Supplemental Listing Document

If you are in any doubt about this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, accountant or other professional adviser. The Singapore Exchange Securities Trading Limited (the "**SGX-ST**") assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this document. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of Macquarie Bank Limited, the Company (defined below) or the Warrants.

80,000,000 European Style Cash Settled Call Warrants relating to the ordinary shares of Yanlord Land Group Limited issued by

Macquarie Bank Limited

(ABN 46 008 583 542)

(Incorporated under the laws of Australia)

Issue Price: SGD 0.201 per Warrant

This document is published for the purpose of obtaining a listing of all the above warrants (the "**Warrants**") to be issued by Macquarie Bank Limited (the "**Issuer**") and is supplemental to and should be read in conjunction with a base listing document published on 7 July 2011 (the "**Base Listing Document**") for the purpose of giving information with regard to the Issuer and the Warrants. Information relating to Yanlord Land Group Limited (the "**Company**") is contained in this document.

This document does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Warrants or other securities of the Issuer, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration Warrants or other securities of the Issuer. Restrictions have been imposed on offers and sales of the Warrants and on distributions of documents relating thereto in Singapore, the United States, the United Kingdom, Hong Kong and Australia (see Base Listing Document).

Investors are warned that the price of the Warrants may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Warrants and carefully study the risk factors set out in this document before they invest in the Warrants.

The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and of no other person, including those in respect of deposits, but excluding any debts for the time being preferred by law and any subordinated obligations and if you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the Company.

The Issuer is regulated as an authorised deposit taking institution by the Australian Prudential Regulation Authority. The Issuer, acting through its Singapore branch is authorised and licensed by the Monetary Authority of Singapore to carry on wholesale banking business in Singapore pursuant to the Banking Act, Chapter 19 of Singapore and therefore is subject to the supervision of the Monetary Authority of Singapore.

27 June 2012

Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. It is expected that dealings in the Warrants will commence on 28 June 2012.

Subject as set out below, the Issuer accepts full responsibility for the accuracy of the information contained in this document and the Base Listing Document in relation to itself and the Warrants. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document and the Base Listing Document for which it accepts responsibility (subject as set out below in respect of the information contained herein with regard to the Company) is in accordance with the facts and is not limited by anything likely to affect the import of such information. The information contained herein with regard to the Company consists of extracts from information released publicly by the Company on the web-site of the SGX-ST. The Issuer accepts responsibility for accurately reproducing such extracts but accept no further or other responsibility in respect of such information.

Neither the delivery of this document nor any sale made hereunder shall create any implication that there has been no change in the affairs of the Issuer, and its subsidiaries and affiliates since the date hereof. No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the offering of the Warrants, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer.

This document does not constitute an offer or invitation by or on behalf of the Issuer to purchase or subscribe for any of the Warrants. The distribution of this document and the offering of the Warrants may, in certain jurisdictions, be restricted by law. The Issuer requires persons into whose possession this document comes to inform themselves of and observe all such restrictions.

The Warrants have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Warrants, or interests therein, may not at any time be offered, sold, resold or delivered within the United States or to, or for the account or benefit of, U.S. persons and any offer, sale, resale or delivery made within the United States or to, or for the account or benefit of, a U.S. person will not be recognised. A further description of certain restrictions on offering and sale of the Warrants and distribution of this document is given in the section headed "Sales Restrictions" in the Base Listing Document.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in the Warrants, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer or its affiliates may repurchase Warrants at any time and any Warrant which is repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumption as to the number of Warrants in issue at any time.

References in this document to the "**Conditions**" shall mean references to the Terms and Conditions of the European Style Cash Settled Call Warrants contained in the Base Listing Document. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.

TERMS AND CONDITIONS OF THE WARRANTS

*The following are the terms and conditions of the Warrants and should be read in conjunction with, and are qualified by reference to, the other information set out in this document and the base listing document dated 7 July 2011 (the "**Base Listing Document**").*

The Conditions are set out in the section headed "Terms and Conditions of the European Style Cash Settled Call Warrants" in the Base Listing Document. For the purposes of the Conditions, the following terms shall have the following meanings:

Warrants:	80,000,000 European Style Cash Settled Call Warrants relating to the ordinary shares ("**Shares**") of the Company
Company:	Yanlord Land Group Limited (Reuters Instrument Code: YNLG.SI)
Conversion Ratio (number of Shares per Warrant):	0.400000 (i.e. every 2.5 Warrants initially relate to 1 Share)
Underlying Price[1] and Source:	SGD 1.15 (out of the money) (Reuters/Bloomberg)
Exercise Price:	SGD 1.2
Gearing[1]:	2.3x
Premium[1]:	48%
Volatility[1]:	Implied: 180% Historical: 39%
Launch Date:	22 June 2012
Closing Date:	27 June 2012
Dealing Commencement Date:	28 June 2012
Last Trading Date:	The 5th Business Day immediately preceding the Expiry Date, currently being 27 November 2012

[1] These figures are calculated as at, and based on information available to the Issuer on or about, the date of the termsheet in respect of the Warrants. The Issuer is not obliged, and undertakes no responsibility to any person, to update or inform any person of any changes to the figures after the date of the termsheet in respect of the Warrants.

Expiry Date:	04 December 2012
Board Lot:	1,000 Warrants
Valuation Date:	Each of the five Business Days immediately preceding the Expiry Date (subject to Market Disruption Events as set out in the Conditions of the Warrants)
Exercise:	Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
Cash Settlement Amount:	In respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to: (A) (i) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the Relevant Stock Exchange, subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date LESS (ii) the Exercise Price MULTIPLIED by (B) the Conversion Ratio In certain circumstances, the Conversion Ratio and the Exercise Price will be adjusted as set out in Condition 6 of the Warrants.
Reference Currency:	Singapore dollars
Settlement Currency:	Singapore dollars
Exercise Expenses:	Warrantholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants.
Relevant Stock Exchange:	Singapore Exchange Securities Trading Limited ("**SGX-ST**")
Clearing System:	The Central Depository (Pte) Limited ("**CDP**")

Fees and Charges:	Normal transaction and brokerage fees shall apply to the trading of the Warrants on the SGX-ST.

The Conditions set out in the section headed "Terms and Conditions of the European Style Cash Settled Call Warrants" in the Base Listing Document are set out below. This section is qualified in its entirety by reference to the detailed information appearing elsewhere in this document which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions set out below, replace or modify the relevant Conditions for the purpose of the Warrants.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL WARRANTS

1. Form, Status, Transfer and Title

(a) *Form*. The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:

(i) an instrument by way of deed poll (the "**Instrument**") dated the Closing Date, made by Macquarie Bank Limited (the "**Issuer**"); and

(ii) a master warrant agent agreement (the "**Warrant Agent Agreement**") dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

(b) *Status*. The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.

(c) *Transfer*. The Warrants are represented by a global warrant certificate ("**Global Warrant**") which will be deposited with The Central Depository (Pte) Limited ("**CDP**"). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.

(d) *Title*. Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights*. Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The "**Cash Settlement Amount**", in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to:

(A) (i) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below) LESS (ii) the Exercise Price for the time being MULTIPLIED by (B) the Conversion Ratio.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

(A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

"**Valuation Date**" means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

(b) *Exercise Expenses*. Warrantholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantholders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantholders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

(a) *Exercise*. Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).

(b) *Automatic Exercise*. Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement*. In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantholder the Cash

Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

(d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.

(e) *Business Day*. In these Conditions, a "**Business Day**" shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

(a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantholders in accordance with Condition 9.

(b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantholders.

6. Adjustments

(a) *Potential Adjustment Event*. Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.

(b) *Definitions*. "**Potential Adjustment Event**" means any of the following:

(i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;

(ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a "spin-off" or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;

(iii) an extraordinary dividend;

(iv) a call by the Company in respect of the Shares that are not fully paid;

(v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;

(vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a "poison pill" being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or

(vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.

(c) *Merger Event, Tender Offer, Nationalisation and Insolvency*. If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:

(i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;

(ii) cancel the Warrants by giving notice to the Warrantholders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantholder in respect of each Warrant held by such Warrantholder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9; or

(iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the "**Option Reference Source**") make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warrantholders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warrantholders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

(d) *Definitions*. "**Insolvency**" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. "**Merger Date**" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. "**Merger Event**" means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. "**Nationalisation**" means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. "**Tender Offer**" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.

(e) *Other Adjustments*. Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction).

(f) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

The Issuer or its related corporations may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders*. The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the

Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warrantholders. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than ten per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

(b) *Modification*. The Issuer may, without the consent of the Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

(a) *Documents*. All cheques and other documents required or permitted by these Conditions to be sent to a Warrantholder or to which a Warrantholder is entitled or which the Issuer shall have agreed to deliver to a Warrantholder may be delivered by hand or sent by post addressed to the Warrantholder at his address appearing in the records maintained by CDP or, in the case of joint Warrantholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.

(b) *Notices*. All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

(a) *De-Listing*. If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer ("**De-Listing**"), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(b) *Adjustments*. Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Relevant Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.

(c) *Issuer's Determination*. The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

(a) *Illegality and Force Majeure, etc*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

(b) *Termination*. If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within six years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

SUMMARY OF THE ISSUE

The following is a summary of the issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this document and the Base Listing Document. Terms used in this Summary are defined in the Conditions.

Issuer:	Macquarie Bank Limited
Company:	Yanlord Land Group Limited
The Warrants:	European Style Cash Settled Call Warrants relating to the Shares
Number:	80,000,000 Warrants
Form:	The Warrants will be issued subject to, and with the benefit of, an instrument by way of deed poll dated 27 June 2012 (the "**Instrument**") and executed by the Issuer and a master warrant agent agreement dated 26 November 2004 (the "**Warrant Agent Agreement**") and made between the Issuer and the Warrant Agent.
Conversion Ratio (number of Shares per Warrant):	0.400000 (i.e. every 2.5 Warrants initially relate to 1 Share)
Cash Settlement Amount:	In respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to: (A) (i) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the Relevant Stock Exchange, subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date LESS (ii) the Exercise Price MULTIPLIED by (B) the Conversion Ratio In certain circumstances, the Conversion Ratio and the Exercise Price will be adjusted as set out in Condition 6 of the Warrants.
Denominations:	Warrants are represented by a global warrant in respect of all the Warrants.
Exercise:	Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have

	expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
Trading Currency:	Singapore dollars
Transfers of Warrants:	Warrants may only be transferred in Board Lots (or integral multiples thereof). All transfers in Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records of CDP.
Listing:	Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. Issue of the Warrants is conditional on such listing being granted. It is expected that dealings in the Warrants on the SGX-ST will commence on or about 28 June 2012.
Governing Law:	The laws of Singapore
Warrant Agent:	Macquarie Capital Securities (Singapore) Pte. Limited
Further Issues:	Further issues which will form a single series with the Warrants will be permitted.

The above summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this document and the Base Listing Document.

RISK FACTORS

The following risk factors are relevant to the Warrants:

(a) investment in Warrants involves substantial risks including market risk, liquidity risk, and the risk that the Issuer will be unable to satisfy its obligations under the Warrants. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Warrants. You should consider carefully whether Warrants are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Warrants are not suitable for inexperienced investors;

(b) the Warrants constitute direct, general and unsecured contractual obligations of the Issuer and no other person and will rank on a parity with the Issuer's other unsecured contractual obligations and with the Issuer's unsecured and unsubordinated debt other than indebtedness preferred by mandatory provisions of law. Section 13A of the Banking Act of 1959 of Australia provides that, in the event of the Issuer becoming unable to meet its obligations or suspending payments, the assets of the Issuer in Australia shall be available to meet the Issuer's deposit liabilities in Australia, as well as other liabilities owed to either the Reserve Bank of Australia or under an industry support contract certified under section 11CB of the Banking Act, in priority to all other liabilities of the Issuer (including the obligations of the Issuer under the Warrants). If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against any other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Warrants, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the company which has issued the underlying shares. The Issuer is not a fiduciary of Warrantholders (as defined in the Conditions) and has substantially no obligation to a Warrantholder other than to pay amounts in accordance with the terms thereof as set forth herein and in the Base Listing Document. The Issuer does not in any respect underwrite or guarantee the performance of any Warrant. Any profit or loss realised by a Warrantholder in respect of a Warrant upon exercise or otherwise due to changes in the value of such Warrant, or the underlying shares, is solely for the account of such Warrantholder. In addition, the Issuer shall have the absolute discretion to put in place any hedging transaction or arrangement which it deems appropriate in connection with any Warrant or the underlying shares. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by any one of its rating agencies could result in a reduction in the trading value of the Warrants;

(c) the price of the Warrants may fall in value as rapidly as it may rise and Warrantholders may sustain a total loss of their investment. The risk of losing all or any part of the purchase price of a Warrant upon the expiry of the Warrants means that, in order to recover and realise a return on investment, investors in Warrants must generally anticipate correctly the direction, timing and magnitude of any change in the value of the shares of the underlying company. Changes in the price of the shares of the underlying company can be unpredictable, sudden and large and such changes may result in the price of such shares moving in a direction which will negatively impact upon the return on an investment. In the case of Warrants relating to shares, certain events relating to such shares or the underlying company may cause adverse movements in the value and price of the underlying shares, as a result of which, the Warrantholders may, in certain circumstances, sustain a total loss of their investment if, for the Warrants, the price of the underlying shares falls below or is equal to the exercise price on the expiry date;

(d) due to their nature, the Warrants can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Warrants may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the price of the underlying shares, dividends and interest rate, the time remaining to expiry and the creditworthiness of the Issuer;

(e) before exercising or selling the Warrants, the holders of Warrants should carefully consider, among other things, (i) the trading price of the Warrants; (ii) the value and volatility of the reference security; (iii) the time remaining to expiration; (iv) the probable range of Cash Settlement Amounts; (v) any change(s) in interim interest rates and dividend yields; (vi) any change(s) in currency exchange rates; (vii) the depth of the market or liquidity of the reference security; (viii) any related transaction costs; and (ix) the creditworthiness of the Issuer;

(f) fluctuations in the price of the underlying shares will affect the price of the Warrants but not necessarily in the same magnitude and direction, therefore, prospective investors intending to purchase Warrants to hedge their market risk associated with investing in the underlying shares, should recognise the complexities of utilising the Warrants in this manner;

(g) the settlement amount of Warrants at any time prior to the expiry of the Warrants may be less than the trading price of such Warrants at that time. The difference between the trading price and the settlement amount as the case may be, will reflect, among other things, a "time value" for the Warrants. The "time value" of the Warrants will depend partly upon the length of the period remaining to the expiry date of the Warrants and expectations concerning the value of the shares of the underlying company;

(h) investors should note that an investment in the Warrants involves valuation risks in relation to the underlying asset. The value of the underlying asset may vary over time and may increase or decrease by reference to various factors, which may include corporate actions, macro economic factors and market trends. Certain (but not all) events relating to the underlying shares require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions (including, but not limited to, adjusting the Exercise Price (if applicable) and the Conversion Ratio). However, the Issuer is not required to make an adjustment for every event that affects the underlying asset. If an event occurs that does not require the Issuer to adjust the Conversion Ratio or any other part of the Conditions, the market price of the Warrants and the return upon the exercise of the Warrants may be affected;

(i) as indicated in the Conditions, a Warrantholder must tender a specified number of Warrants at any one time in order to exercise. Thus, Warrantholders with fewer than the specified minimum number of Warrants in a particular series will either have to sell their Warrants or purchase additional Warrants, incurring transactions costs in each case, in order to realise their investment;

(j) unless otherwise specified in the Conditions, in the case of any exercise of the Warrants, there may be a time lag between the date on which the Warrants are exercised and the time the applicable settlement amount relating to such an event is determined. Any such delay between the time of exercise and the determination of the settlement amount will be specified in the Conditions. However such delay could be significantly longer, particularly in the case of a delay in the exercise of the Warrants arising from, a determination by the Issuer that a Market Disruption Event has occurred at any relevant time or that adjustments are required in accordance with the Conditions. That applicable settlement amount, may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Warrants;

(k) if, whilst the Warrants remain unexercised, trading in the underlying shares on the relevant stock exchange is suspended, trading in the Warrants may be suspended for a similar period;

(l) in the case of the Warrants, certain events relating to the shares of the underlying company require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions, and investors have limited anti-dilution protection under the Conditions. The Issuer may at its sole discretion adjust the entitlement upon exercise or valuation of the Warrants for events such as, amongst others, subdivision of the shares of the underlying company and dividend in specie, however the Issuer is not required to make an adjustment for every event that may affect the shares of the underlying company;

(m) the Warrants are only exercisable on their expiry date and may not be exercised by Warrantholders prior to such expiry date. Accordingly, if on such expiry date the Cash Settlement Amount (where applicable) is zero or negative, a Warrantholder will lose the value of his investment;

(n) investors should note that it is not possible to predict the price at which the Warrants will trade in the secondary market or whether such market will be liquid or illiquid. A decrease in the liquidity of the Warrants or the underlying shares related to the Warrants may cause, in turn, an increase in the volatility associated with the price of such issue of Warrants. The Issuer may, but is not obligated to, at any time, purchase Warrants at any price in the open market or by tender or private agreement. Any Warrants so purchased may be held or resold or surrendered for cancellation. As the Warrants are only exercisable on the expiry date, an investor will not be able to exercise his warrants to realize value in the event that the relevant issue becomes illiquid;

(o) in the event of any delisting of the Warrants from the SGX-ST (other than at expiry), the Issuer will use all reasonable efforts to list the Warrants on another exchange. If the Warrants are not listed or traded on any exchange, pricing information for the Warrants may be difficult to obtain and the liquidity of the Warrants may be adversely affected;

(p) two or more risk factors may simultaneously have an effect on the value of a Warrant such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Warrant;

(q) various potential and actual conflicts of interest may arise from the overall activities of the Issuer and any of its subsidiaries and affiliates.

The Issuer and any of its subsidiaries and affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for their own account or the account of others. In addition, the Issuer and any of its subsidiaries and/or affiliates, in connection with their other business activities, may possess or acquire material information or publish or issue research reports about the underlying shares. Such activities and information may involve or otherwise affect issuers of underlying shares in a manner that may cause consequences adverse to the Warrantholders or otherwise create conflicts of interests in connection with the issue of Warrants by the Issuer. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Issuer is not a fiduciary of Warrantholders and it and any of its subsidiaries and affiliates have no obligation to disclose such information about the underlying shares or such activities. The Issuer and any of its subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the issue of Warrants by the Issuer or the effect that such activities may directly or indirectly have on any Warrant;

(r) in the ordinary course of their business, including without limitation in connection with the Issuer or its appointed designated market maker's market making activities, the Issuer and any of its respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the underlying shares or related derivatives. In addition, in connection with the offering of any Warrants, the Issuer and any of its respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the underlying shares or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and any of its respective subsidiaries and its affiliates, the Issuer and any of its respective subsidiaries and affiliates may enter into transactions in the underlying shares or related derivatives which may affect the market price, liquidity or value of the Warrants and which may affect the interests of Warrantholders;

(s) if the Issuer determines in good faith that the performance of its obligations under the Conditions has become unlawful or impractical in whole or in part, the Issuer may at its sole and absolute discretion and without obligation, terminate the Warrants prior to the expiry date, in which event the Issuer to the extent permitted by any relevant applicable law, will pay to each Warrantholder an amount as determined by the Issuer, in its sole and absolute discretion, in accordance with the Conditions. If the Issuer terminates the Warrants prior to the expiry date, the Issuer will, if and to the extent permitted by any relevant applicable law, pay each Warrantholder an amount to be determined by the Issuer, in its sole and absolute discretion, to be the fair market value of the Warrants immediately prior to such termination or otherwise determined as specified in the Conditions, notwithstanding the illegality or impracticality;

(t) the Issuer may enter into discount, commission or fee arrangements with brokers and/or any of its affiliates with respect to the primary or secondary market in the Warrants. The arrangements may result in the benefit to investors in Warrants buying and selling Warrants through nominated brokers by reducing the commission that was paid directly by those Warrantholders. Investors in the Warrants should note that any brokers with whom the Issuer has a commission arrangement does not, and cannot be expected to deal, exclusively in the Warrants, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the shares in the underlying company and/or structured products of other issuers over the same shares in the same underlying company as the Warrants for their proprietary accounts and/or accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Warrants and present certain conflicts of interests;

(u) changes in Singapore tax law and/or policy may adversely affect Warrantholders. Warrantholders who are in any doubt as to the effects of any such changes should consult their stockbrokers, bank managers, accountants, solicitors or other professional advisers;

(v) as the Warrants are represented by a global warrant certificate which will be deposited with the CDP:

   (i) investors should note that no definitive certificate will be issued in relation to the Warrants;

   (ii) there will be no register of Warrantholders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants by way of interest (to the extent of such number) in the global warrant certificate in respect of those Warrants represented thereby shall be treated as the holder of such number of Warrants;

   (iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Warrants; and

   (iv) notices to such Warrantholders will be published on the web-site of the SGX-ST. Investors will need to check the web-site of the SGX-ST regularly and/or rely on their brokers/custodians to obtain such notices; and

(w) the value of the Warrants depends upon, amongst other things, the ability of Issuer to fulfil its obligations under the terms.

A summary of the significant risks that affect the Issuer's results of operations and financial condition is set forth below.

   (i) *Market risk.* The Issuer is subject to the risk of loss associated with the level of volatility and prices in the equity and other markets in which the Issuer operates. Issuer and members of the Issuer's group are dependent on the level of banking, finance and financial services required by their customers. Since 2008 global equity and debt markets have experienced some difficult conditions. These challenging market conditions have resulted in periods of reduced liquidity, extreme volatility and declining asset prices, as well as greater counterparty credit risk, widening of credit spreads and lack of price transparency in credit and other markets.

   Market conditions also led to the failure of a number of financial institutions and the intervention of government authorities and central banks around the world. Notwithstanding some improvement in global economic conditions, conditions remain difficult and there is no assurance that market conditions will continue to improve. If the economic climate worsens in the future, the Issuer's financial performance, business or strategy may be adversely affected.

   The Issuer and its subsidiaries rely on debt markets for funding their businesses. Further instability in these markets may affect their ability to access funding, particularly the ability to issue long-term debt securities, to replace maturing liabilities in a timely manner and to access the funding necessary to grow their businesses. In addition, an increase in credit spreads may increase the cost of funding. Further, volatile and deteriorating markets may reduce activity and the flow of transactions, which may adversely impact the Issuer's financial performance. Other risks associated with funding are over reliance on a particular funding source or a simultaneous increase in funding costs across a broad range of sources.

The profitability of the Issuer’s businesses could be adversely affected by a worsening of general economic conditions in its markets, as well as by Australian and offshore trading market conditions and/or related factors, including competition from other financial institutions and governmental policies and initiatives.

In poor market conditions, the Issuer and its subsidiaries may be required to hold investment assets for longer, or sell these assets at a lower price than historically expected and this may impact the rate of return on these assets and require funding for longer periods than anticipated. This may include situations where potential buyers of the investment assets are unable to obtain financing to purchase assets that the Issuer and its subsidiaries currently hold or purchase.

Any decline in global asset markets, including equity, property, and other asset markets, or in market liquidity, could adversely impact the Issuer's results of operations and financial condition. In addition, a decline in asset prices could negatively impact the fees received from funds management.

Furthermore, declining asset prices could adversely impact customers and the security held against loans, which may impact the Issuer's results of operations due to default. These risks may impact the value of financial instruments and other financial assets that are carried at fair market value.

Capital market volatility may require the Issuer and its subsidiaries to make writedowns of their funds management assets and other investments and loan impairment provisions. This would impact the Issuer's financial performance.

(ii) *Credit and liquidity risk.* The Issuer is exposed to the risk that it may become unable to meet its financial commitments when they fall due, which could arise due to mismatches in cashflows. Liquidity is essential to the Issuer’s businesses. Liquidity could be impaired by an inability to access credit and debt markets, an inability to sell assets or unforeseen outflows of cash or collateral. In difficult credit and debt markets the Issuer may be forced to find alternative funding sources or fund its operations at a higher cost.

As the global economic crisis emerged, governments and central banks around the globe implemented relief measures in an attempt to restore confidence in financial systems and bolster economic growth. There can be no assurance, however, that such measures will result in a sustained long-term stabilisation of financial markets. In addition, governments have begun to withdraw or alter their support of such relief measures and it is not clear what effect these actions or the consequential impacts of substantial fiscal stimulus on the budgets of sovereigns will have on global economic conditions or the Issuer's financial condition. If access to public bond markets over the medium term worsens, and other existing avenues of term funding become unavailable, the Issuer may need to consider selling liquid assets.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among the financial institutions. As a result, concerns, whether well-founded or not, about, or default by, any large financial institution, or by a sovereign that guarantees the indebtedness or other commercial transactions of such an institution, could cause further market-wide liquidity problems which may adversely affect financial institutions such as the Issuer.

The Issuer is also exposed to credit risk on its trading and other counterparties. The Issuer and its subsidiaries assume counterparty risk in connection with their lending, trading, derivatives and other businesses where they rely on the ability of a third party to satisfy its financial obligations on a timely basis. The resultant credit exposure will depend on a number of factors, including the financial condition of the counterparty, the value of property held as collateral, the market value of the counterparty instruments and obligations held, as well as the extent to which the Issuer and its subsidiaries hedge such credit exposures.

(iii) *Legal, regulatory, compliance and documentation risk.* Some of the Issuer's businesses are highly regulated, including regulation relating to prudential and liquidity requirements, and the Issuer could be adversely affected by changes in legal, regulatory and compliance requirements (including requirements relating to licensing and the management of conflicts of interest). In particular, any change in regulation of the Issuer to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have an adverse affect on the Issuer's businesses.

The Issuer is also exposed to the risk of inappropriate documentation of contractual relationships.

(iv) *New business, acquisitions and mergers and future growth risk.* A feature of the operating strategy of the Issuer is growth and diversification. Future growth, including through acquisitions, mergers and other corporate transactions, as well as planned business initiatives and expansions of existing businesses into new jurisdictions may place significant demands on the Issuer's risk management and operational infrastructure. This activity may also bring the Issuer and its subsidiaries into contact, directly or indirectly, with individuals and entities that are new clients, with new asset classes and other new products or new markets. These business activities expose the Issuer and its subsidiaries to new and enhanced risks including reputation risks arising from dealing with a range of new counterparties and investors.

With respect to acquisitions, the Issuer and its subsidiaries may become subject to unknown liabilities of an acquired business, may not achieve expected synergies, cost savings or may otherwise incur losses. There may be a loss of market share or customers, or disruptions to operations and management time may be diverted to facilitate the integration of acquired businesses.

(v) *Credit ratings risk.* The Issuer and other related entities are assigned credit ratings by various rating agencies based on an evaluation of a number of factors, including their ability to maintain a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and disciplined liquidity monitoring procedures. If one or more of these credit ratings were downgraded this could have the effect of increasing the cost of funds raised from financial markets, reducing the Issuer's ability to access certain capital markets, triggering the Issuer's obligations under certain of its contracts, or adversely impacting the willingness of counterparties to deal with the Issuer. A rating downgrade could be driven by the occurrence of one or more of the risk factors described in this document or by other events.

(vi) *Interest and exchange rate risks.* Interest rate risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates can affect the Issuer's affect earnings.

The Issuer's financial statements are presented in Australian dollars. However a portion of the Issuer's operating income is derived from offshore business activities, which are conducted in a broad range of currencies. As such, changes in currency exchange rates may adversely impact the Issuer's financial results, its operations and its regulatory capital and funding position. Further, where the Issuer and subsidiaries conduct business activities offshore, capital and funding are generally deployed locally and thus the Issuer’s capital is held in, and funding is sourced from, a broad range of currencies.

(vii) *Operational risk*. The daily operations of the Issuer and its subsidiaries may result in financial loss, adverse regulatory consequences or reputational damage due to a variety of operational risks including business decisions, technology risk (including failure of business systems, including those of its counterparties and service providers), fraud, compliance with legal and regulatory obligations, counterparty performance, business continuity planning, legal and litigation risk, environmental obligations, data integrity and processing risk, managing conflicts of interests and key person risk.

(viii) *Staff recruitment and retention*. The Issuer and its subsidiaries are reliant on the ability to hire and retain appropriately qualified staff. In order to do this, employees must be compensated at or above market levels. Current or future laws or regulatory or public scrutiny may restrict the ability to move staff from one jurisdiction to another or change the way employees are remunerated. If the Issuer and its subsidiaries are unable to continue to attract and retain qualified employees, the Issuer’s performance, including its competitive position, could be materially adversely affected.

(ix) *Tax risk*. The Issuer’s business operations expose the Issuer to unforeseen potential tax liabilities that could have an adverse impact on the Issuer’s results of operation and the Issuer’s reputation.

(x) *Reputational risk*. The Issuer is substantially dependent on its brand and reputation. If the Issuer suffers damage to its reputation, including damage to the brands used by the Issuer and the funds it manages, for instance, as a result of a conflict of interest, this could reduce business volume as clients might be reluctant to do business with the Issuer due to negative perceptions. This would adversely impact the Issuer's earnings.

(xi) *Poor performance of funds*. The Issuer's financial condition and results of operation are directly and indirectly affected by the results of the funds or the assets it and other members of the Issuer group manage. As such, poor performance of funds may cause a decline in the Issuer's revenue and results of operations, may adversely affect the ability to raise capital for future funds and may also affect the Issuer’s brand and reputation.

INFORMATION RELATING TO THE COMPANY

All information contained in this document regarding the Company, including, without limitation, its financial information, is derived from publicly available information which appears on the web-site of the SGX-ST at http://www.sgx.com. The Issuer has not independently verified any of such information.

Yanlord Land Group Limited ("**Yanlord Land**" or the "**Company**") was incorporated in Singapore on 13 February 2006 under the name Yanlord Land Group Pte Ltd and adopted its present name on 11 May 2006.

Yanlord Land Group Limited is a real estate developer based in China that focuses on developing high-end residential property projects in selected key and high-growth cities in China, such as Shanghai and Nanjing.

Since its establishment in 1993, Yanlord Land has grown from a start-up property developer with one development project comprising 53,049 sq m of gross floor area to become one of the major players in the high-end property development market in seven cities in China.

Yanlord Land has expanded the geographical reach of its residential property development business into Chengdu, Tianjin, Zhuhai, Suzhou and Guiyang. The company's residential property developments are typically large-scale and multi-phased projects.

The Group has also recently begun the development of high-grade commercial properties, such as office buildings, retail space and serviced apartments, for sale and lease. In addition, the Group also provides property management services primarily for the projects it develops.

The information set out in Appendix I of this document relates to the unaudited consolidated financial statements of the Company and its subsidiaries for the first quarter ended 31 March 2012 and has been extracted and reproduced from an announcement by the Company dated 14 May 2012 in relation to the same. Further information relating to the Company may be located on the web-site of the SGX-ST at http://www.sgx.com.

INFORMATION RELATING TO THE DESIGNATED MARKET MAKER

Macquarie Capital Securities (Singapore) Pte. Limited ("**MCSSP**") has been appointed the designated market maker ("**DMM**") for the Warrants. The DMM will provide competitive buy and sell quotes for the Warrants continuously during the trading hours of the SGX-ST on the following basis:

(a)	Maximum bid and offer spread	:	10 times the minimum permitted price movement in the Warrants in accordance with the rules of the SGX-ST or SGD 0.20, whichever is the greater
(b)	Minimum quantity subject to bid and offer spread	:	10,000 Warrants
(c)	Last Trading Day for Market Making	:	The date falling five Business Days immediately preceding the Expiry Date

Quotations will/may however not be provided by the DMM in the following circumstances:

(i) during the pre-market opening and five minutes following the opening of the SGX-ST on any trading day;

(ii) if the Warrant is valueless (where the Issuer's bid price is below the minimum bid size for such securities as prescribed by the SGX-ST), the DMM will not provide the bid price. In such an instance, the DMM will provide the offer price only;

(iii) when trading in the Shares is suspended or limited in a material way;

(iv) when the Issuer or DMM faces technical problems affecting the ability of the DMM to provide the bid and offer prices;

(v) when the ability of the Issuer to source a hedge or unwind an existing hedge, as determined by the Issuer in good faith, is materially affected by the prevailing market conditions. The Issuer will inform the SGX-ST of its inability to do so as soon as practicable;

(vi) in cases where the Issuer has no Warrants to sell, the DMM will only provide the bid price;

(vii) when the stock market experiences exceptional price movements and volatility; and

(viii) when it is a public holiday in Singapore and the SGX-ST is not open for dealings.

History and Business

MCSSP holds a Capital Markets Services License issued by the Monetary Authority of Singapore and is a trading member of SGX-ST as well as a Clearing Member of the CDP. Under the Capital Markets Services License, MCSSP is permitted to deal in securities and provide custodial services as well as act as an exempt financial adviser. Its principal activities are those relating to the provision of stock and share broking services, prescribed under the rules and regulations of the SGX-ST, and related securities research services. MCSSP is a wholly owned subsidiary of Macquarie NE Holdings (Singapore) Pte. Limited and its ultimate holding company is Macquarie Group Limited.

SUPPLEMENTAL INFORMATION RELATING TO THE ISSUER

The Macquarie Bank Limited 2012 Financial Report is set out in Appendix II of this document and has been extracted from the Macquarie Bank 2012 Annual Report. References to page numbers in Appendix II are to page numbers of the Macquarie Bank 2012 Annual Report. Copies of the Macquarie Bank 2012 Annual Report can be obtained at the office of Macquarie Capital Securities (Singapore) Pte. Limited at 10 Marina Boulevard, #17-01 Marina Bay Financial Centre Tower 2, Singapore 018983, and viewed at www.macquarie.com.au.

On 12 March 2012, Fitch Ratings changed Macquarie Bank Limited's Long-Term Issuer Default Rating ("**IDR**") to 'A' from 'A+' and affirmed its Short-Term IDR at 'F-1'. The Outlook on the Long-Term IDR is Stable.

On 16 March 2012, Moody's Investors Service changed Macquarie Bank Limited's long-term rating to 'A2' from 'A1' and affirmed its short-term rating at 'P-1'. The Outlook for both the long-term rating and the short-term rating is Stable.

For more information on the Issuer, please see www.macquarie.com.

Queries regarding the Warrants may be directed to 1800 288 2880 (Toll Free) or +65 6601 0289 (International) or info@warrants.com.sg.

SALE

General

No action has been or will be taken by the Issuer that would permit a public offering of the Warrants or possession or distribution of any offering material in relation to the Warrants in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Warrants, or distribution of any offering material relating to the Warrants may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to placees.

United Kingdom

In relation to each Member State of the European Economic Area (including the United Kingdom) which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") no offer of Warrants to the public in that Relevant Member State may be made prior to the publication of a prospectus in relation to the Warrants which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of Warrants to the public in that Relevant Member State may be made at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Warrants to the public**" in relation to any Warrants in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Warrants to be offered so as to enable an investor to decide to purchase or subscribe the Warrants, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

In addition, all applicable provisions of the Financial Services and Markets Act 2000 (the " **FSMA**") must be complied with in respect of anything done in relation to any Warrants in, from or otherwise involving the United Kingdom. An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) may only be communicated or caused to be communicated in connection with the issue or sale of any Warrants in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer.

United States of America

The Warrants have not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Warrants, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Warrants, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with registration requirements of the Securities Act or pursuant to an exemption therefrom. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any citizen or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other "**U.S. person**" as such term is defined in Regulation S under the Securities Act.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Warrants may not be circulated or distributed, nor may Warrants be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

Hong Kong

Each distributor, purchaser or subscriber of the Warrants has represented and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Warrants, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Warrants which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Commonwealth of Australia

This document is not a prospectus, product disclosure statement or any other disclosure document for the purposes of the Corporations Act 2001 (Cth) (the "**Act**"). This document has not been, and will not be, lodged with the Australian Securities and Investments Commission, ASX Limited or any other government agency in Australia. Each Warrantholder will be required to represent and agree that, unless the applicable final terms otherwise provides, it:

(a) has not offered or invited applications, and will not make any offer, or invite applications, for the issue, sale or purchase of any Warrant in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this document, any addendum to the Base Listing Document and this document or any other offering material or advertisement relating to any Warrant in Australia,

Unless:

(a) the offeree or invitee is a “wholesale client”, “sophisticated investor” or “professional investor” (as defined in the Act);

(b) the minimum aggregate consideration payable by each offeree or invitee is at least A$500,000 (or its equivalent in other currencies but disregarding moneys lent by the offeror or its associates); or

(c) the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Act.

Section 708(19) of the Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Act if the issuer is an Australian authorised deposit-taking institution (“**ADI**”). As at the date of this document, the Issuer is an ADI.

SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 110 of the Base Listing Document.

1. Settlement of trades done on a normal "ready basis" on the SGX-ST generally takes place on the third Business Day following the transaction. Dealing in the Warrants will take place in Board Lots in Singapore dollars. For further details on the transfer of Warrants and their exercise, please refer to the section headed "Summary of the Issue" above.

2. It is not the current intention of the Issuer to apply for a listing of the Warrants on any stock exchange other than the SGX-ST.

3. The Issuer is a subsidiary of Macquarie Group Limited. Macquarie Group Limited, with its controlled entities ("**Macquarie Group**"), is a large diversified Australian-based financial institution with a long and successful history. Like any financial institution, Macquarie Group has been subject to legal claims most of which have lapsed without liability.

   The Issuer has contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of its financial statements and specific provisions that it considers appropriate are made, as described in Note 36 to its 2012 annual financial statements.

   On December 22, 2010, ASIC commenced legal proceedings in the Federal Court of Australia against a number of banking institutions, including the Issuer. In one set of proceedings, ASIC is seeking compensation for investors arising out of the collapse of Storm Financial Limited ("**Storm**") for an alleged breach of contract, contravention of the statutory prohibitions against unconscionable conduct and liability as linked credit providers of Storm under section 73 of the Trade Practices Act 1974 of Australia. In another set of proceedings, ASIC alleges that there was an unregistered managed investment scheme in which the relevant banks were involved.

   Representative legal action has also been brought through a private law firm in the same court claiming an unregistered managed investment scheme involving Storm on a similar basis as ASIC's action and claiming compensation for those investors. As at the date of the Base Listing Document, the proceedings are progressing through a pre-trial process. The Issuer denies liability with respect to these claims.

   Save as disclosed in the preceding two paragraphs, there are no, nor have there been, any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Macquarie Group is aware) in the 12 month period prior to the date of the Base Listing Document which may have or have had a significant effect on the financial position or profitability of the Issuer.

4. To the best of the Issuer's knowledge, there has been no adverse change, material in the context of the issue of the Warrants, in the financial position of the Issuer since 31 March 2012.

5. The following contracts, relating to the issue of the Warrants, have been or will be entered into by the Issuer and may be material to the issue of the Warrants:

   (a) the Instrument; and

(b) the Warrant Agent Agreement.

None of the directors of the Issuer has any direct or indirect interest in any of the above contracts.

6. The Warrants are not fully covered by Shares held by Issuer or a trustee for and on behalf of the Issuer. The Issuer has appropriate risk management capabilities to manage the issue of the Warrants.

7. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the office of Macquarie Capital Securities (Singapore) Pte. Limited at 10 Marina Boulevard, #17-01 Marina Bay Financial Centre Tower 2, Singapore 018983, until the expiry of the Warrants:

(a) the Constitution of the Issuer;

(b) the 2011 and 2012 annual reports of the Issuer;

(c) the Instrument;

(d) the Warrant Agent Agreement; and

(e) the Base Listing Document.

APPENDIX I

REPRODUCTION OF THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2012 OF YANLORD LAND GROUP LIMITED AND ITS SUBSIDIARIES

The information set out below is a reproduction of the unaudited consolidated financial statements of the Company and its subsidiaries for the first quarter ended 31 March 2012 and has been extracted and reproduced from an announcement by the Company dated 14 May 2012 in relation to the same.

YANLORD LAND GROUP LIMITED
(Company Reg. No. 200601911K)

UNAUDITED FIRST QUARTER ENDED 31 MARCH 2012
FINANCIAL STATEMENTS ANNOUNCEMENT

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YANLORD LAND GROUP LIMITED

(Company Reg. No. 200601911K)

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PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, Q3 AND Q4), HALF YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited Group Income Statements for the Period Ended 31 March 2012

	1Q 2012 RMB'000	1Q 2011 RMB'000	% Change + / (-)
Revenue	466,053	2,932,974	(84)
Cost of sales	(295,697)	(1,989,374)	(85)
Gross profit	170,356	943,600	(82)
Other operating income	173,340	48,658	256
Selling expenses	(31,926)	(35,916)	(11)
Administrative expenses	(89,348)	(108,269)	(17)
Other operating expenses	(1,014)	(1,268)	(20)
Finance cost	(35,985)	(62,106)	(42)
Share of loss of jointly controlled entities	(819)	(498)	64
Profit before income tax	184,604	784,201	(76)
Income tax	(48,043)	(361,553)	(87)
Profit for the period	136,561	422,648	(68)
Profit attributable to:			
Equity holders of the Company	135,637	267,882	(49)
Non-controlling interests	924	154,766	(99)
	136,561	422,648	(68)

Profit before income tax was arrived at after charging / (crediting) the following:

	1Q 2012 RMB'000 (Unaudited)	1Q 2011 RMB'000 (Unaudited)
Depreciation expense	8,207	6,899
Fair value gain on held-for-trading investment	(1,065)	(94)
Finance cost	35,985	62,106
Interest income	(8,463)	(11,267)
Net (gain) loss on disposal of property, plant and equipment	(6,435)	35
Net loss on disposal of investment properties	61	223
Net foreign exchange gain	(132,463)	(34,843)

Revenue and cost of sales

Total pre-contracted sales grew by 28.8% or RMB1.549 billion to RMB6.927 billion as at 31 March 2012 as compared with RMB5.378 billion as at 31 December 2011. These pre-contracted sales are expected to be progressively recognised as revenue in the subsequent quarters.

In line with the Group's delivery schedule, a lower gross floor area ("GFA") was delivered in 1Q 2012. As such, revenue of the Group, net of business tax, declined to RMB466 million in 1Q 2012 from RMB2.933 billion in 1Q 2011. Average selling price ("ASP") per square metre ("sqm") was higher in 1Q 2012 over the corresponding period in 2011 mainly attributable to a change in composition of product mix to include higher priced projects such as Yanlord Townhouse (仁恒怡庭) in Shanghai and Yanlord Riverside Plaza (Phase 1) (海河广场一期) in Tianjin as compared to the inaugural delivery of Yanlord Yangtze Riverbay Town (Phase 1) (仁恒江湾城一期) in Nanjing in 1Q 2011.

Cost of sales, which mainly included land, construction and capitalised borrowing costs, decreased to RMB296 million in 1Q 2012 from RMB1.989 billion in 1Q 2011, in tandem with the lower GFA delivered to customers.

Another contributor to the revenue was from the rental of investment properties, provision of property management services and other ancillary services.

Other operating income

Other operating income, which mainly included net foreign exchange gain and government subsidies, grew by RMB125 million to RMB173 million in 1Q 2012 as compared to 1Q 2011. The increase was primarily due to a net foreign exchange gain arising from a depreciation of the Company's US$ denominated senior notes against its S$ functional currency as well as an increase in subsidies from various PRC government authorities in recognition of Yanlord's outstanding contribution in product developments towards the local economy and efforts towards developing quality residential and commercial real estates, such as projects in Bamboo Gardens (翠竹园) in Nanjing and Yanlord Landmark (仁恒置地广场) in Chengdu.

Selling expenses

Selling expenses, which mainly included staff costs, advertising and promotion expenses, decreased by RMB4 million to RMB32 million in 1Q 2012 as compared to 1Q 2011 mainly attributable to lower marketing expenses.

Administrative expenses

Administrative expenses, which mainly included staff costs, utilities, entertainment, professional fees, other tax, rental and depreciation, decreased by RMB19 million to RMB89 million in 1Q 2012 over the same period in 2011 principally attributable to the decline in staff bonuses.

Other operating expenses

Other operating expenses remained constant at RMB1 million in both 1Q 2012 and 1Q 2011.

Finance cost

Finance cost, net of capitalised interest, declined by RMB26 million to RMB36 million in 1Q 2012 over the corresponding period in 2011. The lower finance cost in 1Q 2012 was mainly a result of a decrease in the interest expense on senior notes due 2017 charged to the finance cost in the income statement as all the funds had been utilised to finance property development projects and thus capitalised in current reporting period. In accordance with the Group's accounting policy, the finance cost used to finance the development of the Group's properties was capitalised. Hence, the finance cost recorded in the income statements for a given period may not be reflective of the Group's actual level of borrowings.

Income tax

The Group's income tax, which included statutory enterprise income tax, land appreciation tax and dividend withholding tax, decreased by RMB314 million to RMB48 million in 1Q 2012 as compared to 1Q 2011, in line with the movement of gross profit and profit before income tax.

仁恒
YANLORD

1(b)(i) A statement of financial position (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

Statements of Financial Position as at 31 March 2012

	GROUP		COMPANY	
	31.03.2012	**31.12.2011**	**31.03.2012**	**31.12.2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
<u>ASSETS</u>				
Non-current assets				
Property, plant and equipment	763,992	768,468	-	-
Investment properties	7,082,986	7,079,370	-	-
Properties for development	20,267,786	19,728,223	-	-
Investments in subsidiaries	-	-	2,585,201	2,508,521
Investment in an associate	-	-	-	-
Investments in jointly controlled entities	340,894	341,713	-	-
Available-for-sale investment	49,348	49,348	-	-
Intangible asset	613	613	-	-
Deferred tax assets	147,269	138,114	-	-
Total non-current assets	28,652,888	28,105,849	2,585,201	2,508,521
Current assets				
Inventories	17,794	12,827	-	-
Completed properties for sale	1,908,942	2,125,680	-	-
Properties under development for sale	17,837,006	16,674,133	-	-
Trade receivables	31,666	31,571	-	-
Other receivables and deposits	329,112	233,804	4	268
Non-trade amounts due from:				
Subsidiaries	-	-	12,115,569	12,024,249
Associate	135	131	-	-
Jointly controlled entities	22	-	-	-
Non-controlling shareholders of subsidiaries	451,684	451,978	-	-
Other related party	567	486	-	-
Held-for-trading investment	5,777	4,712	-	-
Pledged bank deposits	2,565	5,092	-	-
Cash and cash equivalents	4,404,185	4,273,644	3,355	1,502
Total current assets	24,989,455	23,814,058	12,118,928	12,026,019
Total assets	53,642,343	51,919,907	14,704,129	14,534,540

	GROUP		COMPANY	
	31.03.2012	**31.12.2011**	**31.03.2012**	**31.12.2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	7,261,726	7,261,726	7,261,726	7,261,726
Reserves	7,513,786	7,553,064	13,088	(179,022)
Equity attributable to equity holders of the Company	14,775,512	14,814,790	7,274,814	7,082,704
Non-controlling interests	9,368,018	9,216,095	-	-
Total capital and reserves	24,143,530	24,030,885	7,274,814	7,082,704
Non-current liabilities				
Bank loans – due after one year	7,615,761	7,362,137	-	284,653
Senior notes	4,325,396	4,327,241	4,325,396	4,327,241
Deferred tax liabilities	983,258	968,712	-	-
Non-trade amount due to:				
Non-controlling shareholders of subsidiaries	216,000	216,000	-	-
Total non-current liabilities	13,140,415	12,874,090	4,325,396	4,611,894
Current liabilities				
Bank loans – due within one year	3,217,404	2,947,693	447,169	147,900
Convertible notes	1,719,397	1,790,388	1,719,397	1,790,388
Trade payables	3,281,524	3,301,308	-	-
Other payables	5,231,789	3,868,406	106,143	157,144
Non-trade amounts due to:				
Subsidiary	-	-	721,545	713,330
Directors	32,666	31,222	32,633	31,180
Shareholder	77,032	-	77,032	-
Non-controlling shareholders of subsidiaries	175,698	241,649	-	-
Income tax payable	2,622,888	2,834,266	-	-
Total current liabilities	16,358,398	15,014,932	3,103,919	2,839,942
Total equity and liabilities	53,642,343	51,919,907	14,704,129	14,534,540

1(b)(ii) Aggregate amount of Group's borrowings and debt securities

	GROUP	
	As at 31.03.2012	**As at 31.12.2011**
	RMB'000	**RMB'000**
	(Unaudited)	(Unaudited)
Amount repayable in one year or less, or on demand:-		
Secured	2,508,560	2,549,793
Unsecured	2,630,148	2,314,181
Sub-total 1	5,138,708	4,863,974
Amount repayable after one year:-		
Secured	5,951,669	5,410,453
Unsecured	6,185,488	6,474,925
Sub-total 2	12,137,157	11,885,378
Total debt	17,275,865	16,749,352

Details of any collateral

Secured borrowings are generally secured by the borrowing companies' construction-in-progress, investment properties, properties for development, properties under development for sale and completed properties for sale.

1(c) A statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited Consolidated Statements of Cash Flows for the Period Ended 31 March 2012

	1Q 2012	1Q 2011
	RMB'000	RMB'000
Operating activities		
Profit before income tax	184,604	784,201
Adjustments for:		
Depreciation expense	8,207	6,899
Fair value gain on held-for-trading investment	(1,065)	(94)
Finance cost	35,985	62,106
Interest income	(8,463)	(11,267)
Net (gain) loss on disposal of property, plant and equipment	(6,435)	35
Net loss on disposal of investment properties	61	223
Payable written off	(10,774)	-
Share of loss of jointly controlled entities	819	498
Operating cash flows before movements in working capital	202,939	842,601
Properties for development	(429,099)	(754,233)
Inventories	(4,967)	(2,964)
Completed properties for sale	216,737	34,250
Properties under development for sale	(968,910)	903,568
Trade and other receivables and deposits	(89,261)	45,993
Trade and other payables	1,384,690	(1,180,133)
Cash generated from (used in) operations	312,129	(110,918)
Interest paid	(361,457)	(152,212)
Income tax paid	(254,029)	(285,191)
Net cash used in operating activities	(303,357)	(548,321)

	1Q 2012 RMB'000	1Q 2011 RMB'000
Investing activities		
Interest received	5,830	9,977
Decrease in pledged bank deposits	2,527	353
Proceeds on disposal of property, plant and equipment	8,818	5,062
Proceeds on disposal of investment properties	60,385	6,081
Purchase of property, plant and equipment	(5,615)	(7,859)
Payment for investment properties	(4,764)	-
Advance to jointly controlled entities	(22)	(28)
Repayment from (Advance to) non-controlling shareholders of subsidiaries	93,283	(1,380)
Net cash from investing activities	160,442	12,206
Financing activities		
Dividend paid to a non-controlling shareholder of a subsidiary	(150,187)	(8,470)
Net proceeds on issue of new shares under Pre-IPO Share Option Scheme	-	3,847
Net proceeds on issue of senior notes	-	2,580,497
Proceeds from bank loans	1,009,341	1,468,800
Repayment of bank loans	(507,964)	(440,500)
Redemption of convertible notes	(119,489)	-
Advance from directors	1,444	8,191
Advance from a shareholder	77,008	-
(Repayment to) Advance from non-controlling shareholders of subsidiaries	(55,911)	60
Cash injection from non-controlling shareholders of subsidiaries	144,928	-
Net cash from financing activities	399,170	3,612,425
Net increase in cash and cash equivalents	256,255	3,076,310
Cash and cash equivalents at beginning of period	4,273,644	5,814,453
Effect of exchange rate changes on the balance of cash held in foreign currencies	(125,714)	(56,599)
Cash and cash equivalents at end of period	4,404,185	8,834,164

1(d) A statement of comprehensive income (for the issuer and Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited Statements of Comprehensive Income for the Period Ended 31 March 2012

	GROUP		COMPANY	
	1Q 2012	**1Q 2011**	**1Q 2012**	**1Q 2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Profit (Loss) for the period	136,561	422,648	(24,219)	(9,688)
Other comprehensive (expense) income:				
Currency translation difference	(167,950)	(22,144)	216,329	108,130
Other comprehensive (expense) income for the period	(167,950)	(22,144)	216,329	108,130
Total comprehensive (expense) income for the period	(31,389)	400,504	192,110	98,442
Total comprehensive (expense) income attributable to:				
Equity holders of the Company	(38,862)	245,738	192,110	98,442
Non-controlling interests	7,473	154,766	-	-
	(31,389)	400,504	192,110	98,442

1(e)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited Group Statements of Changes in Equity for the Period Ended 31 March 2012

	Share capital	Currency translation reserve	Equity reserve	Statutory reserve	Merger deficit	Other reserve	Accumulated profits	Attributable to equity holders of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012	7,261,726	(202,149)	408,041	556,575	(1,834,019)	(336,814)	8,961,430	14,814,790	9,216,095	24,030,885
Total comprehensive expense for the period	-	(174,499)	-	-	-	-	135,637	(38,862)	7,473	(31,389)
Change of interest in a subsidiary	-	-	-	-	-	(416)	-	(416)	(478)	(894)
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	144,928	144,928
Appropriations	-	-	-	953	-	-	(953)	-	-	-
Balance at 31 March 2012	7,261,726	(376,648)	408,041	557,528	(1,834,019)	(337,230)	9,096,114	14,775,512	9,368,018	24,143,530

YANLORD LAND GROUP LIMITED

(Company Reg. No. 200601911K)

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Unaudited Group Statements of Changes in Equity for the Period Ended 31 March 2011

	Share capital	Currency translation reserve	Equity reserve	Statutory reserve	Merger deficit	Other reserve	Accumulated profits	Attributable to equity holders of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	7,231,236	(547,905)	416,737	263,315	(1,834,019)	(336,747)	7,894,678	13,087,295	6,743,089	19,830,384
Total comprehensive income for the period	-	(22,144)	-	-	-	-	267,882	245,738	154,766	400,504
Issuance of shares under Pre-IPO Share Option Scheme	5,370	-	(1,523)	-	-	-	-	3,847	-	3,847
Dividend declared to a non-controlling shareholder	-	-	-	-	-	-	-	-	(8,470)	(8,470)
Balance at 31 March 2011	7,236,606	(570,049)	415,214	263,315	(1,834,019)	(336,747)	8,162,560	13,336,880	6,889,385	20,226,265

Unaudited Company Statements of Changes in Equity for the Period Ended 31 March 2012

	Share capital RMB'000	Currency translation reserve RMB'000	Equity reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2012	7,261,726	(151,630)	408,041	(435,433)	7,082,704
Total comprehensive income for the period	-	216,329	-	(24,219)	192,110
Balance at 31 March 2012	7,261,726	64,699	408,041	(459,652)	7,274,814

Unaudited Company Statements of Changes in Equity for the Period Ended 31 March 2011

	Share capital RMB'000	Currency translation reserve RMB'000	Equity reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2011	7,231,236	163,457	416,737	(636,888)	7,174,542
Total comprehensive income for the period	-	108,130	-	(9,688)	98,442
Issuance of shares under Pre-IPO Share Option Scheme	5,370	-	(1,523)	-	3,847
Balance at 31 March 2011	7,236,606	271,587	415,214	(646,576)	7,276,831

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1(e)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share-buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Share Capital

As at 31 March 2012, the issued and fully paid-up share capital of the Company, net of expenses, was RMB7.262 billion (31 December 2011: RMB7.262 billion). Movements in the Company's issued ordinary shares during the financial period were as follows:

	Number of ordinary shares '000	RMB'000
As at 31 December 2011	1,948,736	7,261,726
As at 1 January 2012 and 31 March 2012	1,948,736	7,261,726

Convertible Notes Due 2012

The Company had in February 2007 issued S$477 million convertible notes due 2012 ("Notes 2012" and each, a "Note 2012") at a conversion price of S$2.7531 per share. With effect from 1 June 2007, the conversion price was adjusted from S$2.7531 to S$2.71 per share and with effect from 5 June 2009, from S$2.71 to S$2.65 per share. With effect from 1 June 2010, the conversion price was further adjusted from S$2.65 to S$2.62 per share and with effect from 6 June 2011, from S$2.62 to S$2.59 per share.

As of 31 December 2011, S$24 million Notes 2012 remained outstanding for conversion into ordinary shares. In February 2012, the Company had fully redeemed the outstanding Notes 2012 in accordance with the terms set out in the Indenture dated 6 February 2007. No Notes 2012 was converted into ordinary shares during the current financial period.

Based on the conversion price of S$2.62 per share as at 31 March 2011 and assuming the Notes 2012 are fully converted, the number of new ordinary shares to be issued would be approximately 9,064,885 shares as at 31 March 2011.

Convertible Notes Due 2014

The Company had in July 2009 issued S$375 million convertible notes due 2014 ("Notes 2014" and each, a "Note 2014") at a conversion price of S$2.6208 per share. With effect from 1 June 2010, the conversion price was adjusted from S$2.6208 to S$2.59 per share and with effect from 6 June 2011, from S$2.59 to S$2.56 per share.

As of 31 March 2012, RMB1.881 billion (equivalent to S$375 million) Notes 2014 remained outstanding for conversion into ordinary shares. No Note 2014 was converted into ordinary shares during the current financial period.

Based on the conversion price of S$2.56 per share (31 March 2011: S$2.59) and assuming the Notes 2014 are fully converted, the number of new ordinary shares to be issued would be approximately 146,484,375 shares as at 31 March 2012 (31 March 2011: 144,787,644 shares).

Treasury Shares

The Company did not hold any treasury shares as at 31 March 2012 and 31 March 2011.

1(e)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

Please refer to Note 1(e)(ii).

1(e)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice

The figures for the first quarter ended 31 March 2012 have neither been audited nor reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditor's report (including any qualifications or emphasis of a matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

The Group has applied the same accounting policies and methods of computation in the unaudited financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2011, as well as all the applicable Singapore Financial Reporting Standards ("FRSs") which became effective for the financial year beginning on or after 1 January 2012. The adoption of these new and revised FRSs has no material effect on the unaudited financial statements for the current financial period.

5. If there are any changes in the accounting policies and methods of computations, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

There have been no changes in accounting policies and methods of computation.

6. Earnings per ordinary share (EPS) of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, based on profit after tax and non-controlling interests attributable to the equity holders of the Company after deducting any provision for preference dividends.

	GROUP	
	1Q 2012	**1Q 2011**
	(Unaudited)	(Unaudited)
EPS based on Group's profit attributable to equity holders of the Company:		
(i) On the weighted average number of shares (RMB)	6.96 cents	13.78 cents
- Weighted average number of shares ('000)	1,948,736	1,944,412
(ii) On a fully diluted basis (RMB)	6.47 cents	12.77 cents
- Adjusted weighted average number of shares ('000)	2,098,848	2,099,988

7. Net asset value (for the issuer and Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-
(i) current financial period reported on; and
(ii) immediately preceding financial year

	GROUP		COMPANY	
	31.03.2012	**31.12.2011**	**31.03.2012**	**31.12.2011**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net asset value per share based on issued share capital at the end of the period/year (RMB)	7.58	7.60	3.73	3.63

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. It must include a discussion of the following:-

(a) any significant factors that affected the turnover, costs, and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

<u>1Q 2012 vs. 1Q 2011</u>

Revenue of the Group recorded at RMB466 million in 1Q 2012 as compared to RMB2.933 billion in 1Q 2011 as a result of the decrease in GFA delivered to customers partly offset by the increased ASP per sqm in 1Q 2012 over the respective period in 2011. The GFA delivered in 1Q 2012 was in line with the Group's planned delivery schedule. Revenue in 1Q 2012 generated mainly from the delivery of Yanlord Townhouse (仁恒怡庭) and Yunjie Riverside Gardens (Phase 2) (运杰河滨花园二期) in Shanghai, as well as Yanlord Riverside Plaza (Phase 1) (海河广场一期) in Tianjin which accounted for 58.6%, 8.6% and 17.7% respectively of the Group's gross revenue from the sales of properties in 1Q 2012.

Gross profit reported at RMB170 million in 1Q 2012 as compared to RMB944 million in 1Q 2011 in tandem with the movement of revenue stream. Driven by the delivery of higher priced projects in Yanlord Townhouse (仁恒怡庭) in Shanghai and Yanlord Riverside Plaza (Phase 1) (海河广场一期) in Tianjin, the Group achieved a higher gross profit margin of 36.6% in 1Q 2012 as compared to 32.2% in 1Q 2011 representing a 4.4 percentage point increase. Attributable to the lower gross profit in 1Q 2012, profit before income tax and profit for the period decreased to RMB185 million and RMB137 million in 1Q 2012 respectively from RMB784 million and RMB423 million in 1Q 2011 respectively.

Driven by the improved gross profit margin as well as the substantial increase in net foreign exchange gain mentioned in Note 1(a) above, the Group's profit before income tax margin and profit for the period margin grew by 12.9 and 14.9 percentage points respectively to 39.6% and 29.3% in 1Q 2012 respectively over the same period in 2011.

b) any material factors that affected the cash flows, working capital, assets or liabilities of the Group during the current financial period reported on.

STATEMENTS OF FINANCIAL POSITION

Convertible notes

As at 31 March 2012, convertible notes reported at RMB1.719 billion as compared with RMB1.790 billion as at 31 December 2011. The difference between the nominal value of convertible notes of RMB1.881 billion as mentioned in Note 1(e)(ii) for Notes 2014 and the book value of RMB1.719 billion (as recorded herein) was mainly attributable to the fair value of conversion options (recorded as "Reserves" in the statements of financial position in accordance with the relevant accounting standards).

Other payables

Other payables, which mainly included advances received from customers, increased by 35.2% or RMB1.363 billion to RMB5.232 billion as at 31 March 2012 from RMB3.868 billion as at 31 December 2011 mainly due to an increase in pre-sales proceeds received from customers.

STATEMENTS OF CASH FLOWS

Net cash used in operating activities

The Group's net cash used in operating activities decreased by RMB245 million to RMB303 million in 1Q 2012 as compared to 1Q 2011 primarily attributable to the increase in pre-sales proceeds received from customers, partly offset by the lower operating profit as mentioned in Note 8(a) above and a relatively higher construction payment in current reporting period over the same period in 2011.

Net bank loan drawdown

The net bank loan drawdown decreased by RMB527 million to RMB501 million in 1Q 2012 as compared to 1Q 2011 mainly due to a decrease in drawdown in current reporting period over the respective period in 2011.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

No forecast or prospect statement for the current financial period has been previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months

INDUSTRY OUTLOOK

Near-term market sentiments in the People's Republic of China ("PRC") property sector continues to be volatile following austerity measures introduced by the PRC central government in 2010. However, the Group remains confident about the long-term potential of PRC real estate sector which continues to be driven by a long-term economic growth. Based on data released by the World Bank in its "Global Economic Prospects 2012" report, the PRC economy is expected to expand 8.4% in 2012 and 8.3% in 2013.

COMPANY OUTLOOK

Based on existing sales contracts of the pre-sold units, the total pre-contracted sales amounting to RMB6.927 billion as at 31 March 2012 are expected to be progressively recognised as revenue in the subsequent quarters. The Group has received advances for pre-sold properties (recorded as "Other payables" in the statements of financial position), amounting to RMB4.466 billion.

The Group will continue to launch a new project and new batches of its existing projects in 2Q 2012, namely, Yanlord Yangtze Riverbay Town (Phase 2) (仁恒江湾城二期) in Nanjing, Yanlord Sunland Gardens (Phase 1) (仁恒森兰雅苑一期) in Shanghai, Yanlord Lakeview Bay - Land Parcels A2 and A6 (仁恒双湖湾 – A2及A6地块) in Suzhou, Yanlord Riverside Plaza (Phase 2) (海河广场二期) and Yanlord Riverside Gardens (Phase 1) (仁恒河滨花园一期) in Tianjin.

Outlook

Given the challenges posed by the volatilities in the global economy and the austerity measures introduced by the PRC central government, the Group will continue to capitalise on its prudent financial policies and maintain a strong cash position to better drive its sustained development. Led by an experienced and dedicated management team with extensive industry knowledge of the PRC real estate sector, we will continue to focus on our business strategies and comparative advantages in the development of quality residential apartments in prime locations within high growth PRC cities. This will best allow for the sustainable growth of our core business segments and capitalise on the long-term growth prospects of the PRC real estate sector.

Barring any further significant deterioration in the global economy and any other unforeseen circumstances, the Board of Directors is confident of the Group's performance relative to the industry trend for the next reporting period and the next 12 months based on the number of units pre-sold to-date, expected delivery schedules and on-schedule construction works in progress.

11. Dividend

(a) Any dividend declared for the current financial period reported on? Nil.

(b) Any dividend declared for the corresponding period of the immediately preceding financial year? Nil.

(c) Date payable: Not applicable.

(d) Books closure date: Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect

No dividend has been declared or recommended for the period under review.

13. If the Group has obtained a general mandate from shareholders for Interested Person Transactions ("IPTs"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group does not have a shareholders' general mandate for IPTs.

14. Confirmation of the Board of Directors ("Board")

We refer to the requirement under Rule 705(5) of the SGX-ST Listing Manual.

We, Zhong Sheng Jian and Chan Yiu Ling, directors of the Company, hereby confirm on behalf of the Board that, to the best of our knowledge, nothing has come to the attention of the Board, which may render the unaudited first quarter financial results of the Group for the period ended 31 March 2012 to be false or misleading in any material aspects.

ON BEHALF OF THE BOARD

Zhong Sheng Jian	Chan Yiu Ling
Chairman and Chief Executive Officer	Director

ON BEHALF OF THE BOARD

Zhong Sheng Jian
Chairman and Chief Executive Officer
14 May 2012

APPENDIX II

REPRODUCTION OF THE MACQUARIE BANK LIMITED 2012 FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2012

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 andre-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

Note 2

Profit for the financial year continued

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

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

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.

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for the financial year ended 31 March 2012
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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.

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

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

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

Name of entity	Country of incorporation	Reporting date	Ownership interest 2012 %	Ownership interest 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	**–**	–

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

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

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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for the financial year ended 31 March 2012
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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

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

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

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

Note 31

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests
Macquarie Income Preferred Securities[3]

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

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

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.

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
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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.

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

	Consolidated 2012 $m	Consolidated 2011 $m	Bank 2012 $m	Bank 2011 $m
Capital and other expenditure commitments expected to be incurred:				
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
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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
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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 for the financial year ended 31 March 2012 continued

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.

Notes to the financial statements
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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).

Class of financial asset	Past due but not impaired: 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

Class of financial asset	**Past due but not impaired: 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**

Class of financial asset	Past due but not impaired: 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.

Notes to the financial statements
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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
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 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
				Consolidated 2012
Product type				
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)**
				Consolidated 2011
Product type				
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)

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

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

Daniel Armstrong

DH Armstrong
Partner

Sydney
27 April 2012

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