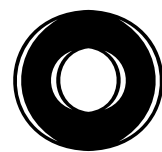


MACQUARIE BANK LIMITED

A.C.N. 008 583 542

**INTERIM DIRECTORS' REPORT AND FINANCIAL REPORT
HALF YEAR ENDED 30 SEPTEMBER 2007**



MACQUARIE
BANK

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.

This interim report should be read in conjunction with the annual report of Macquarie Bank Limited for 31 March 2007 which was also prepared in accordance with Australian Accounting Standards. In addition, reference should be made to any public announcements made by Macquarie Bank Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MACQUARIE BANK LIMITED

and its controlled entities

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DIRECTORS' REPORT FOR THE HALF YEAR ENDED 30 SEPTEMBER 2007

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Bank Limited ("the Bank"), the Directors submit herewith the balance sheet as at 30 September 2007, the income statement, the statement of changes in equity and the cash flow statement of the Bank and its controlled entities (together "the economic entity") for the half year ended on that date ("the period") and report as follows:

DIRECTORS

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

Non-Executive Directors:

D.S. Clarke, AO, *Non-Executive Chairman*

Executive Directors:

A.E. Moss, AO, *Managing Director and Chief Executive Officer*

L.G. Cox, AO

Independent Directors:*

P.M. Kirby

C.B. Livingstone

H.K. McCann, AM

J.R. Niland, AC

H.M. Nugent, AO

P.H. Warne (appointed 1 July 2007)

* In accordance with the Bank's definition of independence.

Mr J.G. Allpass and Mr M.R.G. Johnson retired as Voting Directors on 19 July 2007.

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

RESULT

The financial report for the half year ended 30 September 2007, and the results herein, are prepared in accordance with Australian Accounting Standards.

The consolidated net profit after income tax attributable to ordinary equity holders, in accordance with Australian Accounting Standards, for the period was \$1,060 million (31 March 2007: \$733 million; 30 September 2006: \$730 million).

REVIEW OF OPERATIONS

Macquarie's consolidated net profit after income tax attributable to its ordinary equity holders for the six months to 30 September 2007 was \$1,060 million, a 45% increase on the prior corresponding period. Basic earnings per share were up 34% to 401.8 cents.

Strong equity markets conditions were experienced globally, particularly in Asia, resulting in strong income growth for Macquarie's equity related businesses. Commodity market volatility was high, resulting in good customer flows. Assets under management were up 14% on March 2007 to \$224.1 billion at 30 September 2007.

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DIRECTORS' REPORT (continued) FOR THE HALF YEAR ENDED 30 SEPTEMBER 2007

REVIEW OF OPERATIONS (continued)

Total operating income for the half-year to 30 September 2007 was \$4,710 million, a 38% increase on the prior corresponding period. Good investment banking deal flow combined with favourable equity and commodity market conditions drove the overall growth in operating income. The half-year also saw record broking volumes and strong demand for retail products. Consistent with prior periods, Macquarie benefited from some significant asset realisations during the period including the disposal of its investment in Macquarie-IMM Investment Management Co. Limited (Macquarie-IMM). The increase in assets under management contributed to growth in base fees. Some performance fees were also recognised during the period.

Macquarie's offshore growth has continued across all Groups with income from international sources up 70% on the prior corresponding period to \$2,457 million. International income amounted to 55% of Macquarie's total operating income for the six months to 30 September 2007, up from 44% in the prior corresponding period.

Operating expenses are up 34% on the prior corresponding period to \$3,337 million. Employment costs are the largest contributor to operating expenses and were up 34% on the prior corresponding period to \$2,420 million. The increase in employment costs was driven by an increase in headcount of 23% on the prior corresponding period to over 11,000.

EVENTS OCCURRING AFTER REPORTING DATE

On 13 November 2007, the Macquarie Group will restructure into a non-operating holding company structure. This follows receipt of the requisite approvals by Macquarie Bank Limited ('MBL') shareholders and optionholders, as well as the Federal Treasurer, Australian Prudential Regulation Authority and the Federal Court of Australia. This restructure results in a new listed non-operating holding company, named Macquarie Group Limited ('MGL') being established as the ultimate parent of the Macquarie Group. The Macquarie Group will comprise two separate sub-groups, a Banking Group and a Non-Banking Group.

Under the restructure, following MBL becoming a controlled entity of MGL, MBL will sell certain Non-Banking Group controlled entities to MGL for fair value at the restructure date. The bulk of the profits on sale of these controlled entities will be distributed by MBL via dividends to MGL. MBL has also obtained shareholder approval to reduce its capital by \$3.0 billion. The funds received by MGL from these transactions will be contributed to the capital base of the Non-Banking Group and help finance the acquisition of the assets from MBL by the Non-Banking Group. MBL will also pay a dividend to MGL of \$2.25 billion and MGL will simultaneously subscribe the same amount to MBL as a capital injection. These transactions are expected to occur on 16 November 2007. Subsequently, a new holding company (Macquarie B.H. Pty Limited) will be introduced between MGL and MBL on or about 19 November 2007. All of these transactions will be internal to the Macquarie group of companies and will not impact incoming MGL ordinary shareholders.

Ordinary shareholders and optionholders of MBL will hold one MGL ordinary share/option for each ordinary share/option they held in MBL prior to implementation of the restructure.

The restructure will be accounted for as a reverse acquisition in MGL's 31 March 2008 consolidated financial statements, with MBL identified as the acquirer in accordance with AASB 3 *Business Combinations*. MGL's consolidated financial statements will be presented as a continuation of the Macquarie Group.

INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend for the half year ending 30 September 2007 of \$1.45 per the number of fully paid ordinary Macquarie Group Limited shares on issue on 9 January 2008. Pursuant to the restructure of the Macquarie Group, this dividend will be paid to Macquarie B.H. Pty Limited and a corresponding dividend will be paid by Macquarie B.H. Pty Limited to MGL.

AUDITOR'S INDEPENDENCE DECLARATION

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

MACQUARIE BANK LIMITED

and its controlled entities

**DIRECTORS' REPORT (continued)
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2007**

ROUNDING OF AMOUNTS

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

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



David Clarke
Non-Executive Chairman



Allan Moss
Managing Director and
Chief Executive Officer

Sydney
12 November 2007

Auditor's Independence Declaration

As lead auditor for the review of Macquarie Bank Limited for the half year ended 30 September 2007, I declare that to the best of my knowledge and belief, the only contravention of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review;

is set out below.

On 15 August 2007, a partner of the firm located overseas and unconnected to the review reported that he held during the period an immaterial investment in Macquarie Bank Limited. This investment was disposed of within one business day of becoming aware of the matter.

This matter was identified as part of our on-going quality control system. All reasonable steps were undertaken to ensure that the matter was resolved as soon as possible. I report that the matter has been resolved, and in doing so do not believe that the matter has impacted my objectivity or impartiality for the purpose of this review.

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



Ian Hammond
Partner
PricewaterhouseCoopers

Sydney
12 November 2007

MACQUARIE BANK LIMITED*and its controlled entities***Consolidated income statement
for the half year ended 30 September 2007**

	Notes	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
Interest and similar income	2	3,186	2,550	2,082
Interest expense and similar charges	2	(2,663)	(2,156)	(1,748)
Net interest income		523	394	334
Fee and commission income	2	2,478	1,864	1,676
Net trading income	2	843	591	456
Share of net profits of associates and joint ventures using the equity method	2	94	143	99
Other operating income	2	815	802	874
Impairment charges	2	(43)	(38)	(14)
Total operating income		4,710	3,756	3,425
Employment expenses	2	(2,420)	(1,931)	(1,802)
Brokerage and commission expenses	2	(313)	(194)	(227)
Occupancy expenses	2	(121)	(131)	(95)
Non-salary technology expenses	2	(100)	(87)	(76)
Other operating expenses	2	(383)	(428)	(282)
Total operating expenses		(3,337)	(2,771)	(2,482)
Operating profit before income tax		1,373	985	943
Income tax expense	5	(273)	(208)	(169)
Profit from ordinary activities after income tax		1,100	777	774
Profit attributable to minority interest		(24)	(28)	(29)
Profit attributable to equity holders of Macquarie Bank Limited		1,076	749	745
Distributions paid or provided on Macquarie Income Securities	6	(16)	(16)	(15)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		1,060	733	730
		Cents per share	Cents per share	Cents per share
Basic earnings per share	7	401.8	290.8	300.9
Diluted earnings per share	7	387.5	279.2	289.5

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

MACQUARIE BANK LIMITED*and its controlled entities***Consolidated balance sheet
as at 30 September 2007**

	Notes	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
ASSETS				
Cash and balances with central banks		3	3	9
Due from banks		6,887	6,120	4,086
Cash collateral on securities borrowed and reverse repurchase agreements		22,367	25,909	13,039
Trading portfolio assets	8	16,693	15,518	13,756
Loan assets held at amortised cost	9	49,911	45,796	42,631
Other financial assets at fair value through profit or loss		4,412	2,779	2,893
Derivative financial instruments – positive values		16,991	11,913	11,216
Other assets		10,103	10,444	6,976
Investment securities available for sale	10	12,092	6,060	4,139
Intangible assets		101	100	168
Life investment contracts and other unit holder assets		6,363	5,847	5,610
Interest in associates and joint ventures using the equity method	11	4,784	4,071	3,571
Property, plant and equipment		277	378	337
Deferred income tax assets		639	457	393
Assets and disposal groups classified as held for sale	12	835	994	3,813
Total assets		152,458	136,389	112,637
LIABILITIES				
Due to banks		5,016	4,127	3,724
Cash collateral on securities lent and repurchase agreements		16,945	7,489	8,241
Trading portfolio liabilities	13	9,875	15,922	6,500
Derivative financial instruments – negative values		15,555	11,069	10,461
Deposits		12,305	12,403	10,249
Debt issued at amortised cost	14	55,304	51,365	42,317
Other financial liabilities at fair value through profit or loss	15	5,744	5,552	5,685
Other liabilities		12,600	11,958	8,072
Current tax liabilities		222	132	246
Life investment contracts and other unit holder liabilities		6,355	5,781	5,530
Provisions		170	153	149
Deferred income tax liabilities		106	78	53
Liabilities of disposal groups classified as held for sale	12	272	170	2,443
Total liabilities excluding loan capital		140,469	126,199	103,670
Loan capital				
Subordinated debt at amortised cost		1,721	1,783	1,252
Subordinated debt at fair value through profit or loss		853	888	914
Total liabilities		143,043	128,870	105,836
Net assets		9,415	7,519	6,801

MACQUARIE BANK LIMITED*and its controlled entities***Consolidated balance sheet (continued)
as at 30 September 2007**

	Notes	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
EQUITY				
Contributed equity				
Ordinary share capital	16	4,336	3,103	2,889
Treasury shares	16	(10)	(7)	(2)
Macquarie Income Securities	16	391	391	391
Reserves	17	513	380	265
Retained earnings	17	3,373	2,795	2,374
<hr/>				
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		8,603	6,662	5,917
Minority interest	17	812	857	884
Total equity		9,415	7,519	6,801

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

MACQUARIE BANK LIMITED*and its controlled entities***Consolidated statement of changes in equity
for the half year ended 30 September 2007**

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
Total equity at the beginning of the half year	7,519	6,801	5,337
Available for sale investments, net of tax	63	96	(19)
Associates and joint ventures	12	(37)	25
Cash flow hedges, net of tax	21	28	(20)
Exchange differences on translation of foreign operations	(39)	(37)	34
Net income recognised directly in equity	57	50	20
Profit from ordinary activities after income tax for the half year	1,100	777	774
Total recognised income and expense for the half year	1,157	827	794
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	1,204	199	961
Dividends paid and distributions paid or provided	(498)	(328)	(305)
Minority interest:			
(Reduction)/contribution of equity, net of transaction costs	(5)	(27)	6
Changes in retained earnings due to acquisitions and disposals	5	27	-
Distributions paid or provided	(26)	(27)	(27)
Other equity movements:			
Share based payments	62	52	35
Net purchase of treasury shares	(3)	(5)	-
Total equity at the end of the half year	9,415	7,519	6,801
Total recognised income and expense for the half year is attributable to:			
Ordinary equity holders of Macquarie Bank Limited	1,160	811	722
Macquarie Income Securities holders	16	16	15
Minority interest	(19)	-	57
Total recognised income and expense for the half year	1,157	827	794

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

MACQUARIE BANK LIMITED*and its controlled entities***Consolidated cash flow statement
for the half year ended 30 September 2007**

Notes	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
Cash flows from operating activities			
	3,150	2,527	1,934
Interest received			
Interest and other costs of finance paid	(2,638)	(2,350)	(1,478)
Dividends and distributions received	119	296	164
Fees and other non-interest income received	2,600	1,860	1,712
Fees and commissions paid	(347)	(121)	(259)
Net receipts/(payments) from trading portfolios and other financial assets/liabilities	6,760	(6,930)	(1,351)
Payments to suppliers	(773)	(343)	(454)
Employment expenses paid	(2,533)	(777)	(1,600)
Income tax paid	(335)	(462)	(164)
Life investment contract income	394	265	150
Life investment contract premiums received and other unit holder contributions	1,603	2,027	567
Life investment contract payments	(1,281)	(1,843)	(626)
Assets and disposal groups classified as held for sale – net receipts/(payments) from operations	147	188	(15)
Loan assets granted (net)	(5,241)	(3,767)	(7,854)
Recovery of loans previously written off	4	3	-
Net increase in money market and other deposit accounts	5,003	11,956	5,770
Net cash flows from operating activities	18	2,529	(3,504)
Cash flows from investing activities			
Payments for assets available for sale and at fair value through profit or loss	(16,822)	(8,747)	(5,904)
Proceeds from realisation of assets available for sale and at fair value through profit or loss	12,142	8,204	5,558
Payments for interests in associates	(1,343)	(950)	(575)
Proceeds from the sale of associates	452	141	939
Proceeds from the sale of controlled entities and assets and disposal groups classified as held for sale	1,094	1,627	532
Payments for the acquisition of controlled entities and assets and disposal groups classified as held for sale, net of cash acquired	(451)	(968)	(807)
Payments for life investment contracts and other unit holder investments	(3,566)	(3,052)	(3,031)
Proceeds from the sale of life investment contract investments	3,377	2,603	2,917
Payments for fixed assets	(40)	(125)	(74)
Proceeds from the sale of fixed assets	-	6	1
Net cash flows from investing activities	(5,157)	(1,261)	(444)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	1,019	82	864
Proceeds from/(payments to) other minority interests	6	(4)	9
Issue of subordinated debt	-	627	767
Dividends and distributions paid	(340)	(235)	(237)
Net cash flows from financing activities	685	470	1,403
Net increase/(decrease) in cash	2,160	1,738	(2,545)
Cash and cash equivalents at the beginning of the half year	8,326	6,588	9,133
Cash and cash equivalents at the end of the half year	18	8,326	6,588

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

MACQUARIE BANK LIMITED

and its controlled entities

Notes to the financial statements

30 September 2007

1. Basis of preparation

This general purpose financial report for the interim half year reporting period ended 30 September 2007 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2007 and any public announcements made by the Bank during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The company 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. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

The accounting policies are consistent with those of the previous financial year and corresponding periods, unless otherwise stated. Reference should be made to Macquarie Bank Limited’s annual report for 31 March 2007 for a complete list of the company’s accounting policies. Where necessary, comparative figures have been adjusted to conform with changes in presentation at 30 September 2007.

MACQUARIE BANK LIMITED

and its controlled entities

Notes to the financial statements

30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
2. Profit for the half year			
Net interest income			
Interest and similar income received/receivable	3,186	2,550	2,082
Interest expense and similar charges paid/payable	(2,663)	(2,156)	(1,748)
Net interest income	523	394	334
Fee and commission income			
Fee and commission income	2,458	1,838	1,675
Income from life business and other unit holder businesses	20	26	1
Fee and commission income	2,478	1,864	1,676
Net trading income			
Equities	593	404	361
Commodities	132	177	118
Foreign exchange products	101	70	50
Interest rate products	17	(60)	(73)
Net trading income	843	591	456
Share of net profits of associates and joint ventures using the equity method			
	94	143	99
Other operating income			
Net gains on sale of investment securities available for sale	49	46	114
Net gains on sale of associates and joint ventures	421	149	501
Net operating (loss)/income from disposal groups held for sale	(3)	8	33
Gain on deconsolidation of previously controlled entities and businesses held for sale	217	469	-
Dividends/distributions received/receivable from equity investments and investment securities available for sale	39	46	38
Other income	92	84	188
Other operating income	815	802	874
Impairment charges			
Provision for diminution of investment securities (including investment securities available for sale, associates and joint ventures)	(34)	(9)	(3)
Collective allowance for credit losses provided for during the period (refer note 9)	(13)	(8)	(3)
Specific provisions			
- provided for during the period (refer note 9)	(20)	(26)	(10)
- recovery of loans previously provided for (refer note 9)	28	7	6
- loan losses written-off	(8)	(4)	(5)
- recovery of loans previously written-off	4	2	1
Impairment charges	(43)	(38)	(14)
Total operating income	4,710	3,756	3,425

MACQUARIE BANK LIMITED

and its controlled entities

Notes to the financial statements

30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
2. Profit for the half year (continued)			
Employment expenses			
Salary, salary related costs including commissions, superannuation and performance-related profit share	(2,176)	(1,733)	(1,629)
Share based payments	(62)	(52)	(35)
Provision for annual leave	(14)	(3)	(12)
Provision for long service leave	(6)	(3)	(5)
Total compensation expense	(2,258)	(1,791)	(1,681)
Other employment expenses including on-costs, staff procurement and staff training	(162)	(140)	(121)
Total employment expenses	(2,420)	(1,931)	(1,802)
Brokerage and commission expenses			
Brokerage expenses	(242)	(130)	(159)
Other fee and commission expenses	(71)	(64)	(68)
Total brokerage and commission expenses	(313)	(194)	(227)
Occupancy expenses			
Operating lease rentals	(78)	(95)	(56)
Depreciation: infrastructure, furniture, fittings and leasehold improvements	(25)	(17)	(19)
Other occupancy expenses	(18)	(19)	(20)
Total occupancy expenses	(121)	(131)	(95)
Non-salary technology expenses			
Information services	(38)	(34)	(30)
Depreciation: computer equipment	(23)	(19)	(19)
Other non-salary technology expenses	(39)	(34)	(27)
Total non-salary technology expenses	(100)	(87)	(76)
Other operating expenses			
Professional fees	(107)	(149)	(84)
Auditors' remuneration	(10)	(12)	(6)
Travel and entertainment expenses	(89)	(85)	(69)
Advertising and promotional expenses	(18)	(22)	(14)
Communication expenses	(18)	(18)	(16)
Depreciation: communication equipment	(3)	(4)	(3)
Other expenses	(138)	(138)	(90)
Total other operating expenses	(383)	(428)	(282)
Total operating expenses	(3,337)	(2,771)	(2,482)

MACQUARIE BANK LIMITED

and its controlled entities

Notes to the financial statements

30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
3. Revenue from operating activities			
Interest and similar income	3,186	2,550	2,082
Fee and commission income	2,458	1,838	1,675
Investment revenue and management fees from life investment contracts and other unit holder businesses	271	447	166
Net trading income	843	591	456
Profit on the sale of investment securities available for sale and associates and joint ventures	470	195	615
Other income (excluding profit on the sale of investment securities available for sale and associates and joint ventures)	439	750	358
Total revenue from operating activities	7,667	6,371	5,352

4. Segment reporting

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

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

The segment information has been prepared in conformity with the economic entity's accounting policies.

Primary segment - business

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

For the purposes of determining business segments, the activities of the economic entity have been divided into four areas:

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

MACQUARIE BANK LIMITED*and its controlled entities***Notes to the financial statements****30 September 2007****4. Segment reporting (continued)**

	Asset and Wealth Management \$m	Financial Markets \$m	Investment Banking \$m	Lending \$m	Total \$m
Half year to 30 September 2007					
Total revenue from ordinary activities	1,523	2,095	2,026	2,023	7,667
Total income from ordinary activities	1,261	1,083	1,940	426	4,710
Profit from ordinary activities after income tax	251	255	531	63	1,100
Half year to 31 March 2007					
Total revenue from ordinary activities	1,366	1,493	1,825	1,687	6,371
Total income from ordinary activities	933	746	1,663	414	3,756
Profit from ordinary activities after income tax	161	162	377	77	777
Half year to 30 September 2006					
Total revenue from ordinary activities	1,156	1,351	1,461	1,384	5,352
Total income from ordinary activities	989	735	1,346	355	3,425
Profit from ordinary activities after income tax	201	172	349	52	774

MACQUARIE BANK LIMITED

and its controlled entities

Notes to the financial statements

30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
5. Income tax expense			
i) Reconciliation of income tax expense to prima facie tax payable			
Prima facie income tax expense on operating profit*	(412)	(295)	(283)
Tax effect of amounts adjusted in calculating taxable income:			
Rate differential on offshore income	147	92	103
Distribution provided on Macquarie Income Preferred Securities and similar distributions	8	8	8
Non-deductible options expense	(19)	(16)	(10)
Other items	3	3	13
Total income tax expense	(273)	(208)	(169)
ii) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in profit or loss but directly recognised in equity:			
Net deferred tax – debited/(credited) directly to equity	28	25	(14)
Total	28	25	(14)

* Prima facie income tax on operating profit is calculated at the rate of 30% (2006: 30%). The consolidated entity has a tax year ending on 30 September.

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

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

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

MACQUARIE BANK LIMITED

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Notes to the financial statements

30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
6. Dividends paid and distributions paid or provided			
i) Dividends paid			
Ordinary share capital			
Interim dividend paid (\$1.25 per share)	-	312	-
Final dividend paid (\$1.90 per share (2006: \$1.25))	482	-	290
Total dividends paid	482	312	290

All dividends were 100% franked at the 30% corporate tax rate.

The Bank's Dividend Reinvestment Plan ("DRP") will cease to operate following implementation of the restructure on 13 November 2007.

	Dividend per ordinary share		
Cash dividends per ordinary share			
(distribution of current year profits)	\$1.45	\$1.90	\$1.25

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

Since the end of the half year the Directors have resolved to pay an interim dividend for the half year ending 30 September 2007 of \$1.45 per the number of fully paid ordinary Macquarie Group Limited shares on issue on 9 January 2008. Pursuant to the restructure of the Macquarie Group, this dividend will be paid to Macquarie B.H. Pty Limited and a corresponding dividend will be paid by Macquarie B.H. Pty Limited to Macquarie Group Limited.

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30 September 2007

	Half year to 30 Sep 2007 \$m	Half year to 31 Mar 2007 \$m	Half year to 30 Sep 2006 \$m
6. Dividends paid and distributions paid or provided (continued)			
iii) Distributions paid or provided			
Macquarie Income Securities			
Distributions paid (net of distributions previously provided)	9	9	9
Distributions provided	7	7	6
Total distributions paid or provided	16	16	15

The Macquarie Income Security ("MIS") is a stapled arrangement, which includes a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to Directors' discretion. The distributions paid/provided in respect of the MIS are recognised directly in equity in accordance with AASB 132:

Financial Instruments: Presentation.

Macquarie Income Preferred Securities			
Distributions paid (net of distributions previously provided)	3	3	2
Distributions provided	23	24	25
Total distributions paid or provided	26	27	27

The Macquarie Income Preferred Securities represent the minority interest of a consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Preferred Securities are recorded as movements in minority interest, as disclosed in note 17 – Reserves, retained earnings and minority interest. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. Each debenture converts for 500 Bank preference shares at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity.

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30 September 2007

	Half year to 30 Sep 2007	Half year to 31 Mar 2007	Half year to 30 Sep 2006
7. Earnings per share			
	Cents per share	Cents per share	Cents per share
Basic earnings per share	401.8	290.8	300.9
Diluted earnings per share	387.5	279.2	289.5
	\$m	\$m	\$m
Reconciliation of earnings used in the calculation of basic and diluted earnings per share			
Profit from ordinary activities after income tax	1,100	777	774
(Profit)/loss attributable to minority interest:			
Macquarie Income Preferred Securities	(26)	(27)	(27)
Other equity holders	2	(1)	(2)
Distributions paid or provided on:			
Macquarie Income Securities	(16)	(16)	(15)
Total earnings used in the calculation of basic and diluted earnings per share	1,060	733	730
	Number of shares	Number of shares	Number of shares
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	263,798,808	252,054,848	242,598,050
Weighted average number of shares used in the calculation of diluted earnings per share			
Weighted average fully paid ordinary shares	263,798,808	252,054,848	242,598,050
Potential ordinary shares:			
Weighted average options	9,756,591	10,461,509	9,517,302
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	273,555,399	262,516,357	252,115,352

Information concerning the classification of securities

Options

Options granted to employees under the Employee Option Plan are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 2,072,876 (31 March 2007: 771,597; 30 September 2006: 1,795,223) options that were converted, lapsed or cancelled during the half year. There are a further 12,475,125 (31 March 2007: 739,590; 30 September 2006: 21,120,435) options that have not been included in the balance of weighted average options on the basis that their strike price was greater than the average market price of the Bank's fully paid ordinary shares for the half year ended 30 September 2007 and consequently, they are not considered to be dilutive.

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	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
8. Trading portfolio assets			
Trading securities			
Equities and other securities	12,208	12,114	8,979
Corporate bonds	1,043	1,496	1,433
Promissory notes	2,664	809	1,150
Certificates of deposit	239	426	867
Other government securities	293	350	752
Bank bills	86	159	250
Commonwealth government bonds	76	71	163
Foreign government bonds	-	6	40
Total trading securities	16,609	15,431	13,634
Other trading assets			
Commodities	84	87	122
Total other trading assets	84	87	122
Total trading portfolio assets	16,693	15,518	13,756

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30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
9. Loan assets held at amortised cost			
Due from clearing houses	2,066	2,827	3,578
Due from governments*	152	165	195
Due from other entities			
Other loans and advances	44,846	40,269	36,542
Less specific provisions	(63)	(71)	(55)
	44,783	40,198	36,487
Lease receivables	3,014	2,697	2,454
Total due from other entities	47,797	42,895	38,941
Total gross loan assets	50,015	45,887	42,714
Less collective allowance for credit losses	(104)	(91)	(83)
Total loan assets held at amortised cost	49,911	45,796	42,631

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

Specific provisions

Balance at the beginning of the period	71	55	52
Provided for during the period	20	26	10
Loan assets written off, previously provided for	-	(4)	-
Recovery of loans previously provided for	(28)	(7)	(6)
Attributable to foreign currency translation	-	1	(1)
Total specific provisions	63	71	55
Specific provisions as a percentage of gross loan assets	0.13%	0.15%	0.13%

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

Collective allowance for credit losses

Balance at the beginning of the period	91	83	80
Provided for during the period	13	8	3
Total collective allowance for credit losses	104	91	83

The collective allowances for credit losses is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
10. Investment securities available for sale			
Equity securities			
Listed	747	617	453
Unlisted	272	377	145
Debt securities*	11,073	5,066	3,541
Total investment securities available for sale	12,092	6,060	4,139

* Includes \$8,953m (31 March 2007: \$2,245m; 30 September 2006: \$1,757m) of Negotiable Certificates of Deposit due from financial institutions and \$186m (31 March 2007: \$474m; 30 September 2006: \$532m) of bank bills.

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

Interest in associates and joint ventures using the equity method

Loans and investments without provisions for impairment	4,702	4,016	3,420
Loans and investments with provisions for impairment	89	60	180
Less provision for impairment	(7)	(5)	(29)
Loans and investments at recoverable amount	82	55	151
Total interest in associates and joint ventures using the equity method	4,784	4,071	3,571

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

Name of entity	Country of Incorporation	Reporting Date	Participating interest		
			As at 30 Sep 2007 %	As at 31 Mar 2007 %	As at 30 Sep 2006 %
Diversified CMBS Investments Inc.	USA	31 March	57%	57%	57%
European Directories SA	Luxembourg	31 December	13%	13%	13%
Macquarie Aircraft Leasing Holdings Limited	Bermuda	31 December	34%	34%	-
Macquarie Airports	Australia	31 December	19%	16%	15%
Macquarie Capital Alliance Group	Australia	30 June	17%	17%	11%
Macquarie Communications Infrastructure Group	Australia	30 June	17%	12%	12%
Macquarie Countrywide Trust	Australia	30 June	10%	9%	9%
Macquarie Diversified (AA) Trust	Australia	31 March	18%	28%	29%
Macquarie European Infrastructure Fund	UK	31 March	5%	5%	5%
Macquarie Goodman Japan Limited	Singapore	31 March	50%	-	-
Macquarie Infrastructure Group	Australia	30 June	2%	2%	2%
Macquarie MEAG Prime REIT	Singapore	31 December	26%	24%	20%
Macquarie Media Group	Australia	30 June	20%	22%	21%
Macquarie Office Trust	Australia	30 June	7%	6%	6%
Redford Australian Investment Trust	Australia	30 June	27%	-	-
Euro Gaming Limited	UK	31 December	50%	50%	-

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
12. Assets and disposal groups classified as held for sale			
Assets of disposal groups held for sale*	410	244	3,049
Associates**	425	750	764
Total assets and disposal groups classified as held for sale	835	994	3,813
Total liabilities of disposal groups classified as held for sale*	272	170	2,443

*Disposal groups held for sale as at 30 September 2007 include America's Water Heater Rentals, Express Offshore Transport, Longview Oil & Gas, Windkraft Holleben 1 GMBH & Co KG and Windpark Bippen Grunsticks GMBH & Co KG.

Disposal groups at 31 March 2007 included ATM Solutions and Longview Oil & Gas.

Disposal groups at 30 September 2006 included East London Bus Group Holdings Limited, Steam Packet Group, Macquarie Small Cap Roads Holdings, LLC, AHA Holdings Limited, Macquarie SC Investments Inc. and Vancouver Health Holdings Limited.

**Summarised information of material associates classified as held for sale is as follows:

Name of entity	Country of Incorporation	Reporting Date	Participating interest		
			As at 30 Sep 2007 %	As at 31 Mar 2007 %	As at 30 Sep 2006 %
International Infrastructure Holdings Limited	Japan	31 December	50%	-	-
Retirement Villages Group	Australia	30 June	48%	48%	48%
Macquarie Infrastructure Partners A	USA	31 December	13%	-	-
Macquarie Infrastructure Partners B	USA	31 December	13%	-	-
Lane Cove Tunnel Holding Company Pty Limited	Australia	31 December	-	19%	-
Macquarie New York Parking 2 LLC^	USA	31 December	-	53%	53%
Taiwan Cable TV Investments Sarl^^	Taiwan	31 December	-	20%	40%

All associates classified as held for sale are unlisted companies.

Participation interest is equivalent to ownership interest unless otherwise stated.

^ Voting rights for this investment were not proportional to the ownership interest. The economic entity had joint control because neither the economic entity nor its fellow investors had control in their own right.

^^ Legal interest is different to participating interest. As at 31 March 2007, legal interest in Taiwan Cable TV Investment Sarl was 40%.

MACQUARIE BANK LIMITED

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
13. Trading portfolio liabilities			
Listed equity securities	8,815	14,258	3,782
Commonwealth government securities	789	1,243	1,881
Other government securities	241	352	769
Corporate securities	30	69	68
Total trading portfolio liabilities	9,875	15,922	6,500

14. Debt issued at amortised cost

Debt issued at amortised cost	55,304	51,365	42,317
Total debt issued at amortised cost	55,304	51,365	42,317

15. Other financial liabilities at fair value through profit or loss

Debt issued at fair value	698	1,229	1,257
Equity linked notes	5,046	4,323	4,428
Total other financial liabilities at fair value through profit or loss	5,744	5,552	5,685

Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:

Australian dollars	39,012	28,596	26,032
United States dollars	10,215	15,936	9,014
Euro	5,449	5,120	6,885
Great British pounds	1,846	3,467	2,677
Hong Kong dollars	1,462	1,592	1,759
Japanese yen	974	571	560
Canadian dollars	698	214	240
Turkish lira	663	638	-
Other currencies	729	783	835
Total by currency	61,048	56,917	48,002

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

MACQUARIE BANK LIMITED

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
16. Contributed equity			
Ordinary share capital			
Opening balance of 253,941,205 (Mar 2007: 249,683,249; Sep 2006: 232,440,369) fully paid ordinary shares	3,103	2,889	1,916
Issue of 10,606,061 ordinary shares on 22 May 2006 at \$66.00 per share (a)	-	-	696
Issue of 8,620,690 ordinary shares on 21 May 2007 at \$87.00 per share (b)	745	-	-
On-market purchase of 313,615 (Mar 2007: 7,136; Sep 2006:280,873) shares pursuant to the Macquarie Bank Staff Share Acquisition Plan ("MBSSAP") and Non-Executive Directors Share Acquisition Plan ("NEDSAP") at \$88.67 per share (Mar 2007: \$71.55; Sep 2006: \$67.85) per share	(28)	(1)	(19)
Allocation of 313,615 (Mar 2007: 7,136; Sep 2006:280,873) shares to employees pursuant to the MBSSAP and NEDSAP at \$88.67 (Mar 2007: \$71.55; Sep 2006: \$67.85) per share	28	1	19
Issue of 5,466,294 shares (Mar 2007: 2,561,390; Sep 2006: 4,975,546) shares on exercise of options	195	80	159
Issue of 137,947 shares on 23 June 2006 pursuant to the Share Purchase Plan at \$66.00 per share	-	-	9
Issue of 912,076 shares on 25 June 2007 pursuant to the Share Purchase Plan at \$87.00 per share	79	-	-
Issue of 21,632 shares on 12 January 2007 pursuant to the Employee Share Purchase Plan at \$76.82 per share	-	2	-
Issue of 1,523,326 shares on 5 July 2006 pursuant to the Dividend Reinvestment Plan ("DRP") at \$63.60 per share	-	-	97
Issue of 1,674,934 shares on 15 December 2006 pursuant to the DRP at \$70.23 per share	-	117	-
Issue of 2,146,392 shares on 4 July 2007 pursuant to the DRP at \$86.44 per share	185	-	-
Transfer from share based payments reserve for expensed options that have been exercised	29	15	12
Closing balance of 271,086,657 (March 2007: 253,941,205; Sep 2006: 249,683,249) fully paid ordinary shares	4,336	3,103	2,889
Treasury Shares	(10)	(7)	(2)
Macquarie Income Securities	391	391	391

(a) On 22 May 2006, the Bank issued 10,606,061 additional ordinary shares at \$66.00 per ordinary share via an institutional placement. These placement shares rank pari passu with existing ordinary shares except that they did not participate in the 2006 final dividend paid on 5 July 2006. The equity raised is net of placement fees of \$4 million.

(b) On 21 May 2007, the Bank issued 8,620,690 additional ordinary shares at \$87.00 per ordinary share via an institutional placement. These placement shares rank pari passu with existing ordinary shares except that they did not participate in the 2007 final dividend paid on 4 July 2007. The equity raised is net of placement fees of \$5 million.

MACQUARIE BANK LIMITED*and its controlled entities***Notes to the financial statements****30 September 2007**

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
17. Reserves, retained earnings and minority interest			
Reserves			
Foreign currency translation reserve			
Opening balance	1	10	4
Currency translation differences arising during the period, net of hedge	4	(9)	6
Total foreign currency translation reserve	5	1	10
Available for sale reserve			
Opening balance	228	132	151
Revaluation movement for the period, net of tax	92	119	56
Transfer to income statement for impairment	(22)	-	-
Transfer to profit on realisation	(7)	(23)	(75)
Total available for sale reserve	291	228	132
Share-based payments reserve			
Opening balance	144	107	84
Option expense for the period	62	52	35
Transfer to share capital on exercise of expensed options	(29)	(15)	(12)
Total share-based payments reserve	177	144	107
Cash flow hedging reserve			
Opening balance	10	(18)	2
Revaluation movement for the period, net of tax	21	28	(20)
Total cash flow hedging reserve	31	10	(18)
Share of reserves of interests in associates and joint ventures using the equity method			
Opening balance	(3)	34	9
Share of reserves during the period	12	(38)	26
Transfer to profit on realisation	-	1	(1)
Total share of reserves of interests in associates and joint ventures using the equity method	9	(3)	34
Total reserves	513	380	265
Retained earnings			
Balance at the beginning of the financial period	2,795	2,374	1,934
Profit attributable to equity holders of Macquarie Bank Limited	1,076	749	745
Distributions paid or provided on Macquarie Income Securities	(16)	(16)	(15)
Dividends paid on ordinary share capital (refer note 6)	(482)	(312)	(290)
Total retained earnings	3,373	2,795	2,374

MACQUARIE BANK LIMITED

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
17. Reserves, retained earnings and minority interest (continued)			
Minority interest			
Macquarie Income Preferred Securities*			
Proceeds on issue of Macquarie Income Preferred Securities	894	894	894
Issue costs	(10)	(10)	(10)
	884	884	884
Profit for the period	26	27	27
Distribution provided on Macquarie Income Preferred Securities	(26)	(27)	(27)
Foreign currency translation reserve	(86)	(43)	(15)
Total Macquarie Income Preferred Securities	798	841	869
Other minority interest			
Ordinary share capital	4	9	36
Preference share capital	6	6	6
Accumulated gains/(losses)	4	1	(27)
Total other minority interest	14	16	15
Total minority interests	812	857	884

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

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

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
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18. Notes to the cash flow statement

Reconciliation of cash

Cash at the end of the period as shown in the cash flow statement is reconciled to related items in the Balance Sheet as follows:

Cash and balances with central banks	3	3	9
Due from other financial institutions			
- due from banks*	6,871	5,540	4,076
- trading securities and debt securities available for sale**	3,612	2,783	2,503
Cash and cash equivalents at the end of the half year	10,486	8,326	6,588

Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities

Profit from ordinary activities after income tax	1,100	777	774
Adjustments to profit from ordinary activities			
Amounts provided during the period	47	41	14
Depreciation	51	40	41
Share of net profits of associates and joint ventures	(94)	(143)	(99)
Dividends received from associates	117	250	124
Share based payment expense	62	52	35
Changes in assets and liabilities			
(Increase)/decrease in dividends receivable	(39)	250	126
Decrease/(increase) in fees and commissions receivable	53	(27)	(39)
(Decrease)/increase in fees and commissions payable	(34)	32	9
Increase/(decrease) in tax liabilities	140	(35)	250
Increase in deferred tax assets	(230)	(245)	(140)
Increase/(decrease) in deferred tax liabilities	28	25	(104)
Increase in interest receivable	(36)	(77)	(148)
Increase in interest payable	25	45	274
Increase in employment provisions	18	4	16
Increase in loan assets granted	(5,241)	(3,713)	(7,854)
(Decrease)/increase in debtors, prepayments, accrued charges and creditors	(756)	791	(693)
Decrease/(increase) in financial instruments, foreign exchange and commodities	5,733	(7,654)	(1,949)
Increase in money market and other deposits	4,994	11,692	5,770
Decrease in life investment contract receivables	694	424	89
Net cash flows from operating activities	6,632	2,529	(3,504)

* Includes cash at bank, due from clearing houses and overnight cash at bank.

** Includes certificates of deposit, bank bills and other short-term cash securities.

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Notes to the financial statements

30 September 2007

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
19. Contingent liabilities and assets			
The following details of contingent liabilities and assets exclude derivatives.			
Contingent liabilities exist in respect of:			
Guarantees	206	321	241
Indemnities	78	25	56
Undrawn credit facilities	6,130	6,576	4,922
Undrawn credit facilities – revocable at any time	6,165	3,938	3,938
Other contingent liabilities (a)	588	1,139	924
Total contingent liabilities	13,167	11,999	10,081

(a) Other contingent liabilities include letters of credit, commitments certain of drawdown and performance related contingents. Also included are forward asset purchases whereby the economic entity has entered into conditional agreements to acquire assets and operating businesses with the intention of subsequent disposal. These assets and businesses will be recognised when control passes to the economic entity. The total commitment at 30 September 2007 was \$459 million (31 March 2007: \$1,115 million; 30 September 2006: \$812 million).

Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary, appropriate provisions have been made in the financial statements. The economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

Of the total contingent liabilities above, \$12.3 billion (31 March 2007: \$10.5 billion; 30 September 2006: \$8.9 billion) also represent contingent assets. Such commitments to provide credit may in the normal course convert to loans and other assets.

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Notes to the financial statements

30 September 2007

20. Acquisition and disposal of controlled entities

Entities acquired or consolidated due to change in control:

a) **OzForex Pty Limited**

On 15 June 2007, a subsidiary of the Bank acquired 51% of OzForex Pty Limited, a foreign exchange servicing entity.

b) **America's Water Heater Rentals**

On 21 June 2007, a subsidiary of the Bank acquired 100% of America's Water Heater Rentals, which owns and services rental water heaters.

c) **Greater Peterborough Health Investment Plan**

On 4 July 2007, a subsidiary of the Bank acquired a 70% interest in the Greater Peterborough Health Investment Plan project to develop healthcare facilities.

d) **Marine Services Holdings Limited**

On 19 July 2007, a subsidiary of the Bank acquired 100% of Express Offshore Transport, an offshore oil and gas platform transport service.

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

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
Fair value of net assets acquired			
Cash and other financial assets	23	-	105
Derivatives financial instruments – positive values	1	-	39
Intangible assets	29	-	14
Property, plant and equipment	7	-	8
Assets of disposal groups classified as held for sale	231	79	1,108
Payables, provisions and borrowings	(31)	-	(135)
Liabilities of disposal groups classified as held for sale	(6)	(53)	(621)
Minority interest	(4)	-	-
Total fair value of net assets acquired	250	26	518
Purchase consideration			
Cash consideration	250	26	518
Total purchase consideration	250	26	518
Reconciliation of cash movement			
Cash consideration	(250)	(26)	(518)
Less cash acquired	18	3	7
Total cash outflow	(232)	(23)	(511)

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

There are no significant differences between the fair value of net assets acquired and the acquiree's carrying value of net assets other than the goodwill and other intangible assets noted above.

The 30 September 2006 comparatives relate to the acquisition of Macquarie Small Cap Roads, East London Bus Group Holdings Limited, Cervus Financial Corp and Corona Energy Holdings Limited.

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Notes to the financial statements

30 September 2007

20. Acquisition and disposal of controlled entities (continued)

Entities disposed of or deconsolidated due to change in control:

The following entities were disposed of, or deconsolidated, during the period:

- a) **ATM Solutions Australasia Pty Limited**
On 16 April 2007, a subsidiary of the Bank sold 100% of its investment in ATM Solutions Australasia Pty Limited.
- b) **Greater Peterborough Health Investment Plan**
On 30 August 2007, a subsidiary of the Bank deconsolidated 100% of its interest in the Greater Peterborough Health Investment Plan project.
- c) **Macquarie IMM Investment Management Co Limited**
On 28 September 2007, a subsidiary of the Bank sold 100% of its interest in Macquarie IMM Investment Management Co Limited.

Aggregate details of the disposals and deconsolidations are as follows:

	As at 30 Sep 2007 \$m	As at 31 Mar 2007 \$m	As at 30 Sep 2006 \$m
Carrying value of assets and liabilities disposed of or deconsolidated			
Cash and other financial assets	33	2	-
Assets of disposal groups classified as held for sale	1,112	3,015	-
Fixed assets	-	1	-
Intangible assets	-	21	-
Liabilities of disposal groups classified as held for sale	(1,067)	(2,361)	-
Payables, provisions and borrowings	(8)	(1)	-
Minority interests	(9)	-	-
Total carrying value of assets and liabilities disposed of or deconsolidated	61	677	-
Reconciliation of cash movement			
Cash received	268	1,125	-
Less investment retained	-	(61)	-
Less cash deconsolidated	(35)	(163)	-
Total cash inflow	233	901	-

The 31 March 2007 comparatives relate to the disposal of Macquarie Small Caps Roads, Smarte Carte Corporation, East London Bus Group Holdings Limited, The Steam Packet Group Limited, Access Health Abbotsford Limited and Access Health Vancouver Limited and Forward Steps Holdings Limited.

MACQUARIE BANK LIMITED

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Notes to the financial statements

30 September 2007

21. Events occurring after reporting date

On 13 November 2007, the Macquarie Group will restructure into a non-operating holding company structure. This follows receipt of the requisite approvals by Macquarie Bank Limited ('MBL') shareholders and optionholders, as well as the Federal Treasurer, Australian Prudential Regulation Authority and the Federal Court of Australia. This restructure results in a new listed non-operating holding company, named Macquarie Group Limited ('MGL') being established as the ultimate parent of the Macquarie Group. The Macquarie Group will comprise two separate sub-groups, a Banking Group and a Non-Banking Group.

Under the restructure, following MBL becoming a controlled entity of MGL, MBL will sell certain Non-Banking Group controlled entities to MGL for fair value at the restructure date. The bulk of the profits on sale of these controlled entities will be distributed by MBL via dividends to MGL. MBL has also obtained shareholder approval to reduce its capital by \$3.0 billion. The funds received by MGL from these transactions will be contributed to the capital base of the Non-Banking Group and help finance the acquisition of the assets from MBL by the Non-Banking Group. MBL will also pay a dividend to MGL of \$2.25 billion and MGL will simultaneously subscribe the same amount to MBL as a capital injection. These transactions are expected to occur on 16 November 2007. Subsequently, a new holding company (Macquarie B.H. Pty Limited) will be introduced between MGL and MBL on or about 19 November 2007. All of these transactions will be internal to the Macquarie group of companies and will not impact incoming MGL ordinary shareholders.

Ordinary shareholders and optionholders of MBL will hold one MGL ordinary share/option for each ordinary share/option they held in MBL prior to implementation of the restructure.

The restructure will be accounted for as a reverse acquisition in MGL's 31 March 2008 consolidated financial statements, with MBL identified as the acquirer in accordance with AASB 3 Business Combinations. MGL's consolidated financial statements will be presented as a continuation of the Macquarie Group.

MACQUARIE BANK LIMITED

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DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 33 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the economic entity's financial position as at 30 September 2007 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
- (b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

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



David Clarke
Non-Executive Chairman



Allan Moss
Managing Director and
Chief Executive Officer

Sydney
12 November 2007

INDEPENDENT AUDITOR'S REVIEW REPORT
to the members of Macquarie Bank Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Macquarie Bank Limited, which comprises the balance sheet as at 30 September 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Macquarie Bank Limited Group (the consolidated entity). The consolidated entity comprises both Macquarie Bank Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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* including: giving a true and fair view of the consolidated entity's financial position as at 30 September 2007 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*. 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Macquarie Bank Limited (the Company) for the half-year ended 30 September 2007 included on Macquarie Bank Limited's web site. The company's directors are responsible for the integrity of the Macquarie Bank Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

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* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ian Hammond

Ian Hammond
Partner

Sydney
12 November 2007

MACQUARIE BANK LIMITED

and its controlled entities

TEN YEAR HISTORY

With the exception of 31 March 2005, the financial information presented below has been based on the Australian standards adopted at each reporting date. The financial information for the full year ended 31 March 2007 and half year ended 30 September 2007 is based on the reported results using the Australian Standards that are equivalent to International Financial Reporting Standards and their related pronouncements.

	Years ended 31 March									First half
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Income statement (\$ million)										
Total income from ordinary activities	904	1,337	1,649	1,822	2,155	2,823	4,197	4,832	7,181	4,710
Total expenses from ordinary activities	(686)	(1,036)	(1,324)	(1,467)	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(3,337)
Operating profit before income tax	218	301	325	355	460	685	1,158	1,287	1,928	1,373
Income tax expense	(53)	(79)	(53)	(76)	(96)	(161)	(288)	(290)	(377)	(273)
Profit for the period	165	222	272	279	364	524	870	997	1,551	1,100
Macquarie Income Preferred Securities distributions	-	-	-	-	-	-	(28)	(51)	(54)	(26)
Other minority interests	-	-	1	-	(3)	(3)	(1)	(1)	(3)	2
Macquarie Income Securities distributions	-	(12)	(31)	(29)	(28)	(27)	(29)	(29)	(31)	(16)
Profit attributable to ordinary equity holders	165	210	242	250	333	494	812	916	1,463	1,060
Balance sheet (\$ million)										
Total assets	9,456	23,389	27,848	30,234	32,462	43,771	67,980	106,211	136,389	152,458
Total liabilities	8,805	22,154	26,510	27,817	29,877	40,938	63,555	100,874	128,870	143,043
Net assets	651	1,235	1,338	2,417	2,585	2,833	4,425	5,337	7,519	9,415
Risk-weighted assets	4,987	8,511	9,860	10,651	10,030	13,361	19,771	28,751	39,386	42,599
Total loan assets	4,002	6,518	7,785	9,209	9,839	10,777	28,425	34,999	45,796	49,911
Impaired assets (net of provisions)	44	23	31	49	16	61	42	85	88	146
Share information (a)										
Cash dividends per share (cents per share)										
Interim	30	34	41	41	41	52	61	90	125	145
Final	38	52	52	52	52	70	100	125	190	n/a
Special	-	-	-	-	50	-	40	-	-	-
Total	68	86	93	93	143	122	201	215	315	145
Basic earnings per share (cents per share)	101.3	124.3	138.9	132.8	164.8	233.0	369.6	400.3	591.6	401.8
Share price at period end (\$) (a)	19.10	26.40	27.63	33.26	24.70	35.80	48.03	64.68	82.75	84.40
Ordinary share capital (million shares) (b)	161.1	171.2	175.9	198.5	204.5	215.9	223.7	232.4	253.9	271.1
Market capitalisation at period end										
(fully paid ordinary shares) (\$ million)	3,077	4,520	4,860	6,602	5,051	7,729	10,744	15,032	21,010	22,881
Ratios										
Return on average ordinary shareholders' funds	26.8%	28.1%	27.1%	18.7%	18.0%	22.3%	29.8%	26.0%	28.1%	30.2%
Payout ratio	67.2%	70.0%	67.5%	73.6%	87.4% ^(c)	53.2%	53.2%	54.4%	54.3%	37.1%
Tier 1 ratio	13.0%	14.5%	12.9%	17.8%	19.0%	16.2%	14.4%	12.4%	15.0%	17.6%
Capital adequacy ratio	17.3%	18.4%	16.0%	19.4%	21.4%	19.9%	21.2%	14.1%	15.5%	17.9%
Expense/income ratio	75.9%	77.5%	80.3%	80.5%	78.7%	75.7%	72.4%	73.4%	73.2%	70.8%
Impaired assets as % of loan assets (excluding securitisation SPVs and segregated futures funds)	1.1%	0.3%	0.4%	0.5%	0.2%	0.6%	0.3%	0.5%	0.4%	0.6%
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.1%	0.1%	0.1%	0.2%	0.0%	0.3%	0.2%	0.2%	0.1%	0.0%
Assets under management (\$ billion) (d)	22.8	26.3	30.9	41.3	52.3	62.6	96.7	140.3	197.2	224.1
Staff numbers (e)	3,119	4,070	4,467	4,726	4,839	5,716	6,556	8,183	10,023	11,066

(a) The Bank's ordinary shares were quoted on the Australian Stock Exchange on 29 July 1996.

(b) Number of fully paid ordinary shares at end of period, excluding options and partly paid shares.

(c) The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the payout ratio would have been 56.8%.

(d) The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.

(e) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

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