,296</b>                         | <b>34,585</b>                         | <b>39,896</b>                               |
| Net interest and trading income                                                                         | 58                                   | 406                                   | 419                                         |
| Fee and commission income/(expense)                                                                     | 53                                   | 12                                    | 269                                         |
| Share of net (losses)/profits of associates and joint ventures accounted for using the equity method    | (4)                                  | 3                                     | 2                                           |
| Other operating income and charges                                                                      |                                      |                                       |                                             |
| Impairment charges and provisions, net of recoveries                                                    | (6)                                  | (117)                                 | (21)                                        |
| Other other operating income and charges                                                                | 21                                   | 606                                   | 7                                           |
| Internal management revenue/(charge)                                                                    | 1                                    | (7)                                   | 3                                           |
| Net operating income/(charge)                                                                           | 123                                  | 903                                   | 679                                         |
| Total operating expenses                                                                                | (65)                                 | (259)                                 | (535)                                       |
| Profit/(loss) before tax                                                                                | 58                                   | 644                                   | 144                                         |
| Tax expense                                                                                             |                                      |                                       |                                             |
| Profit after income tax                                                                                 |                                      |                                       |                                             |
| Profit attributable to non-controlling interests                                                        |                                      |                                       |                                             |
| Profit attributable to equity holders                                                                   |                                      |                                       |                                             |
| Distributions paid or provided for on MIS                                                               |                                      |                                       |                                             |
| <b>Net profit attributable to ordinary equity holders from continuing operations</b>                    |                                      |                                       |                                             |
| <b>Reportable segment assets</b>                                                                        | <b>4,250</b>                         | <b>29,911</b>                         | <b>37,289</b>                               |
| Net interest and trading income                                                                         | 54                                   | 319                                   | 406                                         |
| Fee and commission income/(expense)                                                                     | 31                                   | 22                                    | 259                                         |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method    | 3                                    | 1                                     | 1                                           |
| Other operating income and charges                                                                      |                                      |                                       |                                             |
| Impairment charges and provisions, net of recoveries                                                    | 2                                    | (35)                                  | (15)                                        |
| Other other operating income and charges                                                                | 7                                    | 372                                   | 10                                          |
| Internal management (charge)/revenue                                                                    | (2)                                  | 3                                     | –                                           |
| Net operating income                                                                                    | 95                                   | 682                                   | 661                                         |
| Total operating expenses                                                                                | (56)                                 | (218)                                 | (525)                                       |
| Profit/(loss) before tax                                                                                | 39                                   | 464                                   | 136                                         |
| Tax expense                                                                                             |                                      |                                       |                                             |
| Profit after income tax                                                                                 |                                      |                                       |                                             |
| Profit attributable to non-controlling interests                                                        |                                      |                                       |                                             |
| Profit attributable to equity holders                                                                   |                                      |                                       |                                             |
| Distributions paid or provided for on MIS                                                               |                                      |                                       |                                             |
| <b>Net profit attributable to ordinary equity holders from continuing operations</b>                    |                                      |                                       |                                             |
| <b>Reportable segment assets</b>                                                                        | <b>4,617</b>                         | <b>28,529</b>                         | <b>32,804</b>                               |

| Macquarie Securities Group<br>\$m | Commodities and<br>Financial Markets<br>\$m | Corporate<br>\$m | Total<br>\$m |
|-----------------------------------|---------------------------------------------|------------------|--------------|
| Half-year to 30 September 2015    |                                             |                  |              |
| 379                               | 783                                         | 87               | 2,225        |
| 35                                | 99                                          | (17)             | 434          |
| –                                 | (4)                                         | (2)              | (4)          |
| (1)                               | (174)                                       | (80)             | (291)        |
| –                                 | 44                                          | (55)             | 418          |
| (6)                               | 2                                           | 2                | –            |
| 407                               | 750                                         | (65)             | 2,782        |
| (223)                             | (503)                                       | (435)            | (2,033)      |
| 184                               | 247                                         | (500)            | 749          |
|                                   |                                             |                  | (338)        |
|                                   |                                             |                  | 411          |
|                                   |                                             |                  | 3            |
|                                   |                                             |                  | 414          |
|                                   |                                             |                  | (8)          |
|                                   |                                             |                  | 406          |
| 30,571                            | 73,445                                      | 10,322           | 192,115      |
| Half-year to 31 March 2015        |                                             |                  |              |
| 189                               | 971                                         | 114              | 2,157        |
| 30                                | 293                                         | (131)            | 526          |
| –                                 | (3)                                         | (10)             | (12)         |
| (3)                               | (262)                                       | (31)             | (440)        |
| –                                 | 39                                          | 5                | 678          |
| (4)                               | (9)                                         | 16               | –            |
| 212                               | 1,029                                       | (37)             | 2,909        |
| (191)                             | (492)                                       | (444)            | (1,986)      |
| 21                                | 537                                         | (481)            | 923          |
|                                   |                                             |                  | (344)        |
|                                   |                                             |                  | 579          |
|                                   |                                             |                  | (3)          |
|                                   |                                             |                  | 576          |
|                                   |                                             |                  | (9)          |
|                                   |                                             |                  | 567          |
| 25,041                            | 68,691                                      | 7,398            | 172,580      |
| Half-year to 30 September 2014    |                                             |                  |              |
| 127                               | 664                                         | 144              | 1,714        |
| 29                                | 55                                          | (28)             | 368          |
| –                                 | 2                                           | (12)             | (5)          |
| –                                 | (72)                                        | 7                | (113)        |
| –                                 | 33                                          | –                | 422          |
| –                                 | (1)                                         | –                | –            |
| 156                               | 681                                         | 111              | 2,386        |
| (176)                             | (450)                                       | (366)            | (1,791)      |
| (20)                              | 231                                         | (255)            | 595          |
|                                   |                                             |                  | (245)        |
|                                   |                                             |                  | 350          |
|                                   |                                             |                  | (2)          |
|                                   |                                             |                  | 348          |
|                                   |                                             |                  | (9)          |
|                                   |                                             |                  | 339          |
| 20,858                            | 50,680                                      | 9,095            | 146,583      |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

## Note 3

### Segment reporting continued

#### (ii) Products and services

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

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

|                                       | Asset and Wealth<br>Management<br>\$m | Financial<br>Markets<br>\$m | Capital<br>Markets<br>\$m | Lending<br>\$m | Total<br>\$m |
|---------------------------------------|---------------------------------------|-----------------------------|---------------------------|----------------|--------------|
| <b>Half-year to 30 September 2015</b> |                                       |                             |                           |                |              |
| Revenues from external customers      | 419                                   | 1,956                       | 69                        | 2,586          | 5,030        |
| <b>Half-year to 31 March 2015</b>     |                                       |                             |                           |                |              |
| Revenues from external customers      | 411                                   | 1,551                       | 67                        | 3,182          | 5,211        |
| <b>Half-year to 30 September 2014</b> |                                       |                             |                           |                |              |
| Revenues from external customers      | 358                                   | 1,475                       | 34                        | 2,307          | 4,174        |

#### (iii) Geographical areas

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

|                                               | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|-----------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Revenues from external customers</b>       |                                    |                                    |                                    |
| Australia                                     | 1,979                              | 2,131                              | 2,198                              |
| Americas <sup>(1)</sup>                       | 1,296                              | 1,509                              | 792                                |
| Europe, Middle East and Africa <sup>(2)</sup> | 1,283                              | 1,269                              | 914                                |
| Asia Pacific                                  | 472                                | 302                                | 270                                |
| <b>Total</b>                                  | <b>5,030</b>                       | <b>5,211</b>                       | <b>4,174</b>                       |

<sup>(1)</sup> Included within this balance is external revenue generated in the US of \$1,079 million (half-year to 31 March 2015: \$1,460 million; half-year to 30 September 2014: \$602 million).

<sup>(2)</sup> Included within this balance is external revenue generated in the UK of \$1,004 million (half-year to 31 March 2015: \$831 million; half-year to 30 September 2014: \$721 million).

#### (iv) Major customers

The Consolidated Entity does not rely on any major customer.

| Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|------------------------------------|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|------------------------------------|

## Note 4

### Income tax expense

(i) Numerical income tax expense is attributable to:

|                                     |              |              |              |
|-------------------------------------|--------------|--------------|--------------|
| Profit from continuing operations   | (338)        | (344)        | (245)        |
| Profit from discontinued operations | (10)         | (52)         | (45)         |
| <b>Total</b>                        | <b>(348)</b> | <b>(396)</b> | <b>(290)</b> |

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

|                                                                                                |              |              |              |
|------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Prima facie income tax expense on operating profit <sup>(1)</sup>                              | (540)        | (332)        | (209)        |
| Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income: |              |              |              |
| Rate differential on offshore income                                                           | (117)        | (63)         | (60)         |
| Other items                                                                                    | 6            | (1)          | (21)         |
| Gain on sale of discontinued operations                                                        | 303          | –            | –            |
| <b>Total income tax expense</b>                                                                | <b>(348)</b> | <b>(396)</b> | <b>(290)</b> |

<sup>(1)</sup> Prima facie income tax on operating profit is calculated at the rate of 30 percent.

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

|                                                                                    |             |           |          |
|------------------------------------------------------------------------------------|-------------|-----------|----------|
| Available for sale reserve                                                         | (16)        | 6         | (8)      |
| Cash flow hedges                                                                   | (10)        | 17        | 10       |
| Foreign currency translation reserve                                               | 1           | 5         | 1        |
| Share of other comprehensive income of associates and joint ventures               | –           | –         | 1        |
| <b>Total tax (expense)/benefit relating to items of other comprehensive income</b> | <b>(25)</b> | <b>28</b> | <b>4</b> |

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

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

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

| Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|------------------------------------|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|------------------------------------|

## Note 5

### Dividends paid and distributions paid or provided for

#### (i) Dividends paid

##### Ordinary share capital

|                                               |              |          |            |
|-----------------------------------------------|--------------|----------|------------|
| 2016 special dividend paid <sup>(1),(2)</sup> | 1,140        | –        | –          |
| 2015 interim dividend paid                    | –            | –        | 494        |
| Final dividend paid                           | 440          | –        | 159        |
| <b>Total dividends paid (Note 16)</b>         | <b>1,580</b> | <b>–</b> | <b>653</b> |

<sup>(1)</sup> This is the distribution of the Macquarie Infrastructure Management business within the MAM segment to its ordinary shareholder implemented through a special dividend. Refer to Note 21 – Discontinued operations for further information.

<sup>(2)</sup> Includes cash distribution of \$1,009 million and in-specie distribution of \$131 million.

#### (ii) Distributions paid or provided for

##### Macquarie Income Securities

|                                                                   |          |          |          |
|-------------------------------------------------------------------|----------|----------|----------|
| Distributions paid (net of distributions previously provided for) | 5        | 5        | 5        |
| Distributions provided for                                        | 3        | 4        | 4        |
| <b>Total distributions paid or provided for (Note 16)</b>         | <b>8</b> | <b>9</b> | <b>9</b> |

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

##### Macquarie Income Preferred Securities

|                                                               |          |          |          |
|---------------------------------------------------------------|----------|----------|----------|
| Distributions paid (net of distributions previously provided) | 1        | 1        | –        |
| Distributions provided for                                    | –        | 2        | 2        |
| <b>Total distributions paid or provided for</b>               | <b>1</b> | <b>3</b> | <b>2</b> |

The Macquarie Income Preferred Securities (MIPS) represent the NCI of the bank. Refer to Note 16 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

|  | As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|--|-----------------------------|-----------------------------|-----------------------------|
|--|-----------------------------|-----------------------------|-----------------------------|

## Note 6

### Trading portfolio assets

|                                       |               |               |               |
|---------------------------------------|---------------|---------------|---------------|
| Equities                              |               |               |               |
| Listed                                | 14,566        | 14,805        | 10,037        |
| Unlisted                              | 53            | 63            | 72            |
| Commodities                           | 5,967         | 6,035         | 5,681         |
| Commonwealth government securities    | 4,850         | 4,199         | 5,191         |
| Corporate loans and securities        | 3,189         | 2,335         | 2,222         |
| Foreign government securities         | 1,756         | 1,377         | 1,833         |
| Treasury notes                        | 785           | 1,133         | 240           |
| Other <sup>(1)</sup>                  | 58            | 92            | 108           |
| <b>Total trading portfolio assets</b> | <b>31,224</b> | <b>30,039</b> | <b>25,384</b> |

<sup>(1)</sup> Included in this balance are promissory notes, bank bills and other government securities which include state and local governments and related enterprises predominantly in Australia.

## Note 7

### Investment securities available for sale

|                                                       |              |              |              |
|-------------------------------------------------------|--------------|--------------|--------------|
| Equity securities                                     |              |              |              |
| Listed                                                | 79           | 85           | 125          |
| Unlisted                                              | 315          | 245          | 267          |
| Debt securities <sup>(1)</sup>                        | 7,794        | 6,015        | 6,897        |
| <b>Total investment securities available for sale</b> | <b>8,188</b> | <b>6,345</b> | <b>7,289</b> |

<sup>(1)</sup> Included within this balance is \$3,252 million (31 March 2015: \$1,206 million; 30 September 2014: \$1,167 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions.

## Note 8

### Other assets

|                                                       |              |              |              |
|-------------------------------------------------------|--------------|--------------|--------------|
| Debtors and prepayments                               | 3,730        | 3,730        | 3,324        |
| Security settlements <sup>(1)</sup>                   | 2,313        | 2,483        | 2,411        |
| Life investment contracts and other unitholder assets | 968          | 1,061        | 1,062        |
| Property held for sale and development                | 224          | 249          | 224          |
| Income tax receivable                                 | 167          | 186          | 312          |
| Other                                                 | 70           | 109          | 125          |
| <b>Total other assets</b>                             | <b>7,472</b> | <b>7,818</b> | <b>7,458</b> |

<sup>(1)</sup> Security settlements are generally receivable within three working days of the relevant trade date.

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

## Note 9

### Loan assets held at amortised cost

|                                                                                | As at 30 Sep 2015 |                                                                   |               | As at 31 Mar 2015 |                                                                   |               | As at 30 Sep 2014 |                                                                   |               |
|--------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------|---------------|-------------------|-------------------------------------------------------------------|---------------|-------------------|-------------------------------------------------------------------|---------------|
|                                                                                | Gross<br>\$m      | Individually<br>assessed<br>provision<br>for<br>impairment<br>\$m | Net<br>\$m    | Gross<br>\$m      | Individually<br>assessed<br>provision<br>for<br>impairment<br>\$m | Net<br>\$m    | Gross<br>\$m      | Individually<br>assessed<br>provision<br>for<br>impairment<br>\$m | Net<br>\$m    |
| Residential mortgage loans                                                     | 31,389            | (13)                                                              | 31,376        | 29,432            | (14)                                                              | 29,418        | 25,362            | (12)                                                              | 25,350        |
| Corporate and commercial<br>lending                                            | 19,636            | (621)                                                             | 19,015        | 18,700            | (456)                                                             | 18,244        | 16,970            | (240)                                                             | 16,730        |
| Lease and retail financing                                                     | 12,251            | (34)                                                              | 12,217        | 11,418            | (56)                                                              | 11,362        | 11,634            | (66)                                                              | 11,568        |
| Margin money placed                                                            | 9,280             | –                                                                 | 9,280         | 8,830             | –                                                                 | 8,830         | 6,118             | –                                                                 | 6,118         |
| Relationship banking<br>mortgages                                              | 2,221             | –                                                                 | 2,221         | 2,064             | –                                                                 | 2,064         | 1,849             | –                                                                 | 1,849         |
| Investment and insurance<br>premium lending                                    | 1,379             | (1)                                                               | 1,378         | 1,656             | (5)                                                               | 1,651         | 1,493             | (6)                                                               | 1,487         |
| <b>Total loan assets before<br/>collective allowance for<br/>credit losses</b> | <b>76,156</b>     | <b>(669)</b>                                                      | <b>75,487</b> | <b>72,100</b>     | <b>(531)</b>                                                      | <b>71,569</b> | <b>63,426</b>     | <b>(324)</b>                                                      | <b>63,102</b> |
| Less collective allowance<br>for credit losses                                 |                   |                                                                   | (389)         |                   |                                                                   | (363)         |                   |                                                                   | (302)         |
| <b>Total loan assets held at<br/>amortised cost<sup>(1)</sup></b>              |                   |                                                                   | <b>75,098</b> |                   |                                                                   | <b>71,206</b> |                   |                                                                   | <b>62,800</b> |

<sup>(1)</sup> Included within this balance are loans of \$17,944 million (31 March 2015: \$17,207 million; 30 September 2014: \$15,881 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

|                                                                                    | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Individually assessed provisions for impairment</b>                             |                                    |                                    |                                    |
| Balance at the beginning of the period                                             | 531                                | 324                                | 300                                |
| Provided for during the period (Note 2)                                            | 232                                | 228                                | 50                                 |
| Loan assets written off, previously provided for                                   | (110)                              | (40)                               | (19)                               |
| Recovery of loans previously provided for (Note 2)                                 | (9)                                | (9)                                | (18)                               |
| Net transfer from other provisions                                                 | –                                  | (2)                                | –                                  |
| Impact of foreign currency translation                                             | 25                                 | 30                                 | 11                                 |
| <b>Balance at the end of the period</b>                                            | <b>669</b>                         | <b>531</b>                         | <b>324</b>                         |
| <b>Individually assessed provisions as a percentage of total gross loan assets</b> | <b>0.88%</b>                       | <b>0.74%</b>                       | <b>0.51%</b>                       |
| <b>Collective allowance for credit losses</b>                                      |                                    |                                    |                                    |
| Balance at the beginning of the period                                             | 363                                | 302                                | 264                                |
| Provided for during the period (Note 2)                                            | 2                                  | 52                                 | 19                                 |
| Acquisitions during the period                                                     | 10                                 | –                                  | 14                                 |
| Net transfer from other provisions                                                 | 5                                  | –                                  | –                                  |
| Impact of foreign currency translation                                             | 9                                  | 9                                  | 5                                  |
| <b>Balance at the end of the period</b>                                            | <b>389</b>                         | <b>363</b>                         | <b>302</b>                         |

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

| As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|-----------------------------|-----------------------------|-----------------------------|
|-----------------------------|-----------------------------|-----------------------------|

## Note 10

### Impaired financial assets

|                                                                                                               |            |            |            |
|---------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| Impaired debt investment securities available for sale before individually assessed provisions for impairment | –          | 3          | 7          |
| Less individually assessed provisions for impairment                                                          | –          | (3)        | (6)        |
| Debt investment securities available for sale after individually assessed provisions for impairment           | –          | –          | 1          |
| Impaired loan assets and other financial assets before individually assessed provisions for impairment        | 1,367      | 1,190      | 824        |
| Less individually assessed provisions for impairment                                                          | (693)      | (577)      | (354)      |
| Loan assets and other financial assets after individually assessed provisions for impairment                  | 674        | 613        | 470        |
| <b>Total net impaired financial assets</b>                                                                    | <b>674</b> | <b>613</b> | <b>471</b> |

## Note 11

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

|                                                                                               |            |            |            |
|-----------------------------------------------------------------------------------------------|------------|------------|------------|
| Loans and investments without provisions for impairment                                       | 547        | 366        | 474        |
| Loans and investments with provisions for impairment                                          | 227        | 193        | 165        |
| Less provisions for impairment                                                                | (122)      | (88)       | (76)       |
| Loans and investments at recoverable amount                                                   | 105        | 105        | 89         |
| <b>Total interests in associates and joint ventures accounted for using the equity method</b> | <b>652</b> | <b>471</b> | <b>563</b> |

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

## Note 12

### Trading portfolio liabilities

|                                            |              |              |              |
|--------------------------------------------|--------------|--------------|--------------|
| Listed equity securities                   | 7,731        | 4,469        | 3,254        |
| Foreign government securities              | 633          | 336          | 225          |
| Corporate securities                       | 120          | 115          | 140          |
| Commodities                                | 20           | 125          | 54           |
| Commonwealth government securities         | –            | –            | 6            |
| <b>Total trading portfolio liabilities</b> | <b>8,504</b> | <b>5,045</b> | <b>3,679</b> |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

|                                                            | As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Note 13</b>                                             |                             |                             |                             |
| <b>Other liabilities</b>                                   |                             |                             |                             |
| Creditors                                                  | 5,151                       | 4,212                       | 3,931                       |
| Due to brokers and customers                               | 1,995                       | 2,550                       | 2,049                       |
| Life investment contracts and other unitholder liabilities | 906                         | 1,004                       | 1,037                       |
| Accrued charges and sundry provisions                      | 741                         | 831                         | 665                         |
| Income tax payable                                         | 251                         | 497                         | 67                          |
| Other                                                      | 282                         | 85                          | 65                          |
| <b>Total other liabilities</b>                             | <b>9,326</b>                | <b>9,179</b>                | <b>7,814</b>                |

## Note 14

### Debt issued at amortised cost

|                                              |               |               |               |
|----------------------------------------------|---------------|---------------|---------------|
| Debt issued at amortised cost <sup>(1)</sup> | 56,264        | 53,033        | 43,608        |
| <b>Total debt issued at amortised cost</b>   | <b>56,264</b> | <b>53,033</b> | <b>43,608</b> |

<sup>(1)</sup> Included within this balance are amounts payable to SPE note holders and debt holders of \$16,553 million (31 March 2015: \$15,952 million; 30 September 2014: \$14,541 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    | 25,746        | 25,248        | 20,208        |
| Australian dollars       | 16,204        | 15,151        | 13,367        |
| Euro                     | 6,307         | 3,996         | 3,195         |
| Great British pounds     | 3,480         | 3,519         | 1,721         |
| Swiss franc              | 1,855         | 1,715         | 1,134         |
| Canadian dollars         | 1,095         | 1,949         | 3,218         |
| Japanese yen             | 729           | 775           | 392           |
| Hong Kong dollars        | 260           | 205           | 116           |
| Yuan Renminbi            | 235           | 140           | –             |
| Norwegian Krone          | 169           | 162           | –             |
| Korean won               | 111           | 109           | 111           |
| Singapore dollars        | 59            | 56            | 97            |
| Others                   | 14            | 8             | 49            |
| <b>Total by currency</b> | <b>56,264</b> | <b>53,033</b> | <b>43,608</b> |

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

|                                                                                                                                   | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Note 15</b>                                                                                                                    |                                    |                                    |                                    |
| <b>Contributed equity</b>                                                                                                         |                                    |                                    |                                    |
| Opening balance of 552,066,999 (1 October 2014: 501,561,948;<br>1 April 2014: 501,561,948) fully paid ordinary shares             | 8,528                              | 7,578                              | 7,578                              |
| Issue of 23,923,445 shares to Macquarie B.H. Pty Ltd on 17 December 2014 at<br>\$18.81 per share                                  | –                                  | 450                                | –                                  |
| Issue of 26,581,606 shares to Macquarie B.H. Pty Ltd on 25 March 2015 at \$18.81<br>per share                                     | –                                  | 500                                | –                                  |
| <b>Closing balance of 552,066,999 (31 March 2015: 552,066,999;<br/>30 September 2014: 501,561,948) fully paid ordinary shares</b> | <b>8,528</b>                       | <b>8,528</b>                       | <b>7,578</b>                       |
| <b>Equity contribution from ultimate parent entity</b>                                                                            |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                                            | 163                                | 132                                | 132                                |
| Additional paid up capital                                                                                                        | 1                                  | 31                                 | –                                  |
| <b>Balance at the end of the period</b>                                                                                           | <b>164</b>                         | <b>163</b>                         | <b>132</b>                         |
|                                                                                                                                   |                                    |                                    |                                    |
|                                                                                                                                   | As at<br>30 Sep 2015<br>\$m        | As at<br>31 Mar 2015<br>\$m        | As at<br>30 Sep 2014<br>\$m        |
| 4,000,000 Macquarie Income Securities of \$100 each                                                                               | 400                                | 400                                | 400                                |
| Less transaction costs for original placement                                                                                     | (9)                                | (9)                                | (9)                                |
| <b>Total Macquarie Income Securities</b>                                                                                          | <b>391</b>                         | <b>391</b>                         | <b>391</b>                         |
|                                                                                                                                   |                                    |                                    |                                    |
| <b>Total contributed equity</b>                                                                                                   | <b>9,083</b>                       | <b>9,082</b>                       | <b>8,101</b>                       |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

|                                                                                                              | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Note 16</b>                                                                                               |                                    |                                    |                                    |
| <b>Reserves, retained earnings and non-controlling interests</b>                                             |                                    |                                    |                                    |
| <b>Reserves</b>                                                                                              |                                    |                                    |                                    |
| <b>Foreign currency translation reserve</b>                                                                  |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                       | 619                                | 94                                 | (107)                              |
| Currency translation differences arising during the period, net of hedges and tax                            | 421                                | 525                                | 201                                |
| <b>Balance at the end of the period</b>                                                                      | <b>1,040</b>                       | <b>619</b>                         | <b>94</b>                          |
| <b>Available for sale reserve</b>                                                                            |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                       | 71                                 | 79                                 | 67                                 |
| Revaluation movement for the period, net of tax                                                              | 44                                 | (28)                               | 19                                 |
| Transfer to income statement for impairment, net of tax                                                      | 5                                  | 24                                 | 13                                 |
| Transfer to income statement on realisation, net of tax                                                      | (14)                               | (4)                                | (20)                               |
| <b>Balance at the end of the period</b>                                                                      | <b>106</b>                         | <b>71</b>                          | <b>79</b>                          |
| <b>Cash flow hedging reserve</b>                                                                             |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                       | (88)                               | (47)                               | (28)                               |
| Revaluation movement for the period, net of tax                                                              | 22                                 | (41)                               | (19)                               |
| <b>Balance at the end of the period</b>                                                                      | <b>(66)</b>                        | <b>(88)</b>                        | <b>(47)</b>                        |
| <b>Share of reserves of interests in associates and joint ventures accounted for using the equity method</b> |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                       | 1                                  | –                                  | –                                  |
| Share of other comprehensive income during the period                                                        | 1                                  | 1                                  | –                                  |
| <b>Balance at the end of the period</b>                                                                      | <b>2</b>                           | <b>1</b>                           | <b>–</b>                           |
| <b>Total reserves at the end of the period</b>                                                               | <b>1,082</b>                       | <b>603</b>                         | <b>126</b>                         |
| <b>Retained earnings</b>                                                                                     |                                    |                                    |                                    |
| Balance at the beginning of the period                                                                       | 1,831                              | 1,129                              | 1,388                              |
| Profit attributable to equity holders of MBL                                                                 | 1,454                              | 711                                | 403                                |
| Distributions paid or provided for on Macquarie Income Securities (Note 5)                                   | (8)                                | (9)                                | (9)                                |
| Dividends paid on ordinary share capital (Note 5)                                                            | (1,580)                            | –                                  | (653)                              |
| Change in non-controlling ownership interest                                                                 | (8)                                | –                                  | –                                  |
| <b>Balance at the end of the period</b>                                                                      | <b>1,689</b>                       | <b>1,831</b>                       | <b>1,129</b>                       |

| As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|-----------------------------|-----------------------------|-----------------------------|
|-----------------------------|-----------------------------|-----------------------------|

## Note 16

### Reserves, retained earnings and non-controlling interests continued

#### Non-controlling interests

##### *Macquarie Income Preferred Securities*

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, paid 6.177 percent (31 March 2015: 6.177 percent; 30 September 2014: 6.177 percent) per annum semi-annual non-cumulative fixed rate distribution. They were perpetual securities and had no fixed maturity. The first coupon was paid on 15 April 2005. £307.5 million of MIPS were cancelled in September 2009 and £42.5 million were redeemed in June 2015.

#### **Macquarie Income Preferred Securities**

|                                                            |          |           |           |
|------------------------------------------------------------|----------|-----------|-----------|
| Proceeds on issue of Macquarie Income Preferred Securities | –        | 109       | 109       |
| Less issue costs                                           | –        | (1)       | (1)       |
|                                                            | –        | 108       | 108       |
| Foreign currency translation reserve                       | –        | (26)      | (30)      |
| <b>Total Macquarie Income Preferred Securities</b>         | <b>–</b> | <b>82</b> | <b>78</b> |

#### **Other non-controlling interests**

|                                              |           |           |           |
|----------------------------------------------|-----------|-----------|-----------|
| Ordinary share capital                       | 42        | 1         | 1         |
| Retained earnings                            | (26)      | –         | –         |
| <b>Total other non-controlling interests</b> | <b>16</b> | <b>1</b>  | <b>1</b>  |
| <b>Total non-controlling interests</b>       | <b>16</b> | <b>83</b> | <b>79</b> |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

| As at<br>30 Sep 2015<br>\$m | As at<br>31 Mar 2015<br>\$m | As at<br>30 Sep 2014<br>\$m |
|-----------------------------|-----------------------------|-----------------------------|
|-----------------------------|-----------------------------|-----------------------------|

## Note 17

### Notes to the consolidated statement of cash flows

#### Reconciliation of cash and cash equivalents

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

|                                                                         |               |               |               |
|-------------------------------------------------------------------------|---------------|---------------|---------------|
| Receivables from financial institutions <sup>(1)</sup>                  | 8,140         | 8,662         | 9,009         |
| Trading portfolio assets <sup>(2)</sup>                                 | 785           | 1,134         | 112           |
| Debt securities <sup>(3)</sup>                                          | 2,562         | 1,129         | 1,129         |
| Loan asset at amortised cost <sup>(4)</sup>                             | 3,070         | 3,738         | 2,296         |
| <b>Cash and cash equivalents at the end of the period<sup>(5)</sup></b> | <b>14,557</b> | <b>14,663</b> | <b>12,546</b> |

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

<sup>(2)</sup> Includes certificates of deposit, bank bills, treasury notes and other short term debt securities.

<sup>(3)</sup> Includes short term debt securities.

<sup>(4)</sup> Includes amounts due from clearing houses.

<sup>(5)</sup> Cash and cash equivalents include \$5,908 million (31 March 2015: \$4,316 million; 30 September 2014: \$3,176 million) held by consolidated securitisation vehicles or in segregated deposit fund and escrow account which are restricted for use.

|                                                                                                                                                   | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Reconciliation of profit after income tax to net cash flows from/(used in) operating activities</b>                                            |                                    |                                    |                                    |
| Profit after income tax                                                                                                                           | 1,451                              | 714                                | 405                                |
| Adjustments to profit after income tax:                                                                                                           |                                    |                                    |                                    |
| Depreciation and amortisation                                                                                                                     | 331                                | 257                                | 238                                |
| Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale | (49)                               | 75                                 | 58                                 |
| Provision and impairment charge on financial and non-financial assets                                                                             | 291                                | 433                                | 144                                |
| Interest on available for sale financial assets                                                                                                   | (56)                               | (226)                              | (34)                               |
| Profit from discontinued operations                                                                                                               | (1,040)                            | –                                  | –                                  |
| Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets                           | (10)                               | (309)                              | (137)                              |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method                                              | 4                                  | 24                                 | (7)                                |
| Changes in assets and liabilities:                                                                                                                |                                    |                                    |                                    |
| Change in dividends receivable                                                                                                                    | 94                                 | (178)                              | 65                                 |
| Change in values of associates due to dividends received                                                                                          | –                                  | 10                                 | 2                                  |
| Change in fees and non-interest income receivable                                                                                                 | 19                                 | 24                                 | 20                                 |
| Change in fees and commissions payable                                                                                                            | (21)                               | (6)                                | 4                                  |
| Change in tax balances                                                                                                                            | (98)                               | 164                                | 298                                |
| Change in provisions for employee entitlements                                                                                                    | 2                                  | 82                                 | 15                                 |
| Change in lease assets, net of depreciation, foreign exchange and impairment                                                                      | (487)                              | (549)                              | (282)                              |
| Change in loan assets                                                                                                                             | (3,760)                            | (6,543)                            | (5,828)                            |
| Change in debtors, prepayments, accrued charges and creditors                                                                                     | 160                                | 1,090                              | (243)                              |
| Change in net trading portfolio assets and liabilities and net derivative financial instruments                                                   | (3,710)                            | (8,259)                            | (5,470)                            |
| Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings                                        | 9,647                              | 11,967                             | 8,579                              |
| <b>Net cash flows from/(used in) operating activities</b>                                                                                         | <b>2,768</b>                       | <b>(1,230)</b>                     | <b>(2,173)</b>                     |

| <b>As at<br/>30 Sep 2015<br/>\$m</b> | <b>As at<br/>31 Mar 2015<br/>\$m</b> | <b>As at<br/>30 Sep 2014<br/>\$m</b> |
|--------------------------------------|--------------------------------------|--------------------------------------|
|--------------------------------------|--------------------------------------|--------------------------------------|

## Note 18

### Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

#### Contingent liabilities exist in respect of:

|                                                   |              |       |       |
|---------------------------------------------------|--------------|-------|-------|
| Letters of credit                                 | <b>684</b>   | 597   | 505   |
| Performance related contingents                   | <b>268</b>   | 276   | 341   |
| Guarantees                                        | <b>162</b>   | 146   | 292   |
| Indemnities                                       | <b>103</b>   | 15    | 15    |
| <b>Total contingent liabilities<sup>(1)</sup></b> | <b>1,217</b> | 1,034 | 1,153 |

#### Commitments exist in respect of:

|                                                     |              |        |       |
|-----------------------------------------------------|--------------|--------|-------|
| Undrawn credit facilities                           | <b>3,745</b> | 3,664  | 3,512 |
| Forward asset purchases                             | <b>3,057</b> | 5,347  | 532   |
| <b>Total commitments<sup>(2)</sup></b>              | <b>6,802</b> | 9,011  | 4,044 |
| <b>Total contingent liabilities and commitments</b> | <b>8,019</b> | 10,045 | 5,197 |

<sup>(1)</sup> 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.

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

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

## Note 19

### Fair values of financial assets and liabilities

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

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

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

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

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

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

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

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques

- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, 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 the Group's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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

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## Note 19

### Fair values of financial assets and liabilities continued

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

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

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

|                                                                                                                          | Carrying<br>value<br>\$m       | Fair<br>value<br>\$m |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------|
| The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost: |                                |                      |
| <b>Assets</b>                                                                                                            | <b>As at 30 September 2015</b> |                      |
| Receivables from financial institutions                                                                                  | 33,904                         | 33,904               |
| Other financial assets                                                                                                   | 5,584                          | 5,584                |
| Loan assets held at amortised cost                                                                                       | 75,098                         | 75,206               |
| Due from related body corporate entities                                                                                 | 1,710                          | 1,710                |
| <b>Total assets</b>                                                                                                      | <b>116,296</b>                 | <b>116,404</b>       |
| <b>Liabilities</b>                                                                                                       |                                |                      |
| Deposits                                                                                                                 | 51,899                         | 51,906               |
| Other financial liabilities                                                                                              | 6,270                          | 6,270                |
| Payables to financial institutions                                                                                       | 19,112                         | 19,179               |
| Due to related body corporate entities                                                                                   | 8,298                          | 8,298                |
| Debt issued at amortised cost                                                                                            | 56,264                         | 56,309               |
| Loan capital                                                                                                             | 4,591                          | 4,668                |
| <b>Total liabilities</b>                                                                                                 | <b>146,434</b>                 | <b>146,630</b>       |
| <b>Assets</b>                                                                                                            | <b>As at 31 March 2015</b>     |                      |
| Receivables from financial institutions                                                                                  | 25,981                         | 25,981               |
| Other financial assets                                                                                                   | 5,913                          | 5,913                |
| Loan assets held at amortised cost                                                                                       | 71,206                         | 71,250               |
| Due from related body corporate entities                                                                                 | 1,163                          | 1,163                |
| Assets of disposals group classified as held for sale                                                                    | 242                            | 242                  |
| <b>Total assets</b>                                                                                                      | <b>104,505</b>                 | <b>104,549</b>       |
| <b>Liabilities</b>                                                                                                       |                                |                      |
| Deposits                                                                                                                 | 47,333                         | 47,306               |
| Other financial liabilities                                                                                              | 5,982                          | 5,982                |
| Payables to financial institutions                                                                                       | 14,874                         | 14,954               |
| Due to related body corporate entities                                                                                   | 7,700                          | 7,700                |
| Debt issued at amortised cost                                                                                            | 53,033                         | 53,284               |
| Loan capital                                                                                                             | 3,240                          | 3,527                |
| Liabilities of disposals group classified as held for sale                                                               | 444                            | 444                  |
| <b>Total liabilities</b>                                                                                                 | <b>132,606</b>                 | <b>133,197</b>       |
| <b>Assets</b>                                                                                                            | <b>As at 30 September 2014</b> |                      |
| Receivables from financial institutions                                                                                  | 18,070                         | 18,070               |
| Other financial assets                                                                                                   | 7,458                          | 7,458                |
| Loan assets held at amortised cost                                                                                       | 62,800                         | 62,846               |
| Due from related body corporate entities                                                                                 | 1,395                          | 1,395                |
| <b>Total assets</b>                                                                                                      | <b>89,723</b>                  | <b>89,769</b>        |
| <b>Liabilities</b>                                                                                                       |                                |                      |
| Deposits                                                                                                                 | 44,122                         | 44,132               |
| Other financial liabilities                                                                                              | 7,814                          | 7,814                |
| Payables to financial institutions                                                                                       | 13,086                         | 13,122               |
| Due to related body corporate entities                                                                                   | 6,240                          | 6,240                |
| Debt issued at amortised cost                                                                                            | 43,608                         | 44,127               |
| Loan capital                                                                                                             | 2,534                          | 2,686                |
| <b>Total liabilities</b>                                                                                                 | <b>117,404</b>                 | <b>118,121</b>       |

The fair values for "Assets of disposals group classified as held for sale" and "Deposits" have been predominantly classified as Level 1 except for \$10,336 million (31 March 2015: \$9,936 million; 30 September 2014: \$11,406 million) which have been classified as Level 2. Fair values for "Receivables from financial institutions", "Other financial assets", "Other financial liabilities", "Payable to financial institutions", "Debt issued at amortised cost", "Loan capital" and "Liabilities of disposals group classified as held for sale" have been predominantly classified as Level 2 except for \$8,180 million (31 March 2015: \$8,668 million; 30 September 2014: \$9,051 million) in Receivables from financial institutions, \$4,074 million (31 March 2015: \$1,859 million; 30 September 2014: \$1,998 million) in Payable to financial institutions, \$931 million (31 March 2015: \$1,599 million; 30 September 2014: \$2,690 million) in Debt issued at amortised cost, \$794 million (31 March 2015: \$801 million; 30 September 2014: \$942 million) in Loan Capital has been classified as Level 1, and \$7,275 million (31 March 2015: \$7,162 million; 30 September 2014: \$6,906 million) in Debt issued at amortised cost is classified as Level 3.

Loan assets at amortised cost are primarily Level 3 except for \$9,490 million (31 March 2015: \$10,327 million; 30 September 2014: \$10,110 million) which has been classified as Level 2, and \$9,280 million (31 March 2015: \$9,019 million; 30 September 2014: \$6,124 million) which has been classified as Level 1.

## 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<br>\$m | Level 2<br>\$m | Level 3<br>\$m          | Total<br>\$m  |
|------------------------------------------------------------------|----------------|----------------|-------------------------|---------------|
| <b>Assets</b>                                                    |                |                |                         |               |
|                                                                  |                |                | As at 30 September 2015 |               |
| Trading portfolio assets                                         | 20,021         | 9,928          | 1,275                   | 31,224        |
| Derivative assets                                                | 1,212          | 20,624         | 364                     | 22,200        |
| Investment securities available for sale                         | 5,874          | 1,661          | 653                     | 8,188         |
| Other financial assets at fair value through profit or loss      | 42             | 1,047          | 153                     | 1,242         |
| Other financial assets <sup>(1)</sup>                            | 162            | 804            | –                       | 966           |
| <b>Total assets</b>                                              | <b>27,311</b>  | <b>34,064</b>  | <b>2,445</b>            | <b>63,820</b> |
| <b>Liabilities</b>                                               |                |                |                         |               |
| Trading portfolio liabilities                                    | 5,623          | 2,881          | –                       | 8,504         |
| Derivative liabilities                                           | 1,357          | 18,278         | 271                     | 19,906        |
| Other financial liabilities at fair value through profit or loss | –              | 1,822          | 19                      | 1,841         |
| Other financial liabilities <sup>(1)</sup>                       | 161            | 745            | –                       | 906           |
| <b>Total liabilities</b>                                         | <b>7,141</b>   | <b>23,726</b>  | <b>290</b>              | <b>31,157</b> |
| <b>Assets</b>                                                    |                |                |                         |               |
|                                                                  |                |                | As at 31 March 2015     |               |
| Trading portfolio assets                                         | 19,529         | 9,853          | 657                     | 30,039        |
| Derivative assets                                                | 947            | 18,678         | 327                     | 19,952        |
| Investment securities available for sale                         | 3,430          | 2,230          | 685                     | 6,345         |
| Other financial assets at fair value through profit or loss      | 61             | 1,105          | 157                     | 1,323         |
| Assets of disposals group classified as held for sale            | 57             | 31             | 68                      | 156           |
| Other financial assets <sup>(1)</sup>                            | 234            | 827            | –                       | 1,061         |
| <b>Total assets</b>                                              | <b>24,258</b>  | <b>32,724</b>  | <b>1,894</b>            | <b>58,876</b> |
| <b>Liabilities</b>                                               |                |                |                         |               |
| Trading portfolio liabilities                                    | 2,458          | 2,587          | –                       | 5,045         |
| Derivative liabilities                                           | 1,154          | 16,707         | 239                     | 18,100        |
| Other financial liabilities at fair value through profit or loss | –              | 1,215          | 22                      | 1,237         |
| Other financial liabilities <sup>(1)</sup>                       | 232            | 772            | –                       | 1,004         |
| <b>Total liabilities</b>                                         | <b>3,844</b>   | <b>21,281</b>  | <b>261</b>              | <b>25,386</b> |
| <b>Assets</b>                                                    |                |                |                         |               |
|                                                                  |                |                | As at 30 September 2014 |               |
| Trading portfolio assets                                         | 15,010         | 9,693          | 681                     | 25,384        |
| Derivative assets                                                | 1,312          | 12,698         | 508                     | 14,518        |
| Investment securities available for sale                         | 4,172          | 2,457          | 660                     | 7,289         |
| Other financial assets at fair value through profit or loss      | 192            | 1,502          | 104                     | 1,798         |
| Other financial assets <sup>(1)</sup>                            | 281            | 781            | –                       | 1,062         |
| <b>Total assets</b>                                              | <b>20,967</b>  | <b>27,131</b>  | <b>1,953</b>            | <b>50,051</b> |
| <b>Liabilities</b>                                               |                |                |                         |               |
| Trading portfolio liabilities                                    | 1,716          | 1,961          | 2                       | 3,679         |
| Derivative liabilities                                           | 1,550          | 12,483         | 379                     | 14,412        |
| Other financial liabilities at fair value through profit or loss | –              | 816            | 25                      | 841           |
| Other financial liabilities <sup>(1)</sup>                       | 284            | 753            | –                       | 1,037         |
| <b>Total liabilities</b>                                         | <b>3,550</b>   | <b>16,013</b>  | <b>406</b>              | <b>19,969</b> |

<sup>(1)</sup> Relates to life insurance contracts and other unitholder investment assets and liabilities.

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### 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 period ended 30 September 2015, 31 March 2015 and 30 September 2014:

|                                                                                                                                                   | Trading portfolio<br>assets<br>\$m | Investment securities<br>available for sale<br>\$m |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------------|
| <b>Balance at 1 April 2014</b>                                                                                                                    | 702                                | 407                                                |
| Purchases                                                                                                                                         | 450                                | 155                                                |
| Sales                                                                                                                                             | (344)                              | (162)                                              |
| Issues                                                                                                                                            | –                                  | –                                                  |
| Settlements                                                                                                                                       | –                                  | (11)                                               |
| Net transfers into level 3                                                                                                                        | 81                                 | 270                                                |
| Net transfers out of level 3                                                                                                                      | (217)                              | –                                                  |
| Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>                                                                       | 9                                  | (4)                                                |
| Fair value gains recognised in other comprehensive income <sup>(1)</sup>                                                                          | –                                  | 5                                                  |
| <b>Balance at 30 September 2014</b>                                                                                                               | 681                                | 660                                                |
| Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup> | 9                                  | (3)                                                |
| <b>Balance at 1 October 2014</b>                                                                                                                  | 681                                | 660                                                |
| Purchases                                                                                                                                         | 119                                | 2                                                  |
| Sales                                                                                                                                             | (193)                              | 14                                                 |
| Issues                                                                                                                                            | –                                  | –                                                  |
| Settlements                                                                                                                                       | –                                  | 11                                                 |
| Net transfers into level 3                                                                                                                        | 49                                 | 69                                                 |
| Net transfers out of level 3                                                                                                                      | –                                  | (12)                                               |
| Reclassifications                                                                                                                                 | –                                  | (44)                                               |
| Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>                                                                       | 1                                  | 22                                                 |
| Fair value losses recognised in other comprehensive income <sup>(1)</sup>                                                                         | –                                  | (37)                                               |
| <b>Balance at 31 March 2015</b>                                                                                                                   | 657                                | 685                                                |
| Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup> | 1                                  | 21                                                 |
| <b>Balance at 1 April 2015</b>                                                                                                                    | 657                                | 685                                                |
| Purchases                                                                                                                                         | 332                                | 39                                                 |
| Sales                                                                                                                                             | (131)                              | (123)                                              |
| Settlements                                                                                                                                       | –                                  | (20)                                               |
| Net transfers into level 3                                                                                                                        | 455                                | 154                                                |
| Net transfers out of level 3                                                                                                                      | (73)                               | (124)                                              |
| Reclassifications                                                                                                                                 | –                                  | 23                                                 |
| Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>                                                                       | 35                                 | 2                                                  |
| Fair value gains recognised in other comprehensive income <sup>(1)</sup>                                                                          | –                                  | 17                                                 |
| <b>Balance at 30 September 2015</b>                                                                                                               | 1,275                              | 653                                                |
| Fair value gains for the period included in the income statement for assets and liabilities held at the end of the period <sup>(1)</sup>          | 35                                 | –                                                  |

<sup>(1)</sup> 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.

<sup>(2)</sup> The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$364 million (31 March 2015: \$327 million; 30 September 2014: \$508 million) and derivative liabilities are \$271 million (31 March 2015: \$239 million; 30 September 2014: \$379 million).

| Assets of disposals<br>groups classified<br>as held for sale<br>\$m | Other financial<br>assets at fair<br>value through<br>profit or loss<br>\$m | Trading portfolio<br>liabilities<br>\$m | Other financial<br>liabilities at fair<br>value through<br>profit or loss<br>\$m | Derivative financial<br>instruments<br>(net replacement<br>values) <sup>(2)</sup><br>\$m | Total<br>\$m |
|---------------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|--------------|
| –                                                                   | 153                                                                         | –                                       | (32)                                                                             | (6)                                                                                      | 1,224        |
| –                                                                   | –                                                                           | (2)                                     | –                                                                                | 177                                                                                      | 780          |
| –                                                                   | (5)                                                                         | –                                       | 7                                                                                | (13)                                                                                     | (517)        |
| –                                                                   | –                                                                           | –                                       | –                                                                                | (4)                                                                                      | (4)          |
| –                                                                   | 12                                                                          | –                                       | –                                                                                | –                                                                                        | 1            |
| –                                                                   | –                                                                           | –                                       | –                                                                                | 4                                                                                        | 355          |
| –                                                                   | (61)                                                                        | –                                       | –                                                                                | (19)                                                                                     | (297)        |
| –                                                                   | 5                                                                           | –                                       | –                                                                                | (10)                                                                                     | –            |
| –                                                                   | –                                                                           | –                                       | –                                                                                | –                                                                                        | 5            |
| –                                                                   | 104                                                                         | (2)                                     | (25)                                                                             | 129                                                                                      | 1,547        |
| –                                                                   | 5                                                                           | –                                       | –                                                                                | (13)                                                                                     | (2)          |
| –                                                                   | 104                                                                         | (2)                                     | (25)                                                                             | 129                                                                                      | 1,547        |
| –                                                                   | 4                                                                           | 2                                       | –                                                                                | (69)                                                                                     | 58           |
| –                                                                   | (3)                                                                         | –                                       | (7)                                                                              | 5                                                                                        | (184)        |
| –                                                                   | –                                                                           | –                                       | –                                                                                | (6)                                                                                      | (6)          |
| –                                                                   | (12)                                                                        | –                                       | 11                                                                               | 2                                                                                        | 12           |
| –                                                                   | 61                                                                          | –                                       | –                                                                                | (26)                                                                                     | 153          |
| –                                                                   | –                                                                           | –                                       | –                                                                                | 48                                                                                       | 36           |
| 68                                                                  | (24)                                                                        | –                                       | –                                                                                | –                                                                                        | –            |
| –                                                                   | 27                                                                          | –                                       | (1)                                                                              | 5                                                                                        | 54           |
| –                                                                   | –                                                                           | –                                       | –                                                                                | –                                                                                        | (37)         |
| 68                                                                  | 157                                                                         | –                                       | (22)                                                                             | 88                                                                                       | 1,633        |
| –                                                                   | 28                                                                          | –                                       | (1)                                                                              | (30)                                                                                     | 19           |
| 68                                                                  | 157                                                                         | –                                       | (22)                                                                             | 88                                                                                       | 1,633        |
| –                                                                   | –                                                                           | –                                       | –                                                                                | 45                                                                                       | 416          |
| –                                                                   | (37)                                                                        | –                                       | –                                                                                | (51)                                                                                     | (342)        |
| –                                                                   | –                                                                           | –                                       | 2                                                                                | –                                                                                        | (18)         |
| –                                                                   | –                                                                           | –                                       | –                                                                                | (26)                                                                                     | 583          |
| –                                                                   | –                                                                           | –                                       | –                                                                                | (15)                                                                                     | (212)        |
| (56)                                                                | 33                                                                          | –                                       | –                                                                                | –                                                                                        | –            |
| (12)                                                                | –                                                                           | –                                       | 1                                                                                | 52                                                                                       | 78           |
| –                                                                   | –                                                                           | –                                       | –                                                                                | –                                                                                        | 17           |
| –                                                                   | 153                                                                         | –                                       | (19)                                                                             | 93                                                                                       | 2,155        |
| –                                                                   | –                                                                           | –                                       | 1                                                                                | 52                                                                                       | 88           |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### 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<br>30 Sep 2015<br>\$m | Half-year to<br>31 March 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| <b>Balance at the beginning of the period</b>                | <b>53</b>                          | 15                                   | 8                                  |
| Deferral on new transactions                                 | 30                                 | 25                                   | 18                                 |
| Amounts recognised in the income statement during the period | (14)                               | 13                                   | (11)                               |
| <b>Balance at the end of the period</b>                      | <b>69</b>                          | 53                                   | 15                                 |

#### 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<br>or loss<br>\$m       | Equity<br>\$m | Profit<br>or loss<br>\$m | Equity<br>\$m |
| <b>Product type</b>               | <b>As at 30 September 2015</b> |               |                          |               |
| Equity and equity linked products | 3                              | 2             | (3)                      | (1)           |
| Other products                    | 160                            | 39            | (139)                    | (31)          |
| <b>Total</b>                      | <b>163</b>                     | <b>41</b>     | <b>(142)</b>             | <b>(32)</b>   |
| <b>Product type</b>               | <b>As at 31 March 2015</b>     |               |                          |               |
| Equity and equity linked products | 10                             | 6             | (10)                     | (2)           |
| Other products                    | 80                             | 17            | (64)                     | (10)          |
| <b>Total</b>                      | <b>90</b>                      | <b>23</b>     | <b>(74)</b>              | <b>(12)</b>   |
| <b>Product type</b>               | <b>As at 30 September 2014</b> |               |                          |               |
| Equity and equity linked products | 14                             | 5             | (15)                     | 1             |
| Other products                    | 63                             | –             | (61)                     | –             |
| <b>Total</b>                      | <b>77</b>                      | <b>5</b>      | <b>(76)</b>              | <b>1</b>      |

## 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<br>\$m | Liabilities<br>\$m | Valuation technique(s) | Significant<br>unobservable inputs | Range of inputs  |                  |
|-----------------------------------------|---------------|--------------------|------------------------|------------------------------------|------------------|------------------|
|                                         |               |                    |                        |                                    | Minimum<br>value | Maximum<br>value |
| As at 30 September 2015                 |               |                    |                        |                                    |                  |                  |
| Equity and<br>equity linked<br>products | 307           | 21                 | Pricing model          | Volatility                         | –                | –                |
|                                         |               |                    | Market comparability   | Price in %                         | (2.0%)           | 0.1%             |
| Other products                          | 2,138         | 269                | Discounted cash flows  | Discount rate                      | 7.0%             | 20.0%            |
|                                         |               |                    | Pricing model          | Volatility<br>Correlation          | 11.0%<br>(0.48)  | 150.0%<br>1.00   |
|                                         |               |                    | Market comparability   | Price in %                         | –                | 100.0%           |
| Total                                   | 2,445         | 290                |                        |                                    |                  |                  |
| As at 31 March 2015                     |               |                    |                        |                                    |                  |                  |
| Equity and<br>equity linked<br>products | 267           | 22                 | Pricing model          | Volatility                         | 17.0%            | 192.0%           |
|                                         |               |                    | Market comparability   | Price in %                         | (2.0%)           | 0.1%             |
| Other products                          | 1,627         | 239                | Discounted cash flows  | Discount rate                      | 6.0%             | 22.0%            |
|                                         |               |                    | Pricing model          | Volatility                         | 11.3%            | 150.0%           |
|                                         |               |                    | Market comparability   | Price in %                         | –                | 103.0%           |
| Total                                   | 1,894         | 261                |                        |                                    |                  |                  |
| As at 30 September 2014                 |               |                    |                        |                                    |                  |                  |
| Equity and<br>equity linked<br>products | 262           | 25                 | Pricing model          | Volatility                         | 28.6%            | 59.6%            |
|                                         |               |                    | Market comparability   | Price in %                         | (2.0)%           | 10.7%            |
| Other products                          | 1,691         | 381                | Pricing model          | Volatility<br>Correlation          | 10.3%<br>–       | 110.0%<br>1.00   |
|                                         |               |                    | Market comparability   | Price in %                         | –                | 129.0%           |
| Total                                   | 1,953         | 406                |                        |                                    |                  |                  |

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

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## Note 19

### Fair values of financial assets and liabilities continued

#### Correlation

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

#### Volatility and skew

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

#### Forward prices

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

## Note 20

### 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 loss of control during the period.

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

AWAS Aviation Capital Portfolio, Energetics Topco Limited and Advantage Funding Management Co. Inc.

On 4 March 2015 Macquarie entered into an agreement to acquire an aircraft operating lease portfolio of ninety commercial passenger aircraft from AWAS Aviation Capital Limited for a price of \$US4,000 million subject to adjustments. The portfolio comprises a combination of assets and wholly owned entities.

During the current period, part of the portfolio was acquired for \$2,129 million with a total of 39 aircraft purchased as at 30 September 2015. The purchase accounting for the business combination is still provisional and the inclusion of additional information is impracticable pending the finalisation of the acquisition. The remaining aircraft will be purchased by 31 March 2016 and a commitment for these purchases is included in Note 18 – Contingent liabilities and commitments.

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

|                                                        | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|--------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Fair value of net assets acquired</b>               |                                    |                                    |                                    |
| Cash and other assets                                  | 497                                | –                                  | 340                                |
| Property, plant and equipment                          | 2,481                              | –                                  | –                                  |
| Goodwill and other intangible assets                   | –                                  | –                                  | 18                                 |
| Payables, provisions, borrowings and other liabilities | (763)                              | –                                  | (5)                                |
| Non-controlling interests                              | (8)                                | –                                  | –                                  |
| <b>Total fair value of net assets acquired</b>         | <b>2,207</b>                       | <b>–</b>                           | <b>353</b>                         |
| <b>Consideration</b>                                   |                                    |                                    |                                    |
| Cash consideration                                     | 2,207                              | –                                  | 353                                |
| <b>Total consideration</b>                             | <b>2,207</b>                       | <b>–</b>                           | <b>353</b>                         |
| <b>Net cash outflow</b>                                |                                    |                                    |                                    |
| Cash consideration                                     | (2,207)                            | –                                  | (353)                              |
| Less cash and cash equivalents acquired                | 12                                 | –                                  | –                                  |
| <b>Net cash outflow</b>                                | <b>(2,195)</b>                     | <b>–</b>                           | <b>(353)</b>                       |

There were no significant entities or businesses acquired or consolidated due to acquisition of control in the 31 March 2015 comparatives. The 30 September 2014 comparatives principally relate to the acquisition of a Credit Cards Portfolio business.

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts. The goodwill acquired during the prior period has arisen due to the value of the businesses acquired over their individual asset values and synergies the Consolidated Entity expects to realise from the acquisitions.

# Notes to the consolidated financial statements

## for the half-year ended 30 September 2015

### continued

## 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:

MIM business (Refer Note 21 – Discontinued operations for further details), Macquarie Almond Orchards.

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

|                                                                                     | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|-------------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Carrying value of assets and liabilities disposed of or deconsolidated</b>       |                                    |                                    |                                    |
| Cash and other assets                                                               | 286                                | 23                                 | –                                  |
| Other financial assets                                                              | 338                                | 1,345                              | –                                  |
| Property, plant and equipment                                                       | 25                                 | 500                                | –                                  |
| Goodwill and other intangible assets                                                | 571                                | 68                                 | 8                                  |
| Payables, provisions, borrowings and other liabilities                              | (795)                              | (917)                              | (16)                               |
| <b>Total carrying value of assets and liabilities disposed of or deconsolidated</b> | <b>425</b>                         | <b>1,019</b>                       | <b>(8)</b>                         |
| <b>Consideration</b>                                                                |                                    |                                    |                                    |
| Cash consideration                                                                  | 1,337                              | 1,290                              | –                                  |
| Consideration received in equity                                                    | –                                  | 3                                  | 3                                  |
| <b>Total consideration</b>                                                          | <b>1,337</b>                       | <b>1,293</b>                       | <b>3</b>                           |
| <b>Inspecie distribution</b>                                                        | <b>131</b>                         | <b>–</b>                           | <b>–</b>                           |
| <b>Net cash flow</b>                                                                |                                    |                                    |                                    |
| Cash consideration                                                                  | 1,337                              | 1,290                              | –                                  |
| Less cash and cash equivalents disposed of or deconsolidated                        | –                                  | (14)                               | –                                  |
| <b>Net cash inflow</b>                                                              | <b>1,337</b>                       | <b>1,276</b>                       | <b>–</b>                           |

The 31 March 2015 comparatives principally relate to the following entities or businesses disposed off or de-consolidated due to loss of control:

- Macquarie Rail Inc., Macquarie Rail Canada Limited, CMC Industries Inc., Texas Rail Terminal LLC, TRT LeaseCo LLC, Macquarie Equipment Finance Inc, Macquarie Equipment Funding LLC, Delaware Large Cap Core Fund Class I, Macquarie Equities New Zealand Limited and Macquarie Equities Custodians.

The 30 September 2014 comparatives principally relate to the following entities or businesses disposed off or de-consolidated due to loss of control:

- UPL (No. 15) Pty Limited, Delaware Investment Advisers, Delaware Capital Management, Delaware Investments Fund Advisers, Macquarie PA TAP Management I Inc., Macquarie NM Management II Inc., Macquarie NM Management I Inc., Macquarie HiTIP Management I Inc., Macquarie Generation Management II Inc. and Macquarie Generation Management I Inc.

## Note 21

### Discontinued operations

#### (a) Description

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

The details of MIM are as follows:

#### (b) Income statement and cash flow information

|                                                                         | Half-year to<br>30 Sep 2015<br>\$m | Half-year to<br>31 Mar 2015<br>\$m | Half-year to<br>30 Sep 2014<br>\$m |
|-------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net operating income                                                    | 71                                 | 591                                | 454                                |
| Total operating expenses                                                | (30)                               | (404)                              | (354)                              |
| Current period profit before tax                                        | 41                                 | 187                                | 100                                |
| Gain on disposal                                                        | 1,009                              | –                                  | –                                  |
| Operating profit before income tax                                      | 1,050                              | 187                                | 100                                |
| Income tax expense                                                      | (10)                               | (52)                               | (45)                               |
| <b>Profit for the period from discontinued operations<sup>(1)</sup></b> | <b>1,040</b>                       | <b>135</b>                         | <b>55</b>                          |
| Cash flow from operating activities                                     | 31                                 | 141                                | 36                                 |
| Cash flow from investing activities                                     | –                                  | 11                                 | 14                                 |
| Cash flow used in financing activities                                  | (184)                              | (135)                              | (55)                               |
| <b>Net (decrease)/increase in cash and cash equivalents</b>             | <b>(153)</b>                       | <b>17</b>                          | <b>(5)</b>                         |
| <b>Cash and cash equivalents at the beginning of the period</b>         | <b>153</b>                         | <b>136</b>                         | <b>141</b>                         |
| <b>Cash and cash equivalents at the end of the period</b>               | <b>–</b>                           | <b>153</b>                         | <b>136</b>                         |

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

#### (c) Cumulative income included in other comprehensive income

The following table shows equity reserves, representing cumulative other comprehensive income relating to MIM.

|                                      |          |             |          |
|--------------------------------------|----------|-------------|----------|
| Foreign currency translation reserve | –        | (25)        | 3        |
| <b>Total reserves</b>                | <b>–</b> | <b>(25)</b> | <b>3</b> |

## Note 22

### Events after the reporting date

On 8 October 2015, the Company entered into an agreement to acquire the Esanda dealer finance portfolio from Australia and New Zealand Banking Group Limited for \$8,200 million. The portfolio comprises retail and wholesale dealer finance on motor vehicles across Australia and will form part of the Corporate and Asset Finance operating group.

The Company will fund the acquisition with existing funding sources, capital and third-party financing arrangements.

## Directors' declaration

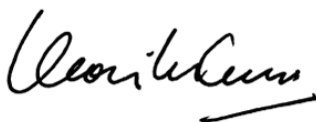
### for the half-year ended 30 September 2015

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In the Directors' opinion

- a) the financial statements and notes for the half-year ended 30 September 2015 set out on pages 7 to 43 are in accordance with the *Corporations Act 2001* (Cth) including:
  - i) complying with the accounting standards, and
  - ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2015 and performance for the half-year ended on that date
- b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable, and
- c) the financial statements also comply with International Financial Reporting Standards (see Note 1 set out on page 12).

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



**H Kevin McCann, AM**  
Independent Director and  
Chairman



**Mary Reemst**  
Managing Director and  
Chief Executive Officer

Sydney  
30 October 2015

# 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 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled during that half-year.

## Directors' responsibility for the half-year financial report

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

## Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* (Cth) including: giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth). As the auditor of Macquarie Bank Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

## Conclusion

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

- a) giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth).

The PricewaterhouseCoopers logo, written in a stylized, cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink, reading 'K. G. Smith'.

**K.G. Smith**  
**Partner**

Sydney  
30 October 2015

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

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