MACQUARIE BANK
2012 ANNUAL REPORT

MACQUARIE
BANK

MACQUARIE BANK LIMITED ACN 008 583 542

Macquarie Bank Limited is a subsidiary of Macquarie Group Limited ACN 122 169 279 and is regulated by the Australian Prudential Regulation Authority (APRA) as an Authorised Deposit-taking Institution (ADI). Macquarie Group Limited is regulated by APRA as a non-operating holding company of an ADI.

2012 Annual General Meeting
Macquarie Bank's 2012 Annual General Meeting will be held on Wednesday 25 July 2012 in the Macquarie Auditorium, Level 3, No.1 Martin Place, Sydney NSW after the Macquarie Group Limited Annual General Meeting, but not earlier than 2:00pm.

Details of the business of the meeting will be contained in the Notice of Annual General Meeting, to be sent to security holders separately.

The Holey Dollar
In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie.

Macquarie Bank Limited
2012 Annual Report

Directors' Report

for the financial year ended 31 March 2012

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL, Macquarie Bank, Company), the Directors submit herewith the income statements and statements of cash flows for the year ended 31 March 2012 and the statements of financial position as at 31 March 2012 of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial year ended on that date and report as follows:

Directors

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

Independent Directors

H.K. McCann, AM, Chairman
D.J. Grady, AM[1]
M.J. Hawker, AM
P.M. Kirby
C.B. Livingstone, AO
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

Executive Directors

G.C. Ward, Managing Director and Chief Executive Officer[2]
N.W. Moore

Other than Ms Grady and Mr Ward, the Voting Directors listed above each held office as a Director of Macquarie Bank throughout the financial year ended 31 March 2012. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr W.R. Sheppard was the Managing Director and Chief Executive Officer of Macquarie Bank from the beginning of the financial year until his resignation which was effective on 20 December 2011.

Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out in Schedule 1 at the end of this report.

[1] Ms Grady joined the Board on 19 May 2011.
[2] Mr Ward joined the Board on 20 December 2011.

Meeting Attendance

Directors' meetings

The number of meetings of the Board of Directors (the Board) and meetings of Committees of the Board, and the number of meetings attended by each of the Directors of Macquarie during the financial year is summarised in the tables below:

Board meetings

	Monthly Board meetings (11)		Special Board meetings (1)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	11	11	1	1
G.C. Ward[1]	3	3	–	–
N.W. Moore	11	11	1	1
D.J. Grady[2]	10	10	1	1
M.J. Hawker	11	11	1	1
P.M. Kirby	11	11	1	1
C.B. Livingstone	11	11	1	1
J.R. Niland	11	11	1	1
H. M. Nugent	11	11	1	1
W.R. Sheppard[3]	8	8	1	1
P.H. Warne	11	11	1	1

Board Committee meetings

	Board Audit Committee meetings (8)[a]	
	Eligible to attend as a member	Attended
H.K. McCann[4]	1	1
M.J. Hawker[5]	7	7
P.M. Kirby	8	8
C.B. Livingstone	8	8
P.H. Warne	8	8

a The Macquarie Board Audit Committee (BAC) is a joint committee of Macquarie Group Limited (Macquarie) and Macquarie Bank. The Macquarie BAC assists the Boards of Voting Directors of Macquarie and Macquarie Bank in fulfilling the responsibility for oversight of the quality and integrity of the accounting and financial reporting practices of Macquarie Group.

There were two Board Sub-Committee meetings. The first meeting was attended by all of its members, being Mr McCann, Mr Ward, Mr Moore, Mr Sheppard and Mr Warne. The second meeting was attended by all of its members, being Mr McCann, Mr Moore, Ms Livingstone, Mr Sheppard and Mr Ward. The Chairman generally attends all meetings of the Board Audit Committee even though not a member of that committee. All Board members are sent BAC meeting agendas and may attend any BAC meeting.

1 Mr Ward was appointed to the Board as an Executive Voting Director effective on 20 December 2011.
2 Ms Grady was appointed to the Board as an Independent Voting Director effective on 19 May 2011.
3 Mr Sheppard ceased to be an Executive Voting Director on 20 December 2011.
4 Mr McCann ceased to be a member of the Board Audit Committee effective 1 June 2011.
5 Mr Hawker joined the Board Audit Committee on 1 June 2011.

Directors' Report
for the financial year ended 31 March 2012
continued

Principal activities

The principal activity of the Consolidated Entity during the financial year ended 31 March 2012 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). In the opinion of the Voting Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2012 and 31 March 2011, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2012 was $A609 million (2011: $A803 million).

Dividends and distributions

MBL paid dividends and paid or provided distributions during the financial year as set out in the table below:

Security	Payment date	Payment type	$A	In respect of financial year ended/period	
Ordinary shares	4 July 2011	Final Dividend	296,800,000	31 March 2011	Paid
	14 December 2011	Interim Dividend	194,000,000	31 March 2012	Paid
Macquarie Income Securities[1]	15 April 2011	Periodic	6,578,630	15 January 2011 to 14 April 2011	Paid
	15 July 2011	Periodic	6,601,863	15 April 2011 to 14 July 2011	Paid
	17 October 2011	Periodic	6,755,068	15 July 2011 to 14 October 2011	Paid
	16 January 2012	Periodic	6,513,095	15 October 2011 to 14 January 2012	Paid
	16 April 2012	Periodic	5,138,958	15 January 2012 to 31 March 2012	Provided
Macquarie Income Preferred Securities[2]	15 April 2011	Periodic	2,084,601	16 October 2010 to 15 April 2011	Paid
	17 October 2011	Periodic	2,014,320	16 April 2011 to 17 October 2011	Paid
	16 April 2012	Periodic	1,816,453	18 October 2011 to 31 March 2012	Provided

[1] Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in Macquarie Bank. The MIS are quoted on the Australian Securities Exchange (ASX). The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see notes 30 and 31 to the financial report for further information on the MIS and MIS distributions.

[2] Macquarie Income Preferred Securities (MIPS) are limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, which are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) which are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see notes 30 and 31 to the financial report for further information on the MIPS and MIPS distributions.

No other dividends or distributions were declared or paid during the financial year.

State of affairs

There were no other significant changes in the state of the affairs of the Consolidated Entity that occurred during the financial year under review not otherwise disclosed in this report.

Review of operations and financial result

Consolidated net profit after income tax attributable to ordinary equity holders of $A609 million for the year ended 31 March 2012 decreased 24 per cent from $A803 million in the prior year. Challenging global market conditions, especially during the first half of the year, resulted in lower net operating income compared with the prior year. The impact was partially offset through lower operating expenses resulting from cost management initiatives and lower staff profit share expense due to reduced earnings. The stronger Australian dollar in the current year compared to the prior year adversely impacted net earnings.

The second half of the year saw improved market conditions for predominantly Fixed Income, Currencies and Commodities, which made a strong contribution during the period and was a key driver in the 91 per cent increase in profit attributable to ordinary equity holders of $A400 million from $A209 million in the prior period.

Net operating income of $A4,711 million for the year ended 31 March 2012 decreased 6 per cent from $A5,031 million in the prior year. The main drivers of this change were:

— a 23 per cent decrease in net trading income to $A999 million for the year ended 31 March 2012 from $A1,300 million in the prior year largely driven by continued weak product demand for retail and structured products on derivatives revenues. In the first half of the year extreme volatility in credit and financial markets, compounded by concerns over global growth, resulted in a decrease in trading income from interest rate products. The second half saw improved market conditions across the markets in which Fixed Income, Currencies and Commodities operates, which resulted in a significant increase in trading income in the half-year ended 31 March 2012 compared to the first half of the year; and

— a 42 per cent increase in other operating income to $A728 million for the year ended 31 March 2012 from $A513 million in the prior year, primarily due to gains on sale of non-financial assets. This was due to an increase in net operating lease income largely attributable to the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation (ILFC), the full year impact of the acquisition of the remaining 62.5 per cent of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, in November 2010, and the acquisition of OnStream UK, a utility metering services business, in October 2011. Partially offsetting these were increased impairment charges.

Total operating expenses of $A3,828 million for the year ended 31 March 2012 decreased 2 per cent from $A3,926 million in the prior year. The impact of the stronger Australian Dollar, reduced headcount and lower staff profit share expense due to lower earnings, were partially offset by increased costs associated with targeted growth in certain businesses and the costs of scaling back or exiting certain businesses.

Income tax expense for the year ended 31 March 2012 of $A243 million decreased 11 per cent from $A272 million in the prior year. The effective tax rate for the year ended 31 March 2012 was 28 per cent, up from 25 per cent in the prior year, largely due to changes in the mix and location of income.

Review of financial position

The Consolidated Entity’s liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained.

The Consolidated Entity’s capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence.

Macquarie Bank is subject to minimum capital requirements required by APRA. Macquarie Bank has received APRA accreditation to adopt Foundation Internal Ratings Based Approach for the calculation of credit risk capital and the Advanced Measurement Approach for operational risk, under the Basel II regulatory capital framework. In addition, Macquarie Bank received APRA accreditation to use an internal model to calculate Interest Rate Risk in the Banking Book.

The Consolidated Entity’s liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained.

The Consolidated Entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

Macquarie Bank is subject to minimum capital requirements required by APRA. Macquarie Bank has received APRA accreditation to adopt Foundation Internal Ratings Based Approach for the calculation of credit risk capital and the Advanced Measurement Approach for operational risk, under the Basel II regulatory capital framework. In addition, Macquarie Bank received APRA accreditation to use an internal model to calculate market risk and interest rate risk in the banking book.

The Consolidated Entity is well capitalised, and as at 31 March 2012, it had a Tier 1 capital ratio of 13.8% and a total capital ratio of 16.6%. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8%, with at least 4% of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the year.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2012 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

While volatility makes forecasting difficult, it is currently expected that the result for Macquarie Bank for the year ending 31 March 2013 will be an improvement on the prior year provided market conditions for FY2013 are not worse than those experienced over the past 12 months. However, the final result will be dependent on market conditions, particularly for the capital market facing businesses which continue to experience volatility. The full year 2013 result also remains subject to a range of other challenges including the cost of a continued conservative approach to funding and capital; regulation, including the potential for regulatory changes; increased competition in some markets and the overall cost of funding.

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
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Introduction

Macquarie Bank Limited (Macquarie Bank) is a wholly owned subsidiary of Macquarie Group Limited (Macquarie). Whilst subject to the remuneration framework determined by Macquarie, Macquarie Bank Limited's Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this Remuneration Report, for consistency, references are made to Macquarie's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

Macquarie's remuneration system, which has progressively evolved over time, has been designed to balance risk and return. This is reflected in Macquarie's overarching objective which seeks to align the interests of staff with those of shareholders so as to generate superior returns over time, while having due regard to risk.

However, an increasingly intense ongoing dialogue is occurring among governments, regulators and shareholders about whether risk and return is appropriately balanced. In the financial services sector, regulators and their governments want to protect depositors' funds and ensure the stability of the financial system. Shareholders share this concern, but also expect a return on their capital appropriate to the risk involved. In other words, there is an elevated recognition among governments, regulators and shareholders of the need to balance risk and return.

At the same time, Macquarie's remuneration approach must be able flexibly to respond to difficult market conditions, while recognising differential performance among and within business groups.

Throughout the year, Macquarie Group Limited's Board of Directors (the Board) and the Board Remuneration Committee (BRC) have actively assessed whether the design of its remuneration system has the inbuilt resilience to respond to the challenges posed by governments, regulators, shareholders and market forces.

The conclusion reached is that, subject to further incremental change, the existing remuneration approach has demonstrated resilience in dealing with external pressures while allowing for the motivation and retention of key staff. To that end, this report will demonstrate that:

1. Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders.
2. With only incremental change, Macquarie's remuneration approach has allowed it to meet the expectations of governments, regulators and shareholders, as well as dealing with market pressures.
3. In a difficult year, Macquarie's creditable performance has been supported by the remuneration approach, allowing it also to motivate and retain key staff.

Each of these matters is discussed in turn.

This Remuneration Report has been prepared in accordance with the *Corporations Act 2001 (Cth)* (the Act). The Report contains disclosures as required by Accounting Standard AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03.

Financial information is used extensively in this Report. Some long-term trend information is presented, although accounting standards and practices have changed over time. In particular, throughout this Report:

— financial information for Macquarie or Macquarie Bank relating to the years ended 31 March 2008 through to 31 March 2012 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial information has also been prepared in accordance with and complies with IFRS as issued by the IASB.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

1 Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders

1.1 Macquarie's remuneration framework remains the same overall

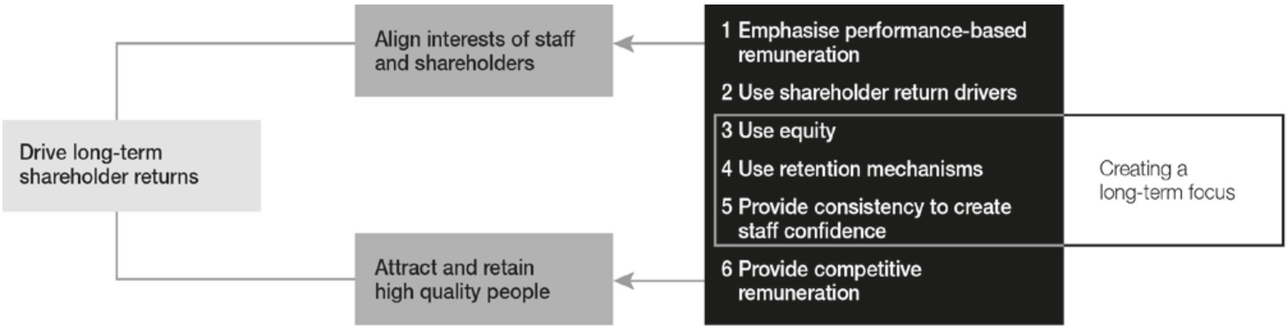
The overarching objective of Macquarie's remuneration framework is to achieve superior shareholder returns over the long term, while managing risk in a prudent fashion. This is delivered through two key drivers. The first is to attract, motivate and retain high quality people by offering a competitive performance-driven remuneration package that seeks to manage risk and return. The second key driver is to use remuneration to align the interests of staff and shareholders by motivating staff through its remuneration policies to increase Macquarie's NPAT and sustain a high relative ROE while managing risk.

The principles that underpin Macquarie's remuneration framework are unchanged:

— emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk
— linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
— using equity to create alignment with shareholder interests
— designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders
— using consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded
— ensuring arrangements are competitive on a global basis with Macquarie's international peers.

The following diagram summarises Macquarie's remuneration framework and shows how the remuneration arrangements reflect the underlying principles:

Key elements of the remuneration framework



1.2 Risk is incorporated into the remuneration process

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Such alignment occurs at Group, business and individual levels, according to an approach and set of principles which are overlaid with the exercise of judgement.

Group

— The size of the overall profit share pool is determined annually with reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool.

Business

— The profit share pool is allocated to businesses based on performance, primarily, but not exclusively, reflecting relative contributions to profit (not revenue) while taking into account economic and prudential capital usage.
— When assessing the performance of businesses, Management and the BRC look at a range of factors, including risk management, governance and compliance, the relationship between profitability and risk (as measured by economic capital usage by business), losses by divisions and by risk type and the contingent risks associated with large transactions concluded during the current financial year.

Individual

- Profit share is allocated to individuals based on performance. Performance criteria vary according to an individual's role.
- When assessing the performance of individuals, Management and the BRC look at a range of factors, including capital usage (of the individual's division), information on significant losses and compliance breaches at an individual level, governance, people leadership, and upholding Macquarie's *Goals and Values*.
- More specifically, in the case of the Managing Director and CEOs of the Group and the Bank, the Non-Executive Directors take into account financial performance measures, performance against peers, business performance and platform growth, cost management initiatives, other strategic initiatives, prudential, risk and compliance management, staff and human resources indicators, reputation management and community and social responsibility matters.
- In relation to the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) and other risk and financial control staff, the Board of Directors seeks to ensure that the remuneration system and outcomes maintain the independence of the function and Macquarie's robust risk management framework.

In making an assessment as to whether to exercise judgement in relation to the allocation of remuneration at a Group, business or individual level, the Non-Executive Directors of the Board take into consideration the short and long-term interests of shareholders, risk considerations, the employment environment, and the need to retain staff in difficult market conditions. In making such decisions, the BRC is assisted by reports it receives from the CRO and CFO. The Global Head of Human Resources (HR) reports to the BRC on the link between risk outcomes (as reported by the CRO) and individual remuneration recommendations. The BRC uses this information when considering the profit share allocated to individual businesses and to the individuals that it considers.

The Non-Executive Directors of the Board have exercised their discretion this year to increase the size of the pool (in other years discretion has been exercised both up and down). Such funds have been used to allocate a level of profit share to businesses experiencing difficult market conditions, and to provide an allocation to some individuals within businesses experiencing such conditions. The outcome is a highly differentiated distribution of profit share across and within businesses. The Non-Executive Directors take the view that such an approach is in shareholders' long-term interest, allowing Macquarie to reward specific contributions made within businesses and to retain key staff in some areas facing extreme market pressures. Notwithstanding these exceptions, Macquarie nonetheless remains committed to its overall approach of pay for performance.

In addition, remuneration is structured and delivered in such a way that ensures there is alignment with risk in the following ways:

- a significant portion of profit share is retained and deferred over a long period
- a significant portion of performance-based remuneration is delivered in equity, aligning the interests of staff and shareholders
- from 2012, the Board has discretion to apply Malus[1]
- a departing executive's unvested profit share is forfeited except where it is a genuine retirement, redundancy or another limited exceptional circumstance and is forfeited if certain events occur over a two year period
- one of the performance hurdles for Performance Share Units (PSUs) is linked to ROE, which takes into account the use of capital.

1.3 Macquarie's remuneration system is structured to balance risk and return

This section provides a more comprehensive overview of Macquarie's remuneration arrangements and demonstrates the balance between risk and reward. Macquarie adopts a tailored approach to ensure that retention levels and equity-based remuneration is appropriate given the role of the individual and their ability to influence results.

[1] Malus is an ex-poste risk adjustment to deferred unvested remuneration (as explained in Section 1.3.3).

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

1.3.1 Key features of the remuneration system

Key area	Executive Committee[1] and Designated Executive Directors	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	A minimum of 50 per cent up to a maximum of 70 per cent (70 per cent for the Macquarie Group Managing Director and CEO, 50 per cent for the Macquarie Bank Managing Director and CEO)	A minimum of 40 per cent up to a maximum of 70 per cent	A minimum of 25 per cent up to a maximum of 70 per cent dependent on certain thresholds
How retained profit share is invested **(Refer 1.3.2)**	Invested in a combination of Macquarie shares and notionally invested in Macquarie-managed fund equity Investment mix will vary depending on an individual's role	Invested in a combination of Macquarie shares and notionally invested in Macquarie managed fund equity Investment mix will vary depending on an individual's role	Invested in Macquarie shares[2]
Vesting and release of retained profit share	All retained amounts vest and are released from three to seven years after the year retained (see also forfeiture below)	All retained amounts vest and are released from three to five years after the year retained (see also forfeiture below)	All retained amounts vest and are released from two to four years after the year retained
Forfeiture of retained profit share whilst employed **(Refer 1.3.3)**	Board discretion to apply Malus in certain circumstances	Board discretion to apply Malus to certain Directors, as identified by the BRC	Board discretion to apply Malus to certain staff, as identified by the BRC
Forfeiture of retained profit share on leaving **(Refer 1.3.4-1.3.5)**	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances
PSUs **(Refer 1.3.6)**	Granted to Executive Committee members only, which will vest after years three and four subject to achievement of performance hurdles	n/a	n/a
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last 10 years (five years for Designated Executive Directors) in Macquarie shares (which can be satisfied by the requirements of the profit share retention policy)	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last five years in Macquarie shares (which can be satisfied by the requirements of the profit share retention policy)	n/a

[1] Includes both the Managing Director and CEO of Macquarie Group and the Managing Director and CEO of Macquarie Bank.

[2] Invested in a combination of Macquarie shares and Macquarie-managed fund equity for a select group of Directors whose primary role relates to the management of the fund's business.

Additional detail is set out in the following sections in regard to certain remuneration arrangements as referenced above.

1.3.2 *Investment of retained profit share*

Executive Director retained profit share is invested in a combination of Macquarie shares under the Macquarie Group Employee Retained Equity Plan (MEREP)[1], and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan[2].

For most other staff, retained profit share is invested in Macquarie shares under the MEREP. The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the staff member's role:

Role	Post-2009 DPS Plan (notional investment in Macquarie-managed fund equity)	MEREP (Macquarie shares)
Macquarie Group Managing Director and CEO, Macquarie Bank Managing Director and CEO, CRO and General Counsel	20%	80%
Group Head, Macquarie Funds Group	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Fund responsibilities	Minimum of 50% to a maximum of 75% depending on role	Minimum of 25% to a maximum of 50% depending on role
Other Executive Directors	10%	90%
Staff other than Executive Directors[3]	Nil	100%

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements.

The Board or the BRC has discretion to review the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities and to strengthen shareholder alignment and risk management for Macquarie and the Macquarie-managed funds.

In limited circumstances, and only with the approval of the BRC, the allocation of retained profit share may be in other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

[1] The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, due to different tax rules for employee equity and different securities laws, equity grants will be in the form of:
1. shares held by the staff member subject to restrictions (Restricted Shares). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules.
2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised.

[2] The Post-2009 DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

[3] Invested in a combination of Macquarie shares and Macquarie-managed fund equity for a select group of Directors whose primary role relates to the management of the funds business.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

1.3.3 Forfeiture of retained unvested profit share whilst employed – Malus

From 2012, the Board has discretion to reduce or eliminate unvested profit share amounts (Malus) where it determines that an Employee's action or inaction has caused Macquarie significant reputational harm, caused a significant unexpected financial loss or caused it to make a material financial restatement.

For the purposes of Malus, 'Employee' includes Executive Committee and Designated Executive Directors or such other Directors as the BRC identifies from time to time as being material risk takers, Code Staff under the FSA Remuneration Code and senior risk and financial control staff, as identified by the BRC.

A significant unexpected financial loss is defined as an impairment charge or provision or other loss as determined by the BRC, over and above the ordinary course of business, directly attributable to the relevant employee, having regard to factors such as Return on Economic Capital or profitability as determined by the BRC.

In considering whether to exercise discretion to reduce or eliminate an Employee's unvested profit share, the Board will take the following matters, events or circumstances into account:

— the quantum of the actual loss or damage and any impact on Macquarie's financial soundness
— whether there has been a breach of internal risk management requirements and/or regulatory or legal requirements and if so, the extent of the breach
— whether Macquarie's directions, policies, protocols, practices and/or guidelines have been breached
— whether the individual has exhibited recklessness or wilful indifference
— whether any known information at the time of the action or inaction was deliberately withheld
— the individual's level of responsibility/accountability for the action or inaction.

Macquarie has always had, and continues to have, the ability to terminate staff for such circumstances, at which time any unvested profit share would have been forfeited in full.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations, including for FSA Code Staff under the FSA Code.

1.3.4 Early vesting and release of retained profit share

As approved by shareholders in December 2009, the Board, the BRC or the Executive Committee under delegation from the BRC has discretion to accelerate the vesting of retained profit share and/or reduce the retention period, including where an Executive Director's employment ends on the grounds of genuine retirement or redundancy (subject to the disqualifying events provisions).

In considering whether discretion should be exercised in a particular case of genuine retirement, factors including, but not limited to, the following matters, events or circumstances may be taken into account:

— whether the Executive Director demonstrates that he/she is genuinely retiring from the industries within which Macquarie operates and competes
— whether the Executive Director is likely to work at any time in the future within the industries within which Macquarie operates and competes
— whether the Executive Director is likely to work full-time in any capacity, including directorships or consultancy
— whether the Executive Director has facilitated an appropriate succession strategy
— the Executive Director's length of service with Macquarie reflecting a sustained contribution and commitment to Macquarie, with an expectation of at least 10 years of service as an Executive Director.

If an Executive Director dies or becomes wholly and permanently unable to work while employed by Macquarie, 100 per cent of their retained profit share will vest and (subject to the disqualifying event provisions) be released to the Executive Director or, in the case of death or incapacity, to the Executive Director's legal personal representative.

In certain other limited exceptional circumstances, discretion may be exercised to accelerate the vesting of retained profit share and reduce the retention period on the grounds of business efficacy. If the discretion is exercised, all relevant factors will be considered on a case by case basis and will include consideration as to whether exercise of the discretion is in the best interests of Macquarie.

In all cases where discretion is exercised, the Board, the BRC or the Executive Committee under delegation from the BRC may impose such other conditions as it considers appropriate.

Under the current remuneration arrangements, in the year to 31 March 2012, discretion has been exercised in relation to two executives for the following reasons:

— ill health
— business efficacy.

1.3.5 Disqualifying events

On leaving Macquarie, an Executive Director will not be entitled to receive any of their unvested Transitioned Amounts[1] or retained profit share from 2009 and future years if the Board, the BRC or the Executive Committee under delegation from the BRC, determines, in its absolute discretion, that the Executive Director has during the period of employment with Macquarie or since leaving:

(a) committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)

(b) committed a significant and wilful breach of duty that causes material damage to Macquarie

(c) joined a competitor of Macquarie Group

(d) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or

(e) otherwise acted, or failed to act, in a way that damages Macquarie, including but not limited to situations, where the action or inaction leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

If an Executive Director leaves Macquarie and the discretion to release unvested retained amounts is exercised as described in section 1.3.4 'Early vesting and release of retained profit share', the release will occur over the period from six months to two years after the Executive Director leaves. Different disqualifying event provisions will apply at the six month, one year and two year timeframes as follows:

— retained profit share from all but the last two years – released on the expiry of six months following the end of employment (the 'First Period') provided the Executive Committee has determined that none of the disqualifying events (a), (b), (c), (d) and (e) set out above occurred during the First Period

— retained profit share from the second year prior to the end of employment – released on the expiry of a further six months following the end of the First Period (the 'Second Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period and disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period

— retained profit share from the year prior to the end of employment – released on the expiry of a further 12 months following the end of the Second Period (the 'Third Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period, disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period and disqualifying events (a), (b) and (e) set out above have not occurred during the Third Period.

[1] Under the remuneration arrangements approved by shareholders in December 2009, Executive Directors were given the choice of leaving their pre-2009 retained profit share in the pre-2009 DPS Plan, or moving some of these amounts into the new arrangements (Transitioned Amounts).

1.3.6 Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs. Since their introduction, PSUs have been structured as DSUs with performance hurdles. Holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Unlike options, there is no exercise price for PSUs.

Determination and allocation of the PSUs

The Board approves the number of PSUs to be allocated to Executive Committee members each year as part of the annual remuneration review process. This determination has regard to Macquarie's overall performance, the extent to which the Executive Committee members have fulfilled their roles, and the long-term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance based. The allocation of PSUs to the Managing Director and CEO of Macquarie Group, who is an Executive Voting Director, is subject to shareholder approval at the Annual General Meeting of Macquarie Group.

Vesting schedule

In the past, PSUs have vested in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. For grants in respect of the 2012 performance year, PSUs will vest in two equal tranches after years three and four.

As a general rule, unvested PSUs will lapse on termination. However, the Board or the BRC has the authority to accelerate the vesting of PSUs. The Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion. To date, the discretion to accelerate vesting has not been exercised.

Performance hurdles

PSUs issued under the MEREP are released, or become exercisable, upon the achievement of certain performance hurdles. There are two performance hurdles and each applies individually to 50 per cent of the total number of PSUs awarded.

The BRC periodically reviews the performance hurdles, including the reference group, and has discretion to change the performance hurdles in line with regulatory and remuneration trends. No change has been made to the performance hurdles for the past year. The section below describes these hurdles and their rationale.

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for the financial year ended 31 March 2012
continued

Description of performance hurdles

Hurdle 1: 50 per cent of the PSUs, based solely on the relative average annual ROE of Macquarie Group over the vesting period compared to a reference group of domestic and international financial institutions. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the award would become exercisable.

The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group comprises ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

Hurdle 2: 50 per cent of the PSUs, based solely on compound annual growth rate (CAGR) in EPS of Macquarie Group over the vesting period. A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9 per cent and 100 per cent at EPS CAGR of 13 per cent. For example, if EPS CAGR was 11 per cent, 75 per cent of the award would become exercisable.

Under both performance hurdles, the objective is examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest expire.

Rationale for selection of performance hurdles

- ROE and EPS are considered appropriate measures of performance as they are regarded as the drivers of longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool.
- EPS provides closer alignment with shareholders who are concerned about this measure and it is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement. Total Shareholder Return (TSR), on the other hand is influenced by many external factors, including market sentiment, over which executives have limited control.
- ROE and EPS can be substantiated using information that is disclosed in audited financial statements, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.
- The use of a sliding scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding scales are also more widely used and supported by governance agencies.
- Use of a reference group of significant Australian financial companies and international peers provides an appropriate reference. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation and its identified peer group. At 31 March 2012, over half of Macquarie's income and over half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 33 per cent over the three years to 31 March 2012.
- The approach is consistent with that advocated by APRA in not using TSR as a measure.

Performance level required to meet hurdles

- Being three and four year average measures, from 2012, aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well insulated from short-term fluctuations.
- PSUs linked to the ROE hurdle can only be exercised if the mid-point of peers' performance has been exceeded and 100 per cent exercisability is only achieved if the 75th percentile has been reached.
- The use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are exercisable, lessening the chance that awards could be exercised when results are negative as with the use of a relative measure.
- The chosen EPS CAGR hurdle is considered appropriate having regard to a range of factors including historical average market EPS CAGR figures. The table below shows the five year historical mean and 75th percentile EPS CAGRs for some relevant market sectors.

5 year EPS CAGR (per cent per annum)[1]

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	4.87	5.33	1.89	(2.99)
75th percentile	14.05	8.46	8.46	6.58

1 Data provided by Macquarie Research Equities as at 31 March 2012. MSCI refers to the MSCI All Countries World Index.

Macquarie's EPS CAGR over the same five year period was (18.7) per cent per annum and since listing in 1996 has been 8.0 per cent per annum.

The PSUs which vested in July 2011 comprised the first tranche of those granted in 2009. They did not all become exercisable due to the performance hurdles not being fully met. Macquarie's EPS CAGR for the vesting period of the PSUs was (4.48) per cent with a minimum EPS CAGR required for vesting of 9 per cent. Macquarie's average ROE over the vesting period was 9.6 per cent, placing Macquarie at the 54th percentile ranking compared to the ROE of the relevant group of banking peers. As a result:

— of the 50 per cent subject to the EPS CAGR hurdle, 100 per cent of the units failed to become exercisable

— of the 50 per cent subject to the ROE hurdle, 56 per cent became exercisable.

PSUs that did not meet performance hurdles expired.

Similarly, Executive Committee options which vested during the year did not become exercisable as the performance hurdles were not met. The performance hurdles are only tested once.

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for the financial year ended 31 March 2012
continued

2 With only incremental change, Macquarie's remuneration approach has allowed it to meet the expectations of governments, regulators and shareholders, as well as dealing with market pressures

The design of remuneration systems continues to be the subject of increasingly intense ongoing debate among governments, regulators and shareholders. The specific approach and pace of change varies by country, posing particular challenges for an organisation such as Macquarie that operates in over 28 countries. The BRC seeks to ensure that its remuneration policies continue to meet the expectations of governments, regulators and shareholders. The following table summarises the key emerging themes and Macquarie's response:

Key theme	Macquarie current practice	Incremental change
Strong governance processes	— BRC comprises Independent Non-Executive Directors — Board approves the global remuneration policy — On the recommendation of the BRC, the Board individually approves remuneration for the Executive Committee, Designated Executive Directors, FSA Code Staff[1], senior risk and financial control staff	— No change
Hedging of remuneration delivered as equity	— No hedging of unvested equity remuneration	— No change
More performance-based remuneration delivered in equity	— Invested in a combination of Macquarie shares and Macquarie-managed fund equity, notionally invested	— More remuneration is delivered in Macquarie shares for a limited group of people in the UK defined as FSA Code Staff under the FSA Code (to comply with the FSA Code)
Longer deferral period	— Deferred amounts vest over a period of up to seven years, longest in ASX30 and peers	— Executive Committee PSU vesting to extend to 3-4 years — For FSA Code Staff, the holding period has been extended (to comply with the FSA Code)
Higher proportion of performance-based remuneration deferred	— Up to 70 per cent, highest in ASX30 and consistent with peers, when deferral period is taken into account	— More remuneration is deferred for FSA Code Staff (to comply with the FSA Code)
Clawback/Malus	— Malus introduced from 2012	— Australian government clawback legislation due second half 2012
Dividends on unvested shares	— Dividends are not paid on PSUs — Shareholders approved payment of dividends on RSUs and dividend equivalent payments on DSUs for regulatory reasons at the 2009 General Meeting — For regulatory reasons relating to employee share plans, it is a condition of ASIC's prospectus disclosure relief that dividends be paid on RSUs delivered though a trust. Also, for trust taxation reasons, there are adverse tax consequences if the dividends are not paid	— No change

[1] FSA Code Staff include:
– UK senior management
– risk takers, or those staff who have a material impact on the risk profile of the UK businesses
– staff, whose total remuneration takes them into the same bracket as senior management and risk takers, whose professional activities could have a material impact on a firm's risk profile.

Key theme	Macquarie current practice	Incremental change
Linkage of TSR as a performance criteria	— TSR is not used as a performance criteria — Shareholder value is driven by ROE and NPAT. These are factors over which executives can exercise considerable control. TSR is influenced by many external factors over which executives have limited control — Use of TSR is contrary to APRA guidelines	— No change
Disclosure	— Compliant with the requirements for the Remuneration Report — Compliant with APRA and FSA requirements	— First FSA disclosures completed during FY2012 — Awaiting Pillar 3 (APRA)
Shareholder 'Say on Pay' / 2 strikes	— 98.22 per cent vote in favour of the Macquarie Group Remuneration Report at 2011 AGM	— No change
Termination benefits	— Shareholder approval for remuneration arrangements	— No change

In addition to the external pressures set out above, difficult market conditions have also tested Macquarie's remuneration system during the year. FY2012 has been a period of economic uncertainty which has seen some of Macquarie's businesses severely impacted by macroeconomic conditions, primarily the European debt crisis, the US debt downgrade and the overall risk-aversion in the market. As a result there has been a high degree of disparity within each business' contribution to profit during the year. Macquarie's annuity style businesses have performed strongly, whilst some of the capital market-facing businesses have been impacted by challenging market conditions which have had an impact on client volumes and margins. Within the capital market-facing businesses, there has again been a high degree of disparity in performance where some groups and teams have performed well compared to others.

Macquarie's remuneration framework (including the exercise of some degree of discretion) has responded effectively to both the overall decline in performance and the differential business performance, with total performance-based remuneration being down on the prior year, and with profit share allocations being highly differentiated by individual contribution and results.

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for the financial year ended 31 March 2012
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3 In a difficult year, Macquarie's creditable performance has been supported by the remuneration approach, allowing it also to motivate and retain key staff

The difficult market conditions discussed in the previous section have impacted Macquarie Bank's overall result with NPAT down 24 per cent compared to the prior year.

Performance over past five years FY2008-2012

		FY12	FY11	FY10	FY09	FY08
Net profit after tax attributable to ordinary equityholders (NPAT)	$A millions	**609**	803	663	576	15,696[1]
Return on average ordinary shareholders' funds (p.a.)	%	**7.0**	9.7	9.9	11.3	23.8[2]

[1] NPAT from continuing operations for the 12 months to 31 March 2008 was $750 millon.

[2] After adjusting for discontinued operations.

4 Strong governance has been exercised

Effective governance is central to Macquarie's remuneration strategy and approach. The key elements of Macquarie's approach are described below.

4.1 Strong Board oversight exists to ensure sound overall remuneration governance

The Macquarie Group Board of Directors has oversight of Macquarie's remuneration arrangements. The BRC's objective is to assist the Macquarie Board and the Board of Macquarie Bank Limited (Macquarie Bank or MBL), a key operating subsidiary, with Macquarie's remuneration policies and practices.

The BRC currently comprises five Independent Non-Executive Directors:

Helen Nugent	BRC Chairman
Diane Grady	BRC Member
Kevin McCann	BRC Member, Macquarie Chairman
John Niland	BRC Member, Board Governance and Compliance Committee Chairman
Peter Warne	BRC Member, Board Risk Committee Chairman

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system.

All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Chairman since August 2009. He is also is a member of the Board Audit Committee. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards. The BRC has a regular meeting cycle and met 12 times over the last financial year. Attendance at the meetings is set out in the Directors' Report. The Board pays serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

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The responsibilities of the BRC are set out in a formal charter which is available on Macquarie's website. Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

Board[1] Approves (on BRC recommendation)	BRC Approves (on behalf of the Boards)
Executive Remuneration Policy and Framework Recommendations	
— The remuneration policy, its effectiveness and its compliance with legal and regulatory requirements — The appropriate levels of delegated responsibility to management for remuneration-related decisions — The profit share methodology and any adjustments	— Identification of the Designated Executive Director population, the FSA Code Staff population, other persons whose activities may affect the financial soundness of Macquarie and senior risk and financial control staff — The profit share pool, calculated in accordance with the Board-approved methodology — The percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity — The specific notional portfolio allocations of retained profit share amounts for individual Executive Directors — The implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements
Executive Remuneration Recommendations	
— Individual remuneration recommendations[2] for: — Executive Committee members — Designated Executive Directors — FSA Code Staff — Senior risk and financial control staff — The total PSU pool available for Executive Committee members — The continued vesting or otherwise of retained profit share amounts for employees covered under the Malus provisions	— All individual remuneration and profit share recommendations for other Executive Directors — All individual Director promotion equity grants to staff other than those required to be approved by the Board and/or shareholders
Non-Executive Director Remuneration	
— The remuneration framework for the Non-Executive Directors of Macquarie and MBL — Remuneration recommendations for Non-Executive Director fees (subject to the maximum aggregate amount being approved by shareholders)[3]	

1 The Boards of Macquarie and Macquarie Bank, as appropriate.

2 Including base remuneration, profit share and PSUs where applicable, with the proviso that that PSU grants to the Managing Director of Macquarie Group must be approved by shareholders at the Annual General Meeting of Macquarie Group.

3 The *Corporations Act 2001 (Cth)* contains an exception to the general prohibition on voting on a matter in which a Director has a material personal interest, in respect of a director's remuneration as a director.

4.2 An independent remuneration review has been undertaken

The BRC has access to Macquarie senior management and has retained an independent consultant, Pay Governance for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration system, objectives and program and other employment conditions as required.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately $US110,000.

Pay Governance has confirmed that their analyses and observations have been made free from undue influence by Macquarie's Executive Key Management Personnel (KMP).

The Board is satisfied that the remuneration review conducted by Pay Governance was made free from undue influence by the Executive KMP for the following reasons:

- the agreement for services was executed by the Chairman of the BRC under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance attended two BRC meetings and presented their findings
- Pay Governance held a meeting with the BRC Chairman
- the only communication was through the BRC Chairman, and
- in relation to the Pay Governance Review, no senior executives had separate, direct contact with Pay Governance.

Pay Governance's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding, which has incrementally evolved by adopting many emerging best practices in response to the changing market and regulatory environment
- the objectives on which Macquarie's remuneration system are built are similar to those cited by other leading global investment banks, including the need to align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and that the remuneration structure does not encourage excessive risks
- Macquarie's remuneration system:
  - has a paramount goal to encourage management to drive shareholder returns over the short and longer-term
  - has assisted Macquarie's solid shareholder returns, consistent return on equity results, and steady earnings growth over the past decade
  - has helped ensure that pay and performance are linked tightly
  - has several means to align executive reward and shareholder value creation
  - orients senior staff toward longer-term value creation rather than short-term benefits.
- Macquarie's remuneration governance structure is fairly similar to that in place at Macquarie's global peers
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
  - for senior executives, fixed remuneration is modest (although meaningful) relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
  - the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive performance and therefore returns to shareholders, and takes risk management into account
  - individual profit share awards to executives are highly differentiated to take into account individual contribution and results
  - a significant portion of profit share is invested in both Macquarie equity and notionally in Macquarie-managed funds and withheld for several years
  - executives must maintain a meaningful equity stake in Macquarie
  - equity-based compensation (in the form of Macquarie shares and Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
  - Macquarie imposes a long vesting period on the portion of profit share deferred
  - Macquarie's total remuneration as a percentage of revenue is around the median relative to investment banking peers.

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5 Non-Executive Directors continue to be recognised for their role

Finally, Macquarie's remuneration approach ensures that the Non-Executive Directors are appropriately recognised. The remuneration arrangements applicable to Non-Executive Directors, as outlined in this section, are quite different from the arrangements applicable to executives, reflecting their different role.

5.1 Non-Executive Director remuneration policy

The overall objective of Macquarie's Non-Executive Director remuneration policy is to ensure that Non-Executive Directors are remunerated appropriately. This objective is achieved by:

- setting Board and Board Committee fees to take into account market rates for relevant Australian financial organisations for the time commitment and responsibilities involved
- delivering these fees in a form that is not contingent on Macquarie's performance
- not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

Executive Directors are not remunerated for acting as Voting Directors.

Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to Macquarie.

All Non-Executive Directors of Macquarie Group Limited are also Non-Executive Directors of Macquarie Bank Limited. This policy governs the remuneration of Non-Executive Directors of both Macquarie and Macquarie Bank in aggregate.

5.2 Board and Committee fees

Non-Executive Directors are remunerated via Board and Committee fees in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved. These fees are reviewed annually on the basis of a comparison to market rates. An external review is conducted periodically both as verification of the market comparison and also to provide observations concerning the continuing validity of the methodology.

An internal review was completed in early 2012 to ensure that the Non-Executive Directors' remuneration was in line with relevant benchmark organisations and consistent with market trends, and to ensure that the methodology and framework employed is appropriate.

The BRC and the Board critically evaluated the analyses and the conclusions reached. Following this review, it was determined that fees should stay the same.

Macquarie Bank Fees

	Macquarie Bank fees	
	$A Chairman	$A Member
Board	240,000	65,000

Macquarie Bank Limited does not have stand-alone Board committees. Macquarie Group Limited's Board Audit Committee is a joint Committee with Macquarie Bank and the BRC also support both Boards.

Base and Committee fees are paid monthly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions.

Information on the frequency of Board and Committee meetings is included on page 3 of the Directors' Report.

There are no termination payments to Non-Executive Directors on their retirement from office (and there never have been in the case of both Macquarie Group Limited and Macquarie Bank Limited) other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

Macquarie's Non-Executive Directors are remunerated for their services from the maximum aggregate amount for Macquarie Group (currently $A4,000,000 per annum) approved by shareholders for that purpose. The current limit was approved by Macquarie Group Limited shareholders at Macquarie Group's 2010 AGM. Although fees have been split between Macquarie Bank Limited and Macquarie Group Limited, the Board ensures that Non-Executive Director remuneration for Macquarie Group Limited and Macquarie Bank Limited taken together does not exceed this shareholder approved maximum aggregate amount.

5.3 Minimum shareholding requirement for Non-Executive Directors

To encourage long-term commitment and to more closely align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for Non-Executive Directors. Non-Executive Directors are required to have a meaningful direct shareholding in Macquarie.

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement.

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Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The following persons were Voting Directors of Macquarie Bank Limited (the Bank) for the period during the financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated:

Directors:		Changes during 2011 and 2012 (except as noted below)
Executive		
N.W. Moore[1]	Macquarie Group Managing Director and CEO	
W.R. Sheppard		Retired 20 December 2011
G.C. Ward[1]	MBL Managing Director and CEO	Appointed to the Board of the Bank on 20 December 2011
Non-Executive		
D.S. Clarke, AO		Resigned on 17 March 2011
D.J. Grady, AM		Appointed to the Board of the Bank on 19 May 2011
M.J. Hawker, AM		
P.M. Kirby		
C.B. Livingstone, AO		
H.K. McCann, AM	Non-Executive Chairman	Appointed Chairman of the Bank on 17 March 2011
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of Macquarie Bank and its controlled entities during the financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated:

Executives:	
S.D. Allen[1]	Group Head, Risk Management Group
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw	Former Executive Chairman, Macquarie Securities Group (11 July 2011 until retirement from the Executive Committee on 31 December 2011) Group Head, Macquarie Securities Group (to 7 April 2011) Group Head, Macquarie Capital (to 31 December 2011)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
M. McLaughlin[1]	Country Head, United States of America (appointed 1 January 2012)
S. Vrcelj[1]	Group Head, Macquarie Securities Group (appointed 7 April 2011) Head of Global Cash and Equities (2 July 2010 until 22 November 2011)
S. Wikramanayake[1]	Group Head, Macquarie Funds Group

[1] Members of the Bank's Executive Committee as at 27 April 2012.

Except where otherwise noted, the remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)* and in compliance with AASB 124 *Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be Key Management Personnel, as defined by AASB 124 *Related Party Disclosures*. Macquarie Bank's Non-Executive Directors are specifically required by the Corporations Act 2001 (Cth) to be included as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves as part of 'management'.

Appendix 2: Statutory Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 1.

In accordance with the requirements of AASB 124 Related Party Disclosures, the remuneration disclosures for the years ended 31 March 2012 and 31 March 2011, only include remuneration relating to the portion of the relevant periods that each individual was a KMP. Hence, comparable executive remuneration is confined to those who were KMP for the full year.

While awards under the MEREP in respect of the current year's performance will be granted in the following financial year, Macquarie Bank begins recognising an expense (based on an initial estimate) from 1 April of the current financial year in relation to these future grants. The expense is estimated using the Macquarie share price as at 31 March 2012 (and for PSUs, also incorporates a risk free interest rate of 4.37 per cent; expected life of four years; and a dividend yield of 4.22 per cent per annum). In the following financial year, Macquarie Bank will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 1.3.2 above, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities. Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the tables on pages 26 to 27. When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

These earnings on retained DPS amounts reflect the investment performance of the assets in which prior year retained amounts have been invested. Their inclusion in the individual remuneration disclosures below may therefore cause distortions when year-on year remuneration trends are examined. They do not reflect remuneration review decisions made in relation to the individual's current year performance.

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Executive Key Management Personnel Remuneration disclosure (in accordance with Australian Accounting Standards)

			Short-Term Employee Benefits		
			Salary (including superannuation) $A	Performance related remuneration[1] $A	Total short-term employee benefits $A
Executive Directors					
N.W. Moore	Macquarie Group Managing Director and CEO	**2012**	**678,974**	**1,696,132**	**2,375,106**
		2011	484,885	1,754,197	2,239,082
G.C. Ward	MBL Managing Director and CEO	**2012**	**657,841**	**1,414,624**	**2,072,465**
		2011	447,548	1,231,015	1,678,563
Other Executives					
S.D. Allen	Group Head, Risk Management Group	**2012**	**639,034**	**1,217,132**	**1,856,166**
		2011	439,980	1,538,769	1,978,749
A.J. Downe	Group Head, Fixed Income, Currencies and Commodities Group	**2012**	**642,517**	**2,694,919**	**3,337,436**
		2011	624,576	3,007,541	3,632,117
P.J. Maher	Group Head, Banking and Financial Services Group	**2012**	**712,552**	**1,494,333**	**2,206,885**
		2011	640,546	1,659,591	2,300,137
S. Wikramanayake	Group Head, Macquarie Funds Group	**2012**	**426,513**	**1,956,641**	**2,383,154**
		2011	279,724	1,075,388	1,355,112
Total Remuneration – Comparable Executive Key Management Personnel		**2012**	**3,757,431**	**10,473,781**	**14,231,212**
		2011	2,917,259	10,266,501	13,183,760
New Executives					
G.A. Farrell	Group Head, Corporate and Asset Finance Group[9]	**2012**	**715,335**	**2,765,938**	**3,481,273**
		2011	530,187	1,636,931	2,167,118
M. McLaughlin	Country Head, United States[10]	**2012**	**72,920**	**80,967**	**153,887**
		2011	–	–	–
S. Vrcelj	Group Head, Macquarie Securities Group[9]	**2012**	**683,996**	**0**	**683,996**
		2011	28,423	34,709	63,132
Former Executive Directors and Executives					
W.R. Sheppard	Former MBL Managing Director and CEO[11, 13]	**2012**	**485,542**	**658,265**	**1,143,807**
		2011	571,844	1,206,894	1,778,738
R.S. Laidlaw	Former Group Head and Executive Chairman, Macquarie Securities and Macquarie Capital[12, 13]	**2012**	**386,875**	**0**	**386,875**
		2011	142,979	320,293	463,272
Total Remuneration – Executive Key Management Personnel (including new and former members)		**2012**	**6,102,099**	**13,978,951**	**20,081,050**
		2011	4,190,692	13,465,328	17,656,020

Executive Key Management Personnel Remuneration disclosure (in accordance with Australian Accounting Standards) continued

Long-Term Employee Benefits			Share Based Payments					
Restricted profit share[2] $A	Earnings on prior year restricted profit share[3] $A	Total long-term employee benefits $A	Equity Awards including shares[4] $A	PSUs[5,6] $A	Options[7,8] $A	Total share-based payments $A	Total remuneration $A	Percentage of remuneration that consists of options and PSUs %
791,529	**338,954**	**1,130,483**	**2,775,615**	**646,817**	**(473,038)**	**2,949,394**	**6,454,983**	**2.69**
818,625	398,365	1,216,990	2,268,700	1,495,437	(1,573,450)	2,190,687	5,646,759	(1.38)
282,925	**89,202**	**372,127**	**1,011,079**	**239,948**	**(106,821)**	**1,144,206**	**3,588,798**	**3.71**
246,203	99,155	345,358	691,047	670,801	(319,140)	1,042,708	3,066,629	11.47
243,426	**88,939**	**332,365**	**711,164**	**381,582**	**82,756**	**1,175,502**	**3,364,033**	**13.80**
307,754	96,902	404,656	585,154	470,753	165,043	1,220,950	3,604,355	17.64
269,492	**745,026**	**1,014,518**	**2,114,701**	**344,319**	**(353,926)**	**2,105,094**	**6,457,048**	**(0.15)**
300,754	1,472,465	1,773,219	1,857,117	1,957,275	(1,338,210)	2,476,182	7,881,518	7.85
149,434	**43,158**	**192,592**	**1,032,080**	**348,559**	**(115,526)**	**1,265,113**	**3,664,590**	**6.36**
165,960	61,714	227,674	910,107	792,896	(436,786)	1,266,217	3,794,028	9.39
978,320	**118,406**	**1,096,726**	**442,989**	**481,095**	**(58,963)**	**865,121**	**4,345,001**	**9.72**
537,694	123,477	661,171	224,843	355,358	(140,710)	439,491	2,455,774	8.74
2,715,126	**1,423,685**	**4,138,811**	**8,087,628**	**2,442,320**	**(1,025,518)**	**9,504,430**	**27,874,453**	
2,376,990	2,252,078	4,629,068	6,536,968	5,742,520	(3,643,253)	8,636,235	26,449,063	
276,593	**407,224**	**683,817**	**1,208,359**	**834,289**	**115,218**	**2,157,866**	**6,322,956**	**15.02**
163,693	496,767	660,460	614,068	303,103	213,097	1,130,268	3,957,846	13.04
8,097	**41,089**	**49,186**	**314,236**	**12,270**	**4,005**	**330,511**	**533,584**	**3.05**
–	–	–	–	–	–	–	–	–
0	**34,235**	**34,235**	**791,264**	**250,612**	**93,773**	**1,135,649**	**1,853,880**	**18.58**
8,099	3,095	11,194	37,696	10,721	8,613	57,030	131,356	14.72
658,265	**13,098**	**671,363**	**2,005,123**	**849,365**	**(103,544)**	**2,750,944**	**4,566,114**	**16.33**
241,378	116,600	357,978	625,481	479,200	(512,710)	591,971	2,728,687	(1.23)
0	**47,280**	**47,280**	**4,127,832**	**1,465,384**	**(219,132)**	**5,374,084**	**5,808,239**	**21.46**
74,735	145,128	219,863	370,441	338,912	(146,238)	563,115	1,246,250	15.46
3,658,081	**1,966,611**	**5,624,692**	**16,534,442**	**5,854,240**	**(1,135,198)**	**21,253,484**	**46,959,226**	
2,864,895	3,013,668	5,878,563	8,184,654	6,874,456	(4,080,491)	10,978,619	34,513,202	

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for the financial year ended 31 March 2012
continued

Notes to the statutory remuneration disclosures

[1] Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period when they were a KMP.

[2] This is the amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity ("Pre and Post 2009 DPS Plan"). For 2011 and 2012, this amount also includes an adjustment to reflect reallocations of prior years' retained profit share between restricted profit share and share based payments.

[3] This is the notional earnings on prior year restricted profit share allocations described on page 25 in this Appendix.

[4] This is the current year amortisation for retained profit share, calculated on the basis as described in note 1(xix) – Share based payments to the 2012 Financial Statements in respect of:

- retained profit share, which is deferred to future periods and invested in the MEREP. Amortisation in relation to retained profit share awarded for the year ending 31 March 2012 is an estimate. The final amortisation is determined when the awards are allocated on or around 22 June 2012.
- the discount to the fair value per share at grant date for Transitioned Amounts.

[5] This amount has been calculated on the basis as described in note 1(xix) – Share based payments to the 2012 Financial Statements. PSU grants for each individual have been measured at their grant date based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of PSUs granted. For grants in respect of the 2012 performance year which have not yet been granted, the Macquarie share price as at 31 March 2012 is used to estimate the expense.

[6] Performance hurdles attached to the PSUs issued to the Executive Committee allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. Adjustments are made to reduce previously recognized remuneration where performance hurdles have not been met, have been partially met or are not expected to be met.

[7] This amount has been calculated on the basis as described in note 1(xix) – Share based payments to the 2012 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted, regardless of whether the options are in or out of the money. For 2012, the amount is based on options granted on or after 30 June 2006 (exercise price of $A61.79), on or after 30 June 2007 (exercise price of $A71.41) and on or after 30 June 2008 (exercise price of $A53.91).

[8] If an option is forfeited in a reporting period, amounts previously recognised as remuneration in relation to the forfeited options are deducted from remuneration in the reporting period. Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon the relevant performance hurdles being met. Adjustments are made to reduce previously recognised remuneration where performance hurdles have not been met or are not expected to be met.

Notes on individuals

Disclosed remuneration reflects their time as KMP

[9] Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010.

[10] Mr McLaughlin was appointed to the Executive Committee on 1 January 2012.

[11] Mr Sheppard retired from the Board and the Executive Committee on 20 December 2011.

[12] Mr Laidlaw retired from the Executive Committee on 31 December 2011.

[13] During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. The BRC waived the employment condition attached to the PSUs however these become exercisable only upon the achievement of the performance hurdles tested at each vesting date. All outstanding amortisation has been recognised as remuneration in the current year and results in an increase in total 2012 remuneration for the impacted individuals.

Non-Executive Director Remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 5.

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
D.J. Grady[2]	**2012**	**56,438**	**–**	**56,438**
	2011	–	–	–
M.J. Hawker	**2012**	**65,000**	**11,304**	**76,304**
	2011	65,000	8,571	73,571
P.M. Kirby	**2012**	**65,000**	**–**	**65,000**
	2011	65,000	–	65,000
C.B. Livingstone	**2012**	**65,000**	**–**	**65,000**
	2011	65,000	–	65,000
H.K. McCann[3]	**2012**	**240,000**	**–**	**240,000**
	2011	72,056	–	72,056
J.R. Niland	**2012**	**65,000**	**–**	**65,000**
	2011	65,000	–	65,000
H.M. Nugent	**2012**	**65,000**	**–**	**65,000**
	2011	65,000	–	65,000
P.H. Warne	**2012**	**65,000**	**–**	**65,000**
	2011	65,000	–	65,000
D.S. Clarke[4]	**2012**	**–**	**–**	**–**
	2011	240,000	–	240,000
Total Remuneration – Non-Executive Key Management Personnel	**2012**	**686,438**	**11,304**	**697,742**
	2011	702,056	8,571	710,627

1 Other benefits for Non-Executive Directors include an additional annual travel allowance of $A40,000 for Macquarie Group Limited for Mr Hawker effective 1 July 2010 as a Non-Executive Director based in the United Kingdom.

2 Ms Grady was appointed to the Board on 19 May 2011.

3 Mr McCann was appointed Chairman on 17 March 2011.

4 Mr Clarke resigned from the Board on 17 March 2011.

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Appendix 3: Loan disclosures

Loans to Key Management Personnel and their Related Parties

Details of loans provided by Macquarie Bank to Key Management Personnel and their related parties are disclosed in the following tables:

		Opening balance at 1 April $A'000	Interest charged $A'000	Write-downs $A'000	Closing balance at 31 March $A'000
Total for Key Management Personnel and their related parties	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	31,691	1,290	–	5,532
Total for Key Management Personnel[1]	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	12,422	693	–	5,532

1 Number of persons included in the aggregate at 31 March 2012: 3 (2011: 3).

Loans and other financial instrument transactions are made by Macquarie Bank in the ordinary course of business with related parties.

Certain loans are provided under zero cost collar facilities secured over Macquarie Group Limited shares under normal terms and conditions consistent with other customers and employees.

Key Management Personnel including their related parties with loans above $A100,000 at any time during the financial year

For the year ended 31 March 2012

Name and position	Balance at 1 April 2011[1] $A'000	Interest charged[2] $A'000	Write-downs $A'000	Balance at 31 March 2012[3] $A'000	Highest balance during financial year $A'000
Executive Directors					
N.M. Moore	**5,274**	**356**	**–**	**5,274**	**5,274**
Executives					
P.J. Maher	**20**	**5**	**–**	**370**	**370**
Former Executives					
R.S. Laidlaw[4]	**238**	**13**	**–**	**238**	**238**

1 Or date of appointment if later.

2 All loans provided by Macquarie Bank to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

3 Or date of resignation/retirement if earlier.

4 Mr Laidlaw retired from the Executive Committee effective 31 December 2011. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Key Management Personnel including their related parties with loans above $A100,000 at any time during the financial year continued

For the year ended 31 March 2011

Name and position	Balance at 1 April 2010[1] $A'000	Interest charged[2] $A'000	Write-downs $A'000	Balance at 31 March 2011[3] $A'000	Highest balance during financial year $A'000
Executive Directors					
N.M. Moore	5,274	304	–	5,274	5,274
Executives					
R.S. Laidlaw	238	14	–	238	238
Former					
D.S. Clarke[4]	26,160	971	–	5,757	26,526

1 Or date of appointment if later.

2 All loans provided by Macquarie Bank to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

3 Or date of resignation/retirement if earlier.

4 Mr Clarke resigned from the Board on 17 March 2011.

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Appendix 4: Other disclosures

Other transactions and balances of Key Management Personnel and their related parties

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and similar products from subsidiaries within the Bank, which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set–off and as such are not recognised for financial reporting purposes. The only amounts recognised by the Bank in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2012 $m	Consolidated 2011 $m
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	1,187	12,181

The annual contributions in respect of Infrastructure Bonds and similar products relate to the following Key Management Personnel:

Executive Directors

N.W. Moore, G.C. Ward

Non-Executive Directors

P.M. Kirby (2011 only)

Executives

S.D. Allen, A.J. Downe, G.A. Farrell, P.J. Maher, S. Vrcelj, S. Wikramanayake

Former Executive Directors and Executives

W.R. Sheppard, R.S. Laidlaw

The following Key Management Personnel (including related parties) have entered into zero cost collar transactions with the Bank and other non related entities in respect of Macquarie Group Limited ordinary shares. This has the effect of acquiring cash-settled put options against movements in the Macquarie share price below nominated levels and disposing of the benefit of any share price movement above the nominated level.

Name and position	Description	Number of shares 2012	Number of shares 2011
Executives			
A.J. Downe[1]	Matured August 2010	–	21,905

[1] Mr Downe entered into a zero cost collar for the period 4 June 2010 to 2 August 2010. There was no loan associated with this collar and the shares were not sold upon maturity on 2 August 2010. Mr Downe subsequently sold these shares in August 2010.

All other transactions with Key Management Personnel (including their personally related parties) were conducted on an arm's-length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

This is the end of the Remuneration Report.

Voting Directors' equity participation

At 27 April 2012, none of the Voting Directors held any relevant interests, as notified by the Voting Directors to the ASX in accordance with the *Corporations Act 2001 (Cth)*, in shares or share options of Macquarie Bank.

Directors' and officers' indemnification and insurance

Under Macquarie Bank's Constitution, Macquarie Bank indemnifies all past and present Directors and Secretaries of Macquarie Bank (including at this time the Voting Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against every liability incurred by them in, and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved because of their respective capacities unless:

— the liability is owed to Macquarie Bank or to a related body corporate

— the liability did not arise out of conduct in good faith

— the liability is for a pecuniary penalty order or a compensation order under the *Corporations Act 2001 (Cth)*

— in the case of legal costs, the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission (ASIC) or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs incurred in relation to proceedings for relief to the person under the *Corporations Act 2001 (Cth)* in which the court denies relief

— Macquarie Bank is forbidden by statute to indemnify the person against the liability or legal costs, or

— an indemnity by Macquarie Bank of the person against the liability or legal costs would, if given, be made void by statute.

Following approval by shareholders at the 1998 Annual General Meeting, Macquarie Bank entered into a Deed of Indemnity, Access and Insurance dated 4 August 1998 (Deed), which protects Voting Directors acting as Voting Directors during their term of office and after their resignation (except where an individual engages in conduct involving a lack of good faith). Under the Deed, Macquarie Bank agrees to:

— indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of Macquarie Bank under its Constitution in force from time to time

— take out and maintain a reimbursement insurance policy and make available to Voting Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Bank's position) for seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank

— loan funds to a Voting Director to cover the Voting Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Voting Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by Macquarie Bank to the Voting Director under the indemnity), and

— grant access to Voting Directors to all Board papers for at least seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank, and access to other documents if the documents were in Macquarie Bank's possession at the time the Voting Director was a Voting Director and where it is not contrary to Macquarie Bank's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 Annual General Meeting, Macquarie Bank made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). The benefit of the undertakings made by Macquarie Bank under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie Bank, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of Macquarie Bank or a wholly-owned subsidiary of Macquarie Bank. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to documents of Macquarie Bank.

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Following the approval of shareholders at the 2000 Annual General Meeting, both the Deed and the Deed Poll were amended in a minor way to clarify the operation of the deeds with respect to the provision of loans to indemnified persons for legal costs and the requirement to repay such loans. From November 2005, each Director, each Secretary and other officers having the benefit of the indemnity provisions under Macquarie Bank's Constitution, the Deed and the Deed Poll was asked to agree that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. These limitations on the indemnities were subsequently adopted into the indemnity provisions of Macquarie Bank's Constitution with the approval of shareholders at the 2006 Annual General Meeting with the effect that this limitation now applies directly to the terms of the Deed and the Deed Poll.

Persons who were directors and secretaries of companies in the Macquarie Bank group before the 2007 restructure which resulted in Macquarie Group Limited becoming the ultimate parent company of the group, have the benefit of the Deed Poll under which Macquarie indemnifies them against every liability incurred by them, including all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved, because of their respective capacities.

This indemnity does not apply to the extent that:

— Macquarie is forbidden by law to indemnify the person against the liability or legal costs, or

— an indemnity by Macquarie of the person against the liability or legal costs, if given would be void by law.

A Directors' and Officers' insurance policy, taken out by Macquarie, is in place that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for Macquarie Bank in indemnifying such persons pursuant to the Deed and the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and Macquarie pays the premium attributable to the reimbursement coverage under the policy. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Share options

Information on Macquarie Group's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 35 – Employee equity participation, in the financial report.

No unissued shares in Macquarie Bank are under option as at the date of this report.

Directors' relevant interests

The relevant interests of Directors on 27 April 2012 in managed investment schemes made available by related companies of Macquarie Bank and other disclosable relevant interests are listed in the table below:

Name and position	Direct interests		Indirect interests	
Executive Voting Directors				
G.C. Ward	Macquarie ordinary shares	8,936	MGESOP Options	53,500[1]
	Macquarie Employee Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	160,684		
	MEREP Performance Share Units (PSUs)	129,273		
	Macquarie Group Employee Share Option Plan (MGESOP) Options	30,000[1]		
	Macquarie Investment Units (iUnits)	1,800,000		
N.W.Moore	Macquarie ordinary shares	979,407	Macquarie ordinary shares	387,046
	MEREP RSUs	607,290		
	MEREP PSUs	293,740	Macquarie Global Infrastructure Fund III (B) units	362,382
	MGESOP Options	398,300[1]		
	2006 Macquarie ReFleXion Trusts units	5,000,000		
	2004 Macquarie Timber Land Trust units	50		
	2006 Macquarie Timber Land Trust units	75		
	Macquarie Global Infrastructure Fund III (B) units	1,637,618		
Independent Voting Directors				
D. J. Grady	Macquarie ordinary shares	2,114		
M.J. Hawker	Macquarie ordinary shares	4,500	Macquarie Convertible Preference Securities	450
			Macquarie Wrap Cash Account (MWCA) units	150,705.38
P.M. Kirby	Macquarie ordinary shares	23,198	MQ Capital-Asia Trust units	175,000
			MQ Special Events Fund units	348,874
C.B. Livingstone	Macquarie ordinary shares	646	Macquarie ordinary shares	11,354
H.K. McCann	Macquarie ordinary shares	5,479	Macquarie ordinary shares	8,006
J.R. Niland	Macquarie ordinary shares	2,309	Macquarie ordinary shares	7,813
H.M. Nugent	Macquarie ordinary shares	2,906	Macquarie ordinary shares	10,100
P.H Warne	Macquarie ordinary shares	2,744	Macquarie ordinary shares	13,077

[1] These figures include options which have vested but are unexercisable due to performance hurdles not being met.

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continued

Environmental regulations

Macquarie Bank and its subsidiaries have policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed.

The Voting Directors have determined that there has not been any material breach of those obligations during the financial year.

Non-audit services

Details of the amounts paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), and its related practices for non-audit services provided during the year is disclosed in note 42 – Audit and other services provided by PricewaterhouseCoopers.

The Consolidated Entity's external auditor policy, which is discussed in the Macquarie Corporate Governance Statement contained in the 2012 Macquarie Group Annual Report states that the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, audits its own professional expertise, or creates a mutual or conflicting interest between the auditor and the Consolidated Entity. The policy also provides that significant permissible non-audit assignments awarded to external auditors must be approved in advance by the Board Audit Committee (BAC) or the BAC Chairman, as appropriate.

The BAC has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services did not compromise the auditor independence requirements of the Act. This has been formally advised to the Board of Directors by the BAC. For these reasons, the Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices is compatible with the general standard of independence for auditors imposed by the Act.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the Act, is set out in the Directors' Report Schedule 2 following this report.

Rounding of amounts

In accordance with ASIC Class Order 98/0100 (as In accordance with ASIC Class Order 98/0100 (as amended), amounts in the Annual Report have been rounded off to the nearest million dollars unless otherwise indicated.

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

H Kevin McCann, AM
Independent Director and
Chairman

Greg Ward
Managing Director and
Chief Executive Officer

Sydney
27 April 2012

Directors' experience and special responsibilities

H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 71)

Independent Chairman since 17 March 2011
Independent Voting Director since December 1996

Kevin McCann joined the Board of Macquarie Bank as an Independent Voting Director in December 1996. He has been a member of the Board of Macquarie Group Limited since August 2007. Mr McCann was appointed as the Chairman of Macquarie Bank Limited and Macquarie Group Limited Boards in March 2011. He is currently Chairman of Origin Energy Limited (since February 2000), a Director of BlueScope Steel Limited (since May 2002) and the United States Studies Centre at the University of Sydney, and a member of the University of Sydney Senate and the Evans and Partners Advisory Board. Mr McCann is also NSW President and a board member of the Australian Institute of Company Directors. Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was previously Chairman of Triako Resources Limited, Healthscope Limited and ING Management Limited (September 2010 to June 2011). Mr McCann is a resident of New South Wales.

Greg C Ward, BEc (Macquarie), MEc (Macquarie), FCA, F Fin (age 44)

Managing Director and Chief Executive Officer since December 2011
Executive Voting Director since December 2011

Greg Ward joined Macquarie on listing in 1996 and was appointed Chief Financial Officer in 1997. In December 2011, Mr Ward became the Managing Director and Chief Executive Officer of Macquarie Bank Limited and a member of its Board. He is also the Deputy Managing Director and a member of the Board Risk Committee of Macquarie Group Limited. Prior to working with Macquarie, Mr Ward held senior roles with Westpac Banking Corporation and PricewaterhouseCoopers. Mr Ward was also an inaugural member of the Federal Treasury's Financial Reporting Panel and served as a Board member of the Australian Accounting Standards Board from September 1999 to February 2003. Mr Ward is currently a Board member of the Macquarie Group Foundation which facilitates the Macquarie Group's philanthropic undertakings, a member of the Macquarie University Council and a director of UNICEF Australia. Mr Ward is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 53)

Executive Voting Director since May 2008

Nicholas Moore joined the Board of Macquarie Bank as an Executive Director in May 2008 and has been an Executive Voting Director of Macquarie Group Limited since February 2008. Mr Moore joined Macquarie's Corporate Services Division in 1986. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Investment Banking Group on its inception in 2001. In this role, he oversaw significant growth in Macquarie's net income through the global growth of the advisory, fund management, financing and securities businesses. Currently, Mr Moore is Chairman of the Police and Community Youth Clubs NSW Limited, a Director of the Centre for Independent Studies and Chairman of the University of NSW Business School Advisory Council. Mr Moore is a resident of New South Wales.

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 63)

Independent Voting Director since May 2011

Diane Grady joined the Board of Macquarie Bank Limited and Macquarie Group Limited as an Independent Voting Director in May 2011. Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994. She is currently a Director of BlueScope Steel Limited (since May 2002), a member of the McKinsey Advisory Board, Chair of Ascham School and Chair of the Hunger Project Australia. Previously she was a Director of Woolworths Limited (July 1996 to November 2010), Goodman Group (September 2007 to October 2010), Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited, MLC and a Trustee of the Sydney Opera House. She was also President of Chief Executive Women and chaired the group's taskforce which published the CEO Kit for Attracting and Retaining Female Talent.

Ms Grady was a partner at McKinsey & Company where she spent 15 years consulting to clients in a broad range of industries on strategic and operational issues. She was a worldwide leader of the firm's Organisation and Change Management Practice and the first woman outside the United States to be elected to McKinsey's global partnership. In Australia, she headed McKinsey's Consumer Goods, Retailing and Marketing Practice Group. Ms Grady was made a member of the Order of Australia in 2009 for her contribution to business and to the promotion of women leaders and in 2001 received a Centenary Medal for service to Australian society through business leadership. Ms Grady is a resident of New South Wales.

Directors' Report Schedule 1
for the financial year ended 31 March 2012
continued

Michael J Hawker, AM, BSc (Sydney), FAICD, FAIM, SF Fin (age 52)

Independent Voting Director since March 2010
Member – Board Audit Committee

Michael Hawker has been an Independent Voting Director of Macquarie Bank and Macquarie Group Limited since March 2010. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, Mr Hawker held a range of positions at Westpac, including Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of positions at Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe. Currently, Mr Hawker is the Chairman of the George Institute for Global Health, a member of the George Institute for Global Health (UK) and is a Director of the Australian Rugby Union and Aviva Plc Group, the largest insurance provider in the UK. He is also a member of the Advisory Board to GEMS, a Hong Kong based private equity firm, and a member of the board of trustees of the Giant Steps Foundation. Mr Hawker was previously President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, board member of the Geneva Association and member of the Financial Sector Advisory Council. Mr Hawker is additionally the founder of the Australian Business in the Community Network. Mr Hawker is a resident of the United Kingdom.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 64)

Independent Voting Director since June 2003
Member – Board Audit Committee

Peter Kirby joined the Board of Macquarie Bank as an Independent Voting Director in June 2003 and has been a member of the Board of Macquarie Group Limited since August 2007. Mr Kirby was the Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries PLC group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere. He is Chairman of DuluxGroup Limited (since July 2010). Mr Kirby's previous directorships include Chairman and Director of Medibank Private Limited and Director of Orica Limited (from July 2003 to July 2010) and the Beacon Foundation. Mr Kirby is a resident of Victoria.

Catherine B Livingstone AO, BA (Hons) (Macquarie), HonDBus (Macquarie), HonDSc (Murdoch), FCA, FTSE, FAICD (age 56)

Independent Voting Director since November 2003
Chairman – Board Audit Committee

Catherine Livingstone joined the Board of Macquarie Bank as an Independent Voting Director in November 2003 and has been a member of the Board of Macquarie Group Limited since August 2007. Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002. She is currently Chairman of Telstra Corporation Limited (Director since November 2000 and Chairman since May 2009), a Director of WorleyParsons Limited (since June 2007), a member of the New South Wales Innovation Council and President of the Australian Museum Trust. Ms Livingstone was also previously Chairman of CSIRO and a Director of Goodman Fielder and Rural Press Limited. Ms Livingstone is a resident of New South Wales.

John R Niland AC, BCom MCom HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 71)

Independent Voting Director since February 2003

John Niland joined the Board of Macquarie Bank as an Independent Voting Director in February 2003 and has been a member of the Board of Macquarie Group Limited since August 2007. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. He is currently Chairman of Campus Living Funds Management Limited and Chairman of Singapore Management University's International Academic Review Panel. Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, the boards of the Centennial Park and Moore Park Trust, realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation, the Sydney Olympic bid's Building Commission and the University Grants Committee of Hong Kong. He is a former President of the National Trust of Australia (NSW). Dr Niland is a resident of New South Wales.

Helen M Nugent AO, BA (Hons)(Qld), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 63)

Independent Voting Director since June 1999

Helen Nugent was appointed as an Independent Voting Director of Macquarie Bank Limited in June 1999 and has been a member of the Board of Macquarie Group since August 2007. She is currently Chairman of Funds SA and a Director of Origin Energy Limited (since March 2003) and Freehills. Previously, Dr Nugent has been involved in the financial services sector as Director of Strategy at Westpac Banking Corporation, Chairman of Swiss Re (Australia) Limited and a Non-Executive Director of the State Bank of New South Wales and Mercantile Mutual. In addition, she was previously Chairman of Hudson (Australia and New Zealand) and a Director of UNiTAB, Carter Holt Harvey and Australia Post. She has also been a Partner at McKinsey and Company.

She has been actively involved in the arts and education. In the arts, she is Chairman of the National Portrait Gallery and was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, she is currently Chancellor of Bond University and President of Cranbrook School. Previously she was a member of the Bradley Review into Higher Education and Professor in Management and Director of the MBA Program at the Australian Graduate School of Management. Dr Nugent is a resident of New South Wales.

Peter H Warne, BA (Macquarie), FAICD (age 56)

Independent Voting Director since July 2007
Member – Board Audit Committee

Peter Warne joined the Board of Macquarie Bank as an Independent Voting Director in July 2007 and has been a member of the Board of Macquarie Group Limited since August 2007. Mr Warne was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006 he became a Director of ASX Limited. Currently, Mr Warne is on the boards of other listed entities as Chairman of ALE Property Group (since September 2003) and Deputy Chairman of WHK Group Limited (Director since May 2007). He is also Deputy Chairman of Capital Markets CRC Limited, a Director of Securities Research Centre of Asia Pacific Limited and of New South Wales Treasury Corporation, a member of the Advisory Board of the Australian Office of Financial Management and a Patron of Macquarie University Foundation. He is a former Director of Next Financial Limited, Macquarie Capital Alliance Group and a former Chairman and Director of TEYS Limited (Director from October 2007 and Chairman from July 2008 to June 2009). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FCIS

Company Secretary since 25 October 1993

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Company Secretarial Division, which is responsible for the Group's company secretarial requirements, professional risks insurances and employee equity plans. He has over 18 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

Paula Walsh is a Division Director of Macquarie and has over 24 years company secretarial experience. She joined Macquarie in May 2007 and was previously Head of Corporate Governance, Asia Pacific at British Telecommunications PLC.

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

Nigel Donnelly is a Division Director of Macquarie and has over 12 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2
Auditor's independence declaration

Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2012, 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 audit, and

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

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

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
27 April 2012

Liability is limited by a scheme approved under Professional Standards Legislation

Macquarie Bank Limited
2012 Financial Report
Contents

The Financial Report was authorised for issue by the Directors on 27 April 2012.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Interest and similar income		**5,157**	5,141	**3,735**	3,856
Interest expense and similar charges		**(3,554)**	(3,490)	**(2,836)**	(2,812)
Net interest income	2	**1,603**	1,651	**899**	1,044
Fee and commission income	2	**1,344**	1,522	**85**	95
Net trading income	2	**999**	1,300	**895**	615
Share of net profits of associates and joint ventures accounted for using the equity method	2	**37**	45	**–**	–
Other operating income and charges	2	**728**	513	**625**	659
Net operating income		**4,711**	5,031	**2,504**	2,413
Employment expenses	2	**(1,507)**	(1,553)	**(850)**	(853)
Brokerage, commission and trading-related expenses	2	**(611)**	(669)	**(339)**	(362)
Occupancy expenses	2	**(149)**	(139)	**(88)**	(84)
Non-salary technology expenses	2	**(96)**	(98)	**(47)**	(59)
Other operating expenses	2	**(1,465)**	(1,467)	**(882)**	(1,010)
Total operating expenses		**(3,828)**	(3,926)	**(2,206)**	(2,368)
Operating profit before income tax		**883**	1,105	**298**	45
Income tax expense	4	**(243)**	(272)	**–**	(15)
Profit after income tax		**640**	833	**298**	30
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	**(4)**	(4)	**–**	–
Other non-controlling interests		**(1)**	–	**–**	–
Profit attributable to non-controlling interests		**(5)**	(4)	**–**	–
Profit attributable to equity holders of Macquarie Bank Limited		**635**	829	**298**	30
Distributions paid or provided for on:					
Macquarie Income Securities	5	**(26)**	(26)	**–**	–
Convertible debentures	5	**–**	–	**(4)**	(4)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**609**	803	**294**	26

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

Statements of comprehensive income
for the financial year ended 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Profit after income tax for the financial year		**640**	833	**298**	30
Other comprehensive (expense)/income:					
Available for sale investments, net of tax	31	**(232)**	115	**(264)**	56
Cash flow hedges, net of tax	31	**(10)**	21	**7**	21
Share of other comprehensive income of associates and joint ventures, net of tax	31	**1**	–	**–**	–
Exchange differences on translation of foreign operations, net of tax		**(15)**	(406)	**(4)**	23
Total other comprehensive (expense)/income for the financial year		**(256)**	(270)	**(261)**	100
Total comprehensive income for the financial year		**384**	563	**37**	130
Total comprehensive income for the financial year is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**353**	537	**33**	126
Macquarie Income Securities holders		**26**	26	**–**	–
Macquarie Income Preferred Securities holders		**4**	–	**–**	–
Convertible debenture holders		**–**	–	**4**	4
Other non-controlling interests		**1**	–	**–**	–
Total comprehensive income for the financial year		**384**	563	**37**	130

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

Statements of financial position
as at 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Assets					
Receivables from financial institutions	6	**8,316**	7,579	**6,492**	6,256
Cash collateral on securities borrowed and reverse repurchase agreements	7	**7,024**	7,418	**6,900**	7,370
Trading portfolio assets	8	**11,545**	14,423	**9,070**	13,543
Derivative assets		**21,951**	21,145	**18,918**	18,551
Investment securities available for sale	9	**16,285**	15,003	**17,207**	13,948
Other assets	10	**7,444**	6,839	**3,960**	3,702
Loan assets held at amortised cost	11	**44,095**	45,382	**17,929**	17,299
Other financial assets at fair value through profit or loss	13	**5,962**	10,607	**4,857**	9,940
Life investment contracts and other unitholder investment assets	14	**5,908**	5,062	**–**	–
Due from related body corporate entities	33	**1,118**	2,443	**981**	2,230
Due from subsidiaries	33	**–**	–	**18,927**	20,134
Property, plant and equipment	15	**4,835**	2,363	**4**	16
Interests in associates and joint ventures accounted for using the equity method	16	**707**	856	**232**	471
Intangible assets	17	**874**	866	**66**	40
Investments in subsidiaries	18	**–**	–	**4,263**	3,781
Deferred tax assets	20	**105**	376	**41**	61
Total assets		**136,169**	140,362	**109,847**	117,342
Liabilities					
Cash collateral on securities lent and repurchase agreements	21	**4,779**	6,103	**5,881**	6,099
Trading portfolio liabilities	22	**3,507**	5,732	**3,468**	5,621
Derivative liabilities		**20,897**	21,455	**17,967**	18,191
Deposits		**37,014**	35,106	**36,781**	34,827
Current tax liabilities		**46**	67	**–**	15
Other liabilities	23	**7,720**	7,463	**4,271**	4,049
Payables to financial institutions	24	**4,299**	1,580	**1,685**	1,011
Other financial liabilities at fair value through profit or loss	25	**1,688**	2,909	**1,265**	2,122
Life investment contracts and other unitholder liabilities		**5,897**	5,055	**–**	–
Due to related body corporate entities	33	**3,022**	6,471	**2,709**	6,212
Due to subsidiaries	33	**–**	–	**8,374**	10,607
Debt issued at amortised cost	26	**35,068**	36,943	**16,213**	17,697
Provisions	27	**99**	80	**56**	56
Deferred tax liabilities	20	**536**	393	**124**	57
Total liabilities excluding loan capital		**124,572**	129,357	**98,794**	106,564
Loan capital					
Subordinated debt at amortised cost		**2,176**	1,430	**2,176**	1,430
Subordinated debt at fair value through profit or loss		**150**	467	**150**	467
Total loan capital	29	**2,326**	1,897	**2,326**	1,897
Total liabilities		**126,898**	131,254	**101,120**	108,461
Net assets		**9,271**	9,108	**8,727**	8,881

	Notes	**Consolidated 2012 $m**	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Equity					
Contributed equity					
Ordinary share capital	30	**7,578**	7,278	**7,578**	7,278
Equity contribution from ultimate parent entity	30	**108**	102	**79**	75
Macquarie Income Securities	30	**391**	391	**391**	391
Convertible debentures	30	**–**	–	**107**	107
Reserves	31	**(617)**	(436)	**(35)**	351
Retained earnings	31	**1,743**	1,701	**607**	679
Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited		**9,203**	9,036	**8,727**	8,881
Non-controlling interests					
Macquarie Income Preferred Securities	31	**63**	63	**–**	–
Other non-controlling interests	31	**5**	9	**–**	–
Total equity		**9,271**	9,108	**8,727**	8,881

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

Statements of changes in equity
for the financial year ended 31 March 2012

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Consolidated
Balance at 1 April 2010		6,986	(170)	1,533	8,349	85	8,434
Total comprehensive (expense)/income for the financial year		–	(266)	829	563	–	563
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	30	770	–	–	770	–	770
Contributions from ultimate parent entity in relation to share-based payments	30	15	–	–	15	–	15
Dividends and distributions paid or provided for	5	–	–	(661)	(661)	–	(661)
Non-controlling interests:							
Distributions of equity, net of transaction costs	31	–	–	–	–	(9)	(9)
Distributions paid or provided for		–	–	–	–	(4)	(4)
		785	–	(661)	124	(13)	111
Balance at 31 March 2011		**7,771**	**(436)**	**1,701**	**9,036**	**72**	**9,108**
Total comprehensive (expense)/income for the financial year		**–**	**(256)**	**635**	**379**	**5**	**384**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	30	**300**	**–**	**–**	**300**	**–**	**300**
Contribution from ultimate parent entity in relation to share-based payments	30	**6**	**–**	**–**	**6**	**–**	**6**
Dividends and distributions paid or provided for	5	**–**	**–**	**(517)**	**(517)**	**–**	**(517)**
Reserves arising from group restructure of combining entities under common control	31	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Non-controlling interests:							
Distributions of equity, net of transaction costs	31	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(5)**	**(5)**
Other equity movements:							
Transfer from share-based payments reserve to retained earnings	31	**–**	**(186)**	**186**	**–**	**–**	**–**
Transfer from reserves arising from group restructure of combining entities under common control to retained earnings	31	**–**	**262**	**(262)**	**–**	**–**	**–**
		306	**75**	**(593)**	**(212)**	**(9)**	**(221)**
Balance at 31 March 2012		**8,077**	**(617)**	**1,743**	**9,203**	**68**	**9,271**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Bank
Balance at 1 April 2010		7,073	251	1,288	8,612	–	8,612
Total comprehensive income for the financial year		–	100	30	130	–	130
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	30	770	–	–	770	–	770
Contribution from ultimate parent entity in relation to share-based payments	30	8	–	–	8	–	8
Dividends and distributions paid or provided for	5	–	–	(639)	(639)	–	(639)
		778	–	(639)	139	–	139
Balance at 31 March 2011		**7,851**	**351**	**679**	**8,881**	**–**	**8,881**
Total comprehensive income for the financial year		**–**	**(261)**	**298**	**37**	**–**	**37**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	30	**300**	**–**	**–**	**300**	**–**	**300**
Contribution from ultimate parent entity in relation to share-based payments	30	**4**	**–**	**–**	**4**	**–**	**4**
Dividends and distributions paid or provided for	5	**–**	**–**	**(495)**	**(495)**	**–**	**(495)**
Other equity movements:							
Transfer from share-based payments reserve to retained earnings	31	**–**	**(186)**	**186**	**–**	**–**	**–**
Transfer from reserves arising from group restructure of combining entities under common control to retained earnings	31	**–**	**61**	**(61)**	**–**	**–**	**–**
		304	**(125)**	**(370)**	**(191)**	**–**	**(191)**
Balance at 31 March 2012		**8,155**	**(35)**	**607**	**8,727**	–	**8,727**

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

Statements of cash flows
for the financial year ended 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Cash flows from operating activities					
Interest received		**5,119**	5,004	**3,973**	3,793
Interest and other costs of finance paid		**(3,512)**	(3,531)	**(2,784)**	(2,839)
Dividends and distributions received		**65**	220	**356**	451
Fees and other non-interest income received		**1,919**	2,029	**233**	683
Fees and commissions paid		**(525)**	(677)	**(241)**	(366)
Net receipts from/(payments for) trading portfolio assets and other financial assets/liabilities		**2,634**	(2,899)	**9,634**	(3,752)
Payments to suppliers		**(1,349)**	(1,640)	**(3,252)**	(1,138)
Employment expenses paid		**(1,609)**	(1,318)	**(950)**	(713)
Income tax paid		**(170)**	(148)	**(79)**	(83)
Life investment contract receipts		**359**	126	**–**	–
Life investment contract premiums received and other unitholder contributions		**3,287**	2,575	**–**	–
Life investment contract payments		**(3,282)**	(2,411)	**–**	–
Net loan assets granted		**(1,720)**	(3,674)	**(4,672)**	(5,506)
Loan facility repaid by ultimate parent entity		**737**	512	**737**	512
Recovery of loans previously written off		**19**	12	**11**	4
Net increase in amounts due to other financial institutions, deposits and other borrowings		**1,193**	10,066	**1,134**	11,028
Net cash flows from operating activities	32	**3,165**	4,246	**4,100**	2,074
Cash flows from investing activities					
Net payments for investment securities available for sale		**(99)**	(3,778)	**(2,202)**	(1,950)
Net proceeds from/(payments for) the acquisition and disposal of associates		**99**	(207)	**54**	(137)
Payments for the acquisition of subsidiaries and businesses, excluding disposal groups, net of cash acquired		**(642)**	(33)	**(587)**	(223)
Proceeds from the disposal of subsidiaries and businesses excluding disposal groups, net of cash deconsolidated		**21**	42	**–**	–
Payments for life investment contracts and other unitholder investment assets		**(7,681)**	(6,374)	**–**	–
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**7,386**	6,145	**–**	–
Payments for property, plant and equipment, leased assets and intangible assets		**(263)**	(1,830)	**–**	(4)
Proceeds from the disposal of property, plant and equipment, leased assets and intangible assets		**–**	–	**4**	–
Net cash flows used in investing activities		**(1,179)**	(6,035)	**(2,731)**	(2,314)

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**300**	770	**300**	770
Payments to non-controlling interests		**(4)**	(8)	**–**	–
Net proceeds from issue of subordinated debt		**460**	551	**456**	551
Dividends and distributions paid		**(522)**	(664)	**(495)**	(640)
Net cash flows from financing activities		**234**	649	**261**	681
Net increase/(decrease) in cash and cash equivalents		**2,220**	(1,140)	**1,630**	441
Cash and cash equivalents at the beginning of the financial year		**10,025**	11,165	**8,673**	8,232
Cash and cash equivalents at the end of the financial year	32	**12,245**	10,025	**10,303**	8,673

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

Notes to the financial statements
for the financial year ended 31 March 2012

Note 1
Summary of significant accounting policies

(i) Basis of preparation

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

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (which includes Australian Interpretations by virtue of AASB 1048 *Interpretation and Application of Standards)* and the *Corporations Act 2001 (Cth)* and the *Banking Act 1959*.

Compliance with IFRS as issued by the IASB

Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has also been prepared in accordance with and complies with IFRS as issued by the IASB.

Historical cost convention

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

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. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Company and its subsidiaries (Consolidated Entity) and the consolidated financial report such as:

– fair value of financial assets and liabilities (note 41);
– impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and held for sale investments (notes 1(xii), 1(xiii), 12 and 40.1);
– acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xii), 16 and 43);
– distinguishing between whether assets or a business is acquired (note 1(iii));
– determination of control of Special Purpose Entities (SPEs) (notes 1(ii), 11 and 24);
– determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
– recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 20); and
– the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 17).

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 our 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 effective in the current year

AASB 2010-3 and AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* were issued in June 2010 and became applicable in the current period.

AASB 2010-3 amendments confirm that:

– contingent consideration arising in a business combination that had been accounted for in accordance with AASB 3 (2004) that has not been settled or otherwise resolved at the adoption date of AASB 3 (2008) continues to be accounted for in accordance with AASB 3 (2004);
– the accounting policy choice to measure non-controlling interests (NCI) upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets is limited to instruments that give rise to a present ownership interest and which currently entitle the holder to a share of net assets in the event of liquidation. The accounting policy choice does not apply to other instruments, such as written options classified as equity instruments or options granted under share-based payment arrangements – these are generally measured at fair value or otherwise in accordance with the relevant Standards;
– AASB 3 (2008) application guidance applies to unreplaced and voluntarily replaced share-based payment awards; and
– consequential amendments to AASB 121, AASB 128 and AASB 131 as a result of the issue of AASB 127 (2008) relating to disposals of all or part of a foreign operation and accounting for a loss of significant influence/joint control is applied prospectively.

AASB 2010-4 makes amendments to various disclosure requirements relating to AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements* and AASB 134 *Interim Financial Reporting*.

The application of these amendments in the current year has had an immaterial impact.

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

When a new Accounting Standard is first adopted, any change in accounting policy is accounted for in accordance with the specific transitional provisions (if any), otherwise retrospectively.

The Company's and Consolidated Entity's assessment of the impact of the key new Accounting Standards and Interpretations, and amendments to Accounting Standards is set out on the following page.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

AASB 2010-6 was issued by the AASB in November 2010 and is effective for annual reporting periods beginning on or after 1 July 2011. The Standard adds and amends disclosure requirements about transfers of financial assets. The standard requires disclosures to be made of transfers of financial assets that are either not derecognised in their entirety, or for which a continuing involvement is retained. The Consolidated Entity will first apply the Standard in the financial year beginning 1 April 2012. Comparative information is not required.

Whilst the new standard will not affect any of the amounts recognised in the financial statements, it will increase disclosures of transferred assets.

AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

In December 2010, the AASB re-issued AASB 9 *Financial Instruments*, which is effective for annual reporting periods beginning on or after 1 January 2015. Early adoption is permitted if all the requirements are applied at the same time. The revised AASB 9 includes the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets that appeared in the December 2009 version of the Standard.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give 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 to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in other comprehensive income (OCI), but upon realisation those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, rather than OCI, 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 Consolidated Entity is currently assessing the impact of the new Standard, and it is likely that some financial assets:

– carried at fair value through profit or loss (e.g. quoted bonds outside of trading book) will change to be carried at amortised cost;
– carried at amortised cost (e.g. beneficial interests) will change to be carried at fair value through profit or loss; and
– containing embedded derivatives (e.g. capital protected products) will no longer be separated, and the entire product will change to be carried at fair value through the income statement.

In respect of financial liabilities, the change in fair value (for financial liabilities designated at fair value through profit or loss) due to changes in an entity's own credit risk is to be presented in OCI, unless such presentation would create an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in the credit risk of the liability) are presented in profit or loss. All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139 *Financial Instruments: Recognition and Measurement*. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to the revised AASB 9 unamended. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2015. The impact of AASB 9 on the Consolidated Entity's financial statements on initial application has not yet been assessed.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The AASB has decided to remove the individual Key Management Personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments are effective for annual reporting periods on or after 1 July 2013 and cannot be adopted early.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income.

The amendment requires items in other comprehensive income to be segregated into two categories, based on whether they may be recycled to income statement in the future. Items that will never recycle (such as revaluation reserve) will be presented separately from items that may recycle in the future (such as cash flow hedge reserves and the foreign currency translation reserve). The amendments are effective for annual periods beginning on or after 1 July 2012.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities and revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures

The AASB has issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

These new standards are effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis. Early adoption is permitted, however these standards must be adopted as a package, that is, all as of the same date, except that an entity may early adopt the disclosure provisions for AASB 12 (without adopting the other new standards). The Consolidated Entity currently intends to first apply these Standards in the financial year beginning 1 April 2013.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1

Summary of significant accounting policies continued

AASB 10 replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 112 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have power, rights or exposure to variable returns and ability to use the power to affect the returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights, de-facto control and on agent versus principal relationships. The impact of AASB 10 on the Consolidated Entity's financial statements on initial application is being assessed.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The impact of AASB 11 on the Consolidated Entity's financial statements on initial application has not yet been assessed.

AASB 12 sets out the required disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. Application of this standard by the Consolidated Entity will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Consolidated Entity's investments. Systems may need to be modified to capture all the necessary information.

Whilst the new standard will not affect any of the amounts recognised in the financial statements, it will require additional disclosures of interests in subsidiaries, associates, joint ventures and unconsolidated structured entities.

AASB 127 is renamed *Separate Financial Statements* and now deals solely with separate financial statements. Initial application of this standard by the Consolidated Entity and the Company is not expected to result in any material impact.

Amendments to AASB 128 clarify that an entity continues to apply the equity method for its retained interest where on a change of ownership a joint venture becomes an associate, and vice versa. The amendments also clarify that where part of an associate or joint venture is to be sold, an entity accounts for the part to be sold under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, and continues to apply the equity method on the retained portion until the portion held for sale is sold. The Consolidated Entity is still assessing the impact of these amendments, although it is not expected to result in any material impact.

AASB 13 Fair Value Measurement

AASB 13 has been issued by the AASB and is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 13 provides a single source of guidance for assets and liabilities measured at fair value, explains how to measure fair value, and aims to enhance fair value disclosures. No material impact is expected.

The Consolidated Entity intends to first apply the Standard prospectively from 1 April 2013.

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including SPEs) over which the Company has the power to govern (directly or indirectly) decision-making in relation to financial and operating policies, so as to require that entity to conform to the Company's objectives. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. NCI in the results and equity of subsidiaries, where the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to govern the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its separate financial statements at cost less impairment in accordance with AASB 127 *Consolidated and Separate Financial Statements.*

Impairment of subsidiaries

Investments in subsidiaries are reviewed annually for indicators of impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each balance date, investments in subsidiaries that have been impaired are reviewed for possible reversal of the impairment.

Securitisations

Securitised positions are held through a number of SPEs. These are generally categorised as Mortgage SPEs and Other SPEs, and include certain managed funds and re-packaging vehicles. As the Consolidated Entity is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the consolidated statement of financial position and consolidated income statement.

When assessing whether the Consolidated Entity controls (and therefore consolidates) an SPE, judgement is required about whether the Consolidated Entity has the risks and rewards as well as the ability to make operational decisions for the SPE. The range of factors that are considered in assessing control include whether:

– the majority of the benefits of the SPE's activities are obtained;
– the majority of the residual ownership risks related to the SPE's assets are obtained;
– the decision-making powers of the SPE vest with the Consolidated Entity; and
– the SPE's activities are being conducted on behalf of the Consolidated Entity and according to its specific business needs.

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale (see note 1(xii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and its share of post-acquisition movements in reserves.

The Company and Consolidated Entity determine the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Associates and joint ventures held by the Company are carried in its separate financial statements at cost in accordance with AASB 127 *Consolidated and Separate Financial Statements*.

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which occurred before 1 April 2010. From 1 April 2010, business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of exchange plus, for business combinations occurring before 1 April 2010, any costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure any NCI either at fair value or at the NCI's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Distinguishing between whether assets or a business is acquired involves judgement. Some of the factors that the Consolidated Entity uses in identifying a business combination are:

– the nature of the Consolidated Entity's industry and business model, which affects the nature of an input, process or output;
– whether the acquisition included at least a majority of the critical inputs (e.g. tangible or intangible assets, and intellectual property) and a majority of the critical processes (e.g. strategic processes, skilled and experienced workforce);
– the relative ease of replacing the critical processes not acquired by either integrating within the Consolidated Entity's existing processes or sub-contracting them to third parties; and
– the presence of goodwill.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1

Summary of significant accounting policies continued

(iii) Business combinations continued

Combinations between entities or businesses under common control

Combinations between entities under common control are business combinations in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory. In the consolidated financial statements of the Bank, assets and liabilities of the acquired entities are measured at the carrying amounts recognised previously in the seller's consolidated financial statements at the date of the combination. In the separate financial statements of the Bank, assets and liabilities of the acquired businesses are measured at the carrying amounts recognised previously in the seller's financial statements at the date of the combination. Any difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in equity.

(iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management about components of the Consolidated Entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to the senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising eight reportable segments as disclosed in note 3. Information about products and services and geographical segments are based on the financial information used to produce the Consolidated Entity's financial statements.

(v) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Company's and Consolidated Entity's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 1(xi)).

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items (such as equities) classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see note 1(xi)).

Subsidiaries and other entities

The results and financial position of all foreign operations that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at actual exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in OCI within a separate component of equity – the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken directly to the foreign currency translation reserve through OCI. When a foreign operation is disposed of or any borrowings forming part of the net investment are repaid, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(vi) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Interest income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument.

Other fee and commission income, including fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income at the point when those conditions can no longer affect the outcome.

Fees charged for performing a significant act in relation to funds managed by the Consolidated Entity are recognised as revenue when that act has been completed.

Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities and include all realised and unrealised fair value changes, dividends and foreign exchange differences.

Dividends and distributions

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognised in the income statement when the Company's right to receive the dividend is established.

When accounting for a dividend or distribution, judgement is required about whether it is recognised as income or a return of capital. The range of factors that are considered include:

- whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital;
- whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;
- other transactions occur with the same counterparty at the same time as, or in contemplation of, the payment;
- whether the payment is from profits in proportion to the investors' particular class of capital;
- when a dividend is paid in the form of additional equity of the investee, whether all investors retain their same relative ownership interest in the investee;
- whether the criteria for derecognising part, or all, of an investment in a financial asset under AASB139 *Financial Instruments: Recognition and Measurement* are met, and in particular if substantially all the risks and rewards of ownership have transferred; and
- the basis for the amendment in May 2008 to the 'cost method' description in AASB 127 *Consolidated and Separate Financial Statements* so as to remove an approach solely relying upon determining post-acquisition retained earnings.

(vii) Income tax

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and Consolidated Entity exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates its tax liability based on its understanding of the tax law.

Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation. The Company together with all eligible Australian resident wholly-owned subsidiaries of the Company comprise a tax consolidated group with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses. Under the terms and conditions of a tax funding agreement, the Company charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

(viii) Cash collateral on securities borrowed/lent and reverse repurchase/repurchase agreements

As part of its trading activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1

Summary of significant accounting policies continued

(viii) Cash collateral on securities borrowed/lent and reverse repurchase/repurchase agreements continued

Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell, and repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase and repurchase agreements are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on the reverse repurchase agreement is recorded as a receivable, while cash received from third parties on the repurchase agreement is recorded as a borrowing.

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

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 41). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profits or losses arising from revaluing that contract to fair value in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable from trade date until settlement date.

(x) Derivative instruments

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. These derivative instruments are principally used for the risk management of existing financial assets and financial liabilities.

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

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

The best evidence of a derivative's fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Consolidated Entity recognises profit or loss immediately when the derivative is recognised.

(xi) Hedge accounting

The Consolidated Entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Consolidated Entity documents the hedge relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether hedging relationships have been and will continue to be highly effective. Derivatives or financial instruments can be designated in one of three types of hedge relationships:

Cash flow hedges

For a derivative or financial instrument designated as hedging the variability in cash flows attributable to a particular risk associated with a recognised asset or liability (or a highly probable forecast transaction), the gain or loss on the derivative or financial instrument associated with the effective portion of the hedge is initially recognised in OCI in the cash flow hedging reserve and subsequently released to the income statement when the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

Fair value hedges

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability (or an unrecognised firm commitment), the gain or loss on the derivative or financial instrument is recognised in the income statement immediately, together with the loss or gain on the hedged asset or liability that is attributable to the hedged risk.

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 39. Movements in the cash flow hedging reserve in equity are shown in note 31.

(xii) Investments and other financial assets

With the exception of trading portfolio assets, derivatives and investments in associates and joint ventures, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables (loan assets held at amortised cost and amounts due from subsidiaries), other financial assets at fair value through profit or loss, investment securities available for sale and non-current assets and assets of disposal groups classified as held for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

Loan assets held at amortised cost and amounts due from subsidiaries are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

The policy of management is to designate a financial asset as such if: the asset contains embedded derivatives which must otherwise be separated and carried at fair value; it is part of a group of financial assets managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Investment securities available for sale

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

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

(xiii) Impairment

Loan assets held at amortised cost

Loan assets are subject to regular review and assessment for possible impairment. Provisions for impairment on loan assets are recognised based on an incurred loss model and re-assessed at each balance date. A provision for impairment is recognised when there is objective evidence of impairment, and is calculated based on the present value of expected future cash flows, discounted using the original effective interest rate.

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

The Consolidated Entity makes judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used for estimating future cash flows could result in a change in the estimated provisions for impairment on loan assets at the end of the reporting period.

If, in a subsequent period, the amount of impairment losses decrease and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment losses are reversed through the income statement to the extent of what the amortised cost would have been had the impairment not been recognised.

Investment securities available for sale

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that available for sale financial assets have been impaired. Impairment exists if there is objective evidence of impairment as a result of one or more events (loss event) which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1

Summary of significant accounting policies continued

(xiii) Impairment continued

Investment securities available for sale continued

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Interests in associates and joint ventures

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The entire carrying amount of each investment in associate and joint venture is considered in the assessment. The main indicators of impairment are as for equity securities classified as available for sale, disclosed above.

If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine recoverable amount since the impairment loss was recognised.

(xiv) Life insurance business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 *Insurance Contracts*. The following are key accounting policies in relation to the life insurance business:

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Company in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xv) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.

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

Furniture and fittings	10 to 20 per cent
Leasehold improvements[1]	20 per cent
Communication equipment	33 per cent
Computer equipment	33 to 50 per cent
Infrastructure assets	5 to 20 per cent
Aviation	3 to 4 per cent
Meters	5 to 10 per cent
Rail cars	2 to 3 per cent
Other operating lease assets	2 to 50 per cent

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

Useful lives and residual values are reviewed annually and reassessed in light of commercial and technological developments. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised in the income statement.

(xvi) Goodwill and other identifiable intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the statement of financial position. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

Management rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

Customer and servicing contracts with an indefinite useful life are carried at cost less accumulated impairment losses.

Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalised and amortised over the estimated useful life, usually a period of three years. Costs incurred on software maintenance are expensed as incurred.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date for indications of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(xvii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: the liability contains embedded derivatives which must otherwise be separated and carried at fair value; the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest expense on such items is recognised in the income statement in interest expense using the effective interest method.

(xviii) Provisions

Employee benefits

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the Company and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

Provisions for dividends to be paid by the Company are recognised on the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1

Summary of significant accounting policies continued

(xix) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 35. The Consolidated Entity recognises an expense (and equity reserve) for its shares and options granted to employees. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

Performance hurdles attached to options, and Performance Share Units (PSUs) under the MEREP, that are issued to the Executive Committee members are not taken into account when determining the fair value of the options and PSUs at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

The fair value of each option granted in prior years was estimated on the date of grant using standard option pricing techniques based on the Black-Scholes theory. No grants have been made in the previous two financial years.

In December 2009, the Consolidated Entity established a new equity plan, the MEREP. Restricted Share Units (RSUs), Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2011. The fair value of each of these grants is estimated using the Company's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

– risk free interest rate: 5.71 per cent (weighted average);
– expected life of PSU: four years; and
– dividend yield: 5.20 per cent per annum.

While RSUs, DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, the Consolidated Entity begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2012 (and for PSUs, also incorporates a risk free interest rate of 4.37 per cent; an expected life of four years; and a dividend yield of 4.22 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

Where options and shares are issued by the Company to employees of subsidiaries and the Company is not subsequently reimbursed by those subsidiaries, the Company recognises the equity provided as a capital contribution to the subsidiaries. Where the Company is reimbursed, the Company recognises any amount received in advance (of the share-based payment to be recognised as an expense over the future vesting period) as a liability to those subsidiaries.

Executive Directors' retained profit share that is no longer to be paid in cash is reversed in the current year and recognised in profit, and the equity granted are accounted for as a share-based payment from the grant date.

The Consolidated Entity annually revises its estimates of the number of shares (including those delivered through MEREP) and options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash, based on a formula that takes into consideration the Consolidated Entity's profit after income tax and its earnings over and above the estimated cost of capital.

(xx) Cash and cash equivalents

Cash and cash equivalents comprise:

– cash and balances with central banks and short-term amounts included in receivables from financial institutions; and
– trading portfolio assets and debt securities with contractual maturity of three months or less.

(xxi) Leases

Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

Leases entered into by the Company and Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment.

(xxii) Offsetting financial instruments

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

(xxiii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost) or at fair value through profit or loss (for subordinated debt at fair value through profit or loss).

(xxiv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxv) Changes in ownership interests

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary), previously held interests are revalued to their current fair value and any gain or loss is immediately recognised in profit or loss. For acquisitions occurring on or before 31 March 2010, previously held interests were not revalued for such transactions.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their current fair value and any gain or loss is immediately recognised in the income statement. For acquisitions occurring on or before 31 March 2010, retained ownership interests were not revalued for such transactions.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity. For acquisitions occurring on or before 31 March 2010, transactions with NCI were recognised using the parent-entity approach, which resulted in a gain recognised in the income statement when securities held by NCI were acquired by the Consolidated Entity at a price less than their carrying amount.

(xxvi) Comparatives

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

(xxvii) Rounding of amounts

The Company is of a kind referred to in *ASIC Class Order 98/0100* (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.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable	**5,157**	5,141	**3,735**	3,856
Interest expense and similar charges paid/payable	**(3,554)**	(3,490)	**(2,836)**	(2,812)
Net interest income	**1,603**	1,651	**899**	1,044
Fee and commission income				
Base fees	**594**	598	**10**	13
Performance fees	**30**	25	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**43**	50	**19**	26
Brokerage and commissions	**308**	338	**54**	56
Other fee and commission income	**298**	433	**2**	–
Income from life investment contracts and other unitholder investment assets (note 14)	**71**	78	**–**	–
Total fee and commission income	**1,344**	1,522	**85**	95
Net trading income[1]				
Equities	**230**	366	**224**	313
Commodities	**566**	553	**144**	238
Foreign exchange products	**283**	191	**266**	(376)
Interest rate products	**(80)**	190	**261**	440
Net trading income	**999**	1,300	**895**	615
Share of net profits of associates and joint ventures accounted for using the equity method	**37**	45	**–**	–

[1] Included in net trading income are fair value gains of $393 million (2011: $393 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 partially 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 – refer to note 1(xi) – Summary of significant accounting policies.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 2

Profit for the financial year continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Other operating income and charges				
Net gains on sale of investment securities available for sale	**180**	205	**161**	196
Impairment charge on investment securities available for sale	**(53)**	(29)	**(49)**	(9)
Net gains/(loss) on sale of associates and joint ventures	**8**	13	**(9)**	–
Impairment (charge)/reversal on interest in associates and joint ventures	**(50)**	(18)	**(90)**	4
Impairment charge on subsidiaries	**–**	–	**(142)**	(130)
Gain/(loss) on acquiring, disposing and change in ownership interest in subsidiaries	**15**	41	**–**	(156)
Gain on re-measurement of retained investments[1]	**37**	18	**–**	–
Impairment charge on non-financial assets	**(40)**	(6)	**(3)**	–
Gain on sale of non-financial assets	**104**	13	**–**	13
Net operating lease income[2]	**381**	151	**–**	–
Dividends/distributions received/receivable:				
Investment securities available for sale	**21**	30	**6**	29
Subsidiaries (note 33)	**–**	–	**372**	407
Management fees, group service charges and cost recoveries	**(1)**	(18)	**417**	370
Collective allowance for credit losses (provided for)/written back during the financial year (note 11)	**(3)**	18	**12**	21
Individually assessed provisions:				
Loan assets provided for during the financial year (note 11)	**(83)**	(89)	**(60)**	(75)
Other receivables provided for during the financial year	**(13)**	–	**(11)**	(1)
Recovery of loans previously provided for (note 11)	**30**	16	**21**	15
Recovery of other receivables previously provided for	**–**	11	**–**	11
Loan losses written off	**(78)**	(70)	**(40)**	(46)
Recovery of loans previously written off	**19**	12	**11**	4
Other income	**254**	215	**29**	6
Total other operating income and charges	**728**	513	**625**	659
Net operating income	**4,711**	5,031	**2,504**	2,413

[1] Includes gains on re-measurement of retained ownership interests to fair value on the loss of control of investments in subsidiaries and the loss of significant influence on investments in associates.

[2] Includes rental income of $636 million (2011: $257 million) less depreciation of $255 million (2011: $106 million) in relation to operating leases where the Consolidated Entity is the lessor.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Note 2				
Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,391)**	(1,437)	**(784)**	(795)
Share-based payments	**(106)**	(101)	**(62)**	(50)
Provision for annual leave	**(9)**	(12)	**(3)**	(5)
Provision for long service leave	**(1)**	(3)	**(1)**	(3)
Total employment expenses	**(1,507)**	(1,553)	**(850)**	(853)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(469)**	(473)	**(283)**	(303)
Other fee and commission expenses	**(142)**	(196)	**(56)**	(59)
Total brokerage, commission and trading-related expenses	**(611)**	(669)	**(339)**	(362)
Occupancy expenses				
Operating lease rentals	**(80)**	(72)	**(49)**	(42)
Depreciation: furniture, fittings and leasehold improvements (note 15)	**(18)**	(19)	**(3)**	(6)
Other occupancy expenses	**(51)**	(48)	**(36)**	(36)
Total occupancy expenses	**(149)**	(139)	**(88)**	(84)
Non-salary technology expenses				
Information services	**(55)**	(57)	**(32)**	(34)
Depreciation: computer equipment (note 15)	**(7)**	(2)	**(5)**	(4)
Other non-salary technology expenses	**(34)**	(39)	**(10)**	(21)
Total non-salary technology expenses	**(96)**	(98)	**(47)**	(59)
Other operating expenses				
Professional fees	**(136)**	(141)	**(55)**	(69)
Auditor's remuneration (note 42)	**(15)**	(12)	**(5)**	(6)
Travel and entertainment expenses	**(65)**	(68)	**(37)**	(37)
Advertising and promotional expenses	**(50)**	(50)	**(17)**	(19)
Communication expenses	**(20)**	(20)	**(8)**	(9)
Amortisation of intangibles (note 17)	**(69)**	(56)	**(7)**	–
Other expenses[1]	**(1,110)**	(1,120)	**(753)**	(870)
Total other operating expenses	**(1,465)**	(1,467)	**(882)**	(1,010)
Total operating expenses	**(3,828)**	(3,926)	**(2,206)**	(2,368)

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

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups, one operating division and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2011 there have been a number of asset transfers between Operating Groups and the Corporate segment. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. In addition, certain assets not aligned with any of the Operating Groups were transferred to the Corporate segment.

This restructure is effective from 1 April 2011. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie Funds Group is Macquarie Group Limited's (MGL) funds management business. It is a full-service asset manager, offering a diverse range of capabilities and products including investment management, infrastructure and real asset management and fund and equity based structured products.

Corporate and Asset Finance is the lending and leasing business of Macquarie Group.

Banking and Financial Services Group is the primary relationship manager for Macquarie Group's retail client base. The group brings together the retail banking and financial services businesses providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

Macquarie Securities Group activities include institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full-service institutional cash equities broker in the Asia Pacific region and South Africa, and offers specialised services in other regions. It also provides an equity capital markets service through a joint venture with Macquarie Capital.

Macquarie Capital comprises MGL's corporate advisory, equity underwriting, debt structuring and distribution businesses, private equity placements and principal products. Due to the non-banking nature of Macquarie Capital, its activities in the Consolidated Entity have ceased.

Fixed Income, Currencies and Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialisation in interest rate, commodity and foreign exchange related institutional trading, marketing, lending and clearing or platform provision.

Real Estate Banking Division activities include real estate investment, development management and asset management.

Corporate includes Group Treasury, head office and central support functions. It holds certain central investments. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility and income tax expense. Corporate is not considered an operating group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 3

Segment reporting continued

(i) Operating segments continued

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the financial year:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Revenues from external customers	**1,299**	**1,952**	**2,238**
Inter-segmental (expense)/revenue[1]	**(119)**	**(560)**	**1,288**
Interest revenue	**315**	**1,604**	**1,396**
Interest expense	**(55)**	**(262)**	**(1,988)**
Depreciation and amortisation	**(18)**	**(262)**	**(21)**
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(2)**	**5**	**(1)**
Reportable segment profit/(loss)	**372**	**699**	**265**
Reportable segment assets	**10,833**	**21,567**	**27,132**
Revenues from external customers	1,164	1,499	2,416
Inter-segmental (expense)/revenue[1]	(113)	(497)	856
Interest revenue	279	1,441	1,477
Interest expense	(55)	(186)	(1,658)
Depreciation and amortisation	(23)	(108)	(37)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	16	10	1
Reportable segment profit/(loss)	251	505	278
Reportable segment assets	10,974	18,284	27,816

[1] Internal reporting systems do not enable the separation of inter-segmental (expense)/revenue. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Real Estate Banking Division $m	Corporate $m	Total $m
					Consolidated 2012
228	**–**	**1,925**	**25**	**1,108**	**8,775**
(67)	**–**	**(348)**	**(21)**	**(173)**	**–**
119	**–**	**616**	**16**	**1,091**	**5,157**
(67)	**–**	**(262)**	**–**	**(920)**	**(3,554)**
(7)	**–**	**(42)**	**–**	**1**	**(349)**
–	**–**	**17**	**14**	**4**	**37**
(205)	**–**	**480**	**(40)**	**(936)**	**635**
14,658	**–**	**41,192**	**229**	**20,558**	**136,169**
					Consolidated 2011
330	–	1,844	71	1,556	8,880
(124)	–	(225)	(29)	132	–
102	–	625	16	1,201	5,141
(38)	–	(363)	–	(1,190)	(3,490)
–	–	(20)	–	5	(183)
–	–	15	(5)	8	45
(132)	–	549	(40)	(582)	829
17,510	–	42,978	458	22,342	140,362

Notes to the financial statements
for the financial year ended 31 March 2012
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 property development; and

Lending: banking activities, mortgages, and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2012
Revenues from external customers	**1,850**	**3,120**	**69**	**3,736**	**8,775**
					Consolidated 2011
Revenues from external customers	1,877	3,339	67	3,597	8,880

(iii) Geographical areas

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

	Revenues from external customers $m	Non-current assets[1] $m
		Consolidated 2012
Australia	**5,193**	**719**
Asia Pacific	**216**	**338**
Europe, Middle East and Africa	**1,181**	**3,816**
Americas	**2,185**	**1,993**
Total	**8,775**	**6,866**
		Consolidated 2011
Australia	5,929	1,599
Asia Pacific	238	39
Europe, Middle East and Africa	1,069	1,873
Americas	1,644	1,810
Total	8,880	5,321

[1] Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment, property held for sale and development and certain amounts due from related body corporate entities.

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Note 4

Income tax expense

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
(i) Income tax expense				
Current tax benefit/(expense)	**129**	(155)	**46**	184
Deferred tax expense	**(372)**	(117)	**(46)**	(199)
Total	**(243)**	(272)	**–**	(15)
Deferred tax (expense)/benefit included in income tax expense comprises:				
(Decrease)/increase in deferred tax assets	**(95)**	(51)	**144**	(248)
(Increase)/decrease in deferred tax liabilities	**(277)**	(66)	**(190)**	49
Total	**(372)**	(117)	**(46)**	(199)
(ii) Numerical reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax expense on operating profit[1]	**(265)**	(331)	**(89)**	(13)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**75**	57	**7**	5
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	1	**–**	–
Share-based payments expense	**(9)**	(8)	**(1)**	(2)
Intra-group dividends	**–**	–	**107**	122
Impairment charge on controlled entities	**–**	–	**(27)**	(127)
Other items	**(45)**	9	**3**	–
Total income tax expense	**(243)**	(272)	**–**	(15)
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserve	**91**	(44)	**97**	(19)
Cash flow hedges	**2**	(10)	**(2)**	(9)
Foreign currency translation reserve	**(7)**	54	**–**	26
Share of other comprehensive income of associates and joint ventures	**(1)**	–	**–**	–
Total tax benefit/(expense) relating to items of other comprehensive income	**85**	–	**95**	(2)

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2011: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 5
Dividends paid and distributions paid or provided for

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
(i) Dividends paid				
Ordinary share capital				
Interim dividend paid	**194**	185	**194**	185
2011 final dividend paid	**297**	450	**297**	450
Total dividends paid (note 31)	**491**	635	**491**	635

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have recommended the payment of a dividend. The aggregate amount of the proposed dividend expected to be paid on 2 July 2012 from retained profits at 31 March 2012, but not recognised as a liability at the end of the financial year, is $455 million (2011: $297 million).

(iii) Distributions paid or provided for

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**21**	20	**–**	–
Distributions provided for	**5**	6	**–**	–
Total distributions paid or provided for (note 31)	**26**	26	**–**	–

The Macquarie Income Securities (MIS) are stapled arrangements, which include 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 or provided for in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation.* Refer to note 30 – Contributed equity for further details on these instruments.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**2**	2	**–**	–
Distributions provided for	**2**	2	**–**	–
Total distributions paid or provided for (note 31)	**4**	4	**–**	–

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 31 – Reserves, retained earnings and non-controlling interests. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 Bank preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 31 – Reserves, retained earnings and non-controlling interests, for further details on these instruments.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Convertible Debentures				
Distributions paid (net of distributions previously provided)	**–**	–	**2**	2
Distributions provided for	**–**	–	**2**	2
Total distributions paid or provided for (note 31)	**–**	–	**4**	4

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 6

Receivables from financial institutions

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Cash at bank[1]	**8,190**	7,112	**6,442**	5,976
Other loans to banks	**77**	295	**2**	202
Due from clearing houses	**49**	172	**48**	78
Total receivables from financial institutions	**8,316**	7,579	**6,492**	6,256

[1] Included within this balance is $27 million (2011: $6 million) provided as security over payables.

The majority of the above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 7

Cash collateral on securities borrowed and reverse repurchase agreements

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Governments[1]	**–**	43	**–**	–
Financial institutions	**7,017**	7,372	**6,897**	7,367
Other	**7**	3	**3**	3
Total cash collateral on securities borrowed and reverse repurchase agreements	**7,024**	7,418	**6,900**	7,370

[1] Governments include federal, state and local governments and related enterprises.

The Consolidated Entity and the Bank enter into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2012 is $7,424 million (2011: $7,610 million). Under certain transactions, the Consolidated Entity and the Bank are allowed to resell or repledge the collateral held.

The above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 8

Trading portfolio assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Equities[1]				
Listed	**5,249**	6,305	**4,792**	6,169
Unlisted	**36**	71	**31**	72
Commodities	**2,010**	2,002	**1,413**	1,701
Foreign government bonds[1]	**1,325**	508	**565**	488
Corporate bonds	**1,317**	2,915	**895**	2,799
Other government securities[2]	**1,094**	197	**1,094**	196
Promissory notes	**235**	508	**26**	242
Treasury notes	**223**	58	**223**	58
Commonwealth government bonds[1]	**31**	1,818	**31**	1,818
Bank bills	**17**	40	**–**	–
Certificates of deposit	**8**	1	**–**	–
Total trading portfolio assets[3]	**11,545**	14,423	**9,070**	13,543

[1] Included within these balances are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $nil (2011: $8 million).

[2] Other government securities include state and local governments and related enterprises, predominantly in Australia.

[3] Included within this balance are trading assets of $2,014 million (2011: $3,721 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

The above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 9
Investment securities available for sale

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Equity securities				
Listed[1]	**422**	511	**391**	470
Unlisted	**214**	394	**106**	111
Debt securities[2, 3, 4]	**15,649**	14,098	**16,710**	13,367
Total investment securities available for sale[5]	**16,285**	15,003	**17,207**	13,948

1 Included within this balance is $2 million (2011: $2 million) provided as security over payables to other financial institutions.

2 Includes $3,070 million (2011: $2,314 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $120 million (2011: $43 million) of bank bills.

3 Included within this balance is $757 million (2011: $238 million) provided as security over payables to other financial institutions.

4 Included within this balance are debt securities of $121 million (2011: $107 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal title to these assets, but has full economic exposure to them.

5 Included within this balance is $286 million (2011: $136 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $6,654 million (2011: $5,721 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $6,531 million (2011: $5,424 million) is expected to be recovered by the Bank.

Note 10
Other assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Debtors and prepayments	**4,992**	5,338	**3,138**	3,047
Security settlements[1]	**1,941**	889	**817**	654
Property held for sale and development	**360**	506	**–**	1
Other	**151**	106	**5**	–
Total other assets[2]	**7,444**	6,839	**3,960**	3,702

1 Security settlements are receivable within three working days of the relevant trade date.

2 Included within this balance is $34 million (2011: $20 million) of assets which are provided as security over amounts payable to other financial institutions.

The majority of the above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 11

Loan assets held at amortised cost

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Due from clearing houses	**1,101**	1,789	**504**	642
Due from governments[1]	**71**	538	**2**	450
Due from other entities				
Other loans and advances	**38,985**	39,564	**17,838**	16,561
Less individually assessed provisions for impairment	**(349)**	(312)	**(281)**	(253)
	38,636	39,252	**17,557**	16,308
Lease receivables	**4,503**	4,017	**27**	72
Less individually assessed provisions for impairment	**(3)**	(2)	**–**	–
Total due from other entities	**43,136**	43,267	**17,584**	16,380
Total loan assets before collective allowance for credit losses	**44,308**	45,594	**18,090**	17,472
Less collective allowance for credit losses	**(213)**	(212)	**(161)**	(173)
Total loan assets held at amortised cost[2, 3]	**44,095**	45,382	**17,929**	17,299

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

2 Included within this balance are loans of $12,935 million (2011: $13,463 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

3 Included within this balance are other loans of $689 million (2011: $614 million) provided as security over issued notes and payables to other external investors and financial institutions.

Of the above amounts, $12,012 million (2011: $11,428 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $5,058 million (2011: $3,950 million) is expected to be recovered by the Bank.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**314**	337	**253**	293
Provided for during the financial year (note 2)	**83**	89	**60**	75
Loan assets written off, previously provided for	**(16)**	(79)	**(13)**	(72)
Recovery of loans previously provided for (note 2)	**(30)**	(16)	**(21)**	(15)
Transfer to related body corporate entities	**–**	–	**–**	(14)
Impact of foreign currency translation	**1**	(17)	**2**	(14)
Balance at the end of the financial year	**352**	314	**281**	253
Individually assessed provisions as a percentage of total gross loan assets	**0.79%**	0.68%	**1.53%**	1.43%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**212**	227	**173**	189
Provided for/(written back) during the financial year (note 2)	**3**	(18)	**(12)**	(21)
Loan assets written off, previously provided for	**–**	(5)	**–**	(4)
Attributable to acquisitions during the financial year	**–**	9	**–**	9
Impact of foreign currency translation	**(2)**	(1)	**–**	–
Balance at the end of the financial year	**213**	212	**161**	173

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

Notes to the financial statements
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continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 12
Impaired financial assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	**11**	117	**3**	–
Less individually assessed provisions for impairment	**(10)**	(86)	**(2)**	–
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	31	**1**	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**737**	723	**585**	608
Less individually assessed provisions for impairment	**(380)**	(359)	**(306)**	(297)
Loan assets and other financial assets after individually assessed provisions for impairment	**357**	364	**279**	311
Total net impaired financial assets	**358**	395	**280**	311

Note 13
Other financial assets at fair value through profit or loss

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Investment securities				
Equity securities	**2,131**	2,384	**1,126**	1,873
Debt securities	**2,025**	5,748	**1,979**	5,577
Loan assets	**1,806**	2,475	**1,752**	2,490
Total other financial assets at fair value through profit or loss[1]	**5,962**	10,607	**4,857**	9,940

[1] Included within this balance is $668 million (2011: $907 million) provided as security over payables to other financial institutions.

Of the above amounts, $677 million (2011: $1,436 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $609 million (2011: $1,504 million) by the Bank.

Note 14
Life investment contracts and other unitholder investment assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Cash and receivables from financial institutions	**77**	144	**–**	–
Debt securities	**550**	514	**–**	–
Units in unit trusts	**5,152**	4,254	**–**	–
Equity securities	**129**	150	**–**	–
Total life investment contracts and other unitholder investment assets	**5,908**	5,062	**–**	–

Investment assets are held to satisfy policy and unitholder liabilities, which are predominantly investment linked.

The majority of the above assets are recoverable within 12 months of the balance date.

Income from life investment contracts and other unitholder investment assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Premium income, investment revenue and management fees	**346**	324	**–**	–
Life investment contract claims, reinsurance and changes in policy liabilities	**(233)**	(199)	**–**	–
Direct fees	**(42)**	(47)	**–**	–
Total income from life investment contracts and other unitholder investment assets (note 2)	**71**	78	**–**	–

Solvency requirements for the life investment contracts business have been met at all times during the financial year.

As at 31 March 2012, the life investment contracts business had investment assets in excess of policy holder liabilities of $14 million (2011: $10 million).

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 15

Property, plant and equipment

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Furniture, fittings and leasehold improvements				
Cost	**131**	191	**16**	32
Less accumulated depreciation	**(48)**	(47)	**(13)**	(18)
Total furniture, fittings and leasehold improvements	**83**	144	**3**	14
Communication equipment				
Cost	**2**	2	**–**	1
Less accumulated depreciation	**(2)**	(2)	**–**	(1)
Total communication equipment	**–**	–	**–**	–
Computer equipment				
Cost	**23**	23	**4**	16
Less accumulated depreciation	**(18)**	(16)	**(3)**	(14)
Total computer equipment	**5**	7	**1**	2
Infrastructure assets				
Cost	**6**	9	**–**	–
Less accumulated depreciation	**–**	–	**–**	–
Total infrastructure assets	**6**	9	**–**	–
Total	**94**	160	**4**	16
Assets under operating leases				
Aviation				
Cost	**3,660**	1,823	**–**	–
Less accumulated depreciation	**(241)**	(63)	**–**	–
Total aviation	**3,419**	1,760	**–**	–
Meters				
Cost	**730**	211	**–**	–
Less accumulated depreciation	**(75)**	(38)	**–**	–
Total meters	**655**	173	**–**	–
Rail cars				
Cost	**489**	157	**–**	–
Less accumulated depreciation	**(29)**	(20)	**–**	–
Total rail cars	**460**	137	**–**	–
Other				
Cost	**254**	185	**–**	–
Less accumulated depreciation	**(47)**	(52)	**–**	–
Total other	**207**	133	**–**	–
Total assets under operating lease	**4,741**	2,203	**–**	–
Total property, plant and equipment	**4,835**	2,363	**4**	16

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

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Note 15

Property, plant and equipment continued

Reconciliation of the movement in the Consolidated Entity's property, plant and equipment at their written-down value:

	Furniture, fittings and leasehold improvements $m	Communication equipment $m	Computer equipment $m	Infrastructure assets $m	Total $m
Balance at the beginning of the financial year	144	–	7	9	160
Acquisitions	32	–	6	–	38
Disposals	(68)	–	(1)	(1)	(70)
Reclassification	–	–	–	–	–
Impairments	(7)	–	–	(2)	(9)
Foreign exchange movements	–	–	–	–	–
Depreciation expense (note 2)	(18)	–	(7)	–	(25)
Balance at the end of the financial year	83	–	5	6	94

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $8 million (2011: $10 million).

Assets under operating lease

	Aviation $m	Meters $m	Rail cars $m	Others $m	Total $m
Balance at the beginning of the financial year	1,760	173	137	133	2,203
Acquisitions	2,175	516	337	120	3,148
Disposals	(346)	–	(6)	(6)	(358)
Reclassification[1]	–	–	–	(11)	(11)
Impairments	(7)	–	–	–	(7)
Foreign exchange movements	13	5	2	1	21
Depreciation expense	(176)	(39)	(10)	(30)	(255)
Balance at the end of the financial year	3,419	655	460	207	4,741

1 Over the financial year, $11 million of operating assets have been reclassified to finance leases.

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $2,284 million (2011: $219 million).

The future minimum lease payments expected to be received under non-cancellable operating leases are as follows:

Assets under operating lease

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Not later than one year	**493**	293	**–**	–
Later than one year, not later than five years	**1,231**	789	**–**	–
Later than five years	**212**	189	**–**	–
Total future minimum lease payments receivable	**1,936**	1,271	**–**	–

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 16

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

Loans and investments without provisions for impairment	**513**	665	**153**	220
Loans and investments with provisions for impairment	**339**	323	**195**	291
Less provision for impairment	**(145)**	(132)	**(116)**	(40)
Loans and investments at recoverable amount	**194**	191	**79**	251
Total interests in associates and joint ventures accounted for using the equity method	**707**	856	**232**	471

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

	Consolidated 2012 $m	Consolidated 2011 $m
(i) Reconciliation of movement in the Consolidated Entity's interests in associates and joint ventures accounted for using the equity method:		
Balance at the beginning of the financial year	**856**	915
Transfer as part of restructure	**–**	(58)
Associates acquired/equity invested	**123**	187
Share of pre-tax profits of associates and joint ventures	**53**	64
Share of tax expense of associates and joint ventures	**(16)**	(19)
Dividends received from associates (note 33)	**(65)**	(165)
Associates disposed of	**(150)**	(112)
Impairment of investments in associates	**(50)**	(18)
Foreign exchange and other adjustments	**24**	(38)
Transferred (to)/from other asset categories	**(68)**	100
Balance at the end of the financial year	**707**	856

(ii) Summarised information of interests in material associates and joint ventures accounted for using the equity method is as follows:

			Ownership interest	
Name of entity	**Country of incorporation**	**Reporting date**	**2012 %**	2011 %
MGPA Limited[1, a]	Bermuda	30 June	**56**	56

[1] Significant influence arises due to the Consolidated Entity's voting power and board representation.

[a] Property development/management

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
(iii) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**33**	15	**–**	–
For which the Consolidated Entity is severally liable	**17**	8	**–**	–

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	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 16
Interests in associates and joint ventures accounted for using the equity method continued

(iv) Financial information of interests in associates and joint ventures are as follows:

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Consolidated Entity's share of:				
Assets	**1,267**	1,246	**344**	558
Liabilities	**903**	763	**201**	276
Revenues	**165**	211	**77**	70
Profit after tax	**32**	41	**29**	14

Note 17
Intangible assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Goodwill	**336**	332	**–**	–
Customer and servicing contracts	**111**	139	**–**	–
Intangible assets with indefinite lives	**224**	236	**–**	–
Other identifiable intangible assets	**203**	159	**66**	40
Total intangible assets	**874**	866	**66**	40

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

Reconciliation of the Consolidated Entity's movement in intangible assets:

	Goodwill $m	Customer and servicing contracts $m	Intangible assets with indefinite lives $m	Other identifiable intangible assets $m	Total $m
Balance at the beginning of the financial year	332	139	236	159	866
Acquisitions during the financial year	16	2	–	111	129
Reclassifications during the financial year	1	–	–	(1)	–
Adjustments to purchase consideration[1]	(3)	–	–	(4)	(7)
Disposals during the financial year	(2)	–	–	(1)	(3)
Impairment during the financial year	(6)	(2)	(12)	(1)	(21)
Amortisation expense for the financial year	–	(22)	–	(47)	(69)
Currency translation difference arising during the financial year	(2)	(6)	–	(13)	(21)
Balance at the end of the financial year	336	111	224	203	874

[1] These balances relate to adjustments to purchase considerations and allocations.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to note 3 – Segment reporting) and assessed for impairment on a regional legal entity operating group basis.

The recoverable amount of goodwill is determined using the higher of value-in-use and fair value less costs to sell.

Value-in-use calculations are based upon discounting estimated post-tax cashflows at a risk-adjusted interest rate appropriate to the cash generating unit to which the goodwill applies. The determination of both cashflows and discount rates require the exercise of judgement. The calculations use cash flow estimations based on financial budgets and forecasts reviewed by management. These cashflows are discounted at rates that have been determined by reference to historical company and industry experience and publicly available data.

Fair value less cost to sell calculations are determined using an earnings multiple approach applicable to that type of business. These have been determined by reference to historical company and industry experience and publicly available data.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 18

Investments in subsidiaries

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Investments at cost without provisions for impairment	–	–	3,545	3,600
Investments at cost with provisions for impairment	–	–	1,251	609
Less provisions for impairment	–	–	(533)	(428)
Investments at recoverable amount	–	–	718	181
Total investments in subsidiaries	–	–	**4,263**	3,781

The above amounts are expected to be recovered after 12 months of the balance date by the Bank.

The material subsidiaries of the Bank, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Bank or the nature of activities conducted by the subsidiary, are:

- Delaware Management Company (United States)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Agricultural Funds Management Limited
- Macquarie Alternative Assets Management Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Corporate and Asset Finance Limited
- Macquarie Equities Limited
- Macquarie FG Holdings Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Limited/Financiere Macquarie Ltee. (Canada)
- Macquarie Financial Products Management Limited
- Macquarie Funding Holdings Inc. (United States)
- Macquarie Funding Inc. (Canada)
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Life Limited
- Macquarie Securitisation Limited
- MQ Portfolio Management Limited

Note: All material entities are incorporated in Australia unless otherwise stated.

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

In accordance with an ASIC instrument, Macquarie Bank Limited is required to disclose that it has been granted relief from synchronising the year-end of one of its consolidated Australian Funds, being "Pareto Global Risk Adjusted Alpha Trust" ARSN 134 011 313 (Pareto Fund). This is of no consequence to the consolidation as, while the Pareto Fund year end is different to that of Macquarie Bank Limited, the results and balances included in the consolidation are at the reporting date of 31 March.

Notes to the financial statements
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Note 19
Deed of cross guarantee

On 26 March 2009 MBL, Macquarie Americas Holdings Pty Limited, Macquarie Corporate and Asset Finance Limited, Macquarie Property Investment Management Holdings Limited and Pacific Rim Operations Limited entered into a deed of cross guarantee under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered into the deed and on 22 March 2010, Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Consolidated income statement and a summary of movements in consolidated retained earnings

The above entities represent a 'Closed Group' (the Closed Group) for the purpose of the Class Order, and as there are no other parties to the Deed of cross guarantee that are controlled by the Bank they also represent the 'Extended Closed Group'.

Consolidated income statement of the Closed Group for the financial year ended 31 March 2012

	2012 $m	2011 $m
Interest and similar income	**3,859**	3,962
Interest expense and similar charges	**(2,859)**	(2,812)
Net interest income	**1,000**	1,150
Fee and commission income	**85**	95
Net trading income	**917**	561
Share of net profits of associates and joint ventures accounted for using the equity method	**9**	20
Other operating income and charges	**1,336**	595
Net operating income	**3,347**	2,421
Employment expenses	**(850)**	(853)
Brokerage, commission and trading-related expenses	**(339)**	(363)
Occupancy expenses	**(88)**	(84)
Non-salary technology expenses	**(54)**	(59)
Other operating expenses	**(844)**	(964)
Total operating expenses	**(2,175)**	(2,323)
Operating profit before income tax	**1,172**	98
Income tax expense	**(39)**	(150)
Gain/(loss) attributable to equity holders of the Closed Group	**1,133**	(52)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**586**	1,277
Profit/(loss) attributable to equity holder of the Closed Group	**1,133**	(52)
Dividends paid or provided	**(495)**	(639)
Retained earnings at the end of the financial year	**1,224**	586

Note 19

Deed of cross guarantee continued

Consolidated statement of financial position of the Closed Group as at 31 March 2012

	2012 $m	2011 $m
Assets		
Receivables from financial institutions	**6,493**	6,255
Cash collateral on securities borrowed and reverse repurchase agreements	**6,900**	7,370
Trading portfolio assets	**9,069**	13,543
Derivative assets	**18,917**	18,551
Investment securities available for sale	**17,207**	13,996
Other assets	**3,960**	3,707
Loan assets held at amortised cost	**17,929**	17,299
Other financial assets at fair value through profit or loss	**4,857**	9,940
Due from related body corporate entities	**984**	2,243
Due from subsidiaries	**17,239**	16,668
Property, plant and equipment	**4**	16
Interests in associates and joint ventures accounted for using the equity method	**338**	476
Intangible assets	**66**	40
Investments in subsidiaries	**5,939**	5,224
Deferred tax assets	**–**	13
Total assets	**109,902**	115,341
Liabilities		
Cash collateral on securities lent and repurchase agreements	**5,881**	6,099
Trading portfolio liabilities	**3,468**	5,621
Derivative liabilities	**17,967**	18,191
Deposits	**35,028**	34,481
Current tax liabilities	**–**	15
Other liabilities	**4,271**	4,046
Payables to financial institutions	**3,438**	1,359
Other financial liabilities at fair value through profit or loss	**1,265**	2,122
Due to related body corporate entities	**2,714**	6,212
Due to subsidiaries	**7,765**	8,749
Debt issued at amortised cost	**16,278**	17,698
Provisions	**56**	58
Deferred tax liabilities	**98**	–
Total liabilities excluding loan capital	**98,229**	104,651
Loan capital		
Subordinated debt at amortised cost	**2,176**	1,430
Subordinated debt at fair value through profit or loss	**150**	467
Total loan capital	**2,326**	1,897
Total liabilities	**100,555**	106,548
Net assets	**9,347**	8,793
Equity		
Contributed equity		
Ordinary share capital	**7,578**	7,278
Equity contribution from ultimate parent entity	**79**	75
Macquarie Income Securities	**391**	391
Convertible debentures	**107**	107
Reserves	**(32)**	356
Retained earnings	**1,224**	586
Total equity	**9,347**	8,793

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Note 20
Deferred tax (liabilities)/assets

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
The balance comprises temporary differences attributable to:				
Tax losses	**209**	152	**42**	2
Fixed assets	**63**	19	**46**	37
Investments in subsidiaries, associates and joint ventures	**2**	139	**14**	23
Set-off of deferred tax liabilities	**(169)**	66	**(61)**	(1)
Total deferred tax assets	**105**	376	**41**	61
Intangible assets	**(111)**	(139)	**–**	–
Financial instruments	**(467)**	(101)	**(37)**	109
Other liabilities	**(126)**	6	**(163)**	(87)
Tax effect of reserves	**(1)**	(93)	**15**	(80)
Set-off of deferred tax assets	**169**	(66)	**61**	1
Total deferred tax liabilities	**(536)**	(393)	**(124)**	(57)
Net deferred tax (liabilities)/assets	**(431)**	(17)	**(83)**	4

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

Potential tax assets of approximately $21 million (2011: $17 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable.

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses. Deductible temporary differences and tax losses give rise to deferred tax assets. Deferred tax assets are not recognised unless the benefit is probable of realisation.

The deferred tax assets have been applied against deferred tax liabilities to the extent that they are expected to be realised in the same period and within the same tax paying entity.

Note 21
Cash collateral on securities lent and repurchase agreements

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Central banks	**–**	190	**–**	190
Governments	**–**	344	**–**	344
Financial institutions	**4,773**	5,562	**5,878**	5,562
Other	**6**	7	**3**	3
Total cash collateral on securities lent and repurchase agreements	**4,779**	6,103	**5,881**	6,099

Note 22
Trading portfolio liabilities

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Listed equity securities	**2,541**	4,424	**2,541**	4,325
Commonwealth government securities	**551**	340	**551**	340
Corporate securities	**213**	472	**183**	460
Other government securities	**202**	496	**193**	496
Total trading portfolio liabilities	**3,507**	5,732	**3,468**	5,621

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m

Note 23

Other liabilities

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Creditors	**4,621**	4,901	**2,721**	2,636
Due to brokers and customers	**2,217**	1,374	**1,132**	628
Accrued charges and sundry provisions	**729**	737	**332**	419
Other	**153**	451	**86**	366
Total other liabilities	**7,720**	7,463	**4,271**	4,049

The majority of the above amounts are expected to be settled within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 24

Payables to financial institutions

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
OECD banks	**2,417**	600	**793**	412
Clearing houses[1]	**–**	3	**–**	3
Other	**1,882**	977	**892**	596
Total payable to financial institutions	**4,299**	1,580	**1,685**	1,011

[1] Amounts due to clearing houses are settled on the next business day.

Note 25

Other financial liabilities at fair value through profit or loss

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Equity linked notes	**1,638**	2,907	**1,219**	2,120
Debt issued at fair value	**50**	2	**46**	2
Total other financial liabilities at fair value through profit or loss	**1,688**	2,909	**1,265**	2,122

Note 26

Debt issued at amortised cost

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Debt issued at amortised cost[1]	**35,068**	36,943	**16,213**	17,697
Total debt issued at amortised cost	**35,068**	36,943	**16,213**	17,697

[1] Included within this balance are amounts payable to SPE note holders of $11,474 million (2011: $11,679 million).

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

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

(In Australian dollar equivalent):

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
United States dollars	**13,013**	14,298	**10,341**	12,284
Australian dollars	**12,638**	14,257	**4,067**	4,683
Canadian dollars	**7,192**	7,242	**72**	46
Japanese yen	**1,551**	1,384	**1,551**	1,384
Euro	**1,394**	2,284	**873**	1,142
Great British pounds	**476**	135	**240**	70
Korean won	**171**	–	**78**	–
Singapore dollars	**121**	62	**119**	42
Hong Kong dollars	**88**	164	**88**	164
Others	**112**	26	**49**	4
Total by currency	**36,756**	39,852	**17,478**	19,819

The Bank's and Consolidated Entity's primary sources for domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from one day to 30 years.

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Note 27
Provisions

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Provision for annual leave	49	44	27	26
Provision for long service leave	27	28	27	28
Provision for other employee entitlements	16	–	–	–
Provision for dividends	7	8	2	2
Total provisions	**99**	80	**56**	56

The majority of the above amounts are expected to be settled after 12 months of the balance date by the Consolidated Entity and the Bank.

Note 28

Capital management strategy

The Bank and Consolidated Entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

- The Consolidated Entity's capital management objectives are to:
- continue to support the Consolidated Entity's credit rating;
- ensure sufficient capital resource to support the Consolidated Entity's business and operational requirements;
- maintain sufficient capital to exceed externally imposed capital requirements; and
- safeguard the Consolidated Entity's ability to continue as a going concern.
- The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, Macquarie's Economic Capital Model (ECAM) has been developed to quantify the Consolidated Entity's aggregate level of risk. The ECAM is used in the Consolidated Entity to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. The Bank reports to APRA under Basel II capital requirements and has been granted accreditation by APRA to adopt the Basel II Foundation Internal Ratings Based Approach for credit risk, the Advanced Measurement Approach for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book.

Regulatory capital requirements are measured for the Bank and certain subsidiaries which meet the definition of extended licensed entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Bank, its subsidiaries and its immediate parent less certain subsidiaries of the Bank which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, fund management, non-financial operations and special purpose vehicles. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Consolidated Entity internal capital policy set by the Board requires capital floors above this regulatory required level.

The Banking Group's Tier 1 capital consists of share capital, retained earnings, certain reserves, hybrid instruments and deductions. The hybrid instruments include Macquarie Income Securities, Macquarie Income Preferred Securities and Exchangeable Capital Securities. Deductions from Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, Basel II requires that equity investments over prescribed limits and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. The Banking Group's Tier 2 capital includes term subordinated debt, certain reserves and deductions. Deductions from Tier 2 capital include the 50 per cent of equity investments above limits and investments in subsidiaries as noted above.

The Bank and Consolidated Entity have complied with all internal and external capital management requirements throughout the year.

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Note 29
Loan capital
Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is, and shall at all times be and remain, subordinated to the rights of all other present and future creditors of the Consolidated Entity.

Exchangeable Capital Securities

On 26 March 2012, the Bank, acting through its London Branch, issued US$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Bank as to whether payments should be made. If interest is not paid on the ECS on an interest payment date, the Bank and MGL will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of the Bank or MGL), where the Bank's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines the Bank would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 5 per cent discount to the MGL share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. There is no additional amount payable by an ECS holder on an exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2012 would be 8,730,560. The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of the Bank in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2012, the remaining principal liability related to the ECS was US$250 million ($241 million).

Maturity and currency profiles of loan capital instruments

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
The dates upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	**59**	26	**59**	26
19 September 2016	**–**	306	**–**	306
6 December 2016	**–**	441	**–**	441
31 May 2017	**299**	308	**299**	308
21 September 2020	**767**	816	**767**	816
7 April 2021	**963**	–	**963**	–
Subordinated debt	**2,088**	1,897	**2,088**	1,897
The instrument where the Consolidated Entity has a conditional repayment obligation is shown below:				
ECS	**241**	–	**241**	–
Total loan capital[1]	**2,329**	1,897	**2,329**	1,897
Reconciliation of loan capital by major currency: *(In Australian dollar equivalent)*				
United States dollars	**1,230**	–	**1,230**	–
Euro	**791**	1,283	**791**	1,283
Australian dollars	**308**	306	**308**	306
Great British pounds	**–**	308	**–**	308
Total loan capital by currency[1]	**2,329**	1,897	**2,329**	1,897

[1] Balance disclosed excludes $3 million (2011: $nil) of directly attributable costs related to the issue of Exchangeable Capital Securities.

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

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2012 is equal to the contractual amount at maturity (2011: $5 million higher).

In accordance with APRA guidelines, the Consolidated Entity includes the applicable portion of its loan capital principal as Tier 2 capital.

	Consolidated and Bank		Consolidated and Bank	
	2012 Number of Shares	2011 Number of Shares	**2012 $m**	2011 $m

Note 30

Contributed equity

	2012 Number of Shares	2011 Number of Shares	**2012 $m**	2011 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**485,069,369**	444,085,965	**7,278**	6,508
Issue of shares to Macquarie B.H. Pty Ltd on 29 June 2010 at $18.70 per share	**–**	3,743,316	**–**	70
Issue of shares to Macquarie B.H. Pty Ltd on 30 July 2010 at $18.87 per share	**–**	13,248,543	**–**	250
Issue of shares to Macquarie B.H. Pty Ltd on 29 September 2010 at $18.78 per share	**–**	15,974,441	**–**	300
Issue of shares to Macquarie B.H. Pty Ltd on 29 March 2011 at $18.71 per share	**–**	8,017,104	**–**	150
Issue of shares to Macquarie B.H. Pty Ltd on 30 June 2011 at $18.19 per share	**16,492,579**	–	**300**	–
Closing balance of fully paid ordinary shares	**501,561,948**	485,069,369	**7,578**	7,278

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**102**	87	**75**	67
Additional paid up capital	**6**	15	**4**	8
Balance at the end of the financial year	**108**	102	**79**	75

During the year ended 31 March 2010, the ultimate parent entity, MGL, introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff of the Consolidated Entity. Under MEREP the staff retained profit share is held in the shares of MGL by the Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the equity provided as a capital contribution from MGL. During the year ended 31 March 2012, compensation expense relating to MEREP which has been treated as paid up capital in the Consolidated Entity totalled $1,628,818 (2011: $2,532,976) and in the Bank $747,807 (2011: $180,581). For further information regarding the terms and conditions of MEREP refer to note 35 – Employee equity participation.

In November 1995, the Bank introduced an Employee Option Plan, as a replacement for the Bank's then closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). Staff eligible to participate were those of Associate Director level and above and consultants to the Consolidated Entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods. Since 13 November 2007 the equity provided has been treated as an equity contribution from MGL. For the year ended 31 March 2012, compensation expense relating to MGESOP which has been treated as additional paid up capital in the Consolidated Entity totalled $3,591,240 (2011: $11,445,656) and in the Bank $2,287,030 (2011: $7,300,282). In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, compensation expense relating to these plans which has been recognised as additional paid up capital in the Consolidated Entity totalled $447,104 (2011: $667,121) and in the Bank $442,223 (2011: $658,369). Details of the MGESOP, MGSSAP and ESP are disclosed in note 35 – Employee equity participation.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 30

Contributed equity continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

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

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Convertible debentures				
850 convertible debentures of £50,000 each	**–**	–	**107**	107
Total convertible debentures	**–**	–	**107**	107

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 31 – Reserves, retained earnings and non-controlling interests), the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2011: 6.177 per cent) semi-annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35 per cent (2011: 2.35 per cent) per annum above the then prevailing five year benchmark sterling gilt rate. Following the redemption of 6,150 convertible debentures on 29 September 2009, 850 convertible debentures remain on issue.

The distribution policies for these instruments are included in note 5 – Dividends paid and distributions paid or provided for.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Note 31				
Reserves, retained earnings and non-controlling interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(643)**	(241)	**(34)**	(57)
Currency translation differences arising during the financial year, net of hedge and net of tax	**(15)**	(402)	**(4)**	23
Balance at the end of the financial year	**(658)**	(643)	**(38)**	(34)
Available for sale reserve				
Balance at the beginning of the financial year	**307**	192	**266**	210
Revaluation movement for the financial year, net of tax	**(91)**	174	**(126)**	116
Transfer to income statement upon impairment, net of tax	**1**	(6)	**1**	(6)
Transfer to income statement on realisation	**(142)**	(53)	**(139)**	(54)
Balance at the end of the financial year	**75**	307	**2**	266
Share-based payments reserve				
Balance at the beginning of the financial year	**186**	186	**186**	186
Transfer to retained earnings[1]	**(186)**	–	**(186)**	–
Balance at the end of the financial year	**–**	186	**–**	186
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(26)**	(47)	**(6)**	(27)
Revaluation movement for the financial year, net of tax	**(10)**	21	**7**	21
Balance at the end of the financial year	**(36)**	(26)	**1**	(6)
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	**1**	1	**–**	–
Share of other comprehensive income during the financial year	**1**	–	**–**	–
Balance at the end of the financial year	**2**	1	**–**	–
Reserves arising from group restructure of combining entities under common control				
Balance at the beginning of the financial year	**(261)**	(261)	**(61)**	(61)
Arising from acquisition of subsidiaries from the Non-Banking Group (note 43)	**(1)**	–	**–**	–
Transfer to retained earnings[2]	**262**	–	**61**	–
Balance at the end of the financial year	**–**	(261)	**–**	(61)
Total reserves at the end of the financial year	**(617)**	(436)	**(35)**	351
Retained earnings				
Balance at the beginning of the financial year	**1,701**	1,533	**679**	1,288
Profit attributable to equity holders of MBL	**635**	829	**298**	30
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(26)**	(26)	**–**	–
Distributions paid or provided on convertible debentures (note 5)	**–**	–	**(4)**	(4)
Dividends paid on ordinary share capital (note 5)	**(491)**	(635)	**(491)**	(635)
Transfer from share-based payments reserves[1]	**186**	–	**186**	–
Transfer from reserves arising from group restructure of combining entities under common control[2]	**(262)**	–	**(61)**	–
Balance at the end of the financial year	**1,743**	1,701	**607**	679

1 Includes $186 million (March 2011: $nil) transferred to retained earnings in respect of expired and lapsed options.

2 Reserves arising from group restructure of combining entities under common control relate predominantly to transactions in the 31 March 2007 and 31 March 2008 financial years where these reserves and ordinary share capital were disclosed on a gross basis to explain the impacts of restructures of entities under the control of MGL. While the presentation was relevant to those reporting periods, there is no continuing value to the users of the accounts in carrying forward the gross disclosures and as such, these reserves have been transferred to retained earnings.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 31

Reserves, retained earnings and non-controlling interests continued

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Non-controlling interests				
Macquarie Income Preferred Securities[3]				
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	**–**	–
Less issue costs	**(1)**	(1)	**–**	–
	106	106	**–**	–
Current year profit	**4**	4	**–**	–
Distribution provided for on Macquarie Income Preferred Securities (note 5)	**(4)**	(4)	**–**	–
Foreign currency translation reserve	**(43)**	(43)	**–**	–
Total Macquarie Income Preferred Securities	**63**	63	**–**	–
Other non-controlling interests				
Ordinary share capital	**5**	13	**–**	–
Retained earnings	**–**	(4)	**–**	–
Total other non-controlling interests	**5**	9	**–**	–
Total non-controlling interests	**68**	72	**–**	–

[3] On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2011: 6.177 per cent) per annum 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 cent (2011: 2.35 per cent) 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 Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

Note 32

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

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

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Receivables from financial institutions[1]	**8,288**	7,548	**6,491**	6,254
Trading portfolio assets and debt securities[2]	**3,957**	2,477	**3,812**	2,419
Cash and cash equivalents at the end of the financial year	**12,245**	10,025	**10,303**	8,673

1 Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses as per note 1(xx) – Summary of significant accounting policies.

2 Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities as per note 1(xx) – Summary of significant accounting policies.

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

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Profit after income tax	**640**	833	**298**	30
Adjustments to profit after income tax:				
Depreciation and amortisation	**349**	183	**15**	10
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(248)**	(106)	**(381)**	(90)
(Gain)/loss on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**(15)**	(41)	**–**	156
Gain on sale of non-financial assets	**(104)**	(13)	**–**	(13)
Provision and impairment charge on financial and non-financial assets	**290**	167	**362**	210
Interest on available for sale financial assets	**(100)**	(137)	**186**	(59)
Net gains on sale of investment securities available for sale and associates and joint ventures	**(225)**	(236)	**(152)**	(196)
Share-based payment expense (note 30)	**6**	15	**4**	8
Share of net profits of associates and joint ventures accounted for using the equity method	**(37)**	(45)	**–**	–
Changes in assets and liabilities:				
Change in dividends receivable	**(21)**	25	**(22)**	15
Change in values of associates due to dividends received	**65**	165	**96**	–
Change in fees and non-interest income receivable	**(241)**	102	**(298)**	199
Change in fees and commissions payable	**87**	10	**98**	(4)
Change in tax balances	**73**	124	**(79)**	(68)
Change in provisions for employee entitlements	**3**	10	**2**	4
Change in loan assets	**(1,720)**	(3,674)	**(4,672)**	(5,506)
Change in loan receivable from ultimate parent entity	**737**	512	**737**	512
Change in debtors, prepayments, accrued charges and creditors	**110**	91	**(2,357)**	127
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**1,930**	(3,974)	**9,025**	(4,257)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**1,296**	10,026	**1,238**	10,996
Change in life investment contract receivables	**290**	209	**–**	–
Net cash flows from operating activities	**3,165**	4,246	**4,100**	2,074

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 33
Related party information

Ultimate and immediate parent entities

The Bank's ultimate parent entity is MGL. The Bank's immediate parent entity is Macquarie B.H. Pty Ltd. Both MGL and Macquarie B.H. Pty Ltd are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

In the financial year ended 31 March 2008 the Bank provided a $10.1 billion intra-group loan to MGL of which $737 million was outstanding at 31 March 2011. This facility was repaid on 27 April 2011.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2012, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to $58 million liabilities (2011: $249 million liabilities) and $80 million assets (2011: $79 million liabilities), respectively.

Balances outstanding with MGL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at financial year end:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Amounts receivable[1]	**137**	791	**92**	758

[1] As described in note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes $68 million (2011: $44 million) for amounts paid in advance for MEREP offered to their employees and yet to be recognised as a share-based payment expense.

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Bank except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Bank and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Bank has entered into derivative transactions with its subsidiaries to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its subsidiaries at 31 March 2012 are $1,607 million (2011: $825 million) positive value and $954 million (2011: $1,389 million) negative value.

A list of material subsidiaries is set out in note 18 – Investments in subsidiaries.

Note 33

Related party information continued

Subsidiaries continued

The following income/(expense) resulted from transactions with subsidiaries during the financial year:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Interest income received/receivable	**–**	–	**457**	476
Interest expense paid/payable	**–**	–	**(244)**	(288)
Fee and commission income	**–**	–	**186**	336
Other operating income/(expense)	**–**	–	**47**	(5)
Dividends and distributions received/receivable (note 2)	**–**	–	**372**	407
Management fees, group service charges and cost recoveries	**–**	–	**419**	388
Brokerage, commission and trading-related expenses	**–**	–	**1**	(252)
The following balances with subsidiaries were outstanding as at the financial year end:				
Amounts receivable	**–**	–	**18,927**	20,134
Amounts payable	**–**	–	**(8,374)**	(10,607)

Other related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees.

Balances arising from lending and borrowing activities between the Consolidated Entity and other related body corporate entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The following income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Interest income received/receivable	**42**	105	**39**	116
Interest expense paid/payable	**(154)**	(216)	**(134)**	(208)
Management fees, group service charges and cost recoveries	**(1)**	(19)	**(1)**	(18)
Fee and commission expense	**(284)**	(455)	**(322)**	(479)
Other operating expenses	**(937)**	(786)	**(711)**	(602)
Other income	**–**	51	**–**	–
The following balances with other related body corporate entities were outstanding as at financial year end:				
Amounts receivable	**981**	1,652	**889**	1,472
Amounts payable	**(3,022)**	(6,471)	**(2,709)**	(6,212)

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 33

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

During the financial year, the following amounts of income or expense resulted from transactions with associates and joint ventures:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Interest income received/receivable	**2**	3	**–**	–
Fee and commission income/(expense)[1]	**41**	13	**(23)**	(18)
Other income	**4**	2	**1**	3
Gains on sale of securities[2]	**6**	13	**(2)**	–
Dividends and distributions[3] (note 16)	**65**	165	**–**	3

1 Fee and commission income includes all fees charged to associates.

2 Gains on sale of securities are shown after elimination of unrealised profits/losses calculated by reference to the Consolidated Entity's ownership interest in the associate.

3 Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 16 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Amounts receivable	**177**	110	**98**	69
Amounts payable	**(2)**	(3)	**(2)**	(3)

Balances arising from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Note 34

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Bank during the financial years ended 31 March 2012 and 31 March 2011, unless indicated:

Executive Directors

N.W. Moore[1]	
W.R. Sheppard	Managing Director and Chief Executive Officer (retired 20 December 2011)
G.C. Ward[1]	Managing Director and Chief Executive Officer (appointed 20 December 2011)

Non-Executive Directors

D.S. Clarke, AO	Non-Executive Chairman (resigned 17 March 2011)
D.J. Grady, AM	(appointed 19 May 2011)
M.J. Hawker, AM	
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM	Non-Executive Chairman (appointed as Chairman on 17 March 2011)
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MBL during the past two financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated.

Executives

S.D. Allen[1]	Group Head, Risk Management Group
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw	Executive Chairman, Macquarie Securities Group (11 July 2011 until retirement from the Executive Committee on 31 December 2011)
	Group Head, Macquarie Securities Group (to 7 April 2011)
	Group Head, Macquarie Capital (to 31 December 2011)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
M. McLaughlin[1]	Country Head, Unites States of America (appointed 1 January 2012)
S. Vrcelj[1]	Group Head, Macquarie Securities Group (appointed 7 April 2011)
	Head of Global Cash and Equities (2 July 2010 to 22 November 2011)
S. Wikramanayake[1]	Group Head, Macquarie Funds Group

[1] Members of the Bank's Executive Committee as at 27 April 2012.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report pages 6 to 32.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 34

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel:

	Short-term Employee Benefits				Long-term Employee Benefits[1]	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share $	Equity awards including shares $	PSUs/ Options $	Total remuneration $
Executive Remuneration								
2012	**6,102,099**	**13,978,951**	**–**	**20,081,050**	**5,624,692**	**16,534,442**	**4,719,042**	**46,959,226**
2011	4,190,692	13,465,328	–	17,656,020	5,878,563	8,184,654	2,793,965	34,513,202
Non-Executive Remuneration								
2012	**686,438**	**–**	**11,304**	**697,742**	**–**	**–**	**–**	**697,742**
2011	702,056	–	8,571	710,627	–	–	–	710,627

[1] Includes earnings or losses on restricted profit share.

Loans to Key Management Personnel and their related parties

Details of loans provided by the Consolidated Entity to Key Management Personnel and their related parties are disclosed in the following tables:

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000
Total for Key Management Personnel and their related parties	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	31,691	1,290	–	5,532
Total for Key Management Personnel[1]	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	12,422	693	–	5,532

[1] Number of persons included in the aggregate at 31 March 2012: 3 (2011: 3).

Loans and other financial instrument transactions are made by the Consolidated Entity in the ordinary course of business with related parties.

Certain loans are provided under zero cost collars and secured over MGL shares under normal terms and conditions consistent with other customers and employees.

Note 34

Key Management Personnel disclosure continued

For the financial year ended 31 March 2012

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year are as follows:

Name and position	Balance at 1 April 2011[1] $'000	Interest charged[2] $'000	Write-downs $'000	Balance at 31 March 2012[3] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	356	–	5,274	5,274
Executives					
P.J. Maher	20	5	–	370	370
Former					
R.S. Laidlaw[4]	238	13	–	238	238

1 Or date of appointment if later.

2 All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

3 Or date of resignation if earlier.

4 Mr Laidlaw retired from the Executive Committee on 31 December 2011. The balance at 31 March 2012 represents the balance at date of retirement from the Executive Committee.

For the financial year ended 31 March 2011

Name and position	Balance at 1 April 2010[1] $'000	Interest charged[2] $'000	Write-downs $'000	Balance at 31 March 2011[3] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	304	–	5,274	5,274
Executives					
R.S. Laidlaw	238	14	–	238	238
Former					
D.S. Clarke[4]	26,160	971	–	5,757	26,526

1 Or date of appointment if later.

2 All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

3 Or date of resignation if earlier.

4 Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents the balance at date of resignation.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 34

Key Management Personnel disclosure continued

Other transactions and balances of Key Management Personnel and their related parties:

The following Key Management Personnel have acquired Infrastructure Bonds and similar products from subsidiaries within the Bank which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the Consolidated Entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2012 $m	Consolidated 2011 $m
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**1,187**	12,181

The annual contributions in respect of Infrastructure Bonds and similar products relate to the following Key Management Personnel:

Executive Directors

N.W. Moore, G.C. Ward

Non-Executive Directors

P.M. Kirby (2011 only)

Executives

S.D. Allen, A.J. Downe, G.A. Farrell, P.J. Maher, S. Vrcelj, S. Wikramanayake

Former

R.S. Laidlaw, W.R. Sheppard

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the Bank and other non-related entities in respect of fully paid ordinary MGL shares. This has the effect of acquiring cash-settled put options against movements in the MGL share price below nominated levels and disposing of the benefit of any share price movement above the nominated level.

Transactions with the Consolidated Entity

Name and position	Description	Number of shares 2012	Number of shares 2011[1]
Executives			
A.J. Downe[1]	Matured August 2010	–	21,905

[1] Mr Downe entered into a zero cost collar for the period 4 June 2010 to 2 August 2010. There was no loan associated with this collar and the shares were not sold upon maturity on 2 August 2010. Mr Downe subsequently sold these shares in August 2010.

All other transactions with Key Management Personnel (including their personally related parties) were conducted on an arm's length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

Note 35

Employee equity participation

Macquarie Group Employee Retained Equity Plan

In December 2009, MGL's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP) in conjunction with remuneration arrangements. These arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as equity, an increase in the proportion of deferred remuneration and cessation of new option grants under the Macquarie Group Employee Share Option Plan (MGESOP).

Award Types under the MEREP

Restricted Share Units (RSUs)

A RSU is a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the plan trustee (Trustee). The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of MGL shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as are provided to holders of RSUs. However, holders of DSUs will have no voting rights as to any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2011, the PSUs granted to the MBL Executive Committee, including the MGL and MBL CEOs, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The following is a summary of Awards which have been granted pursuant to the MEREP:

	Number of RSU Awards 2012	Number of RSU Awards 2011
RSUs on issue at the beginning of the financial year	**4,922,519**	2,603,211
Granted during the financial year	**3,395,331**	2,150,710
Forfeited during the financial year	**(422,421)**	(87,197)
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(847,142)**	(303,826)
Transfers from related body corporate entities	**758,130**	559,621
RSUs on issue at the end of the financial year	**7,806,417**	4,922,519
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**98,410**	119,661

The weighted average fair value of the RSU Awards granted during the financial year was $31.11 (2011: $42.27).

	Number of DSU Awards 2012	Number of DSU Awards 2011
DSUs on issue at the beginning of the financial year	**365,580**	217,744
Granted during the financial year	**274,760**	173,509
Forfeited during the financial year	**(41,318)**	(8,988)
Exercised during the financial year	**(36,312)**	(9,436)
Transfers from/(to) related body corporate entities	**29,814**	(7,249)
DSUs on issue at the end of the financial year	**592,524**	365,580
DSUs exercisable at the end of the financial year	**28,882**	38,656

The weighted average fair value of the DSU Awards granted during the financial year was $31.31 (2011: $44.18).

	Number of PSU Awards 2012	Number of PSU Awards 2011
PSUs on issue at the beginning of the financial year	**78,623**	28,400
Granted during the financial year	**190,114**	86,650
Exercised during the financial year	**(1,577)**	–
Expired during the financial year	**(4,056)**	–
Transfers from/(to) related parties	**51,246**	(36,427)
PSUs on issue at the end of the financial year	**314,350**	78,623
PSUs exercisable at the end of the financial year	**–**	–

The weighted average fair value of the PSU Awards granted during the financial year was $20.89 (2011: $34.63).

The awards are measured at their grant dates based on their fair value and for each PSU, the number expected to vest. For the year ended 31 March 2012, compensation expense relating to the MEREP totalled $102 million (2011: $78 million).

Note 35

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards);
- Executive Directors with pre-2009 retained DPS (which they elected to transition into the MEREP);
- staff other than Executive Directors with retained profit share (Retained Profit Share Awards) and staff who are promoted to Associate Director, Division Director or Executive Director, who receive a fixed allocation of MEREP awards (Promotion Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level are awarded a fixed number of MEREP awards depending on level (New Hire Awards); and
- in limited circumstances, Macquarie staff who may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Company on the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to below as New Hire Awards).

Vesting periods are as follows:

- Retained DPS Awards representing 2009 retention for all Executive Directors vest in five equal tranches following the third, fourth, fifth, sixth and seventh anniversaries of 1 July 2009[1];
- Retained DPS Awards representing 2010 and 2011 retention awarded to Non-Designated Executive Directors vest in three equal tranches following the third, fourth and fifth anniversaries of 1 July 2010 and 2011 respectively[1];
- Retained DPS Awards representing 2010 and 2011 retention awarded to Designated Executive Directors vest in five equal tranches following the third, fourth, fifth, sixth and seventh anniversaries of 1 July 2010 and 2011 respectively[2];
- Pre-2009 DPS transitioned into the MEREP vests in seven equal tranches for Executive Committee Members and five equal tranches for other Executive Directors on the first day of a staff trading window in the seven or five years following 1 July 2010;
- Retained Profit Share Awards, Promotion Awards and New Hire Awards vest in three equal tranches after the second, third and fourth anniversaries of the date of allocation[2];
- In limited cases, the Application Form for awards may set out a different Vesting Period, in which case that period will be the Vesting Period for the Award.

For Retained Profit Share Awards representing 2011 retention, the allocation price was the volume weighted average price from 9 May 2011 up to and including 20 June 2011. The price was calculated to be $33.06 (2011: $43.48).

The number of Awards allocated was calculated by adjusting the employee's relevant retained profit share amount, or retained DPS, for any applicable on-costs, dividing this amount by the applicable price outlined above, and rounding down to the nearest whole number. The grant of Awards to Eligible Employees working in Australia is subject to payroll tax, calculated based on the market value of shares on the acquisition date.

Vesting of Performance Share Units

PSUs awarded prior to this year vested in three equal tranches after two, three and four years. The PSUs to be awarded in 2012 will vest in two equal tranches after three and four years.

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. The BRC periodically reviews the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in the Consolidated Entity's Annual Report.

Performance Hurdle 1

50 per cent of the PSUs, based solely on the relative average annual return on ordinary equity (ROE) of MGL over the vesting period compared to a reference group of domestic and international financial institutions.

A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the Award would become exercisable. The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group comprises ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

[1] Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

[2] Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Employee equity participation continued

Performance Hurdle 2

50 per cent of the PSUs, based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) of MGL over the vesting period.

A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9.0 per cent and 100 per cent at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11 per cent, 75 per cent of the Award would become exercisable.

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest expire.

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the year ending 31 March 2012 was $0.23 million (2011: $0.13 million)

Option Plan

MGL has suspended new offers under the Macquarie Group Employee Share Option Plan (MGESOP) under remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last grant of Options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further Options under the MGESOP.

Options on issue are all five year options over unissued ordinary fully paid shares in MGL and were granted to individuals or the individual's controlled Company or an entity approved under the MGESOP to hold options. The options were issued for no consideration and were granted at prevailing market prices.

At 31 March 2012 there were 688 (2011: 891) MBL participants of the MGESOP.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2012	**Weighted average exercise price 2012 $**	Number of options 2011	Weighted average exercise price 2011 $
Outstanding at the beginning of the financial year	**9,567,745**	**60.79**	12,206,770	60.88
Forfeited during the financial year	**(251,141)**	**52.41**	(563,371)	56.54
Exercised during the financial year	**(12,055)**	**28.08**	(16,410)	31.21
Transfers from related body corporate entities	**(264,145)**	**65.89**	669,767	62.68
Lapsed during the financial year	**(3,379,955)**	**61.93**	(2,729,011)	62.69
Outstanding at the end of the financial year	**5,660,449**	**60.32**	9,567,745	60.79
Exercisable at the end of the financial year	**4,478,655**	**62.44**	5,966,558	63.36

For options exercised during the financial year the weighted average share price at the date of exercise was $32.19 (2011: $38.94).

The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $94.48 (2011: $17.10 to $94.48).

Note 35

Employee equity participation continued

Option Plan continued

The weighted average remaining contractual life for the share options outstanding as at 31 March 2012 is 0.98 years (2011: 1.50 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2012	Remaining life (years) 2012	Number of options 2011	Remaining life (years) 2011
10 – 20	**17,624**	**1.94**	18,000	2.94
20 – 30	**55,622**	**1.87**	87,699	2.85
30 – 40	**95,911**	**1.76**	160,194	2.80
40 – 50	**56,666**	**1.38**	94,870	2.63
50 – 60	**3,279,857**	**1.33**	3,907,432	2.31
60 – 70	**82,902**	**0.76**	2,662,895	0.37
70 – 80	**1,908,382**	**0.38**	2,368,174	1.28
80 – 90	**94,550**	**0.26**	188,880	1.04
90 – 100	**68,935**	**0.23**	79,601	1.21
	5,660,449	**0.98**	9,567,745	1.50

There were no options issued in the financial year.

The number of outstanding options, including those not able to be exercised due to performance hurdles not being met as at 31 March 2012 is 5,789,779 and as at 27 April 2012 is 5,767,312.

The market value of shares issued during the year as a result of the exercise of options was $388,060 (2011: $1 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2012 was $165 million (2011: $350 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

The options were measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution.

Options granted vest in three equal tranches after the second, third and fourth anniversaries of the date of allocation of the options. Subject to the MGESOP rules and MGL's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the Company's agreement towards the end of a vesting period, MGL's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

For options granted to the members of MBL and MGL's Executive Committees, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if MGL's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting.

Fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid MGL ordinary shares then on issue.

The options do not confer any right to directly participate in any share issue or interest issue by MGL or any other body corporate or scheme and carry no dividend or voting rights. The options include terms that provide for the adjustment of the number of options, the exercise price and/or the number of shares to be issued on the exercise of options, in the following circumstances:

- an issue of new shares by way of capitalisation of profits or reserves;
- an issue to holders of shares of rights (pro-rata with existing shareholdings) to subscribe for further shares;
- a pro-rata bonus issue;
- a subdivision, consolidation, cancellation or return of capital;
- other reorganisations.

These terms are consistent with the ASX Listing Rules for the adjustment of options in these circumstances, which are intended to ensure that these types of transactions do not result in either a dilution of option holders' interests or an advantage to option holders which holders of ordinary shares do not receive.

For the year ended 31 March 2012, compensation expense relating to exchangeable shares, retention securities and option plans totalled $4 million (2011: $23 million).

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35

Employee equity participation continued

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees are offered up to $1,000 worth of fully paid ordinary Company shares for no cash payment. MGL has since introduced the Macquarie Group Employee Share Plan (ESP) on the same terms.

Shares issued under the ESP cannot be sold until the earlier of three years after issue or the time when the participant is no longer employed by the Company or a subsidiary of the Company. In all other respects, shares issued rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during December 2011. A total of 456 (2011: 686) staff participated in this offer. On 28 December 2011, the participants were each issued with 41 (2011: 24) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $23.81 (2011: $40.52), a total of 18,696 (2011: 16,464) shares were issued. The shares were issued for no cash consideration.

Staff Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL introduced the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) whereby each financial year, Australian based Eligible Employees were given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Company shares on-market. MGL subsequently introduced the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms. In early 2010, MGL suspended new offers under the MGSSAP following Australian taxation changes implemented in late 2009 which would have significantly limited the future participation in the plan. MGL does not expect it will make any future allocations under MGSSAP.

The total number of shares purchased under the MGSSAP was limited in any financial year to 3 per cent of MGL's shares as at the beginning of that financial year.

The shares allocated under the MGSSAP were either newly issued shares or shares acquired on-market by the MGSSAP Plan Company, at the direction of MGL.

Shares acquired under the MGSSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name except in special circumstances if the employee resigns. The shares held in the MGSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the MGSSAP will be withdrawn on the earlier of:

– an employee's resignation from the Company or a related entity;
– upon request by the employee (after the expiration of the non-disposal period); and
– 10 years from the date that the shares are registered in an employee's name.

In all other respects, the shares rank equally with all other fully paid ordinary shares then on issue.

Previously, the Eligible Employees were Australian based permanent full-time or part-time employees or fixed term contract employees of the Company or a related company who either received available profit share in the relevant year of at least $1,000 in total or allocated at least $1,000 in available commission towards the MGSSAP.

The Macquarie Bank Executive Director Share Acquisition Plan (MBEDSAP) was a sub-plan of the MBSSAP which was created in 2003 and was open to eligible Executive Directors. The disposal and forfeiture restrictions in the MBEDSAP differ to those in the MBSSAP. MGL subsequently introduced a Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms but no offers have been made under the plan.

In April 2008, a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of MGL's Executive Committee were required to contribute certain proportions of their annual profit share to acquire Company shares, which must be held for at least three years. The first offers under this sub-plan were made in May 2008. MGL does not intend making any further allocations under this sub-plan, as Executive Committee members now receive the equity component of their retained profit share under the Macquarie Group Employee Retained Equity Plan.

No offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during the year to 31 March 2012 (2011: Nil).

Note 35

Employee equity participation continued

Non-Executive Director Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan whereby each financial year certain Australian based Non-Executive Directors (NEDs) of the Macquarie Group of companies were given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Group to acquire Macquarie Bank Limited shares. MGL subsequently introduced a Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms. The Australian taxation changes referred to above in respect of the MGSSAP also apply to the NEDSAP. Accordingly, MGL has currently suspended new offers under the NEDSAP and does not expect to make any future allocations under the plan.

Previously, NEDs could elect to participate in the NEDSAP by nominating a minimum of $1,000 of their NED remuneration per buying period to go towards the NEDSAP. Participating NEDs could also subsequently apply to reduce their previously nominated contribution provided that the relevant buying period has not commenced.

The shares were acquired at prevailing market prices. Brokerage fees were applied to the NEDs' account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares were transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the NEDSAP will be withdrawn on the earlier of:

- the participant ceasing to be a NED of the Company;
- upon request by the NED (after the expiration of the non-disposal period); and
- 10 years from the date that the shares are registered in a NED's name.

In all other respects, shares rank equally with all other fully paid ordinary shares then on issue.

Shares resulting from participation in the NEDSAP may count towards meeting the minimum shareholding requirements of NEDs.

No offers under the NEDSAP were made during the year ended 31 March 2012 (2011: Nil).

Other plans

The Consolidated Group operates other local share-based compensation plans, none of which, individually or in aggregate are material.

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continued

Note 36
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Contingent liabilities exist in respect of:				
Guarantees	**442**	446	**1,135**	711
Indemnities	**1**	13	**60**	73
Letters of credit	**178**	149	**459**	251
Performance related contingents	**76**	89	**76**	89
Total contingent liabilities[1]	**697**	697	**1,730**	1,124
Commitments exist in respect of:				
Undrawn credit facilities	**3,431**	5,317	**2,601**	4,629
Forward asset purchases	**109**	200	**104**	120
Total commitments[2]	**3,540**	5,517	**2,705**	4,749
Total contingent liabilities and commitments	**4,237**	6,214	**4,435**	5,873

1 Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. A provision is recognised where some loss is probable and can be reliably estimated. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

2 Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m

Note 37

Capital and other expenditure commitments

Capital and other expenditure commitments expected to be incurred:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Not later than one year	**148**	14	**147**	9
Later than one year and not later than five years	**5**	7	**4**	6
Later than five years	**1**	49	**1**	49
Total capital and other expenditure commitments	**154**	70	**152**	64

Note 38

Lease commitments

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Non-cancellable operating leases expiring:				
Not later than one year	**5**	40	**–**	–
Later than one year and not later than five years	**10**	122	**–**	–
Later than five years	**1**	59	**–**	–
Total operating lease commitments	**16**	221	**–**	–

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

Notes to the financial statements
for the financial year ended 31 March 2012
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Note 39

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xi) – Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non–trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross–currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2012, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $11 million positive value (2011: $5 million positive value).

During the year the Consolidated Entity recognised $4 million gains (2011: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $119 million negative value (2011: $162 million negative value).

Fair value hedges: The consolidated entity's fair value hedges consist of:

– interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and
– foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $139 million positive value (2011: $479 million positive value).

During the year fair value losses on the hedging instruments of $339 million have been recognised (2011: $468 million gains), offset by $335 million (2011: $456 million losses) of gains on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has applied net investment hedging for foreign exchange risk arising from its non–core foreign operations.

At 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $2 million positive value (2011: $46 million positive value). During the year the Consolidated Entity recognised $nil (2011: $6 million loss) in the income statement due to hedge ineffectiveness on net investment hedges.

The types of contracts which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross–currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 40

Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Group Legal, to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of the Consolidated Entity. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 40.1

Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

The responsibility for approval of credit exposures is delegated to specific individuals by the Board of MGL. While Operating Groups are assigned modest levels of Credit discretions, all credit exposures above these levels are independently assessed by RMG. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

Credit exposures for loans are evaluated as the full face value whereas exposures for derivatives are a function of potential market movements. When trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount. Credit exposures which fluctuate through the duration of the transaction are updated daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All customers' counterparty limits and exposures are allocated an MGL rating on a 1 – 17 scale which broadly corresponds with Standard & Poor's and Moody's Investor Services credit ratings. Each MGL rating is assigned a Probability of Default estimate. Credit limits and exposures are also allocated a Loss Given Default ratio reflecting the estimated economic loss in the event of default occurring.

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

The Consolidated Entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1

Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements held .

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia					
Governments	–	1,952	924	348	2,996
Financial institutions	2,552	1,017	235	4,061	6,898
Other	–	–	48	1,266	30
Total Australia	2,552	2,969	1,207	5,675	9,924
Asia Pacific					
Governments	–	7	1,066	36	39
Financial institutions	496	53	302	212	610
Other	–	5	179	204	–
Total Asia Pacific	496	65	1,547	452	649
Europe, Middle East and Africa					
Governments	–	171	–	–	76
Financial institutions	1,581	1,522	143	9,320	3,721
Other	–	629	28	1,949	345
Total Europe, Middle East and Africa	1,581	2,322	171	11,269	4,142
Americas					
Governments	–	455	595	68	–
Financial institutions	3,687	1,051	372	2,443	809
Other	–	162	358	2,044	125
Total Americas	3,687	1,668	1,325	4,555	934
Total	8,316	7,024	4,250	21,951	15,649
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Life investment contracts and other unitholder investment assets $m	Due from related body corporate entities $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2012
334	68	885	–	–	–	7,507
3	646	323	561	–	24	16,320
1,594	23,122	1,543	66	262	1,520	29,451
1,931	23,836	2,751	627	262	1,544	53,278
72	1	–	–	–	–	1,221
–	215	38	–	–	1	1,927
38	344	–	–	321	42	1,133
110	560	38	–	321	43	4,281
408	1	42	–	–	–	698
–	746	834	–	–	297	18,164
2,156	3,698	87	–	21	548	9,461
2,564	4,445	963	–	21	845	28,323
293	1	–	–	–	–	1,412
–	1,849	2	–	–	105	10,318
1,772	13,404	77	–	514	1,700	20,156
2,065	15,254	79	–	514	1,805	31,886
6,670	44,095	3,831	627	1,118	4,237	117,768
						117,768

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia					
Governments	–	302	1,566	238	2,301
Financial institutions	2,795	1,195	334	767	6,165
Other	–	5	70	957	165
Total Australia	2,795	1,502	1,970	1,962	8,631
Asia Pacific					
Governments	–	3	614	8	9
Financial institutions	470	44	399	236	559
Other	–	1	69	300	–
Total Asia Pacific	470	48	1,082	544	568
Europe, Middle East and Africa					
Governments	–	217	174	2	142
Financial institutions	2,031	3,562	139	8,360	2,868
Other	–	293	43	2,496	472
Total Europe, Middle East and Africa	2,031	4,072	356	10,858	3,482
Americas					
Governments	–	916	329	64	44
Financial institutions	2,283	703	669	5,379	871
Other	–	177	1,639	2,338	502
Total Americas	2,283	1,796	2,637	7,781	1,417
Total	7,579	7,418	6,045	21,145	14,098
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Life investment contracts and other unitholder investment assets $m	Due from related body corporate entities $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2011
231	524	2,555	–	–	–	7,717
–	841	924	565	–	166	13,752
1,722	24,230	2,432	93	955	1,709	32,338
1,953	25,595	5,911	658	955	1,875	53,807
4	2	–	–	–	–	640
–	163	30	–	–	29	1,930
10	304	–	–	163	123	970
14	469	30	–	163	152	3,540
438	–	40	–	–	–	1,013
–	776	1,577	–	–	235	19,548
1,774	3,159	36	–	194	1,021	9,488
2,212	3,935	1,653	–	194	1,256	30,049
71	28	250	–	–	–	1,702
–	2,075	298	–	–	137	12,415
1,673	13,280	81	–	1,131	2,794	23,615
1,744	15,383	629	–	1,131	2,931	37,732
5,923	45,382	8,223	658	2,443	6,214	125,128
						125,128

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1

Credit risk continued

Maximum exposure to credit risk continued

The tables below detail the concentration of credit exposures of the Bank's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Bank's assets .

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia					
Governments	–	1,952	924	349	2,996
Financial institutions	2,045	1,017	235	3,856	6,716
Other	–	–	48	1,355	19
Total Australia	2,045	2,969	1,207	5,560	9,731
Asia Pacific					
Governments	–	7	683	–	39
Financial institutions	423	53	18	212	610
Other	–	5	58	195	–
Total Asia Pacific	423	65	759	407	649
Europe, Middle East and Africa					
Governments	–	171	–	–	76
Financial institutions	1,425	1,522	143	8,470	3,702
Other	–	629	4	1,912	279
Total Europe, Middle East and Africa	1,425	2,322	147	10,382	4,057
Americas					
Governments	–	455	140	6	–
Financial institutions	2,599	927	231	1,928	739
Other	–	162	350	635	1,534
Total Americas	2,599	1,544	721	2,569	2,273
Total	6,492	6,900	2,834	18,918	16,710
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
						Bank 2012
148	2	885	–	–	–	7,256
–	597	282	–	–	24	14,772
1,688	9,107	1,614	181	12,101	1,454	27,567
1,836	9,706	2,781	181	12,101	1,478	49,595
1	–	–	–	–	–	730
–	63	–	–	–	–	1,379
–	181	–	303	1,474	85	2,301
1	244	–	303	1,474	85	4,410
9	–	42	–	–	–	298
–	718	834	–	–	219	17,033
1,934	3,103	1	13	1,875	585	10,335
1,943	3,821	877	13	1,875	804	27,666
60	–	–	–	–	–	661
–	1,070	–	–	–	104	7,598
89	3,088	73	484	3,477	1,964	11,856
149	4,158	73	484	3,477	2,068	20,115
3,929	17,929	3,731	981	18,927	4,435	101,786
						101,786

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1

Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia					
Governments	–	302	1,566	239	2,301
Financial institutions	2,501	1,194	334	728	5,923
Other	–	6	70	945	138
Total Australia	2,501	1,502	1,970	1,912	8,362
Asia Pacific					
Governments	–	3	380	8	9
Financial institutions	395	44	272	236	559
Other	–	1	26	295	–
Total Asia Pacific	395	48	678	539	568
Europe, Middle East and Africa					
Governments	–	217	174	2	142
Financial institutions	1,775	3,562	139	7,935	2,827
Other	–	293	43	2,464	434
Total Europe, Middle East and Africa	1,775	4,072	356	10,401	3,403
Americas					
Governments	–	873	315	–	44
Financial institutions	1,585	700	650	4,810	883
Other	–	175	1,632	889	107
Total Americas	1,585	1,748	2,597	5,699	1,034
Total	6,256	7,370	5,601	18,551	13,367
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
						Bank 2011
169	450	2,555	–	–	–	7,582
–	807	785	–	–	166	12,438
1,940	8,840	2,511	895	14,148	1,695	31,188
2,109	10,097	5,851	895	14,148	1,861	51,208
1	–	–	–	–	–	401
–	134	30	–	–	29	1,699
–	174	–	158	593	138	1,385
1	308	30	158	593	167	3,485
3	–	40	–	–	–	578
–	647	1,548	–	–	235	18,668
1,545	3,080	–	209	2,694	1,090	11,852
1,548	3,727	1,588	209	2,694	1,325	31,098
18	–	250	–	–	–	1,500
–	1,073	275	–	–	135	10,111
–	2,094	73	968	2,699	2,385	11,022
18	3,167	598	968	2,699	2,520	22,633
3,676	17,299	8,067	2,230	20,134	5,873	108,424
						108,424

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1

Credit risk continued

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost:

Residential mortgage loans

The Consolidated Entity's residential mortgages are secured by fixed charges over a borrower's property. Further Macquarie obtains lender's mortgage insurance (LMI) to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. In Australia and Canada, LMI is taken out for all mortgages to cover 100 per cent of the original principal plus interest. In the USA, LMI is taken out only for loans with Loan to Value Ratio (LVR) higher than 80 per cent at origination. Substantially all the Americas portfolio consists of Canadian mortgages. Further included in the mortgage loan balance is $12,935 million (2011: $13,463 million) which have been securitised.

The Bank's residential mortgages, all originated in Australia, are secured by fixed charges over a borrower's property and LMI as disclosed above.

The tables below provide information on LVRs determined using current loan balances and the valuation at the time the mortgage was financed.

	2012		2011	
Consolidated	**Australia $m**	**Americas $m**	Australia $m	Americas $m
Fully collateralised				
Loan to value ratio				
Less than 25%	**451**	**27**	478	29
25% to 50%	**1,711**	**329**	1,827	356
51% to 75%	**3,838**	**1,479**	4,211	1,573
76% to 90%	**3,638**	**4,433**	3,915	4,320
91% to 100%	**903**	**2,666**	1,011	2,902
Partly collateralised	**45**	**1**	40	1
Total mortgages	**10,586**	**8,935**	11,482	9,181
Bank				
Fully collateralised				
Loan to value ratio				
Less than 25%	**102**	–	90	–
25% to 50%	**419**	–	292	–
51% to 75%	**926**	–	580	–
76% to 90%	**1,070**	–	581	–
91% to 100%	**282**	–	137	–
Partly collateralised	**15**	–	11	–
Total mortgages	**2,814**	–	1,691	–

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrower's residential property. Of the mortgage balance of $1,151million (2011: $1,085 million), $161 million (2011: $271 million) has a LVR of 50 per cent or less, $828 million (2011: $739 million) has an LVR of between 50 and 75 per cent and $140 million (2011: $73 million) an LVR of between 75 and 100 per cent. $22 million (2011: $2 million) is partly secured with an LVR greater than 100 per cent.

Note 40.1

Credit risk continued

Investment and insurance premium lending

Macquarie lends to clients for investment and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investments as collateral and obtains additional cash margin to maintain limits. Other investment lending is backed by cash deposits from the client. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. For the Consolidated Entity, of the investment and insurance premium lending portfolio of $1,812 million (2011: $ 2,133 million), $1,698 million (2011: $2,025 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of $1,329 million (2011: $1,662 million), $1,234 million (2011: $1,553 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying fixed assets are held by Macquarie as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of $6,787 million, (2011: $7,426 million), the credit exposure after considering the depreciated value of collateral is $2,036 million, (2011: $2,228 million). For the Bank, of the lease and retail finance portfolio of $315 million (2011: $506 million), the credit exposure after considering the depreciated value of collateral is $95 million (2011: $152 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property, land rights and other assets. For the Consolidated Entity, of the term lending of $11,254 million, (2011: $9,097 million), the credit exposure after collateral and credit enhancements is $3,055 million, (2011: $2,929 million). For the Bank, of the term lending of $9,794 million, (2011: $9,129 million), the credit exposure after collateral and credit enhancements is $2,504 million, (2011: $2,653 million).

Additional collateral

The Consolidated Entity and the Bank exclude other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values is insufficiently certain and therefore are assigned no amount for disclosure purposes.

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value in the Consolidated Entity at the balance date of $1,801 million (2011: $2,449 million) and in the Bank of $1,776 million (2011: $2,449 million). This amount is fully secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfil obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or stock, and provide daily variation margins usually in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation/reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2012 of $8,906 million (2011: $7,176 million). The Consolidated Entity has also placed initial and variation cash margins with exchanges, the balance at 31 March 2012 being $1,594 million (2011: $2,794 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

The Bank held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2012 of $7,408 million (2011: $5,439 million). The Consolidated Entity has also placed initial and variation cash margins with exchanges, the balance at 31 March 2012 being $1,090 million (2011: $1,527 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

For Over The Counter (OTC) derivative contracts, the Consolidated Entity and Bank often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. Master netting arrangements are generally insufficient to allow offset in the Statement of Financial Position. However, the credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (e.g. derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Bank also often execute a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1

Credit risk continued

As at 31 March 2012, the Consolidated Entity held OTC contracts with a positive replacement value of $12,887 million (2011: $13,820 million) and held margins of $1,201 million (2011: $1,201 million) covering these contracts. The credit risk of these contacts is further reduced due to master netting agreements covering negative OTC contracts of $6,957 million (2011: $8,455 million), and collateral placed of $1,950 million (2011: $1,764 million).

As at 31 March 2012, the Bank held OTC contracts with a positive replacement value of $11,189 million (2011: $13,020 million) and held margins of $1,146 million (2011: $1,131 million) covering these contracts. The credit risk of these contacts is further reduced due to master netting agreements covering negative OTC contracts of $6,494 million (2011: $8,648 million), and collateral placed of $1,920 million (2011: $1,652 million).

Other assets

In the Consolidated Entity, brokerage receivables of $1,941 million (2011: $889 million), and in the Bank of $817 million (2011: $654 million), are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). The Consolidated Entity and the Bank hold the underlying equity security as collateral until settled, which is usually less than three days after trade.

Debt investments securities available for sale

Included in Australia – Governments are holdings of $1,403 million (2011: $2,852 million) issued by Australian banks which are subject to an Australian Government Guarantee. Further, $438 million (2011: $200 million) is secured by specified assets under covered bonds.

Life investment contracts and other unitholder investment assets

Life investment contracts and unitholder investments back policy holder liabilities in the Consolidated Entity of $627 million, (2011: $658 million), and therefore the credit risks on these assets are borne by policy holders.

Credit commitments and contingent liabilities

In the Consolidated Entity, of the Undrawn facilities and lending commitments of $3,431 million (2011: $5,317 million), $1,999 million, (2011: $2,484 million) are fully secured by underlying specific assets. In the Bank, of $2,601 million (2011: $4,629 million), $1,414 million (2011: $2,437 million) are fully secured.

Note 40.1

Credit risk continued

Credit Quality – Consolidated 2012

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	8,058	258	–	–	–	8,316
Cash collateral on securities borrowed and reverse repurchase agreements						7,024
Governments	2,081	504	–	–	–	2,585
Financial institutions	2,907	736	–	–	–	3,643
Other	711	85	–	–	–	796
Trading portfolio assets						4,250
Governments	2,478	107	–	–	–	2,585
Financial institutions	923	122	7	–	–	1,052
Other	183	396	34	–	–	613
Derivative assets						21,951
Governments	438	14	–	–	–	452
Financial institutions	15,338	698	–	–	–	16,036
Other	2,588	2,875	–	–	–	5,463
Debt investment securities available for sale						15,649
Governments	3,111	–	–	–	–	3,111
Financial institutions	11,972	66	–	–	–	12,038
Other	44	455	–	–	1	500
Other assets						6,670
Governments	1,107	–	–	–	–	1,107
Financial institutions	–	–	–	–	3	3
Other	3,786	1,138	20	472	144	5,560
Loan assets held at amortised cost						44,095
Governments	63	8	–	–	–	71
Financial institutions	2,565	891	–	–	–	3,456
Other	21,216	17,477	227	–	1,648	40,568
Other financial assets at fair value through profit or loss						3,831
Governments	927	–	–	–	–	927
Financial institutions	1,193	4	–	–	–	1,197
Other	266	1,416	–	–	25	1,707
Life investment contracts and other unitholder investment assets						627
Financial institutions	561	–	–	–	–	561
Other	66	–	–	–	–	66
Due from related body corporate entities						1,118
Other	137	–	–	981	–	1,118
Total						113,531

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 40.1
Credit risk continued

Credit quality of financial assets continued

Credit Quality – Consolidated 2011

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	7,297	282	–	–	–	7,579
Cash collateral on securities borrowed and reverse repurchase agreements						7,418
Governments	795	643	–	–	–	1,438
Financial institutions	4,173	1,331	–	–	–	5,504
Other	365	111	–	–	–	476
Trading portfolio assets						6,045
Governments	2,291	392	–	–	–	2,683
Financial institutions	1,060	463	18	–	–	1,541
Other	224	1,531	66	–	–	1,821
Derivative assets						21,145
Governments	293	19	–	–	–	312
Financial institutions	14,081	661	–	–	–	14,742
Other	2,903	3,188	–	–	–	6,091
Debt investment securities available for sale						14,098
Governments	2,496	–	–	–	–	2,496
Financial institutions	10,430	33	–	–	–	10,463
Other	325	783	–	–	31	1,139
Other assets						5,923
Governments	743	–	–	–	1	744
Other	3,753	1,121	–	254	51	5,179
Loan assets held at amortised cost						45,382
Governments	546	8	–	–	–	554
Financial institutions	2,718	1,111	4	–	22	3,855
Other	25,592	13,405	192	–	1,784	40,973
Other financial assets at fair value through profit or loss						8,223
Governments	2,845	–	–	–	–	2,845
Financial institutions	2,801	28	–	–	–	2,829
Other	675	1,849	–	–	25	2,549
Life investment contracts and other unitholder investment assets						658
Financial institutions	565	–	–	–	–	565
Other	93	–	–	–	–	93
Due from related body corporate entities						2,443
Other	803	–	–	1,640	–	2,443
Total						118,914

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 40.1

Credit risk continued

Credit quality of financial assets continued

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Bank's credit rating system.

Credit Quality – Bank 2012

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	6,457	35	–	–	–	6,492
Cash collateral on securities borrowed and reverse repurchase agreements						6,900
Governments	2,081	504	–	–	–	2,585
Financial institutions	2,784	735	–	–	–	3,519
Other	711	85	–	–	–	796
Trading portfolio assets						2,834
Governments	1,722	25	–	–	–	1,747
Financial institutions	612	8	7	–	–	627
Other	75	351	34	–	–	460
Derivative assets						18,918
Governments	355	–	–	–	–	355
Financial institutions	13,622	844	–	–	–	14,466
Other	1,722	2,375	–	–	–	4,097
Debt investment securities available for sale						16,710
Governments	3,111	–	–	–	–	3,111
Financial institutions	11,716	51	–	–	–	11,767
Other	28	1,803	–	–	1	1,832
Other assets						3,929
Governments	218	–	–	–	–	218
Other	3,136	400	23	130	22	3,711
Loan assets held at amortised cost						17,929
Governments	2	–	–	–	–	2
Financial institutions	1,643	799	6	–	–	2,448
Other	5,458	9,350	200	–	471	15,479
Other financial assets at fair value through profit or loss						3,731
Governments	927	–	–	–	–	927
Financial institutions	1,112	4	–	–	–	1,116
Other	284	1,379	–	–	25	1,688
Due from related body corporate entities						981
Other	92	–	–	889	–	981
Due from subsidiaries						18,927
Other	–	–	–	18,927	–	18,927
Total						97,351

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
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Note 40.1

Credit risk continued

Credit quality of financial assets continued

Credit Quality – Bank 2011

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	6,233	23	–	–	–	6,256
Cash collateral on securities borrowed and reverse repurchase agreements						7,370
Governments	751	644	–	–	–	1,395
Financial institutions	4,170	1,330	–	–	–	5,500
Other	364	111	–	–	–	475
Trading portfolio assets						5,601
Governments	2,258	177	–	–	–	2,435
Financial institutions	929	448	18	–	–	1,395
Other	203	1,502	66	–	–	1,771
Derivative assets						18,551
Governments	248	1	–	–	–	249
Financial institutions	13,049	660	–	–	–	13,709
Other	2,233	2,360	–	–	–	4,593
Debt investment securities available for sale						13,367
Governments	2,496	–	–	–	–	2,496
Financial institutions	10,144	48	–	–	–	10,192
Other	221	458	–	–	–	679
Other assets						3,676
Governments	191	–	–	–	–	191
Financial institutions	2,677	684	3	112	9	3,485
Loan assets held at amortised cost						17,299
Governments	450	–	–	–	–	450
Financial institutions	1,663	969	7	–	22	2,661
Other	6,347	7,123	189	–	529	14,188
Other financial assets at fair value through profit or loss						8,067
Governments	2,845	–	–	–	–	2,845
Financial institutions	2,638	–	–	–	–	2,638
Other	751	1,808	–	–	25	2,584
Due from related body corporate entities						2,230
Other	758	–	–	1,472	–	2,230
Due from subsidiaries						20,134
Other	–	–	–	20,134	–	20,134
Total						102,551

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 40.1

Credit risk continued

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the balance date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Loan assets held at amortised cost				
Other	24	56	24	56

Ageing analysis of assets past due but not impaired and impaired assets

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2012	
Debt investment securities available for sale							
Other	–	–	–	–	1	1	–
Other assets							
Financial institutions	2	1	–	–	–	3	–
Other	112	4	3	–	25	144	2
Loan assets held at amortised cost							
Other	731	171	187	243	316	1,648	1,968
Other financial assets at fair value through profit or loss							
Other	3	3	3	–	16	25	22
Total	848	179	193	243	358	1,821	1,992

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance less provision is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in note 1(xiii) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,126 million (2011: $1,265 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets represents equity securities held as security against failed trade settlements.

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Note 40.1

Credit risk continued

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at the balance date, the Consolidated Entity took possession of fixed assets and property assets with a carrying value of $297 million (2011: $413 million).

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2011	
Debt investment securities available for sale							
Other	–	–	–	–	31	31	–
Other assets							
Government	1	–	–	–	–	1	–
Other	6	32	1	1	11	51	2
Loan assets held at amortised cost							
Financial institutions	–	–	–	–	22	22	–
Other	924	219	102	233	306	1,784	2,295
Other financial assets at fair value through profit or loss							
Other	–	–	–	–	25	25	20
Total	931	251	103	234	395	1,914	2,317

	Past due but not impaired						
Class of financial asset	**Less than 30 days $m**	**31 to 60 days $m**	**61 to 90 days $m**	**More than 90 days $m**	**Impaired $m**	**Total $m**	**Fair value of collateral held $m**
						Bank 2012	
Debt investment securities available for sale							
Other	**–**	**–**	**–**	**–**	**1**	**1**	**–**
Other assets							
Other	**–**	**–**	**–**	**–**	**22**	**22**	**2**
Loan assets held at amortised cost							
Other	**56**	**17**	**121**	**36**	**241**	**471**	**570**
Other financial assets at fair value through profit or loss							
Other	**3**	**3**	**3**	**–**	**16**	**25**	**22**
Total	**59**	**20**	**124**	**36**	**280**	**519**	**594**

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Bank 2011	
Other assets							
Other	–	–	–	–	9	9	2
Loan assets held at amortised cost							
Financial institutions	–	–	–	–	22	22	–
Other	177	46	9	42	255	529	804
Other financial assets at fair value through profit or loss							
Other	–	–	–	–	25	25	20
Total	177	46	9	42	311	585	826

Note 40.2

Liquidity risk

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee, and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Managing Director and Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Group Treasurer and Operating Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity policy

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

MBL is funded mainly by capital, long term liabilities and deposits.

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Note 40.2

Liquidity risk continued

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

The scenarios separately consider the requirements of the banking group, non-banking group and the consolidated group. They are run over a number of timeframes and a range of conservative assumptions are used regarding access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Consolidated Entity and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Macquarie is a global financial institution, with operating subsidiaries and regulated banking subsidiaries in a variety of countries. Regulations in certain countries may require some subsidiaries to have a local contingency plan specific to that region. Where that is the case, the liquidity contingency plan contains a supplement providing the necessary region-specific information required for those subsidiaries.

Funding transfer pricing

An internal funding transfer pricing framework is in place which aims to align businesses with the overall funding strategy of the Consolidated Entity. Under this framework the costs of long and short-term funding are charged out, and credits are made to Operating Groups that provide long term stable funding.

Contractual undiscounted cash flows

The following tables below summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay and the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Note 40.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
					Consolidated 2012	
Cash collateral on securities lent and repurchase agreements	**1,375**	**3,307**	**97**	**–**	**–**	**4,779**
Trading portfolio liabilities	**–**	**3,507**	**–**	**–**	**–**	**3,507**
Derivative financial instruments (trading)	**–**	**20,514**	**–**	**–**	**–**	**20,514**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**–**	**2,898**	**1,992**	**2,660**	**825**	**8,375**
Contractual amounts receivable	**–**	**(2,856)**	**(1,844)**	**(2,671)**	**(847)**	**(8,218)**
Deposits	**27,939**	**5,729**	**3,130**	**344**	**23**	**37,165**
Other liabilities[1]	**–**	**6,838**	–	–	–	**6,838**
Payables to financial institutions	**96**	**1,407**	**323**	**2,363**	**609**	**4,798**
Other financial liabilities at fair value through profit or loss	**8**	**457**	**455**	**694**	**91**	**1,705**
Life investment contracts and other unitholder liabilities	**–**	**5,897**	**–**	**–**	**–**	**5,897**
Due to related body corporate entities	**2,567**	**399**	**–**	**58**	**–**	**3,024**
Debt issued at amortised cost[2]	**–**	**7,201**	**5,063**	**23,327**	**1,417**	**37,008**
Subordinated debt	**–**	**309**	**94**	**779**	**2,198**	**3,380**
Total undiscounted cash flows	**31,985**	**55,607**	**9,310**	**27,554**	**4,316**	**128,772**
Contingent liabilities	**–**	**697**	**–**	**–**	**–**	**697**
Commitments	**–**	**2,848**	**692**	**–**	**–**	**3,540**
Total undiscounted contingent liabilities and commitments[3]	**–**	**3,545**	**692**	**–**	**–**	**4,237**
					Consolidated 2011	
Cash collateral on securities lent and repurchase agreements	2,715	3,388	–	–	–	6,103
Trading portfolio liabilities	–	5,732	–	–	–	5,732
Derivative financial instruments (trading)	–	20,906	–	–	–	20,906
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	4,401	1,480	3,133	579	9,593
Contractual amounts receivable	–	(4,429)	(1,665)	(3,511)	(818)	(10,423)
Deposits	26,618	5,445	2,780	315	–	35,158
Other liabilities[1]	–	6,381	–	–	–	6,381
Payables to financial institutions	412	88	190	705	588	1,983
Other financial liabilities at fair value through profit or loss	44	1,003	850	958	84	2,939
Life investment contracts and other unitholder liabilities	–	5,055	–	–	–	5,055
Due to related body corporate entities	4,749	693	984	5	63	6,494
Debt issued at amortised cost[2]	–	6,101	6,384	24,157	2,943	39,585
Subordinated debt	–	1	782	320	1,154	2,257
Total undiscounted cash flows	34,538	54,765	11,785	26,082	4,593	131,763
Contingent liabilities	–	697	–	–	–	697
Commitments	–	5,459	58	–	–	5,517
Total undiscounted contingent liabilities and commitments[3]	–	6,156	58	–	–	6,214

1 Excludes items that are not financial instruments and non-contractual accruals and provisions.

2 Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

3 Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

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Note 40.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2012
Cash collateral on securities lent and repurchase agreements	**1,372**	**4,413**	**97**	**–**	**–**	**5,882**
Trading portfolio liabilities	**–**	**3,468**	**–**	**–**	**–**	**3,468**
Derivative financial instruments (trading)	**–**	**17,766**	**–**	**–**	**–**	**17,766**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**–**	**1,311**	**453**	**1,452**	**785**	**4,001**
Contractual amounts receivable	**–**	**(1,333)**	**(490)**	**(1,552)**	**(810)**	**(4,185)**
Deposits	**27,745**	**5,728**	**3,130**	**316**	**13**	**36,932**
Other liabilities[1]	**–**	**3,853**	**–**	**–**	**–**	**3,853**
Payables to financial institutions	**63**	**752**	**48**	**691**	**556**	**2,110**
Other financial liabilities at fair value through profit or loss	**6**	**389**	**337**	**503**	**39**	**1,274**
Due to related body corporate entities	**7,199**	**174**	**561**	**552**	**20**	**8,506**
Due to subsidiaries	**2,236**	**417**	**–**	**58**	**–**	**2,711**
Debt issued at amortised cost[2]	**–**	**6,099**	**1,420**	**8,971**	**102**	**16,592**
Subordinated debt	**–**	**309**	**94**	**779**	**2,198**	**3,380**
Total undiscounted cash flows	**38,621**	**43,346**	**5,650**	**11,770**	**2,903**	**102,290**
Contingent liabilities	**–**	**1,730**	**–**	**–**	**–**	**1,730**
Commitments	**–**	**2,516**	**189**	**–**	**–**	**2,705**
Total undiscounted contingent liabilities and commitments[3]	**–**	**4,246**	**189**	**–**	**–**	**4,435**
						Bank 2011
Cash collateral on securities lent and repurchase agreements	2,712	3,387	–	–	–	6,099
Trading portfolio liabilities	–	5,621	–	–	–	5,621
Derivative financial instruments (trading)	–	18,094	–	–	–	18,094
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	2,111	597	1,599	553	4,860
Contractual amounts receivable	–	(2,241)	(847)	(2,115)	(791)	(5,994)
Deposits	26,340	5,441	2,780	315	–	34,876
Other liabilities[1]	–	3,382	–	–	–	3,382
Payables to financial institutions	392	41	37	461	440	1,371
Other financial liabilities at fair value through profit or loss	23	799	482	774	68	2,146
Due to related body corporate entities	4,466	693	984	29	63	6,235
Due to subsidiaries	9,406	261	322	358	364	10,711
Debt issued at amortised cost[2]	–	5,133	3,677	9,007	5	17,822
Subordinated debt	–	1	782	320	1,154	2,257
Total undiscounted cash flows	43,339	42,723	8,814	10,748	1,856	107,480
Contingent liabilities	–	1,124	–	–	–	1,124
Commitments	–	4,691	58	–	–	4,749
Total undiscounted contingent liabilities and commitments[3]	–	5,815	58	–	–	5,873

1 Excludes items that are not financial instruments and non-contractual accruals and provisions.

2 Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

3 Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Note 40.3

Market risk

Market risk is the exposure to adverse changes in the value of the Consolidated Entity's trading portfolios as a result of changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- foreign exchange and bullion: changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices;
- interest rates and debt securities: changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins;
- equities: changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity;
- commodities and energy: changes in the price and volatility of base metals, agricultural commodities and energy products;

and to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **Contingent Loss Limits**: worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **Position Limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) Limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk (VaR) figures

The tables below show the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity and Bank operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2012 Average $m	**2012 Maximum $m**	**2012 Minimum $m**	2011 Average $m	2011 Maximum $m	2011 Minimum $m
						Consolidated
Equities	**6.91**	**9.54**	**4.03**	9.03	16.80	3.85
Interest rates	**10.72**	**14.75**	**6.72**	5.54	11.46	3.08
Foreign exchange and bullion	**2.99**	**8.78**	**0.79**	3.54	10.68	1.10
Commodities	**9.53**	**15.11**	**6.41**	11.64	16.34	7.63
Aggregate	**14.89**	**20.24**	**11.17**	15.67	22.29	10.90

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Note 40.3
Market risk continued

	2012 Average $m	2012 Maximum $m	2012 Minimum $m	2011 Average $m	2011 Maximum $m	2011 Minimum $m
						Bank
Equities	**6.65**	**9.58**	**3.98**	5.89	10.15	3.53
Interest rates	**9.98**	**12.72**	**6.31**	4.99	10.49	2.94
Foreign exchange and bullion	**6.38**	**11.67**	**1.52**	7.64	15.83	1.94
Commodities	**4.01**	**5.89**	**2.72**	3.09	5.60	1.48
Aggregate	**11.68**	**15.83**	**8.98**	10.07	16.28	6.69

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of FICC and Group Treasury which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book. These residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting purposes and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase or decrease in interest rates would result in a decrease or increase in operating profit before income tax of $3 million (2011: $3 million) respectively.

Other than the volatility on the derivatives described above, there are no material non-traded interest rate risks within the Consolidated Entity.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Note 40.3

Market risk continued

Foreign currency risk continued

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

The hedging policy of the group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, HKD and CAD.

	2012			2011		
	Movement in exchange rates	**Sensitivity of equity after tax**		Movement in exchange rates	Sensitivity of equity after tax	
		Consolidated	**Bank**		Consolidated	Bank
	%	**$m**	**$m**	%	$m	$m
Australian dollar	**+10**	**(328.4)**	**(336.5)**	+10	(276.6)	(235.2)
Australian dollar	**–10**	**401.3**	**411.2**	–10	338.0	287.5

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Note 40.3

Market risk continued

Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Bank had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2012			2011		
Geographic region	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Australia	+10	1.5	12.2	+10	3.3	23.6
Asia Pacific	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	1.4	4.8	+10	1.5	4.1
Americas	+10	2.2	12.4	+10	4.0	8.0
Unlisted	+10	1.3	15.0	+10	0.2	28.2
Listed						
Australia	–10	(1.5)	(12.2)	–10	(3.3)	(23.6)
Asia Pacific	–10	–	–	–10	–	–
Europe, Middle East and Africa	–10	(0.4)	(4.8)	–10	(1.5)	(4.1)
Americas	–10	(0.1)	(12.4)	–10	(3.5)	(8.0)
Unlisted	–10	(0.6)	(15.0)	–10	(0.2)	(28.2)
						Bank
Listed						
Australia	+10	1.5	12.1	+10	3.3	22.0
Asia Pacific	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	1.4	4.7	+10	1.5	3.9
Americas	+10	2.2	10.7	+10	4.0	6.9
Unlisted	+10	1.3	7.3	+10	0.2	7.8
Listed						
Australia	–10	(1.5)	(12.1)	–10	(3.3)	(22.0)
Asia Pacific	–10	–	–	–10	–	–
Europe, Middle East and Africa	–10	(0.4)	(4.7)	–10	(1.5)	(3.9)
Americas	–10	(0.1)	(10.7)	–10	(3.5)	(6.9)
Unlisted	–10	(0.6)	(7.3)	–10	(0.2)	(7.8)

Note 41

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

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

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

The 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;
- for financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- the Consolidated Entity's own credit risk is factored into the valuation of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the Consolidated Entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the Consolidated Entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41

Fair values of financial assets and liabilities continued

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.

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 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;
- 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 credit worthiness 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;
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- the fair values of balances due from/to subsidiaries (in the Bank's separate financial statements) and balances due from/to related body corporate entities (in the Bank's and consolidated financial statements) are approximated by their carrying amount as the balances are generally receivable/payable on demand.

Note 41

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Bank at 31 March 2012:

	2012 Carrying value $m	**2012 Fair value $m**	2011 Carrying value $m	2011 Fair value $m
				Consolidated
Assets				
Receivables from financial institutions	**8,316**	**8,316**	7,579	7,579
Loan assets held at amortised cost	**44,095**	**44,517**	45,382	45,402
Due from related body corporate entities	**1,118**	**1,118**	2,443	2,481
Total assets	**53,529**	**53,951**	55,404	55,462
Liabilities				
Deposits	**37,014**	**37,009**	35,106	35,154
Payables to financial institutions	**4,299**	**4,307**	1,580	1,643
Due to related body corporate entities	**3,022**	**3,022**	6,471	6,471
Debt issued at amortised cost	**35,068**	**35,030**	36,943	37,334
Loan capital at amortised cost	**2,176**	**2,183**	1,430	1,434
Total liabilities	**81,579**	**81,551**	81,530	82,036
				Bank
Assets				
Receivables from financial institutions	**6,492**	**6,492**	6,256	6,256
Loan assets held at amortised cost	**17,929**	**17,912**	17,299	17,159
Due from related body corporate entities	**981**	**981**	2,230	2,268
Due from subsidiaries	**18,927**	**18,927**	20,134	20,134
Total assets	**44,329**	**44,312**	45,919	45,817
Liabilities				
Deposits	**36,781**	**36,775**	34,827	34,876
Payables to financial institutions	**1,685**	**1,692**	1,011	1,074
Due to related body corporate entities	**2,709**	**2,709**	6,212	6,212
Due to subsidiaries	**8,374**	**8,374**	10,607	10,607
Debt issued at amortised cost	**16,213**	**16,010**	17,697	17,928
Loan capital at amortised cost	**2,176**	**2,183**	1,430	1,434
Total liabilities	**67,938**	**67,743**	71,784	72,131

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41

Fair value of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				Consolidated 2012
Assets				
Trading portfolio assets	**7,541**	**3,552**	**452**	**11,545**
Derivative assets	**4,723**	**17,099**	**129**	**21,951**
Investment securities available for sale	**14,472**	**1,629**	**184**	**16,285**
Other financial assets at fair value through profit or loss	**1,941**	**3,861**	**160**	**5,962**
Life investment contracts and other unitholder investment assets	**1,410**	**4,498**	**–**	**5,908**
Total assets	**30,087**	**30,639**	**925**	**61,651**
Liabilities				
Trading portfolio liabilities	**2,434**	**1,073**	**–**	**3,507**
Derivative liabilities	**4,229**	**16,572**	**96**	**20,897**
Other financial liabilities at fair value through profit or loss	**8**	**1,570**	**110**	**1,688**
Life investment contracts and other unitholder liabilities	**1,412**	**4,485**	**–**	**5,897**
Subordinated debt at fair value through profit or loss	**–**	**150**	**–**	**150**
Total liabilities	**8,083**	**23,850**	**206**	**32,139**
				Consolidated 2011
Assets				
Trading portfolio assets	9,849	4,085	489	14,423
Derivative assets	3,455	17,451	239	21,145
Investment securities available for sale	12,932	1,701	370	15,003
Other financial assets at fair value through profit or loss	5,470	4,877	260	10,607
Life investment contracts and other unitholder investment assets	1,201	3,861	–	5,062
Total assets	32,907	31,975	1,358	66,240
Liabilities				
Trading portfolio liabilities	4,390	1,342	–	5,732
Derivative liabilities	3,758	17,531	166	21,455
Other financial liabilities at fair value through profit or loss	46	2,711	152	2,909
Life investment contracts and other unitholder liabilities	1,201	3,854	–	5,055
Subordinated debt at fair value through profit or loss	–	467	–	467
Total liabilities	9,395	25,905	318	35,618

Note 41

Fair value of financial assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Bank 2012**
Trading portfolio assets	**6,559**	**2,238**	**273**	**9,070**
Derivative assets	**4,517**	**14,071**	**330**	**18,918**
Investment securities available for sale	**14,365**	**2,749**	**93**	**17,207**
Other financial assets at fair value through profit or loss	**1,904**	**2,822**	**131**	**4,857**
Total assets	**27,345**	**21,880**	**827**	**50,052**
Liabilities				
Trading portfolio liabilities	**2,423**	**1,045**	**–**	**3,468**
Derivative liabilities	**4,177**	**13,718**	**72**	**17,967**
Other financial liabilities at fair value through profit or loss	**2**	**1,153**	**110**	**1,265**
Subordinated debt at fair value through profit or loss	**–**	**150**	**–**	**150**
Total liabilities	**6,602**	**16,066**	**182**	**22,850**
Assets				Bank 2011
Trading portfolio assets	9,637	3,469	437	13,543
Derivative assets	3,415	14,974	162	18,551
Investment securities available for sale	12,748	1,013	187	13,948
Other financial assets at fair value through profit or loss	5,490	4,236	214	9,940
Total assets	31,290	23,692	1,000	55,982
Liabilities				
Trading portfolio liabilities	4,279	1,342	–	5,621
Derivative liabilities	3,673	14,433	85	18,191
Other financial liabilities at fair value through profit or loss	45	1,932	145	2,122
Subordinated debt at fair value through profit or loss	–	467	–	467
Total liabilities	7,997	18,174	230	26,401

Notes to the financial statements
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continued

Note 41

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Bank for the financial year ended 31 March 2012:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	489	370
Purchases	355	41
Sales	(369)	(77)
Issues	–	–
Settlements	–	(31)
Net transfers into/out of Level 3	(16)	(89)
Fair value (losses)/gains recognised in the income statement[1]	(7)	(34)
Fair value gains recognised in other comprehensive income[1]	–	4
Balance at the end of the financial year	452	184
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	8	(6)

[1] The Consolidated Entity employs various economic 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 in 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 Levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $129 million (2011: $239 million) and derivative liabilities are $96 million (2011: $166 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Consolidated 2012
260	–	(152)	73	1,040
1	–	–	1	398
(55)	–	16	(13)	(498)
–	–	(1)	(20)	(21)
(12)	–	37	(57)	(63)
16	–	(8)	24	(73)
(50)	–	(2)	24	(69)
–	–	–	1	5
160	–	(110)	33	719
(38)	–	4	(2)	(34)

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Bank for the financial year ended 31 March 2011:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	424	411
Purchases	306	87
Sales	(273)	(74)
Issues	–	–
Settlements	–	(11)
Net transfers into/out of Level 3	(68)	(26)
Fair value gains/(losses) recognised in the income statement[1]	100	(21)
Fair value gains recognised in other comprehensive income[1]	–	4
Balance at the end of the financial year	489	370
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	88	–

1 The Consolidated Entity employs various economic 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 in 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 Levels 1 and/or 2.

2 The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $239 million (2010: $276 million) and derivative liabilities are $166 million (2010: $416 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Consolidated 2011
287	(3)	(57)	(140)	922
86	–	(12)	30	497
(31)	–	46	(98)	(430)
7	–	(15)	(43)	(51)
(123)	–	5	29	(100)
61	2	(119)	129	(21)
(27)	1	–	166	219
–	–	–	–	4
260	–	(152)	73	1,040
–	–	–	(6)	82

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	437	187
Purchases	137	28
Sales	(290)	(37)
Issues	–	–
Settlements	–	–
Net transfers into/out of Level 3	1	(89)
Fair value (losses)/gains recognised in the income statement[1]	(12)	1
Fair value gains recognised in other comprehensive income[1]	–	3
Balance at the end of the financial year	273	93
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	5	–

[1] The Consolidated Entity employs various economic 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 in 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 Levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $330 million (2011: $162 million) and derivative liabilities are $72 million (2011: $85 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Bank 2012
214	–	(145)	77	770
–	–	–	1	166
(38)	–	16	(12)	(361)
–	–	(1)	(19)	(20)
(10)	–	33	(65)	(42)
13	–	(10)	10	(75)
(48)	–	(3)	266	204
–	–	–	–	3
131	–	(110)	258	645
(36)	–	4	245	218

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	424	212
Purchases	254	54
Sales	(272)	(63)
Issues	–	–
Settlements	–	–
Net transfers into/out of Level 3	(67)	(21)
Fair value gains/(losses) recognised in the income statement[1]	98	(1)
Fair value gains recognised in other comprehensive income[1]	–	6
Balance at the end of the financial year	437	187
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	88	3

[1] The Consolidated Entity employs various economic 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 in 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 Levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $162 million (2010: $180 million) and derivative liabilities are $85 million (2010: $252 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Bank 2011
277	(3)	(57)	(72)	781
83	–	(12)	32	411
(29)	–	46	(99)	(417)
7	–	(7)	(42)	(42)
(123)	–	5	29	(89)
25	2	(120)	64	(117)
(26)	1	–	165	237
–	–	–	–	6
214	–	(145)	77	770
–	–	–	(3)	88

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41
Fair value of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Bank did not have significant transfers between Level 1 and Level 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 year.

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 and the Bank 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:

	Consolidated 2012 $m	Consolidated 2011 $m	**Bank 2012 $m**	Bank 2011 $m
Balance at the beginning of the financial year	**25**	34	**18**	18
Deferral on new transactions	**11**	14	**11**	14
Amounts recognised in the income statement during the year	**(29)**	(23)	**(24)**	(14)
Balance at the end of the financial year	**7**	25	**5**	18

Note 41

Fair value of financial assets and liabilities continued

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 cashflows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit and loss $m	Equity $m	Profit and loss $m	Equity $m
Product type				**Consolidated 2012**
Equity and equity linked products	**17**	**7**	**(21)**	**(7)**
Commodity products	**17**	**–**	**(15)**	**–**
Credit products	**2**	**–**	**(2)**	**–**
Interest rate products	**6**	**–**	**(6)**	**–**
Total	**42**	**7**	**(44)**	**(7)**
Product type				Consolidated 2011
Equity and equity linked products	21	–	(27)	–
Asset backed products	16	13	(15)	(4)
Commodity products	17	–	(16)	–
Credit products	3	–	(3)	–
Interest rate products	1	–	(1)	–
Total	58	13	(62)	(4)

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for the financial year ended 31 March 2012
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Note 41
Fair values of financial assets and liabilities continued

	Favourable changes		Unfavourable changes	
	Profit and loss $m	Equity $m	Profit and loss $m	Equity $m
				Bank 2012
Product type				
Equity and equity linked products	**12**	**2**	**(15)**	**(2)**
Commodity products	**9**	**–**	**(9)**	**–**
Credit products	**2**	**–**	**(2)**	**–**
Interest rate products	**3**	**–**	**(3)**	**–**
Total	**26**	**2**	**(29)**	**(2)**
				Bank 2011
Product type				
Equity and equity linked products	14	–	(20)	–
Commodity products	1	–	(1)	–
Credit products	3	–	(3)	–
Interest rate products	1	–	(1)	–
Total	19	–	(25)	–

Note 42

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Bank, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	Consolidated 2012 $'000	Consolidated 2011 $'000	**Bank 2012 $'000**	Bank 2011 $'000
PwC – Australian Firm				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**5,862**	5,764	**4,622**	4,491
Other audit-related work	**1,409**	550	**541**	415
Other assurance services	**1,022**	1,102	**252**	486
Total audit and other assurance services	**8,293**	7,416	**5,415**	5,392
Other advisory services	**–**	32	**–**	32
Taxation	**419**	353	**–**	108
Total remuneration paid to PwC – Australian Firm	**8,712**	7,801	**5,415**	5,532
Related practices of PwC – Australian Firm (including PwC – Overseas Firms)				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**5,861**	3,753	**–**	–
Other audit-related work	**45**	42	**–**	–
Other assurance services	**23**	170	**–**	–
Total audit and other assurance services	**5,929**	3,965	**–**	–
Other advisory services	**–**	–	**–**	–
Taxation	**805**	531	**25**	6
Total remuneration paid to related practices of PwC – Australian Firm	**6,734**	4,496	**25**	6
Total remuneration paid to PwC (note 2)	**15,446**	12,297	**5,440**	5,538

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's and the Bank's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to Initial Public Offerings and due diligence services for new funds. These fees may be recovered by the Consolidated Entity upon the successful establishment of the funds.

It is the Consolidated Entity's and the Bank's policy to seek competitive tenders for all major advisory projects.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 43

Acquisitions and disposals of subsidiaries and businesses

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

Macquarie AirFinance Limited

On 1 April 2011, a subsidiary of the Bank acquired 100 per cent interest in Macquarie AirFinance Limited, an aircraft lessor. This was purchased from a subsidiary of the Non-Banking group.

Utility Metering Services Limited

On 24 October 2011, a subsidiary of the Bank acquired 100 per cent interest in UK based company, Utility Metering Services Limited.

Other entities acquired or businesses acquired or consolidated due to acquisition of control during this financial year are as follows:

Macquarie Finance (India) Private Limited, Macquarie Precision Marketing (Japan) Limited, Macquarie Technology Services (Canada) Limited and SCC Swiss Commercial Capital AG.

Aggregate details of the above entities or businesses acquired or consolidated due to acquisition of control are as follows:

	2012 $m	2011 $m
Fair value of net assets acquired[1]		
Cash, other financial assets and other assets	356	28
Property, plant and equipment	2,589	102
Goodwill and other intangible assets	34	56
Assets of disposal groups classified as held for sale	–	5
Payables, provisions, borrowings and other liabilities	(2,126)	(142)
Liabilities of disposal groups classified as held for sale	–	(4)
Non-controlling interests	–	(4)
Total fair value of net assets acquired	853	41
Consideration		
Cash consideration	856	38
Deferred consideration	4	–
Fair value of previously held interest	–	1
Total consideration	860	39
Net cash outflow		
Cash consideration	(856)	(38)
Less:		
Cash and cash equivalents acquired	214	5
Net cash outflow	(642)	(33)

1 In relation to the acquisition of certain subsidiaries of the Non-Banking Group, assets and liabilities acquired are recognised at carrying amounts. In accordance with the Consolidated Entity's accounting policy, the difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in reserves. For the year ended 31 March 2012, $1 million (2011: $nil) was recognised in Reserves arising from group restructure of combining entities under common control.

Included in the current financial year results for the Consolidated Entity is profit of $58 million and revenue of $277 million from Macquarie AirFinance Limited since the date of acquisition on 1 April 2011.

Included in the current financial year results for the Consolidated Entity is profit of $4 million and revenue of $24 million from Utility Metering Services Limited since the date of acquisition on 24 October 2011. If this acquisition had taken place on 1 April 2011, the impact on the current year results for the Consolidated Entity would have been profit of $7 million and revenue of $52 million.

The operating results of the remaining 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, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year 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.

The 31 March 2011 comparatives relate to CMC Railroad Inc., Innovest Kapitalanlage AG, Latitude FX Limited, Outplan Pty Limited and Rismark Limited. There was no significant entity or business acquired or consolidated due to acquisition of control during the year ended 31 March 2011.

Note 43

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 financial year.

Other entities or businesses disposed of or deconsolidated during the financial year are as follows:

Biocarbon Group Pte. Limited, Cruzeiro do Sul Graos Limitada, Energy Assets Group PLC, Garrison Energy Center LLC, Lawson Grains Limited, Macquarie Real Estate Korea Limited and Samchully Asset Management Company Limited.

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

	2012 $m	2011 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	**31**	186
Property, plant and equipment	**61**	1
Goodwill and other intangible assets	**3**	24
Assets of disposal groups classified as held for sale	**–**	45
Payables, provisions, borrowings and other liabilities	**(74)**	(61)
Liabilities of disposals groups classified as held for sale	**–**	(40)
Non-controlling interests	**(1)**	(8)
Total carrying value of assets and liabilities disposed of or deconsolidated	**20**	147
Consideration		
Cash consideration	**30**	107
Consideration received in equity	**40**	86
Deferred consideration	**–**	–
Total consideration	**70**	193
Net cash flow		
Cash consideration	**30**	107
Less:		
Cash and cash equivalents disposed of or deconsolidated	**(9)**	(65)
Net cash inflow	**21**	42

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year ended 31 March 2011.

Note 44

Events after the Reporting Period

There were no material events subsequent to 31 March 2012 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 41 to 153 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 Bank and Consolidated Entity's financial position as at 31 March 2012 and performance for the financial 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; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 50; and

d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 19 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 19.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

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

H Kevin McCann, AM
Independent Director and
Chairman

Greg Ward
Managing Director and
Chief Executive Officer

Sydney
27 April 2012

Independent audit report
to the members of Macquarie Bank Limited

Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the Bank), which comprises the statement of financial position as at 31 March 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Macquarie Bank Group (the Consolidated Entity). The Consolidated Entity comprises the Bank and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001 (Cth)*, including:

   (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2012 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001 (Cth);* and

b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 32 of the directors' report for the year ended 31 March 2012. The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001 (Cth)*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Bank Limited for the year ended 31 March 2012, complies with section 300A of the *Corporations Act 2001 (Cth)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
27 April 2012

Liability is limited by a scheme approved under Professional Standards Legislation

Investor information

Securityholder Calendar

2012

Date	Event
16 July	MIS distribution
25 July	2011 Annual General Meeting
30 September	Half-year financial end
15 October	MIS distribution, MIPS distribution

2013

Date	Event
15 January	MIS distribution
31 March	Full-year financial year end
15 April	MIS distribution, MIPS distribution

2012 Annual General Meeting (AGM)

Macquarie Bank's AGM will be held on Wednesday, 25 July 2012 in the Macquarie Auditorium, Level 3, No. 1 Martin Place, Sydney NSW after the Macquarie Group Limited AGM but not earlier than 2.00 pm. Details of the business of the meeting will be forwarded to securityholders separately ahead of the meeting.

Stock Exchange Listing

Macquarie Income Securities are quoted on the ASX and trade under the code MBLHB.

Macquarie Exchangeable Capital Securities are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Bank also has debt securities quoted on the Luxembourg Stock Exchange.

Distribution details – Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears in respect of the Macquarie Income Securities on or about the 15th of January, April, July and October each year. Dates and payment rates are listed at macquarie.com.au/investorrelations.

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative.

On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

i) one vote for each fully paid ordinary share held
ii) that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Macquarie Income Securities

Holders of Macquarie Income Securities, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of Macquarie Bank only in one or more of the following circumstances:

i) during a period when two consecutive Semi-annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
ii) on any proposal to reduce Macquarie Bank's share capital
iii) on any resolution to approve the terms of a buy-back agreement
iv) on any proposal that affects the rights attaching to the preference shares
v) on a proposal to wind up Macquarie Bank
vi) on any proposal for the disposal of the whole of Macquarie Bank's property, business and undertaking
vii) during the winding up of Macquarie Bank.

In these circumstances, holders have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares.

Macquarie Income Preferred Securities

Unpaid preference shares were issued by Macquarie Bank as part of the Macquarie Income Preferred Securities issue. Whilst these preference shares remain unpaid, they have no voting rights. If paid up, these preference shares will have the same voting rights as holders of Macquarie Income Securities, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of Macquarie Bank during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

Macquarie Exchangeable Capital Securities

Macquarie Exchangeable Capital Securities (ECS) are notes issued by Macquarie Bank acting through its London Branch. The ECS are exchangeable for ordinary shares of MGL under certain circumstances. Provisions for meetings of holders of the ECS are contained in the ECS Trust Deed. The ECS do not confer a right to attend or vote at any general meeting of Macquarie Bank.

Macquarie Income Securities

Twenty largest Macquarie Income Securities holders at 17 April 2012:	Macquarie Income Securities	Percentage of Macquarie Income Securities
JP Morgan Nominees Australia Limited	196,532	4.91
M F Custodians Ltd	134,437	3.36
Navigator Australia Ltd – MLC Investment Sett A/C	103,587	2.59
HSBC Custody Nominees (Australia) Limited	99,386	2.48
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	92,074	2.30
Questor Financial Services Limited – TPS RF A/C	78,694	1.97
National Nominees Limited	62,067	1.55
Citicorp Nominees Pty Ltd	27,121	0.68
Temple Society Central Fund (Aust)	25,500	0.64
Perpetual Trustees Consolidated Limited – Clime Asset Management A/C	22,382	0.56
Australian Executor Trustees Limited – No 1 Account	18,065	0.45
UBS Wealth Management Australia Nominees Pty Ltd	16,274	0.41
RBC Dexia Investor Services Australia Nominees Pty Limited – GSENIP A/C	15,903	0.40
RBC Dexia Investor Services Australia Nominees Pty Limited – NMSMT A/C	15,208	0.38
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Incorporated	15,000	0.38
UBS Nominees Pty Ltd – TP00014 10 A/C	14,971	0.37
Sandhurst Trustees Ltd – DMP Asset Management A/C	13,528	0.34
Questor Financial Services Limited – TPS PIP A/C	12,652	0.32
HSBC Custody Nominees (Australia) Limited – A/C 2	10,225	0.26
Total	**988,606**	**24.72**

Spread of Macquarie Income Securities

Details of the spread of Macquarie Income Securities holders at 17 April 2012 are as follows:

Range	Holders	Securities
1–1,000	6,505	1,886,388
1,001–5,000	465	901,783
5,001–10,000	31	223,223
10,001–100,000	17	554,050
100,001 securities and over	3	434,556
Total	**7,021**	**4,000,000**

12 securityholders (representing 62 Macquarie Income Securities) held less than a marketable parcel.

Macquarie Income Preferred Securities

As at 17 April 2012, £42.5 million convertible debentures and 350,000 unpaid preference shares were on issue by Macquarie Bank as part of the Macquarie Income Preferred Securities. The £42.5 million convertible debentures and 42,500 of the unpaid preference shares were held by Macquarie Capital Funding LP and 307,500 of the unpaid preference shares were held by Macquarie BH Pty Limited . The registers in respect of the preference shares and the convertible debentures are kept at Macquarie Bank's principle administrative office at No.1 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Investor information
continued

Website

To view the Annual Reports, presentations, distribution information and other investor information, visit macquarie.com.au/investorrelations

Enquiries

Investors who wish to enquire about any administrative matter relating to their Macquarie Income Securities securityholding are invited to contact the Share Registry office at.

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international): +61 3 9415 4137
Facsimile: +61 3 9473 2500

Website: www.investorcentre.com/contact

All other enquiries relating to a Macquarie Income Security holding can be directed to:

Investor Relations

Macquarie Group
Level 7, No. 1 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 5006
Facsimile: +61 2 8232 4330

Email: macquarie.shareholders@macquarie.com
Website: macquarie.com.au/investorrelations

Macquarie Bank's Company Secretary, Dennis Leong, may be contacted on the above numbers.

Glossary

AASB	Australian Accounting Standards Board
the Act	*Corporations Act 2001 (Cth)*
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
BAC	Board Audit Committee
The Bank	Macquarie Bank Limited
Banking Group	the Banking Group comprises Banking and Financial Services Group (BFS), Corporate and Asset Finance Group (CAF), Fixed Income, Currencies and Commodities (FICC), Macquarie Funds Group (MFG) and the trading activities of the Macquarie Securities Group (MSG). There is also one division within the Banking Group; Real Estate Banking Division (REB)
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc
the Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	Board Remuneration Committee
CAGR	compound annual growth rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
the Company	Macquarie Bank Limited
the Consolidated Entity	Macquarie Bank Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Directors	the Voting Directors of Macquarie Bank Limited (unless the context indicates otherwise)
DSU	Deferred Share Unit issued under the MEREP
ECS	Macquarie Exchangeable Capital Securities
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Bank Limited
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Bank Limited
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542

Glossary
continued

Macquarie Board, the Board	the Board of Voting Directors of Macquarie Bank Limited
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MEREP	Macquarie Group Employee Retained Equity Plan
MFL	Macquarie Finance Limited
MGEDSAP	Macquarie Group Executive Director Share Acquisition Plan
MGESOP	Macquarie Group Employee Share Option Plan
MGSA	Macquarie Group Services Australia Pty Limited
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NEDSAP	Non-Executive Director Share Acquisition Plan
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OECD	Organisation for Economic Co-operation and Development
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
RMG	Risk Management Group
ROE	return on equity
RSU	Restricted Share Unit issued under the MEREP
S&P	Standard & Poor’s
SPE	Special Purpose Entity
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Bank Limited

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macquarie.com.au