



MACQUARIE BANK

# 2015 Annual Report

Macquarie Bank

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

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

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

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### **2015 Annual General Meeting**

Macquarie Bank’s 2015 Annual General Meeting will be held on Thursday, 23 July 2015 in the Macquarie Auditorium, Level 10, 50 Martin Place, Sydney NSW 2000 after the Macquarie Group Limited Annual General Meeting but not earlier than 2:00pm.

Details of the business of the meeting and venue will be contained in the Notice of Annual General Meeting, to be sent to shareholders separately.

# Annual Report

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# Operating and Financial Review

## for the financial year ended 31 March 2015

### Review of performance and financial position

#### Performance

Consolidated net profit attributable to ordinary equity holders of \$A1,096 million for the year ended 31 March 2015 increased 46 percent from \$A752 million in the prior year. This result represents profit from continuing operations of \$A906 million (compared to \$A614 million in the prior year) and profit from discontinued operations of \$A190 million (compared to \$A138 million in the prior year).

#### Continuing operations

Macquarie Bank Limited's (MBL, Macquarie Bank, the Company) annuity-style businesses – Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2015 of \$A1,485 million, an increase of 30 percent on the prior year. MAM benefited from increased activity in the Macquarie Specialised Investment Solutions (MSIS) business, while CAF's higher net profit contribution was largely driven by increased loan and lease volumes together with gains on the disposals of the US equipment leasing business and operating lease assets. BFS reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

Macquarie Bank's capital markets facing businesses – Macquarie Securities Group (MSG) and Commodities and Financial Markets (CFM) – delivered a combined net profit contribution for the year ended 31 March 2015 of \$A769 million, an increase of 16 percent on the prior year. MSG's net profit contribution was down on the prior year as increased income from improved trading opportunities was offset by increased operating expenses driven by additional regulatory compliance requirements and restructuring costs associated with exiting Structured Products during the year. CFM's net profit contribution was mainly driven by the continued strong performance of its commodities businesses and increased income across interest rates and foreign exchange platforms.

Net operating income of \$A5,295 million for the year ended 31 March 2015 increased 16 percent from \$A4,578 million in the prior year. Key drivers of the changes from the prior year were:

- a 16 percent increase in combined net interest and trading income to \$A3,871 million for the year ended 31 March 2015 from \$A3,327 million in the prior year. Most operating groups<sup>(1)</sup> contributed to the increase, with key drivers of the result being:
  - continued strong performance of commodities businesses in CFM
  - increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, resulting in increased client volumes and activity in CFM compared with the prior year, and
  - loan portfolio growth in CAF and BFS
- a 15 percent increase in fee and commission income to \$A894 million for the year ended 31 March 2015 from \$A778 million in the prior year primarily due to a fee from Freeport LNG Terminal in CFM, and higher income in BFS resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions from higher assets under administration on the Wrap platform
- a 20 percent increase in other operating income and charges to \$A547 million for the year ended 31 March 2015 from \$A455 million in the prior year. The increase was due to:
  - gains on disposal of operating lease assets \$A231 million for the year ended 31 March 2015, up from \$A2 million in the prior year mainly due to gains in CAF on disposal of the North American railcar operating lease portfolio in January 2015 and the restructure of an unrelated railcar logistics operating lease facility
  - gains on acquiring, disposing and change in ownership interest in subsidiaries and associates of \$A144 million, up from \$A14 million in the prior year primarily due to the sale of CAF's US equipment leasing business in March 2015
  - an increase of 10 percent in net operating lease income to \$A585 million for the year ended 31 March 2015 from \$A531 million in the prior year primarily due to favourable currency movements and acquisitions in CAF's Aviation portfolio, and
  - an increase of 89 percent in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to \$A407 million for the year ended 31 March 2015 from \$A215 million in the prior year primarily due to higher provisions in CFM mainly due to the underperformance of certain credits and the downward movement in certain commodity prices, additional collective provisions in CAF reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Total operating expenses increased 11 percent from \$A3,777 million in the prior year to \$A3,404 million for the year ended 31 March 2015 mainly due to the following:

- a nine percent increase in employment expenses to \$A1,466 million for the year ended 31 March 2015 from \$A1,351 million in the prior year primarily due to higher staff compensation resulting from the improved performance of the Company and the impact of the depreciation of the Australian dollar on offshore expenses, and
- a 16 percent increase in other operating expenses from \$A1,271 million in the prior year to \$A1,480 million for the year ended 31 March 2015 largely driven by increased activity across the Company, the impact of the depreciation of the Australian dollar on offshore expenses and transaction related expenses for business and asset disposals and acquisitions in CAF.

Income tax expense for the year ended 31 March 2015 was \$A589 million, up nine percent from \$A538 million in the prior year, resulting in an effective tax rate of 38.9 percent.

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

## **Discontinued operations**

Profit from discontinued operations (net of income tax) of \$A190 million for the year ended 31 March 2015 increased 38 per cent from \$A138 million in the prior year. This represents profit from the Macquarie Investment Management (MIM) business and has been included as discontinued operations as the economic risks and rewards and control of the business will be transferred at fair value on 15 April 2015 to Macquarie Financial Holdings Limited (MFHL) and its subsidiaries.

## **Financial position**

### **Balance sheet**

Macquarie Bank's balance sheet has been impacted by changes in business activities and movements in prices and rates since 31 March 2014. Total assets of \$A172.6 billion at 31 March 2015 increased 23 percent from \$A139.9 billion at 31 March 2014, while total liabilities increased 23 percent from \$A130.4 billion at 31 March 2014 to \$A161.0 billion at 31 March 2015.

The growth in the Company's balance sheet has largely been driven by the impact of the depreciation of the Australian dollar, growth in loan assets, trading assets and receivables from financial institutions (Treasury cash and liquid assets).

Key drivers of the movement in the balance sheet include:

- Treasury management initiatives during the year including significant new issuances of short term and long term debt issued at amortised cost and an increase in cash and liquid asset holdings with increased reverse repurchase agreements that led to an overall increase in receivables from financial institutions. These were partially offset by the sale of debt investment securities available for sale
- improved trading opportunities in equities driven by increased market volatility in certain emerging markets, particularly China, resulted in increased trading and reduced stock borrowing activity in MSG. This led to an increase in trading portfolio assets and liabilities and a reduction in receivables from financial institutions
- in CFM, growth of the physical metals business led to an increase in trading portfolio assets, which was partially offset by a reduction in Commonwealth Government bond holdings. Changes in interest rates, foreign exchange and commodity prices during the year also resulted in an increase in derivative assets and liabilities
- increased lending activity was seen across the Company, leading to strong growth in loan assets held at amortised cost, including:
  - BFS' Australian mortgage portfolio grew 44 percent from \$A17.0 billion at 31 March 2014 to \$A24.5 billion at 31 March 2015, which included acquisitions of residential mortgage portfolios of \$A2.5 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined \$A3.8 billion at 31 March 2015, down 31 percent from \$A5.5 billion at 31 March 2014
  - BFS also increased business lending volumes by 27 percent from \$A4.1 billion at 31 March 2014 to \$A5.2 billion at 31 March 2015, and credit card volumes from \$A0.3 billion at 31 March 2014 to \$A0.6 billion at 31 March 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014
  - CAF's loan and finance lease portfolios of \$A22.4 billion at 31 March 2015 increased 13 percent from the prior year driven by growth in the Lending and Leasing portfolios as a result of acquisitions along with the favourable impact of the depreciation of the Australian dollar, partially offset by the sale of the US equipment leasing business. The increased lending and leasing activity in CAF also resulted in an increase in external non-recourse funding through securitisations by the SMART Trusts and warehouse facilities
  - these increases were partially offset by reduced asset backed lending activity and redemptions from retail products in MAM
  - operating lease portfolios within CAF benefited from acquisitions of aircraft and the impact of the depreciation of the Australian dollar, partially offset by the disposal of the North American railcar operating lease portfolio, resulting in a net increase in property, plant and equipment
  - the issuance of Macquarie Bank Capital Notes (BCN) and foreign currency movements on foreign denominated debts resulted in increased loan capital.

Total equity increased \$A2.1 billion from \$A9.5 billion at 31 March 2014 to \$A11.6 billion at 31 March 2015, largely due to a net increase in the foreign currency translation reserve driven by the impact of the depreciation of the Australian dollar, new share issuances, and net retained earnings generated during the year.

### **Funding**

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) increased from 3.6 years at 31 March 2014 to 4.0 years at 31 March 2015.

During the year ended 31 March 2015, all remaining government guaranteed debt was repaid.

Macquarie has a liability driven approach to balance sheet management, where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2014, MBL has continued to raise term wholesale funding.

As at 31 March 2015, total deposits<sup>(1)</sup> represented \$A39.7 billion, or 41 percent of the Company's total funding, short term (maturing in less than twelve months) wholesale issued paper represented \$A12.5 billion, or 13 percent of total funding, and other debt funding maturing within twelve months represented \$A7.9 billion, or eight percent of total funding.

Macquarie has continued to diversify its funding base and develop new markets including issuances in Australia, Japan, Switzerland, Norway, China and the United Kingdom.

(1) Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

# Operating and Financial Review

## for the financial year ended 31 March 2015

### continued

Since 31 March 2014, the Group raised \$A21.3 billion of term funding, including \$A12.6 billion of term wholesale funding, \$A8.3 billion of term secured finance and \$A0.4 billion of BCN issuance. Wholesale term issuance of \$A12.6 billion includes \$A5.8 billion in senior unsecured issuance in the US market, \$A4.5 billion in senior unsecured issuance in European, Australian, Japanese, Swiss and UK markets and \$A2.3 billion in MBL private placements and structured notes. Term secured finance of \$A8.3 billion includes \$A4.3 billion of PUMA RMBS, \$A3.2 billion of SMART auto & equipment ABS, \$A0.3 billion of Macquarie Equipment Finance ABS and a net increase of \$A0.5 billion of warehouse funding for SMART.

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

#### Capital

The Consolidated Entity is well capitalised and as at 31 March 2015, Macquarie Bank had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 11.4 percent and a Harmonised Tier 1 Capital Ratio of 12.6 percent, with an APRA Common Equity Tier 1 Capital Ratio of 9.7 percent and an APRA Tier 1 Capital Ratio of 11.0 percent. Under Basel III rules, the Australian Prudential Regulation Authority (APRA) requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of capital to risk weighted assets of eight percent, with at least six percent of this capital in the form of Tier 1 capital and at least 4.5 percent of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which may be higher than these levels. Macquarie Bank's internal capital policy set by the Board requires capital floors above the regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the year.

Macquarie Bank's capital management strategy is outlined in Note 26 to the financial statements in the Financial Report.

#### Business strategy

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

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

#### Risk management

The acceptance of risk is an integral part of the Company's businesses. Strong independent prudential management has been a key to the Company's success and stability over many years. Where risk is assumed, it is within a calculated and controlled framework that assigns clear risk roles and responsibilities. Furthermore, the Company's strong culture of risk management is embedded across all operating groups and divisions.

The key macroeconomic risks to the Company's short and medium term financial outlook mentioned on page 6 are as follows:

- **market conditions:** The general condition of markets, driven mainly by macroeconomic factors, will influence the volume of transactions that businesses experience. For example, an increase in market volatility may increase the income CFM derives from hedging transactions performed on behalf of clients. Market conditions can also influence the value of various equity, credit and market risk exposures held by Macquarie on its balance sheet. These risks are discussed further below

- **the value of the Australian dollar:** A significant proportion of the Company's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if it appreciates against these currencies.

In addition there are specific risks which relate to the nature of the Company's operations. These include:

- **Credit risk:** This is the risk of a counterparty failing to complete its contractual obligations when they fall due. Examples of exposures that generate this risk include Macquarie advancing a loan to a retail or corporate client or when a capital markets facing business like CFM enters into a derivative contract. 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
- **Market risk:** This is exposure to adverse changes in the value of the Company's trading portfolios as a result of changes in market prices or volatility. Macquarie is exposed to risks in the foreign exchange and bullion, interest rates and debt securities, equities and commodities and energy markets. This risk resides primarily in the capital markets facing businesses
- **Equity risk:** This is the risk of loss arising from non-trading equity-type exposures
- **Operational risk:** This is the risk of loss resulting from failed or inadequate internal processes, people and systems or from external events
- **Liquidity risk:** This is the risk that the Company is unable to meet its financial obligations as they fall due which could arise due to mismatches in cash flows. Liquidity management is performed centrally by Group Treasury
- **Regulatory and compliance risk:** This is the risk of loss arising from a failure to comply with legal and regulatory requirements or government policies and the risk that regulatory change has an impact on Macquarie's business activities
- **Legal risk:** This is the risk of loss arising from a breach of contract, law or regulation, the risk of litigation or regulatory enforcement or the risk that a contract is not capable of being enforced as expected
- **Insurance risk:** This captures the risks associated with the provision of life insurance policies. It includes lapse risk, claims risk, asset/liability mismatch risk and expense risk
- **Tax risk:** This is the risk of loss arising from the misinterpretation of tax regimes and the manner in which they may be applied and enforced
- **Reputation risk:** This is the risk of loss arising from damage to the Company's brand or reputation.

The risks above are monitored, mitigated and managed under Macquarie's risk management framework. This framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie businesses (including Banking Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures, and RMG adopts the same level of rigor in relation to risk acceptance, monitoring and reporting for all Macquarie entities consistently. The core risk management principles underlying the framework have remained stable and continue to be highly effective. These are:

- **ownership of risk at the business level:** Operating Group Heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie. Business ownership of risk is an essential element in understanding and controlling risk
- **understanding worst case outcomes:** Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. The effectiveness of this approach was demonstrated over the recent past. Shocks observed in the markets generally remained within Macquarie's stress scenarios, resulting in very few of our worst case loss scenarios being exceeded. While Macquarie operates a number of sophisticated quantitative risk management processes, the foundation of its risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
- **requirement for an independent sign-off by risk management:** Macquarie places significant importance on having a strong independent RMG that is charged with signing off all material risk acceptance decisions. It is essential RMG has the capability to do this effectively and hence RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision-making process and independent input from RMG on risk and return is included in the approval document submitted to senior management.

More information on Macquarie's financial risk management framework is available on the Macquarie website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance).

# Operating and Financial Review

## for the financial year ended 31 March 2015

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#### Outlook

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

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

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

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

As set out in Note 44 and Note 45, on 15 April 2015 Macquarie Bank transferred the Macquarie Investment Management business to MFHL and its subsidiaries.

The transfer provides Macquarie Bank with a better operational platform for growth and aligns the ownership structure of Macquarie's funds management business (with MIM now being held along with other investment management businesses by MFHL and its subsidiaries). The net proceeds resulting from the transfer will be used to support growth of Macquarie Bank's ongoing operations, consistent with stated business objectives, including growth of BFS' Australian mortgage portfolio and CAF's loan and lease portfolios.

*This is the end of the Operating and Financial Review.*



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# Directors' Report

## for the financial year ended 31 March 2015

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In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited, the Directors submit herewith the income statements and the cash flow statements for the year ended 31 March 2015 and the balance sheets as at 31 March 2015 of the Consolidated Entity at the end of, and during, the financial year ended on that date and report as follows:

### Directors

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

#### Independent Directors

H.K. McCann AM, Chairman  
G.R. Banks AO  
G.M. Cairns<sup>(1)</sup>  
M.J. Coleman  
P.A. Cross  
D.J. Grady AM  
M.J. Hawker AM  
N.M. Wakefield Evans  
P.H. Warne

#### Executive Voting Directors

M.J. Reemst<sup>(2)</sup>, Managing Director and Chief Executive Officer  
N.W. Moore

Other than Mr Cairns and Ms Reemst, the Directors listed above each held office as a Director of Macquarie Bank throughout the financial year ended 31 March 2015. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr G.C. Ward was the Managing Director and Chief Executive Officer (CEO), and an Executive Voting Director, from the beginning of the financial year, until his resignation on 30 June 2014.

Dr H.M. Nugent AO and Mr P.M. Kirby retired as Independent Directors on 24 July 2014.

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

- (1) Mr Cairns was appointed to the Board as an Independent Director effective from 1 November 2014.  
(2) Ms Reemst was appointed the CEO, and an Executive Voting Director, effective from 1 July 2014.

### Principal activities

The principal activity of the Consolidated Entity during the financial year ended 31 March 2015 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the APRA as an ADI. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review not otherwise disclosed in this report.

### Result

The financial report for the financial years ended 31 March 2015 and 31 March 2014, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2015 was \$A1,114 million (2014: \$A770 million).

# Directors' Report

## for the financial year ended 31 March 2015

### continued

#### Dividends and distributions

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

Security	Payment date	Payment type	\$A	In respect of financial year ended/period	
Ordinary shares	6 May 2014	Final Dividend	159,000,000	31 March 2014	Paid
	5 November 2014	Interim Dividend	494,000,000	31 March 2015	Paid
Macquarie Income Securities <sup>(1)</sup>	15 April 2014	Periodic	4,290,409	15 January 2014 to 14 April 2014	Paid
	15 July 2014	Periodic	4,397,919	15 April 2014 to 14 July 2014	Paid
	15 October 2014	Periodic	4,405,918	15 July 2014 to 14 October 2014	Paid
	15 January 2015	Periodic	4,446,247	15 October 2014 to 14 January 2015	Paid
	15 April 2015	Periodic	3,697,973	15 January 2015 to 31 March 2015	Provided
Macquarie Income Preferred Securities <sup>(2)</sup>	15 April 2014	Periodic	2,346,524	16 October 2013 to 15 April 2014	Paid
	15 October 2014	Periodic	2,383,258	16 April 2014 to 15 October 2014	Paid
	15 April 2015	Periodic	2,363,170	16 October 2014 to 31 March 2015	Provided

(1) Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in Macquarie Bank. The MIS are quoted on the ASX. The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see Note 29 to the financial statements in the Financial Report for further information on the MIS and MIS distributions.

(2) Macquarie Income Preferred Securities (MIPS) are limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, which are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) which are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see Note 29 to the financial statements in the Financial Report for further information on the MIPS and MIPS distributions.

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

#### State of affairs

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

#### Operating and financial review

Please refer to the Operating and Financial Review section on pages 2 to 6 for the following in respect of the Consolidated Entity:

- a review of operations during the year and the results of those operations
- likely developments in the operations in future financial years and the expected results of those operations
- comments on the financial position, and
- comments on business strategies and prospects for future financial years.

In respect of likely developments, business strategies and prospects for future financial years, material which if included would be likely to result in unreasonable prejudice to the Consolidated Entity, has been omitted.

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## Directors' relevant interests

At 8 May 2015, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the Corporations Act 2001 (Cth) (the Act), in ordinary shares or share options of Macquarie Bank. The relevant interests of Directors in Macquarie Bank securities, managed investment schemes made available by related companies of Macquarie Bank and other disclosable relevant interests are listed in the table below:

Name and Position	Direct and Indirect Interests	
<b>Executive Voting Directors</b>		
M.J. Reemst	Macquarie ordinary shares (MQG)	10,850
	Macquarie Group Employee Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	87,698
N.W. Moore	MQG	1,611,814
	MEREP RSUs	649,723
	MEREP Performance Share Units (PSUs)	327,154
	2004 Macquarie Timber Land Trust units	50
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	2,163,106
<b>Independent Directors</b>		
G.R. Banks	MQG	2,916
G.M. Cairns	MQG	4,620
	Macquarie Income Securities	900
M.J. Coleman	MQG	7,136
P.A. Cross	MQG	7,636
D.J. Grady	MQG	6,306
	Macquarie Group Capital Notes (MCN)	400
M.J. Hawker	MQG	7,272
H.K. McCann	MQG	13,864
	MCN	4,800
N.M. Wakefield Evans	MQG	2,636
P.H. Warne	MQG	14,933

# Directors' Report

## for the financial year ended 31 March 2015

### continued

#### Meeting attendance

##### Directors' meetings

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

##### Board meetings

	Monthly Board meetings (12)		Special Board meetings (2)	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
H.K. McCann	12	12	2	2
M.J. Reemst <sup>(1)</sup>	9	9	2	2
G.C. Ward <sup>(2)</sup>	3	3	–	–
N.W. Moore	12	12	2	2
G.R. Banks	12	12	2	1
G.M. Cairns <sup>(3)</sup>	5	5	1	1
M.J. Coleman	12	12	2	2
P.A. Cross	12	12	2	2
D.J. Grady	12	11	2	1
M.J. Hawker	12	12	2	2
P.M. Kirby <sup>(4)</sup>	4	4	–	–
H.M. Nugent <sup>(5)</sup>	4	4	–	–
N.M. Wakefield Evans	12	12	2	2
P.H. Warne	12	12	2	2

(1) Ms Reemst was appointed CEO, and as an Executive Voting Director, effective from 1 July 2014.

(2) Mr Ward was the Macquarie Bank CEO, and an Executive Voting Director, from the beginning of the financial year, until his resignation on 30 June 2014.

(3) Mr Cairns was appointed to the Board as an Independent Director effective from 1 November 2014.

(4) Mr Kirby retired as an Independent Director on 24 July 2014.

(5) Dr Nugent retired as an Independent Director on 24 July 2014.

The number of meetings of Committees of the Board, and the number of meetings attended by each of the members of the Committees during the financial year is summarised in the table below:

#### Board Committee meetings

	Board Audit Committee meetings (7) <sup>(1)</sup>		Board Risk Committee meetings (2) <sup>(2)</sup>	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
H.K. McCann	–	–	2	2
G.R. Banks <sup>(3)</sup>	1	1	2	2
G.M. Cairns <sup>(4)</sup>	–	–	2	2
M.J. Coleman	7	7	2	2
P.A. Cross	7	7	2	2
D.J. Grady	–	–	2	2
M.J. Hawker	7	7	2	2
P.M. Kirby <sup>(5)</sup>	2	2	–	–
N.M. Wakefield Evans <sup>(6)</sup>	6	5	2	2
P.H. Warne	–	–	2	2

There were two Board sub-committee meetings convened during the period. Both meetings were attended by all the eligible sub-committee members, being Mr McCann, Mr Moore, Mr Ward (as Macquarie Bank CEO for the first meeting), Ms Reemst (as Macquarie Bank CEO for the second meeting), Mr Coleman and the Chief Financial Officer (CFO), Mr Upfold.

The Chairman of the Board, and the Macquarie Bank CEO, attend Board Audit Committee (BAC) meetings as a matter of course. The Macquarie CEO and Macquarie Bank CEO attend meetings of the Board Risk Committee (BRiC) as a matter of course even though not a member of that Committee. All Board members are sent BAC meeting agendas and may attend any meeting.

- (1) The BAC is a joint committee of Macquarie Group Limited and Macquarie Bank. The BAC assists the Boards of Directors of Macquarie and Macquarie Bank in fulfilling the responsibility for oversight of the quality and integrity of the accounting and financial reporting practices of Macquarie Group.
- (2) The BRiC became a joint committee of Macquarie and Macquarie Bank effective from 1 January 2015. Effective from then, the membership of the Committee consists of all the Non-Executive Voting Directors of Macquarie. The BRiC assists the Boards of Directors of Macquarie and Macquarie Bank by providing oversight of the implementation and operation of Macquarie's risk management framework and advising the Boards on Macquarie's risk position, risk appetite, risk culture and risk management strategy.
- (3) Mr Banks ceased to be a member of the BAC on 1 June 2014.
- (4) Mr Cairns joined the BRiC effective from 1 November 2014.
- (5) Mr Kirby retired as an Independent Director on 24 July 2014.
- (6) Ms Wakefield Evans joined the BAC effective from 1 June 2014.

# Directors' Report

## for the financial year ended 31 March 2015

### continued

#### Directors' and officers' indemnification and insurance

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

- the liability is owed to Macquarie Bank or to a related body corporate
- the liability did not arise out of conduct in good faith
- the liability is for a pecuniary penalty order or a compensation order under the Act
- in the case of legal costs: the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission (ASIC) or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs incurred in relation to proceedings for relief to the person under the Act in which the court denies relief
- Macquarie Bank is forbidden by statute to indemnify the person against the liability or legal costs, or
- an indemnity by Macquarie Bank of the person against the liability or legal costs would, if given, be made void by statute.

Following approval by shareholders at the 1998 Annual General Meeting (AGM), Macquarie Bank entered into a Deed of Indemnity, Access and Insurance dated 4 August 1998 (Deed), which protects Directors acting as Directors during their term of office and after their resignation (except where an individual engages in conduct involving a lack of good faith). Minor changes were made to the Deed under approvals obtained from shareholders at the 2000 AGM.

Under the Deed, Macquarie Bank agrees to:

- indemnify a current or past Director to the full extent of the indemnity given in relation to officers of Macquarie Bank under its Constitution in force from time to time
- take out a reimbursement insurance policy and make available to Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Bank's position) for seven years after the Director ceases to be a Director of Macquarie Bank
- loan funds to a Director to cover the Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by Macquarie Bank to the Director under the indemnity), and
- grant access to Directors to all Board papers for at least seven years after the Director ceases to be a Director of Macquarie Bank, and access to other documents if the documents were in Macquarie Bank's possession at the time the Director was a Director and where it is not contrary to Macquarie Bank's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 AGM, Macquarie Bank made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). Minor changes were made to the Deed Poll under approvals obtained from shareholders at the 2000 AGM. The benefit of the undertakings made by Macquarie Bank under the Deed Poll were given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie Bank, its wholly-owned subsidiaries and other companies where the person was acting as such at the specific request of Macquarie Bank or a wholly-owned subsidiary of Macquarie Bank. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to documents of Macquarie Bank.

The Deed Poll was largely superseded by a corresponding deed poll made by Macquarie Group Limited prior to the 2007 restructure which resulted in Macquarie Group Limited becoming the ultimate parent company of the group. As a result, only Directors and Secretaries of MBL since then and persons who were Directors and Secretaries of companies in the Macquarie Bank group before the restructure have the benefit of the Deed Poll.

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

#### Environmental regulations

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

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

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### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Act, is set out in the Directors' Report Schedule 3 following this report.

### Non-audit services

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2015 total \$A3,996,000. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 42 to the financial statements in the Financial Report.

The Directors are satisfied that the provision of non-audit services did not compromise the auditor independence requirements of the Act for the following reasons:

- the operation of the Consolidated Entity's Auditor Independence Policy, restricts the external auditor from providing non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, or audits its own professional expertise. The policy also provides that significant permissible non-audit assignments awarded to the external auditor must be approved in advance by the BAC or the BAC Chairman, as appropriate
- the BAC has reviewed a summary of non-audit services provided by PwC, including details of the amount paid or payable to PwC for non-audit services, and has provided written advice to the Board of Directors.

Consistent with the advice of the BAC, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices is compatible with the general standard of independence for auditors imposed by the Act.


### Rounding of amounts

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

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

### Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2015 except for the transfer of the MIM business to MFHL and its subsidiaries as described in Note 44 and Note 45.



**H Kevin McCann AM**

Independent Director and  
Chairman



**Mary Reemst**

Managing Director and  
Chief Executive Officer

Sydney  
8 May 2015

# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2015

**H Kevin McCann AM, BA LLB (Hons) (Syd),  
LLM (Harv), FAICD (age 74)**

*Independent Chairman since March 2011  
Member – Board Risk Committee*

Kevin McCann joined the Board of Macquarie Bank as an Independent Director in December 1996. He has been a member of the Board of Macquarie Group since August 2007. Mr McCann was appointed Chairman of the Macquarie Bank and Macquarie Group Boards in March 2011.

### **Experience**

Kevin McCann was a Partner of leading Australian law firm Allens Arthur Robinson for 34 years and also served as Chairman. He practised as a commercial lawyer specialising in mergers and acquisitions, mineral and resources law and capital markets transactions.

Mr McCann has wide board experience with major Australian companies. He was previously Chairman of Origin Energy Limited, Healthscope Limited and ING Management Limited and a Director of BlueScope Steel Limited.

### **Listed company directorships**

*(held at any time in the last three years)*

- Chairman, The Citadel Group Limited (since October 2014)
- Chairman, Origin Energy Limited (from February 2000 to October 2013)
- Director, BlueScope Steel Limited (from May 2001 to April 2013).

### **Other current directorships/appointments**

- Chairman, National Library of Australia Foundation
- Director, Sydney Institute of Marine Science
- Director, the United States Studies Centre at the University of Sydney
- Director, Evans and Partners Pty Limited
- Director, Origin Foundation
- Fellow, University of Sydney Senate
- Co-Vice Chair, New Colombo Plan Reference Group.

Mr McCann is a resident of New South Wales.

**Mary J Reemst, BA (Macquarie), Dip Fin Mgt  
(Accountancy) (UNE), MAICD (age 57)**

*Managing Director and Chief Executive Officer since July 2014*

Ms Reemst was appointed Managing Director and Chief Executive Officer of Macquarie Bank effective from July 2014.

### **Experience**

Mary Reemst joined Macquarie in 1999, having held senior investment banking roles at Bankers Trust Australia.

Ms Reemst was Head of Credit in the Risk Management Group for 11 years, with oversight of Macquarie's wholesale and retail exposures, including lending, trading activities, equity investments and new products.

### **Other current directorships/appointments**

- Director, Australian Bankers' Association
- Director, Financial Markets Foundation for Children
- Director, Australian Financial Markets Association.

Ms Reemst is a resident of New South Wales.

**Nicholas W Moore, BCom LLB (UNSW),  
FCA (age 56)**

Nicholas Moore joined the Board of Macquarie Bank as an Executive Voting Director in May 2008 and became an Executive Voting Director of Macquarie Group in February 2008.

### **Experience**

Nicholas Moore joined Macquarie in 1986 and led the global development of its advisory, funds management, financing and securities businesses.

Appointed Chief Executive Officer of Macquarie Group in 2008, he is now leading the continued global growth of Macquarie Group as it builds on its position as one of Asia-Pacific's leading financial services providers.

### **Other current directorships/appointments**

- Chairman, Screen Australia
- Director, Centre for Independent Studies
- Chairman, UNSW Business School Advisory Council
- Chairman, Police & Community Youth Clubs NSW.

Mr Moore is a resident of New South Wales.



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**Gary R Banks AO, BEc (Hons) (Monash), MEd (ANU) (age 65)**

*Member – Board Risk Committee*

Gary Banks joined the Boards of Macquarie Bank and Macquarie Group as an Independent Director in August 2013.

***Experience***

Gary Banks has a wealth of experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012.

He has also held senior roles with the GATT Secretariat in Geneva, the Trade Policy Research Centre in London, the Centre for International Economics in Canberra and consulted to the World Bank, Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation.

***Other current directorships/appointments***

- Chief Executive and Dean, the Australia and New Zealand School of Government
- Member, Prime Minister's Business Advisory Council
- Chairman, Regulatory Policy Committee of the OECD
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Adjunct Professor, Australian National University.

Mr Banks is a resident of Victoria.

**Gordon M Cairns, MA (Hons) (Edin) (age 64)**

*Member – Board Risk Committee*

Gordon Cairns joined the Boards of Macquarie Bank and Macquarie Group as an Independent Director in November 2014.

***Experience***

Gordon Cairns has held a range of management and executive roles throughout his career including Chief Executive Officer of Lion Nathan Limited. He has extensive experience as a company director, including nine years as a non-executive director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees.

Mr Cairns has served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited, and as Chairman of David Jones Limited and Rebel Group Pty Limited.

***Listed company directorships***

*(held at any time in the last three years)*

- Chairman, Origin Energy Limited (since October 2013) (Director since June 2007)
- Chairman, David Jones Limited (from March 2014 to August 2014)
- Director, Westpac Banking Corporation (from July 2004 to December 2013).

***Other current directorships/appointments***

- Chairman, Quick Service Restaurant Group Pty Ltd
- Chairman, Origin Foundation
- Senior Adviser, McKinsey & Company.

Mr Cairns is a resident of New South Wales.

# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2015 continued

## Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD (age 64)

*Chairman – Board Audit Committee  
Member – Board Risk Committee*

Michael Coleman joined the Boards of Macquarie Bank and Macquarie Group as an Independent Director in November 2012.

### **Experience**

A senior audit partner with KPMG for 30 years, Michael Coleman has significant experience in risk management, financial and regulatory reporting and corporate governance.

Mr Coleman was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011. He has also served as Chairman of ING Management Limited.

### **Listed company directorships**

*(held at any time in the last three years)*

- Chairman, ING Management Limited (from July 2011 to June 2012).

### **Other current directorships/appointments**

- Deputy Chairman, Financial Reporting Council
- Member, Audit Committee of the Reserve Bank of Australia
- Chairman, Reporting Committee of the Australian Institute of Company Directors (AICD)
- Member, NSW Council, AICD
- Member, Advisory Board of Norton Rose Fulbright Australia
- Chairman, Planet Ark Environmental Foundation
- Adjunct Professor, Australian School of Business, University of New South Wales.

Mr Coleman is a resident of New South Wales.

## Patricia A Cross, BSc (Hons) (Georgetown), FAICD (age 55)

*Chairman – Board Risk Committee  
Member – Board Audit Committee*

Patricia Cross joined the Boards of Macquarie Bank and Macquarie Group as an Independent Director in August 2013.

### **Experience**

Patricia Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank, where she was responsible for the Wholesale Banking and Finance Division and a member of the Executive Committee. She has lived and worked in seven different countries.

Mrs Cross has served on a number of listed company boards, including National Australia Bank Limited, JBWere Limited, Qantas Airways, Wesfarmers Limited, AMP Limited and Suncorp-Metway Limited. She was Chairman of Qantas Superannuation Limited and Deputy Chairman of the Transport Accident Commission of Victoria. Mrs Cross has also served on many government bodies and not for profit organisations' boards.

### **Listed company directorships**

*(held at any time in the last three years)*

- Director, Aviva plc (since October 2013)
- Director, Qantas (from January 2004 to October 2013)
- Director, National Australia Bank (from December 2005 to August 2013).

### **Other current directorships/appointments**

- Chairman, Commonwealth Superannuation Corporation
- Director, Grattan Institute
- Ambassador, Australian Indigenous Education Foundation.

Mrs Cross is a resident of Victoria.

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**Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 66)**

*Member – Board Risk Committee*

Diane Grady has been an Independent Director of Macquarie Bank and Macquarie Group since May 2011.

***Experience***

Diane Grady was a partner at McKinsey & Company where she consulted for over 15 years to clients on strategic, organisational and operational issues related to growth and was a worldwide leader of the firm's Organisation and Change Management practice. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia. She has published research on innovation, corporate governance and gender diversity.

Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994 and has extensive international experience in a variety of industries. Previous directorships include BlueScope Steel Limited, Woolworths Limited, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited and MLC. She also served as a member of the ASIC Business Consultative Panel, the National Investment Council, the Sydney Opera House Trust and was President of Chief Executive Women.

***Listed company directorships***

*(held at any time in the last three years)*

- Director, Spotless Group Holdings Limited (since March 2014)
- Director, BlueScope Steel Limited (from May 2002 to February 2013).

***Other current directorships/appointments***

- Member, McKinsey Advisory Council
- Chair, Ascham School
- Chair, Hunger Project Australia
- Director, Australian Stationery Industries
- Member, NSW Innovation and Productivity Council
- Member, Centre for Ethical Leadership
- Member, Heads over Heels Advisory Council.

Ms Grady is a resident of New South Wales.

**Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FloD (age 55)**

*Member – Board Audit Committee*

*Member – Board Risk Committee*

Michael Hawker has been an Independent Director of Macquarie Bank and Macquarie Group since March 2010.

***Experience***

Michael Hawker has substantial expertise and experience in the financial services industry including management experience in regulated entities and a deep understanding of risk management. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008 and has held senior positions at Westpac and Citibank.

Mr Hawker was also President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, a board member of the Geneva Association and a member of the Financial Sector Advisory Council.

***Listed company directorships***

*(held at any time in the last three years)*

- Director, Aviva plc (since January 2010)
- Director, Washington H Soul Pattinson and Company Ltd (since October 2012).

***Other current directorships/appointments***

- Chairman, Australian Rugby Union
- Chairman, the George Institute for Global Health
- Member, the George Institute for Global Health (UK).

Mr Hawker is a resident of New South Wales.

# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2015 continued

## Nicola M Wakefield Evans, BJuris/BLaw (UNSW), MAICD (age 54)

*Member – Board Audit Committee*

*Member – Board Risk Committee*

Nicola Wakefield Evans joined the Boards of Macquarie Bank and Macquarie Group as an Independent Director in February 2014.

### **Experience**

Nicola Wakefield Evans has significant Asia-Pacific experience as a corporate finance lawyer and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

### **Listed company directorships**

*(held at any time in the last three years)*

- Director, Toll Holdings Limited (since May 2011)
- Director, Lend Lease Corporation Limited (since September 2013).

### **Other current directorships/appointments**

- Director, BUPA Australia and New Zealand Group
- Director, Asialink, University of Melbourne
- Member, Advisory Council, University of New South Wales Law School.

Ms Wakefield Evans is a resident of New South Wales.

## Peter H Warne, BA (Macquarie), FAICD (age 59)

*Member – Board Risk Committee*

Peter Warne joined the Board of Macquarie Bank as an Independent Director in July 2007 and has been a member of the Board of Macquarie Group since August 2007.

### **Experience**

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of roles at Bankers Trust Australia Limited, including as Head of its Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he still holds.

### **Listed company directorships**

*(held at any time in the last three years)*

- Chairman, ALE Property Group (since September 2003)
- Chairman, OzForex Group Limited (since September 2013)
- Director, ASX Limited (since July 2006)
- Deputy Chairman, Crowe Horwath Australasia Limited (from September 2008 to January 2015) (Director from May 2007 to January 2015).

### **Other current directorships/appointments**

- Director, New South Wales Treasury Corporation
- Member, Advisory Board of the Australian Office of Financial Management
- Patron, Macquarie University Foundation.

Mr Warne is a resident of New South Wales.

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## **Company secretaries' qualifications and experience**

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

*Company Secretary since October 1993*

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Corporate Governance Division that is responsible for the Group's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 21 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

**Paula Walsh, ACIS**

*Assistant Company Secretary since May 2008*

Paula Walsh is a Division Director of Macquarie and has over 25 years company secretarial experience. She joined Macquarie in May 2007 and was previously Head of Corporate Governance, Asia Pacific at British Telecommunications PLC.

**Ida Lawrance, BCom (Hons) (Queens), DipLaw  
(LPAB), LL.M (UNSW), AGIA**

*Assistant Company Secretary since January 2014*

Ida Lawrance is a Division Director of Macquarie and has over 15 years legal and governance experience. Prior to joining Macquarie in March 2006, Ida practiced as a lawyer in both the private and public sectors.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

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## Introduction

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

During the year, the Macquarie Board and the Board Remuneration Committee (BRC) have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of delivering superior company performance over the short and long term, while prudently managing risk. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- the evolving regulatory landscape
- market developments
- feedback from shareholders
- the employment environment
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance long term and short term incentives.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

continued

### Macquarie's remuneration framework

This section explains the objectives and principles of the remuneration system.

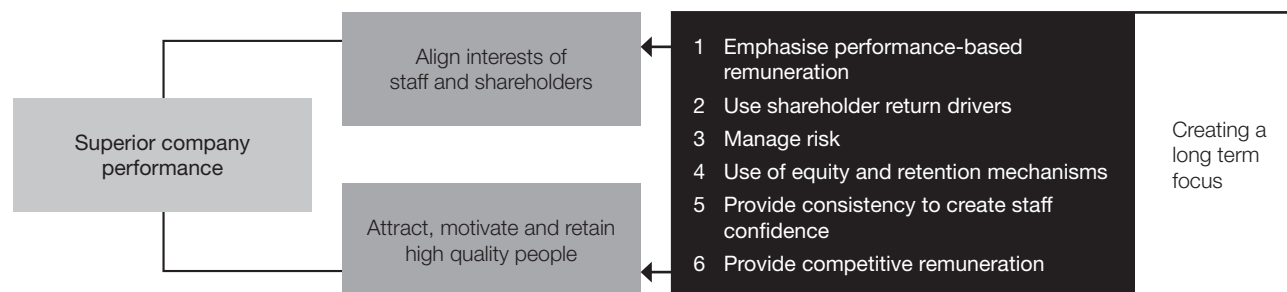
Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long term, while prudently managing risk. Directors recognise that to achieve this objective, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

They consider this is best achieved by supporting the following principles:

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk
- linking rewards to the creation of sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- structuring remuneration to encourage behaviour that supports Macquarie's risk management framework
- delivering remuneration in a way that encourages a long term perspective and creates alignment with shareholder interests
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives
- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie.

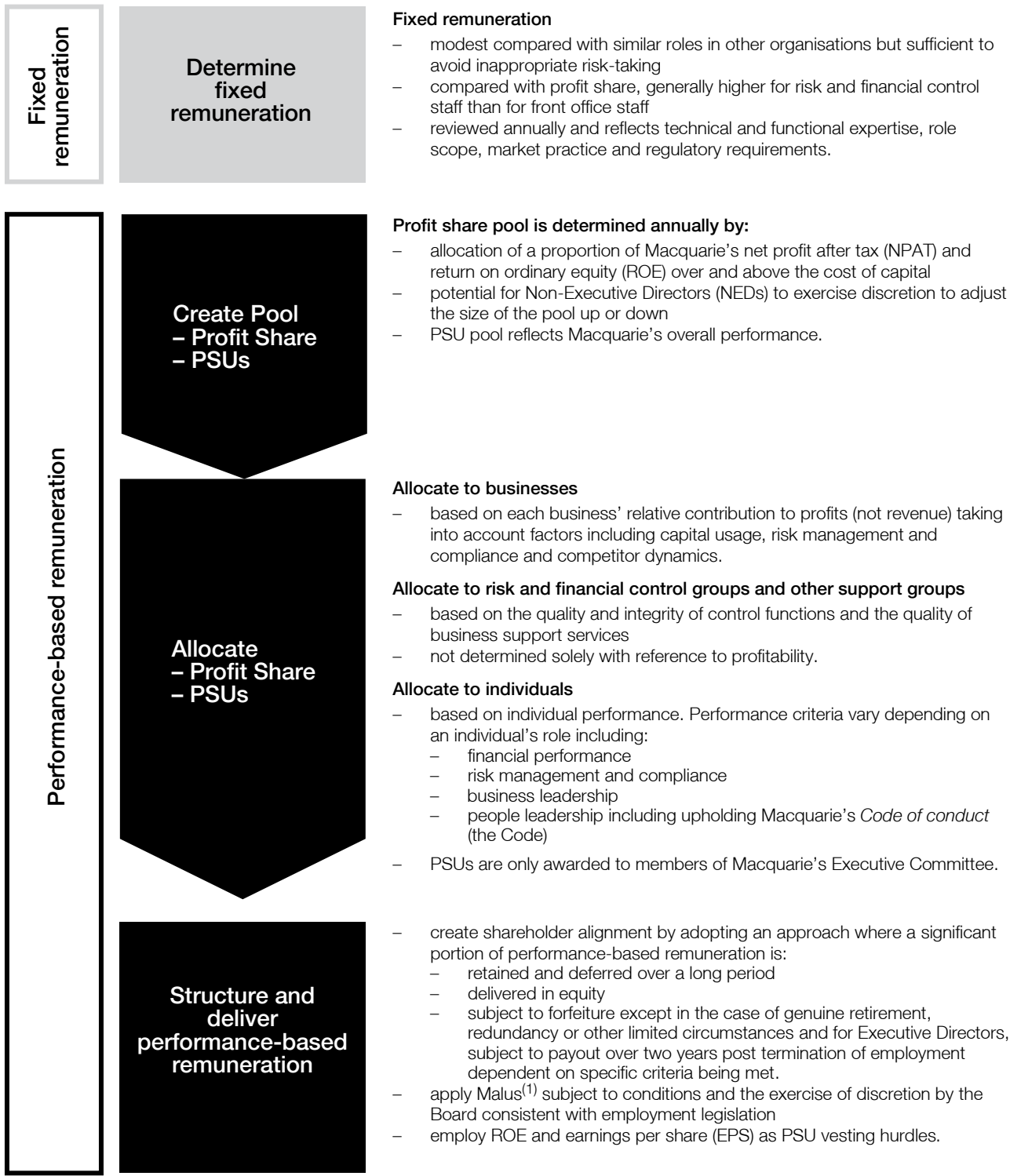
The way these principles link to the overall objectives are outlined in the chart below.

#### Overall remuneration objectives and principles



The remuneration framework works as an integrated whole. It is comprised of fixed remuneration and a profit share system. In addition, the Group's most senior executives, the Executive Committee, may be awarded Performance Share Units (PSUs). The way in which these three elements work together as part of an integrated framework to support the objectives and principles is outlined in the diagram on the following page.





(1) See page 25 for a description.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

continued

### Macquarie's remuneration structure

This section describes the way in which performance-based remuneration is structured and delivered to manage risk and create shareholder alignment.

Macquarie's remuneration structure emphasises performance-based remuneration, with an appropriate balance between short and longer term incentives, and an alignment with prudent risk-taking. The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

#### Profit share retention levels

A percentage of each Executive Directors' annual gross profit share allocation is retained by Macquarie (retained profit share). The percentage is set according to their role.

The Board has discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30 per cent for Executive Directors.

#### Standard retention rates by role

Role	%
Macquarie CEO	70%
Macquarie Bank CEO	50%
Other Executive Committee members	50% – 60%
Designated Executive Directors <sup>(1)</sup>	50% – 60%
Other Executive Directors	40% – 60%
Staff other than Executive Directors	25% – 60% <sup>(2)</sup>

(1) Executive Directors who have a significant management or risk responsibility in the organisation.

(2) Dependent on certain thresholds.

#### Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the MEREP<sup>(3)</sup>, and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan<sup>(4)</sup>. The following table shows the current percentage allocation of retained profit share that is invested in these two plans, depending on the Executive Director's role:

Role	Post-2009 DPS Plan (Macquarie-managed fund equity)	MEREP (Macquarie shares)
Macquarie CEO and Macquarie Bank CEO	10%	90%
Executive Committee members with Funds responsibilities	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Funds responsibilities	50% – 75%	25% – 50%
Other Executive Directors	10% – 20%	80% – 90%

For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity.

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long term retention arrangements and equity holding requirements. The BRC reviews the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities. In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

(3) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). For further details on MEREP, refer to Note 33 to the financial statements in the Financial Report.

(4) The Post-2009 DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive Key Management Personnel (KMP). The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

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## Vesting and release of profit share

Retained profit share vests and is released over a period that reflects the scope and nature of an individual's role and responsibilities. The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions, having regard to regulatory and remuneration trends at the time of allocation. For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. The BRC has established the following release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP:

<b>Role</b>	<b>Release schedule</b>
Executive Committee Members (including the CEOs of Macquarie and Macquarie Bank), Designated Executive Directors	one-fifth in each of years 3–7
Other Executive Directors	one-third in each of years 3–5
Staff other than Executive Directors	one-third in each of years 2–4

Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

## Forfeiture of retained profit share (Malus)

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus). The Malus provisions were enhanced in FY2015, such that the Board or its delegate may reduce or eliminate in full, the unvested profit share awarded in respect of FY2015 and subsequent years to certain senior employees if it determines that the individual has at any time:

- acted dishonestly (including, but not limited to, by misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to a breach of a significant legal or significant regulatory requirement relevant to Macquarie
- acted or failed to act in a way that contributed to Macquarie, Macquarie Bank or any Group within Macquarie incurring:
  - significant reputational harm, and/or
  - a significant unexpected financial loss, impairment charge, cost or provision, or
  - acted or failed to act in a way that contributed to MGL or MBL making a material financial restatement.

Each of the above is a Malus Event.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with the UK Regulators' Remuneration Code (Code Staff). These individuals are subject to additional Malus and clawback provisions under these regulations.

Macquarie has always had, and continues to have, the ability to terminate staff for such circumstances, at which time any unvested profit share would be forfeited in full. The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

# Directors' Report Schedule 2 – Remuneration Report for the financial year ended 31 March 2015

continued

## Early vesting and release of retained profit share

A departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board, or its delegate, has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the conditions of early release as set out below).

In the case of death or serious incapacitation, the Board or its delegate will typically accelerate the vesting of retained profit share and immediately release it to the Executive Director or, to the Executive Director's legal personal representative (subject to the Malus provisions).

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in connection with strategic business objectives (including in connection with the divestment or internalisation of Macquarie businesses) or when an employee resigns to fulfil a senior full-time role in a governmental organisation or agency. Where such discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate. This year discretion has been exercised and retained profit share released for seven executives.

### **Conditions of early release of retained profit share to departing Executive Directors**

In addition to the Malus provisions set out on page 25, the Board or its delegate may reduce or eliminate in full the retained profit share of any departing Executive Director for whom discretion has been exercised to accelerate the vesting of their retained profit share upon termination, if it determines that the Executive Director has at any time committed a Malus Event (as described above) or:

- a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
- b) joined a competitor.

Each of the above is a Post Employment Event.

Other than in the case of death or serious incapacitation, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First period	Second period	Third period
<b>Time post departure</b>	Six months	Six months – one year	One year – two years
<b>Unvested retained profit share released</b>	From all but the last two years of employment.	From the second year prior to the end of employment.	From the year prior to the end of employment.
<b>Subject to</b>	No Malus Event or Post Employment Event.	No Malus Event or Post Employment Event during First Period <b>and</b> no Malus Event or Post Employment Event (a) in Second Period.	No Malus Event or Post Employment Event during First Period and No Malus Event or Post Employment Event (a) during Second Period <b>and</b> No Malus Event in Third Period.

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board or its delegate has discretion to release unvested retained profit share up to an amount equal to the Executive Director's tax liability, at an earlier time than noted above.

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## Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs. Since their introduction, PSUs have been structured as DSUs<sup>(1)</sup> with performance hurdles. Holders have no right to dividend equivalent payments. In all other respects, holders of these PSUs have the same rights as holders of DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

<b>Determination</b>	<ul style="list-style-type: none"><li>- The Board approves the value of PSUs to be allocated to Executive Committee members each year.</li></ul>
<b>Allocation</b>	<ul style="list-style-type: none"><li>- The allocation to individuals<sup>(2)</sup> is based on:<ul style="list-style-type: none"><li>- role scope and complexity</li><li>- financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership</li><li>- upholding the Code.</li></ul></li></ul>
<b>Vesting</b>	<ul style="list-style-type: none"><li>- Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer pages 28 to 29)</li><li>- Grants made prior to 2012 vest in three equal tranches after two, three and four years.</li></ul>
<b>Upon leaving Macquarie</b>	<p>To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.</p>

<sup>(1)</sup> A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 33 to the financial statements in the Financial Report.

<sup>(2)</sup> The allocation of PSUs to the Macquarie CEO, who is an Executive Voting Director of Macquarie Group, is subject to shareholder approval.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

continued

### Performance hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2015.

PSUs issued under the MEREP become exercisable upon the achievement of two performance hurdles, each applying individually to 50 per cent of the total number of each tranche of PSUs awarded. The following table provides a summary of the hurdles:

	EPS CAGR Hurdle	ROE Hurdle
<b>Application to PSU awards</b>	50 per cent	50 per cent
<b>Performance measure</b>	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years).	Relative average annual return on ordinary equity over the vesting period (three to four years) compared with a reference group of global peers <sup>(1)</sup> .
<b>Hurdle</b>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent</li> <li>– 100 per cent at EPS CAGR of 12 per cent.</li> </ul> <p>For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable.</p> <p>For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.</p>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50 per cent becoming exercisable above the 50<sup>th</sup> percentile</li> <li>– 100 per cent at the 75<sup>th</sup> percentile.</li> </ul> <p>For example, if ROE achievement was at the 60<sup>th</sup> percentile, 70 per cent of the relevant awards would become exercisable.</p>
<b>Rationale for hurdles</b>	<ul style="list-style-type: none"> <li>– ROE and EPS are considered appropriate measures of performance as they drive longer-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool</li> <li>– ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control</li> <li>– ROE and EPS can be substantiated using information that is disclosed in audited financial statements</li> <li>– the use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking</li> <li>– the approach is consistent with that advocated by APRA in not using TSR as a measure</li> <li>– being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee.</li> </ul> <p>Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2015 approximately 70 per cent of Macquarie's income and approximately 54 per cent of Macquarie's staff were offshore.</p>	

<sup>(1)</sup> The reference group comprises Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for awards made from 2013 is Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. The reference group for awards made prior to 2013 comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

### Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs at the calendar quarter end immediately before vesting, based on the most recent financial year end results available. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

The PSUs which vested in July 2014 comprised the third tranche of those granted in 2010 and the second tranche of those granted in 2011. Both tranches did not become fully exercisable due to the performance hurdles not being fully met. As a result:

PSU Tranche	EPS CAGR Hurdle			ROE Hurdle		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2010 Tranche 3	4.6%	At 9%	0% exercisable	7.9%	> 50 <sup>th</sup> percentile rank	56% exercisable
2011 Tranche 2	10.7%	At 9%	72% exercisable	7.8%	> 50 <sup>th</sup> percentile rank	56% exercisable

PSUs that did not meet performance hurdles expired.

### Other features of Macquarie's remuneration structure

#### Promotion awards

Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on seniority, set with reference to an \$A value.

#### Minimum Shareholding requirement

Executive Directors are required to hold a minimum amount of Macquarie shares which is satisfied by the requirements of the profit share retention policy.

#### Hedging

Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

#### Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the Macquarie CEO and the Macquarie Bank CEO:

<b>Length of contract</b>	Permanent open-ended
<b>Remuneration review period</b>	1 April to 31 March annually
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation which ensures that a large part of their remuneration is 'at risk'. Refer to pages 24 to 26 for details.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs. Refer to pages 27 to 29 for details.
<b>Termination of employment</b>	Requires no more than four weeks notice <sup>(1)</sup> by Macquarie or the Executive Committee member.

<sup>(1)</sup> Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment.

### Alignment of remuneration outcomes to results

In the past year, Macquarie Bank's overall results have improved with NPAT increasing by 46 per cent.

		FY15	FY14	FY13	FY12	FY11
NPAT attributed to ordinary equity holders	\$A million	1,096	752	650	609	803
Return on average ordinary shareholders' funds (p.a.)	%	11.6	8.5	7.9	7.0	9.7

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

### continued

#### Remuneration governance

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

##### Strong Board oversight

The Board has oversight of Macquarie's remuneration arrangements. The Board has a BRC whose objective is to assist the Board and the Board of Macquarie Bank, a key operating subsidiary, with Macquarie's remuneration policies and practices.

The BRC currently comprises five Independent NEDs:

- Peter Warne (Chairman)
- Gary Banks
- Gordon Cairns
- Diane Grady
- Kevin McCann.

The responsibilities of the Committee include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The full responsibilities of the Committee are outlined in their Charter, which is reviewed and approved annually by the Board. A copy of the Charter is available on Macquarie's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance).

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards. The BRC has a regular meeting cycle and met nine times over the last financial year. Attendance at the meetings is set out in the Directors' Report. Strict processes are in place to ensure that conflicts of interest are appropriately managed. The Board pays close attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

The remuneration governance framework requires that remuneration recommendations relating to staff at various levels of seniority be approved at an appropriate level of authority. As part of this, the BRC recommends the remuneration outcomes to the Board for approval for the:

- CEOs of both Macquarie and Macquarie Bank
- Executive Committee members
- Designated Executive Directors
- Senior risk and financial control personnel
- Staff covered under specific regulatory requirements.

As part of its process, towards the end of each financial year, the NEDs meet with the Macquarie Bank CEO to consider formal documentation that outlines her views on Macquarie Bank's performance. This includes a wide range of the Bank's activities covering the following main areas:

- financial position and performance
- risk management and compliance
- people and culture
- sustainability (planning and investment in the future)
- community.

The Board considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. Over the course of the year the Board receives regular reports and updates on many of these topics. These are summarised in the CEO's presentation, together with additional information on any particular areas of interest which the Board have identified for further discussion as a part of the review process.

The Board and the BRC also consider formal documentation for each Executive Committee member which covers financial performance, risk management and compliance, business leadership and people leadership (including upholding the Code).

This information helps the BRC and Board make decisions in relation to remuneration.

In addition, as part of the remuneration process:

- the CFO confirms to the BRC that the forecast profit share pool does not result in eliminating capital surpluses
- the BRC receives an independent report from the CFO on material losses, impairments or breaches of the risk management framework, return on economic capital by business, the relationship between profitability and risk and the contingent risks associated with large transactions concluded during the current financial year
- the Global Head of HR discusses the link between losses and proposed remuneration with the Group Heads and reports to the BRC in regards to the link between risk outcomes and individual remuneration. The BRC uses this information when considering the profit share allocated to businesses and to individuals.



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### Independent remuneration review

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

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately \$US135,000.

Pay Governance has confirmed that its analyses and observations have been made free from undue influence by Macquarie's Executive KMP. The Board is satisfied that the remuneration review conducted by Pay Governance was made free from undue influence by the Executive KMP for the following reasons:

- the agreement for services was authorised by the Chairman of the BRC under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance held meetings with the BRC Chairman in relation to the Pay Governance Review, no Executive KMP had separate, direct contact with Pay Governance.

Pay Governance's findings included that:

- the objectives of Macquarie's remuneration system are similar to those cited by other leading global investment banks, including the need to drive company performance over the short and longer-term, align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and structuring and delivering remuneration to not encourage excessive risks
- Macquarie's remuneration components support its remuneration objectives and principles and are very much in line with practices at peer global investment banks.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

### continued

#### Non-Executive Director remuneration

Macquarie's remuneration approach ensures that the NEDs are appropriately remunerated. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ from the arrangements applicable to Executives.

#### Non-Executive Director remuneration policy

The overall objective of Macquarie's NED remuneration policy is to ensure that NEDs are remunerated appropriately. It is achieved by:

- setting Board and Committee fees taking into account market rates for relevant Australian financial organisations for the time commitment and responsibilities involved
- delivering these fees in a form that is not contingent on Macquarie's performance.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive profit share payments. There are no, nor have there ever been, termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

The Macquarie Group CEO and the Macquarie Bank CEO are not remunerated separately for acting as Executive Voting Directors.

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

All NEDs of Macquarie are also NEDs of Macquarie Bank. This policy governs the remuneration of NEDs of both Macquarie and Macquarie Bank.

#### Board and Committee fees

NEDs are remunerated via Board and Committee fees which are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. Macquarie's approach to NED remuneration is to set Board and Board Committee fees reflecting the time commitment and responsibilities involved, taking into account market rates for relevant Australian financial organisations and consistent with market trends. During FY2015, the Board determined that Board member base fees be increased to \$A70,000 from \$A65,000. Board member base fees were last increased in 2010.

#### Macquarie Bank fees

	Macquarie Bank fees	
	Chairman \$A	Member \$A
Board	240,000	70,000

Macquarie Bank does not have stand alone Board committees. The Macquarie BAC is a joint committee of Macquarie and Macquarie Bank and the BRiC became a joint committee of Macquarie and Macquarie Bank effective from 1 January 2015. The BRC also advises both Boards.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions.

Information on the frequency of Board and Committee meetings is included on pages 10 and 11 of the Directors' Report.

Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. The current limit (\$A4 million per annum) was approved by Macquarie Group shareholders at Macquarie Group's 2010 AGM. The Board ensures that NED remuneration for Macquarie and Macquarie Bank taken together does not exceed this shareholder approved maximum aggregate amount.

## Appendices: Key Management Personnel (KMP) disclosures

### Appendix 1: KMP

KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities (together making Executive KMP) and NEDs. Macquarie's NEDs are required by the Act to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of 'management'. The table reflects KMP movements during FY2015 and FY2014. The key changes included:

#### Non-Executive Directors:

- G.M. Cairns was appointed to the Board effective from 1 November 2014
- P.M. Kirby retired from the Board on 24 July 2014
- H.M. Nugent AO retired from the Board on 24 July 2014
- N.M. Wakefield Evans was appointed to the Board effective from 7 February 2014
- J.R. Niland AC retired from the Board on 31 December 2013
- P.A. Cross was appointed to the Board effective from 7 August 2013
- G.R. Banks AO was appointed to the Board effective from 1 August 2013
- C.B. Livingstone AO retired from the Board on 25 July 2013.

#### Executives:

- G.C. Ward resigned from the Board on 30 June 2014, but remains a member of the Executive Committee.
- B.A. Brazil was appointed to the Executive Committee effective from 1 July 2014
- M.J. Reemst was appointed to the Executive Committee and the Macquarie Bank Board effective from 1 July 2014
- P.C. Upfold was appointed to the Executive Committee effective from 1 July 2014
- P.J. Maher ceased to be a member of the Executive Committee on 3 May 2013.

Name	Position	Term as KMP 2015	Term as KMP 2014
<b>Executive Voting Directors</b>			
N.W. Moore <sup>(1)</sup>	Macquarie CEO	Full year	Full year
M.J. Reemst <sup>(1)</sup>	Macquarie Bank CEO	Part year	-
<b>Non-Executive Directors</b>			
G.R. Banks AO	Independent Director	Full year	Part year
G.M. Cairns	Independent Director	Part year	-
M.J. Coleman	Independent Director	Full year	Full year
P.A. Cross	Independent Director	Full year	Part year
D.J. Grady AM	Independent Director	Full year	Full year
M.J. Hawker AM	Independent Director	Full year	Full year
P.M. Kirby	Former Independent Director	Part year	Full year
C.B. Livingstone AO	Former Independent Director	-	Part year
H.K. McCann AM	Independent Chairman	Full year	Full year
J.R. Niland AC	Former Independent Director	-	Part year
H.M. Nugent AO	Former Independent Director	Part year	Full year
N.M. Wakefield Evans	Independent Director	Full year	Part Year
P.H. Warne	Independent Director	Full year	Full year

<sup>(1)</sup> Members of Macquarie Bank's Executive Committee as at 8 May 2015.

## Directors' Report Schedule 2 – Remuneration Report for the financial year ended 31 March 2015 continued

Name	Position	Term as KMP 2015	Term as KMP 2014
<b>Executives</b>			
S.D. Allen <sup>(1)</sup>	CRO, Head of RMG	Full year	Full year
B.A. Brazil <sup>(1)</sup>	Co-Head of CAF	Part Year	–
A.J. Downe <sup>(1)</sup>	Head of CFM	Full year	Full year
G.A. Farrell <sup>(1)</sup>	Co-Head of CAF	Full year	Full year
P.J. Maher	Former Head of BFS	–	Part year
M. McLaughlin <sup>(1)</sup>	Country Head, United States of America	Full year	Full year
N. Sorbara <sup>(1)</sup>	COO, Head of Corporate Operations Group (COG)	Full year	Full year
P.C. Upfold <sup>(1)</sup>	CFO, Head of Financial Management Group (FMG)	Part year	–
S. Vrcelj <sup>(1)</sup>	Head of MSG	Full year	Full year
G.C. Ward <sup>(1)</sup>	Macquarie Group Deputy Managing Director and Head of BFS	Full year	Full year
S. Wikramanayake <sup>(1)</sup>	Head of MAM	Full year	Full year

<sup>(1)</sup> Members of Macquarie Bank's Executive Committee as at 8 May 2015.

Except where otherwise noted, the remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the Act and in compliance with AASB 124 *Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be KMP, as defined by AASB 124 *Related Party Disclosures*.

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## Appendix 2: Statutory remuneration disclosures

### Executive remuneration

The remuneration arrangements for all of the persons listed as Executive Voting Directors or Executives are described on pages 22 to 29.

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2015 and 31 March 2014, only include remuneration relating to the portion of the relevant periods that each individual was an Executive KMP. Hence, comparable executive remuneration is confined to those who were Executive KMP for the full year in both FY2015 and FY2014.

While RSUs and DSUs, and PSUs (for Executive Committee members), in respect of FY2015 will be granted during FY2016, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2014. The expense is estimated using Macquarie's share price as at 31 March 2015 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.61 per cent; expected vest dates of PSU: 1 July 2018 and 1 July 2019; and a dividend yield of 4.76 per cent per annum. In the following financial year, Macquarie 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.

As explained on page 24, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the table on pages 36 and 37). When these amounts are negative, they are deducted from Long term Employee Benefits remuneration in the same column.

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

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2015

continued

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

			Short term Employee Benefits		
			Salary (including superannuation)	Performance related remuneration <sup>(1)</sup>	Total short term employee benefits
			\$A	\$A	\$A
<b>Executive Voting Director</b>					
N.W. Moore	Macquarie Managing Director and CEO	2015	540,506	3,150,895	3,691,401
		2014	543,467	2,037,317	2,580,784
<b>Other Executives</b>					
S.D. Allen	CRO, Head of RMG	2015	516,419	1,642,512	2,158,931
		2014	511,499	1,145,942	1,657,441
A.J. Downe <sup>(6)</sup>	Head of CFM	2015	709,213	4,746,033	5,455,246
		2014	677,275	3,586,246	4,263,521
G.A. Farrell	Co-Head of CAF	2015	686,471	3,985,507	4,671,978
		2014	688,495	2,536,580	3,225,075
M. McLaughlin <sup>(6)</sup>	Country Head, United States of America	2015	445,554	143,000	588,554
		2014	453,313	502,762	956,075
N. Sorbara	COO, Head of COG	2015	461,232	1,110,638	1,571,870
		2014	463,759	765,574	1,229,333
S. Vrcelj	Head of MSG	2015	115,616	15,156	130,772
		2014	119,395	114,016	233,411
G.C. Ward <sup>(7)</sup>	Macquarie Deputy Managing Director and Head of BFS	2015	693,698	2,368,097	3,061,795
		2014	693,514	1,621,461	2,314,975
S. Wikramanayake	Head of MAM	2015	469,691	2,815,667	3,285,358
		2014	475,235	2,146,176	2,621,411
<b>Total Remuneration – Comparable Executive KMP</b>		2015	4,638,400	19,977,505	24,615,905
		2014	4,625,952	14,456,074	19,082,026
<b>New Executive Voting Director</b>					
M.J. Reemst <sup>(8)</sup>	Macquarie Bank Limited Managing Director and CEO	2015	424,512	1,003,884	1,428,396
		2014	–	–	–
<b>New Executives</b>					
B.A. Brazil <sup>(9)</sup>	Co-Head of CAF	2015	530,641	5,722,938	6,253,579
		2014	–	–	–
P.C. Upfold <sup>(9)</sup>	CFO, Head of FMG	2015	431,807	1,344,487	1,776,294
		2014	–	–	–
<b>Former Executives</b>					
P.J. Maher <sup>(10)</sup>	Former Head of BFS	2015	–	–	–
		2014	63,988	58,599	122,587
<b>Total Remuneration – Executive KMP (including new and former executives)</b>		2015	6,025,360	28,048,814	34,074,174
		2014	4,689,940	14,514,673	19,204,613

Long term Employee Benefits			Share Based Payments					Percentage of remuneration that consists of PSUs %
Restricted profit share <sup>(2)</sup>	Earnings on prior year restricted profit share <sup>(3)</sup>	Total long term employee benefits	Equity awards including shares <sup>(4)</sup>	PSUs <sup>(5)</sup>	Total share-based payments	Total Remuneration		
\$A	\$A	\$A	\$A	\$A	\$A	\$A		
735,209	853,851	1,589,060	3,850,800	1,755,485	5,606,285	10,886,746	16.12	
950,748	924,023	1,874,771	3,218,691	1,207,607	4,426,298	8,881,853	13.60	
<b>164,251</b>	<b>250,343</b>	<b>414,594</b>	<b>1,020,534</b>	<b>806,277</b>	<b>1,826,811</b>	<b>4,400,336</b>	<b>18.32</b>	
229,188	263,503	492,691	1,001,652	571,803	1,573,455	3,723,587	15.36	
<b>474,603</b>	<b>2,172,114</b>	<b>2,646,717</b>	<b>3,310,468</b>	<b>1,742,784</b>	<b>5,053,252</b>	<b>13,155,215</b>	<b>13.25</b>	
358,624	2,363,636	2,722,260	2,823,570	1,052,340	3,875,910	10,861,691	9.69	
<b>398,551</b>	<b>512,319</b>	<b>910,870</b>	<b>2,423,292</b>	<b>1,835,257</b>	<b>4,258,549</b>	<b>9,841,397</b>	<b>18.65</b>	
253,658	552,917	806,575	1,929,699	1,651,088	3,580,787	7,612,437	21.69	
<b>14,300</b>	<b>22,486</b>	<b>36,786</b>	<b>205,969</b>	<b>44,692</b>	<b>250,661</b>	<b>876,001</b>	<b>5.10</b>	
251,381	45,438	296,819	536,578	90,448	627,026	1,879,920	4.81	
<b>111,064</b>	<b>57,330</b>	<b>168,394</b>	<b>474,533</b>	<b>703,065</b>	<b>1,177,598</b>	<b>2,917,862</b>	<b>24.10</b>	
153,115	27,550	180,665	334,757	471,075	805,832	2,215,830	21.26	
<b>2,273</b>	<b>1,570</b>	<b>3,843</b>	<b>17,311</b>	<b>22,670</b>	<b>39,981</b>	<b>174,596</b>	<b>12.98</b>	
17,102	16,401	33,503	144,652	133,332	277,984	544,898	24.47	
<b>236,810</b>	<b>372,864</b>	<b>609,674</b>	<b>1,712,133</b>	<b>1,593,651</b>	<b>3,305,784</b>	<b>6,977,253</b>	<b>22.84</b>	
324,292	341,941	666,233	1,364,743	948,871	2,313,614	5,294,822	17.92	
<b>1,407,834</b>	<b>606,302</b>	<b>2,014,136</b>	<b>773,528</b>	<b>779,853</b>	<b>1,553,381</b>	<b>6,852,875</b>	<b>11.38</b>	
1,073,089	522,663	1,595,752	624,097	730,876	1,354,973	5,572,136	13.12	
<b>3,544,895</b>	<b>4,849,179</b>	<b>8,394,074</b>	<b>13,788,568</b>	<b>9,283,734</b>	<b>23,072,302</b>	<b>56,082,281</b>		
3,611,197	5,058,072	8,669,269	11,978,439	6,857,440	18,835,879	46,587,174		
<b>100,388</b>	<b>153,561</b>	<b>253,949</b>	<b>595,632</b>	<b>283,891</b>	<b>879,523</b>	<b>2,561,868</b>	<b>11.08</b>	
-	-	-	-	-	-	-	-	
<b>572,294</b>	<b>344,278</b>	<b>916,572</b>	<b>3,108,931</b>	<b>380,011</b>	<b>3,488,942</b>	<b>10,659,093</b>	<b>3.57</b>	
-	-	-	-	-	-	-	-	
<b>134,449</b>	<b>59,928</b>	<b>194,377</b>	<b>646,490</b>	<b>212,918</b>	<b>859,408</b>	<b>2,830,079</b>	<b>7.52</b>	
-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	
5,860	14,534	20,394	87,401	8,732	96,133	239,114	3.65	
<b>4,352,026</b>	<b>5,406,946</b>	<b>9,758,972</b>	<b>18,139,621</b>	<b>10,160,554</b>	<b>28,300,175</b>	<b>72,133,321</b>		
3,617,057	5,072,606	8,689,663	12,065,840	6,866,172	18,932,012	46,826,288		

## Directors' Report Schedule 2 – Remuneration Report for the financial year ended 31 March 2015

continued

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### ***Notes to the statutory remuneration disclosures***

- (1) The cash portion of each individual's profit share allocation for the reporting period when they were an Executive KMP.
- (2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS Plan).
- (3) The earnings on restricted profit share as described on page 24.
- (4) The current year expense for retained profit share which is invested in Macquarie shares under the MEREP as described on page 24. This is recognised as an expense over the respective vesting periods as described on pages 25 and 35.
- (5) The current year expense for PSUs which is recognised over the vesting period as described on pages 27 and 35. Adjustments were made during the current and prior year to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met, or are not expected to be met.

### ***Notes on individuals***

- (6) Mr Downe and Mr McLaughlin are paid in \$SG and \$US respectively. They have not received a base remuneration increase during the year. The base salary for FY2015 differs to FY2014 due to exchange rate movements.
- (7) Mr Ward resigned from the MBL Board on 30 June 2014 but remains a member of the Executive Committee.
- (8) Ms Reemst was appointed to the MBL Board and the Executive Committee effective from 1 July 2014.
- (9) Mr Brazil and Mr Upfold were appointed to the Executive Committee effective from 1 July 2014.
- (10) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013.



## Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 32:

		Directors Fees \$A	Other Benefits <sup>(1)</sup> \$A	Total Compensation \$A
G.R. Banks	2015	68,750	–	68,750
	2014	43,333	–	43,333
G.M. Cairns <sup>(2)</sup>	2015	29,167	–	29,167
	2014	–	–	–
M.J. Coleman	2015	68,750	2,400	71,150
	2014	65,000	–	65,000
P.A. Cross	2015	68,750	–	68,750
	2014	39,140	–	39,140
D.J. Grady	2015	68,750	–	68,750
	2014	65,000	–	65,000
M.J. Hawker	2015	68,750	–	68,750
	2014	65,000	–	65,000
P.M. Kirby <sup>(3)</sup>	2015	20,766	–	20,766
	2014	65,000	–	65,000
C.B. Livingstone <sup>(4)</sup>	2015	–	–	–
	2014	20,618	–	20,618
H.K. McCann	2015	240,000	–	240,000
	2014	240,000	–	240,000
J.R. Niland <sup>(5)</sup>	2015	–	–	–
	2014	48,750	–	48,750
H.M. Nugent <sup>(6)</sup>	2015	20,766	–	20,766
	2014	65,000	–	65,000
N.M. Wakefield Evans	2015	68,750	–	68,750
	2014	9,785	–	9,785
P.H. Warne	2015	68,750	–	68,750
	2014	65,000	–	65,000
<b>Total Remuneration – Non-Executive KMP</b>	<b>2015</b>	<b>791,949</b>	<b>2,400</b>	<b>794,349</b>
	2014	791,626	–	791,626

(1) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of \$A2,400 (2014: \$A nil).

(2) Mr Cairns was appointed to the MGL and MBL Boards effective from 1 November 2014.

(3) Mr Kirby retired from the MGL and MBL Boards on 24 July 2014.

(4) Ms Livingstone retired from the MGL and MBL Boards on 25 July 2013.

(5) Dr Niland retired from the MGL and MBL Boards on 31 December 2013.

(6) Dr Nugent retired from the MGL and MBL Boards on 24 July 2014.

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

Throughout this Remuneration Report financial information for Macquarie Bank relating to the years ended 31 March 2011 through to 31 March 2015 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*This is the end of the Remuneration Report.*

## Directors' Report Schedule 3 – Auditor's independence declaration for the financial year ended 31 March 2015



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### Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'K. G. Smith'.

### K.G. Smith

Partner  
PricewaterhouseCoopers

Sydney  
8 May 2015

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

# Financial Report

## for the financial year ended 31 March 2015

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The Financial Report was authorised for issue by the Directors on 8 May 2015.  
The Consolidated Entity has the power to amend and reissue the Financial Report.

# Income statements

## for the financial year ended 31 March 2015

	Notes	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
Interest and similar income		4,641	4,320	3,555	3,358
Interest expense and similar charges		(2,630)	(2,601)	(2,329)	(2,273)
Net interest income	2	2,011	1,719	1,226	1,085
Fee and commission income	2	894	778	314	246
Net trading income	2	1,860	1,608	2,012	1,408
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	2	(17)	18	–	–
Other operating income and charges	2	547	455	879	946
Net operating income		5,295	4,578	4,431	3,685
Employment expenses	2	(1,466)	(1,351)	(1,032)	(929)
Brokerage, commission and trading-related expenses	2	(601)	(565)	(450)	(447)
Occupancy expenses	2	(120)	(124)	(93)	(87)
Non-salary technology expenses	2	(110)	(93)	(86)	(60)
Other operating expenses	2	(1,480)	(1,271)	(1,130)	(936)
Total operating expenses		(3,777)	(3,404)	(2,791)	(2,459)
<b>Operating profit before income tax</b>		<b>1,518</b>	1,174	<b>1,640</b>	1,226
Income tax expense	4	(589)	(538)	(213)	(402)
<b>Profit from ordinary activities after income tax</b>		<b>929</b>	636	<b>1,427</b>	824
Profit/(loss) from discontinued operations (net of income tax)	44	190	138	(32)	(73)
<b>Profit from ordinary activities and discontinued operations after income tax</b>		<b>1,119</b>	774	<b>1,395</b>	751
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	(5)	(4)	–	–
Profit attributable to non-controlling interests		(5)	(4)	–	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>1,114</b>	770	<b>1,395</b>	751
Distributions paid or provided for on:					
Macquarie Income Securities	5	(18)	(18)	–	–
Convertible debentures	5	–	–	(5)	(4)
<b>Profit/(loss) attributable to ordinary equity holder of Macquarie Bank Limited</b>		<b>1,096</b>	752	<b>1,390</b>	747
From continuing operations		906	614	1,422	820
From discontinued operations	44	190	138	(32)	(73)

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

# Statements of comprehensive income

## for the financial year ended 31 March 2015

	Notes	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Profit from ordinary activities and discontinued operations after income tax</b>		<b>1,119</b>	774	<b>1,395</b>	751
Other comprehensive income/(expense) <sup>(1)</sup> :					
Available for sale investments, net of tax	29	4	(18)	13	(20)
Cash flow hedges, net of tax	29	(60)	18	(5)	(5)
Share of other comprehensive income of associates and joint ventures, net of tax	29	1	–	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		704	495	6	13
Other comprehensive income from discontinued operations, net of tax		28	11	–	–
<b>Total other comprehensive income/(expense)</b>		<b>677</b>	506	<b>14</b>	(12)
<b>Total comprehensive income</b>		<b>1,796</b>	1,280	<b>1,409</b>	739
Total comprehensive income is attributable to:					
Ordinary equity holder of Macquarie Bank Limited		1,767	1,244	1,404	735
Macquarie Income Securities holders		18	18	–	–
Macquarie Income Preferred Securities holders		11	18	–	–
Convertible debenture holders		–	–	5	4
<b>Total comprehensive income</b>		<b>1,796</b>	1,280	<b>1,409</b>	739

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

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

# Statements of financial position

## for the financial year ended 31 March 2015

	Notes	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Assets</b>					
Receivables from financial institutions	6	25,981	16,151	24,134	14,778
Trading portfolio assets	7	30,039	21,640	22,917	19,472
Derivative assets		19,952	12,468	17,437	11,591
Investment securities available for sale	8	6,345	12,182	5,406	11,196
Other assets	9	7,818	8,302	4,788	5,035
Loan assets held at amortised cost	10	71,206	57,170	47,711	34,978
Other financial assets at fair value through profit or loss	12	1,323	2,195	1,275	2,094
Due from related body corporate entities	31	1,163	2,244	986	2,029
Due from subsidiaries	31	–	–	33,102	26,228
Property, plant and equipment	13	6,743	6,045	390	328
Interests in associates and joint ventures accounted for using the equity method	14	471	551	68	110
Intangible assets	15	229	785	123	57
Investments in subsidiaries	16	–	–	3,671	4,588
Deferred tax assets	18	238	178	208	90
Assets of disposals group classified as held for sale	44	1,072	–	187	–
<b>Total assets</b>		<b>172,580</b>	<b>139,911</b>	<b>162,403</b>	<b>132,574</b>
<b>Liabilities</b>					
Trading portfolio liabilities	19	5,045	2,459	4,803	2,344
Derivative liabilities		18,100	11,748	16,736	11,498
Deposits	20	47,333	42,302	46,356	41,624
Other liabilities	21	9,179	8,521	5,841	5,277
Payables to financial institutions	22	14,874	16,573	14,655	16,362
Other financial liabilities at fair value through profit or loss	23	1,237	937	2,297	1,959
Due to related body corporate entities	31	7,700	7,443	7,084	6,833
Due to subsidiaries	31	–	–	15,531	14,835
Debt issued at amortised cost	24	53,033	37,255	35,149	20,508
Provisions	25	83	86	63	60
Deferred tax liabilities	18	378	625	96	132
Liabilities of disposals group classified as held for sale	44	779	–	175	–
<b>Total liabilities excluding loan capital</b>		<b>157,741</b>	<b>127,949</b>	<b>148,786</b>	<b>121,432</b>
<b>Loan capital</b>					
Subordinated debt at amortised cost		3,240	2,464	3,240	2,464
<b>Total loan capital</b>	27	<b>3,240</b>	<b>2,464</b>	<b>3,240</b>	<b>2,464</b>
<b>Total liabilities</b>		<b>160,981</b>	<b>130,413</b>	<b>152,026</b>	<b>123,896</b>
<b>Net assets</b>		<b>11,599</b>	<b>9,498</b>	<b>10,377</b>	<b>8,678</b>
<b>Equity</b>					
Contributed equity	28	9,082	8,101	9,105	8,157
Reserves	29	603	(68)	36	22
Retained earnings	29	1,831	1,388	1,236	499
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		11,516	9,421	10,377	8,678
<b>Non-controlling interests</b>	29	<b>83</b>	<b>77</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>11,599</b>	<b>9,498</b>	<b>10,377</b>	<b>8,678</b>

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 2015

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
<b>Consolidated</b>							
Balance at 1 April 2013		8,077	(560)	1,046	8,563	92	8,655
Profit from ordinary activities after income tax		–	–	770	770	4	774
Other comprehensive income, net of tax		–	492	–	492	14	506
Total comprehensive income		–	492	770	1,262	18	1,280
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(428)	(428)	–	(428)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(29)	(29)
Distributions paid or provided for	5	–	–	–	–	(4)	(4)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	24	–	–	24	–	24
		24	–	(428)	(404)	(33)	(437)
<b>Balance at 31 March 2014</b>		<b>8,101</b>	<b>(68)</b>	<b>1,388</b>	<b>9,421</b>	<b>77</b>	<b>9,498</b>
Profit from ordinary activities and discontinued operations after income tax		–	–	1,114	1,114	5	1,119
Other comprehensive income, net of tax		–	671	–	671	6	677
Total comprehensive income		–	671	1,114	1,785	11	1,796
Transactions with equity holders in their capacity as equity holders:							
Contribution of ordinary equity, net of transaction costs		950	–	–	950	–	950
Dividends and distributions paid or provided for	5	–	–	(671)	(671)	–	(671)
Non-controlling interests:							
Distributions paid or provided for	5	–	–	–	–	(5)	(5)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	31	–	–	31	–	31
		981	–	(671)	310	(5)	305
<b>Balance at 31 March 2015</b>		<b>9,082</b>	<b>603</b>	<b>1,831</b>	<b>11,516</b>	<b>83</b>	<b>11,599</b>

# Statements of changes in equity

## for the financial year ended 31 March 2015

### continued

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							<b>Bank</b>
Balance at 1 April 2013		8,152	34	162	8,348	–	8,348
Profit after income tax from ordinary activities		–	–	751	751	–	751
Other comprehensive expense, net of tax		–	(12)	–	(12)	–	(12)
Total comprehensive income/(expense)		–	(12)	751	739	–	739
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(414)	(414)	–	(414)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	5	–	–	5	–	5
		5	–	(414)	(409)	–	(409)
<b>Balance at 31 March 2014</b>		<b>8,157</b>	<b>22</b>	<b>499</b>	<b>8,678</b>	<b>–</b>	<b>8,678</b>
Profit from ordinary activities and discontinued operations after income tax		–	–	1,395	1,395	–	1,395
Other comprehensive income, net of tax		–	14	–	14	–	14
Total comprehensive income		–	14	1,395	1,409	–	1,409
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	28	950	–	–	950	–	950
Dividends and distributions paid or provided for	5	–	–	(658)	(658)	–	(658)
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	28	(2)	–	–	(2)	–	(2)
		948	–	(658)	290	–	290
<b>Balance at 31 March 2015</b>		<b>9,105</b>	<b>36</b>	<b>1,236</b>	<b>10,377</b>	<b>–</b>	<b>10,377</b>

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 2015

	Notes	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Cash flows used in operating activities</b>					
Interest received		4,397	4,117	3,413	3,377
Interest and other costs of finance paid		(2,670)	(2,582)	(2,382)	(2,246)
Dividends and distributions received		39	26	805	563
Fees and other non-interest income received		2,940	2,545	574	697
Fees and commissions paid		(769)	(688)	(402)	(440)
Net payments for trading portfolio assets and other financial assets/liabilities		(11,883)	(953)	(7,186)	(1,775)
Payments to suppliers		(963)	(1,370)	(813)	(335)
Employment expenses paid		(1,873)	(1,591)	(990)	(956)
Income tax paid		(127)	(82)	(83)	(101)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		1,392	1,191	-	-
Life insurance contract payments and payments for investment assets		(1,331)	(1,123)	-	-
Net loan assets granted		(12,347)	(7,091)	(15,927)	(6,710)
Net increase in amounts due to other financial institutions, deposits and other borrowings		20,623	6,753	19,012	5,495
Proceeds from the disposal of lease assets		64	50	-	-
Payments for the acquisition of lease assets		(895)	(377)	-	-
Net cash flows used in operating activities	30	(3,403)	(1,175)	(3,979)	(2,431)
<b>Cash flows from investing activities</b>					
Net proceeds from investment securities available for sale		3,103	3,875	2,798	3,990
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		1,423	58	1,092	463
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(484)	(121)	(446)	(345)
Proceeds from the disposal of property, plant and equipment, leased assets and intangible assets		46	54	-	-
Payments for the acquisition of property, plant and equipment, leased assets and intangible assets		(102)	(142)	(160)	(110)
Net cash flows from investing activities		3,986	3,724	3,284	3,998
<b>Cash flows from/(used in) financing activities</b>					
Proceeds from the issue of ordinary shares		950	-	950	-
Net proceeds from issue of subordinated debt		421	-	421	-
Proceeds from non-controlling interests		-	100	-	-
Dividends and distributions paid		(676)	(432)	(653)	(410)
Net cash flows from/(used in) financing activities		695	(332)	718	(410)
<b>Net increase in cash and cash equivalents</b>		<b>1,278</b>	<b>2,217</b>	<b>23</b>	<b>1,157</b>
Cash and cash equivalents at the beginning of the financial year		13,385	11,168	10,657	9,500
<b>Cash and cash equivalents at the end of the financial year</b>	30	<b>14,663</b>	<b>13,385</b>	<b>10,680</b>	<b>10,657</b>

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 2015

### 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 financial years 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 of Standards*) and the *Corporations Act 2001* (Cth).

##### 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 Macquarie Bank Limited and its subsidiaries (Consolidated Entity) and the consolidated financial report such as:

- fair value of financial assets and liabilities (Note 39)
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (Notes 1(xii), 1(xiv), 8, 11 and 14)
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (Notes 1(ii), 1(xiii), 14, 43 and 44)
- distinguishing between whether assets or a business is acquired (Note 1(iii))
- determination of control of structured entities (Notes 1(ii) and 36)
- 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 18)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xvii) and 15), and
- recognition of performance fees from Macquarie-managed unlisted funds (Note 1(vi)).

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 Australian Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current financial year:

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 amends AASB 132 *Financial Instruments: Presentation* to clarify that to set off an asset with a liability:

- the right of set-off must be available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy
- certain gross settlement mechanisms (such as through a clearing house) may be equivalent to net settlement
- master netting arrangements where the legal right of offset is only enforceable on the occurrence of a future event (such as default of the counterparty) continue to not meet the requirements for netting.

AASB 2012-3 is required to be retrospectively applied.

Application in the current period did not have a material impact on the financial position nor performance of the Consolidated Entity.

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

AASB 2011-4 removes the individual Key Management Personnel disclosure requirements from AASB 124 *Related Party Disclosures*. The application of AASB 2011-4 in the current financial year has reduced disclosures provided in the financial report but has not affected any of the amounts recognised in the financial statements.

AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

AASB 2013-5 defines an investment entity and provides an exception to the consolidation requirements in AASB 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity, the parent must still consolidate the investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity.

AASB 2013-5 is required to be retrospectively applied.

Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

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

### AASB 9 *Financial Instruments*

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

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

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

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

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

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

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

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018. The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

### AASB 15 *Revenue from Contracts with Customers*

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

AASB 15 is effective for annual periods beginning on or after 1 January 2017. The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2017.

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

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

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

AASB 2014-10 is effective for annual periods beginning on or after 1 January 2016. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2016. Initial application is not expected to result in any material impact for the Consolidated Entity.

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

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

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

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 1

### Summary of significant accounting policies continued

#### (ii) Principles of consolidation

##### Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Bank has:

- (i) power to direct the relevant activities
- (ii) exposure to significant variable returns, and
- (iii) the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

##### Structured entities

Structured entities (SEs) are those entities where voting rights do not have a significant effect on its returns, including where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities. When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

Where the Consolidated Entity has power over, is exposed to significant variable returns through the residual risk associated with its Mortgage SEs and other SEs, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Bank owns less than 100 percent 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 Bank and Consolidated Entity determine the dates of obtaining control (ie acquisition date) and losing control (ie disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities 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 Bank are carried in its financial statements at cost less impairment in accordance with AASB 127 *Separate Financial Statements*.

#### 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. 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 the share of its post-acquisition movements in reserves.

The Consolidated Entity determines 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.

#### (iii) Business combinations

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. 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 values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration 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, 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 (eg tangible or intangible assets, and intellectual property) and a majority of the critical processes (eg 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.

#### **(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 senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising seven reportable segments as disclosed in Note 3 – Segment reporting. Information about products and services and geographical segments is 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 Bank's and Consolidated Entity's financial statements are presented in Australian dollars (the presentation currency), which is also the Bank'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 other comprehensive income (OCI) as a result of meeting cash flow hedge or net investment hedge accounting requirements (see Note 1(xi) – Hedge accounting).

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 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) – Hedge accounting).

##### **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 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 entity and translated at the closing rate.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 1

### Summary of significant accounting policies continued

#### (vi) Revenue and expense recognition

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

##### Net 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 includes fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements and 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.

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.

Performance fees from Macquarie-managed unlisted funds are recognised when the fee can be reliably measured and its receipt is probable. Factors that are taken into consideration include:

- the proportion of assets already realised
- returns on assets realised to-date
- downside valuation on remaining unrealised assets and reliability of those estimates
- nature of unrealised investments and their returns.

##### 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 Bank'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 (eg 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
- whether 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 the 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 been transferred.

#### (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 bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when 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 that are 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 Bank 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. All eligible Australian specialist wholly-owned subsidiaries of Macquarie Group comprise a tax consolidated group with MGL as the head entity. As a consequence, the Bank and 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, MGL 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 MGL 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 MGL 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.

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.

Cash provided as collateral on securities borrowed or on the reverse repurchase agreement is included in receivables from financial institution or other assets based on the counterparty, while cash received from third parties on securities lent or repurchase agreement is included in payables to financial institutions or other liabilities based on the counterparty.

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 Consolidated Entity has short-sold and are actively traded.

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 39 – Fair value of financial assets and liabilities). 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 fair values of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 1

### Summary of significant accounting policies continued

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 profits or losses 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 – Fair value of financial assets and liabilities. Movements in the cash flow hedging reserve in equity are shown in Note 29 – Reserves, retained earnings and non-controlling interests.

#### (xii) Investments and other financial assets

With the exception of trading portfolio assets and derivatives, 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, other financial assets at fair value through profit or loss and investment securities available 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

This category includes loan assets held at amortised cost and amounts due from subsidiaries, which 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) – Revenue and expense recognition.

#### 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 valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.



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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) – Revenue and expense recognition.

#### **(xiii) Non-current assets and disposal groups classified as held for sale**

This category includes interests in businesses, subsidiaries and associates and joint ventures for which their carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use, and subsidiaries held exclusively with a view to sale or distribute. These assets and disposal groups are classified as held for sale when it is highly probable that the asset will be sold or distributed within 12 months subsequent to being classified as such. Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale.

Non-current assets and assets of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets are not depreciated.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell, limited by the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

#### **(xiv) 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 a 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.

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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 1

### Summary of significant accounting policies continued

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 the 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 the recoverable amount since the impairment loss was recognised.

#### (xv) 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 Bank 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 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*. 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* 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.

#### (xvi) 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:

Buildings	2.5 to 3.3 percent
Furniture, fittings and leasehold improvements <sup>(1)</sup>	10 to 20 percent
Equipment	33 to 50 percent
Infrastructure assets	5 to 20 percent
Aviation	2 to 4 percent
Meters	5 to 10 percent
Rail cars	2 to 3 percent
Other operating lease assets	2 to 50 percent

<sup>(1)</sup> 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.

#### (xvii) Goodwill and other identifiable intangible assets

##### Goodwill

Goodwill represents the excess of the consideration over the Consolidated Entity's share of the fair value 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 generally carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

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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 over the period over which the customer relationship is expected to exist.

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 to seven 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.

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 cash flows at a risk-adjusted interest rate appropriate to the cash generating unit to which the goodwill applies. The determination of both cash flows and discount rates require the exercise of judgement. The calculations use cash flow estimations based on financial budgets and forecasts reviewed by management. These cash flows 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.

#### (xviii) 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.

#### (xix) 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 Bank 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 Bank 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 2015

### continued

## Note 1

### Summary of significant accounting policies continued

#### (xx) Performance based remuneration

##### Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (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 33 – Employee equity participation. The Consolidated Entity recognises an expense (and equity reserve) for its awards granted to employees. The awards 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 over the respective vesting periods.

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

##### Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash.

#### (xxi) Cash and cash equivalents

Cash and cash equivalents comprise:

- cash and short term amounts included in receivables from financial institutions and loan assets at amortised cost, and
- certain trading portfolio assets and debt securities with original contractual maturity of three months or less.

#### (xxii) Leases

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are operating 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 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.

#### (xxiii) 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 amounts and either there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

#### (xxiv) Loan capital

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

#### (xxv) 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.

#### (xxvi) 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.

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.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity.

#### (xxvii) Discontinued operations

A discontinued operation is a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations are presented separately on the face of the income statements.

#### (xxviii) Comparatives

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

#### (xxix) Rounding of amounts

In accordance with ASIC Class Order 98/100 (as amended), amounts in the full Directors' Report and Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 2

### Profit for the financial year

#### Net interest income

Interest and similar income received/receivable	<b>4,641</b>	4,320	<b>3,555</b>	3,358
Interest expense and similar charges paid/payable	<b>(2,630)</b>	(2,601)	<b>(2,329)</b>	(2,273)
Net interest income	<b>2,011</b>	1,719	<b>1,226</b>	1,085

#### Fee and commission income

Base fees	<b>39</b>	47	<b>7</b>	10
Mergers and acquisitions, advisory and underwriting fees	<b>43</b>	39	<b>16</b>	22
Brokerage and commissions	<b>408</b>	465	<b>268</b>	262
Other fee and commission income/(expense)	<b>404</b>	227	<b>23</b>	(48)
Total fee and commission income	<b>894</b>	778	<b>314</b>	246

#### Net trading income<sup>(1)</sup>

Equities	<b>393</b>	351	<b>282</b>	256
Commodities <sup>(2)</sup>	<b>1,028</b>	1,072	<b>432</b>	380
Credit, interest rates and foreign exchange products	<b>439</b>	185	<b>1,298</b>	772
Net trading income	<b>1,860</b>	1,608	<b>2,012</b>	1,408

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

<b>(17)</b>	18	<b>-</b>	-
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(1) Included in net trading income are fair value losses of \$23 million (2014: \$157 million gains) 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.

(2) Net of transportation costs \$247 million (2014: \$87 million).

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Note 2</b>				
<b>Profit for the financial year continued</b>				
<b>Other operating income and charges</b>				
Net gains on sale of investment securities available for sale	33	159	31	83
Impairment charge on investment securities available for sale	(54)	(84)	(27)	(81)
Net gains on sale of associates and joint ventures	38	9	13	59
Impairment charge on interest in associates and joint ventures	(20)	(22)	(4)	(6)
Impairment charge on subsidiaries	–	–	(75)	(93)
Gain on acquiring, disposing and change in ownership interest in subsidiaries	144	14	18	21
Impairment charge on intangibles and other non-financial assets	(72)	(26)	(11)	(2)
Gain on disposal of operating lease assets	231	2	2	2
Net operating lease income:				
Rental income	1,025	932	20	14
Depreciation on operating lease assets (Note 13)	(440)	(401)	(7)	(11)
Dividends/distributions received/receivable:				
Investment securities available for sale	27	27	6	17
Subsidiaries and associates	–	–	905	661
Management fees, group service charges and cost recoveries	–	–	381	454
Collective allowance for credit losses provided for during the financial year:				
Loan assets (Note 10)	(71)	(53)	(47)	(45)
Debt investment securities available for sale	(13)	(6)	(13)	(6)
Individually assessed provisions and write-offs:				
Loan assets provided for during the financial year (Note 10)	(278)	(106)	(296)	(134)
Other receivables provided for during the financial year	(18)	(16)	(13)	(3)
Recovery of loans previously provided for (Note 10)	27	11	23	53
Loans written off	(78)	(62)	(31)	(20)
Recovery of loans previously written off	24	17	11	6
Other income/(charges)	42	60	(7)	(23)
<b>Total other operating income and charges</b>	<b>547</b>	<b>455</b>	<b>879</b>	<b>946</b>
<b>Net operating income</b>	<b>5,295</b>	<b>4,578</b>	<b>4,431</b>	<b>3,685</b>

Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 2

### Profit for the financial year continued

#### Employment expenses

Salary and salary related costs including commissions, superannuation and performance-related profit share	(1,313)	(1,247)	(928)	(865)
Share-based payments	(148)	(103)	(101)	(63)
Provision for long service leave and annual leave	(5)	(1)	(3)	(1)
<b>Total compensation expenses</b>	<b>(1,466)</b>	<b>(1,351)</b>	<b>(1,032)</b>	<b>(929)</b>

#### Brokerage, commission and trading-related expenses

Brokerage and other trading-related expenses	(495)	(460)	(364)	(362)
Other fee and commission expenses	(106)	(105)	(86)	(85)
<b>Total brokerage, commission and trading-related expenses</b>	<b>(601)</b>	<b>(565)</b>	<b>(450)</b>	<b>(447)</b>

#### Occupancy expenses

Operating lease rentals	(10)	(35)	(1)	(21)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 13)	(15)	(8)	(10)	(1)
Other occupancy expenses	(95)	(81)	(82)	(65)
<b>Total occupancy expenses</b>	<b>(120)</b>	<b>(124)</b>	<b>(93)</b>	<b>(87)</b>

#### Non-salary technology expenses

Information services	(64)	(66)	(49)	(48)
Depreciation: equipment (Note 13)	(1)	(1)	-	-
Service provider and other non-salary technology expenses	(45)	(26)	(37)	(12)
<b>Total non-salary technology expenses</b>	<b>(110)</b>	<b>(93)</b>	<b>(86)</b>	<b>(60)</b>

#### Other operating expenses

Professional fees	(163)	(129)	(101)	(75)
Auditor's remuneration (Note 42)	(16)	(16)	(9)	(6)
Travel and entertainment expenses	(55)	(53)	(37)	(35)
Advertising and promotional expenses	(22)	(22)	(19)	(18)
Communication expenses	(13)	(13)	(8)	(7)
Amortisation of intangibles (Note 15)	(39)	(38)	(37)	(15)
Other expenses <sup>(1)</sup>	(1,172)	(1,000)	(919)	(780)
<b>Total other operating expenses</b>	<b>(1,480)</b>	<b>(1,271)</b>	<b>(1,130)</b>	<b>(936)</b>
<b>Total operating expenses</b>	<b>(3,777)</b>	<b>(3,404)</b>	<b>(2,791)</b>	<b>(2,459)</b>

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

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 3

### Segment reporting

#### (i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about Macquarie's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations is included in Note 44 – Discontinued Operations and Held for Sale Disposal Groups.

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

The operating groups comprise:

**Macquarie Asset Management (MAM)** provides clients with access to a diverse range of capabilities and products, including infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities.

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

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

**Macquarie Securities Group (MSG)** is a global institutional securities house with strong Asia-Pacific foundations covering sales, research, ECM, execution and derivatives activities.

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

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

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

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

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

#### Internal funding arrangements

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

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

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

#### Transactions between operating groups

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

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

#### Central support functions

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



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

Performance-related profit share and share based payments expense relating to the MEREP is recognised in the Corporate segment and not allocated to operating groups.

### **Income tax**

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

### **Presentation of segment income statements**

The income statements in the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of Macquarie's financial performance.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m
<b>Note 3</b>			
<b>Segment reporting</b> continued			
<b>(i) Operating segments</b> continued			
The following is an analysis of the Consolidated Entity's results by reportable segment for the financial year:			
Net interest and trading income	112	725	825
Fee and commission income/(expense)	84	34	528
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(1)	4	3
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	(4)	(152)	(36)
Other operating income and charges	28	978	17
Internal management (charge)/revenue	(1)	(4)	3
Net operating income	218	1,585	1,340
Total operating expenses	(121)	(477)	(1,060)
Profit/(loss) before tax	97	1,108	280
Tax expense			
Profit after income tax			
Profit attributable to non-controlling interests			
Profit/(loss) attributable to equity holders			
Distributions paid or provided for on MIS			
Net profit/(loss) attributable to ordinary equity holders			
Reportable segment assets	4,250	29,911	37,289
Net interest and trading income	86	648	739
Fee and commission income/(expense)	62	36	565
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(1)	2	2
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	1	(85)	(49)
Other operating income and charges	48	577	48
Internal management revenue/(charge)	4	13	5
Net operating income	200	1,191	1,310
Total operating expenses	(124)	(375)	(1,060)
Profit/(loss) before tax	76	816	250
Tax expense			
Profit after income tax			
Profit/(Loss) attributable to non-controlling interests			
Profit/(loss) attributable to equity holders			
Distributions paid or provided for on MIS			
Net profit/(loss) attributable to ordinary equity holders			
Reportable segment assets	6,365	26,370	29,611

Macquarie Securities Group \$m	Commodities and Financial Markets \$m	Corporate \$m	Total \$m
			Consolidated 2015
316	1,635	258	3,871
59	348	(159)	894
-	(1)	(22)	(17)
(3)	(334)	(24)	(553)
-	72	5	1,100
(4)	(10)	16	-
368	1,710	74	5,295
(367)	(942)	(810)	(3,777)
1	768	(736)	1,518
			(589)
			929
			(5)
			924
			(18)
			906
<b>25,041</b>	<b>68,691</b>	<b>7,398</b>	<b>172,580</b>
			Consolidated 2014
231	1,499	124	3,327
97	115	(97)	778
-	24	(9)	18
(6)	(207)	(1)	(347)
-	130	(1)	802
1	(7)	(16)	-
323	1,554	-	4,578
(305)	(911)	(630)	(3,404)
18	643	(630)	1,174
			(538)
			636
			(4)
			632
			(18)
			614
20,830	43,646	13,089	139,911

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 3

### Segment reporting continued

#### (ii) Products and services

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

**Asset and Wealth Management:** distribution and manufacture of funds management products

**Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products

**Capital Markets:** corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/ property development, and

**Lending:** banking activities, mortgages, and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
					Consolidated 2015
Revenues from external customers	709	3,044	105	5,527	9,385
					Consolidated 2014
Revenues from external customers	754	3,103	130	4,246	8,233

#### (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.

	Consolidated 2015 \$m	Consolidated 2014 \$m
<b>Revenue from external customers</b>		
Australia	4,329	4,752
Americas <sup>(1)</sup>	2,301	1,716
Europe, Middle East and Africa <sup>(2)</sup>	2,183	1,447
Asia Pacific	572	318
<b>Total</b>	<b>9,385</b>	<b>8,233</b>
<b>Non current assets<sup>(3)</sup></b>		
Australia	827	815
Americas	730	1,753
Europe, Middle East and Africa	5,905	4,736
Asia Pacific	232	279
<b>Total</b>	<b>7,694</b>	<b>7,583</b>

<sup>(1)</sup> Included within this balance is external revenue generated in the USA of \$2,062 million (2014: \$1,048 million).

<sup>(2)</sup> Included within this balance is external revenue generated in the UK of \$1,552 million (2014: \$920 million).

<sup>(3)</sup> 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.

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 4

### Income tax expense

#### (i) Income tax expense

Current tax expense	(917)	(366)	(328)	(114)
Deferred tax benefit/(expense)	231	(255)	143	(252)
<b>Total</b>	<b>(686)</b>	<b>(621)</b>	<b>(185)</b>	<b>(366)</b>

Income tax (expense)/benefit is attributable to:

Profit from continuing operations	(589)	(538)	(213)	(402)
Profit from discontinued operations	(97)	(83)	28	36
<b>Total</b>	<b>(686)</b>	<b>(621)</b>	<b>(185)</b>	<b>(366)</b>

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

Prima facie income tax expense on operating profit <sup>(1)</sup>	(541)	(419)	(474)	(335)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	(123)	(198)	(124)	(218)
Intra-group dividends	–	–	271	191
Impairment reversal on controlled entities	–	–	(15)	(26)
Other items	(22)	(4)	157	22
<b>Total income tax expense</b>	<b>(686)</b>	<b>(621)</b>	<b>(185)</b>	<b>(366)</b>

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

Available for sale reserve	(2)	(2)	(6)	7
Cash flow hedges	27	(10)	4	2
Foreign currency translation reserve	6	–	–	–
Share of other comprehensive income of associates and joint ventures	1	–	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>32</b>	<b>(12)</b>	<b>(2)</b>	<b>9</b>

#### (iv) Deferred tax expense represents movements in deferred tax assets/liabilities

Investments	(85)	(77)	(10)	(18)
Fixed assets	(46)	15	(55)	27
Leasing and financial instruments	15	(132)	(2)	(123)
Intangible assets	(6)	(15)	–	2
Other assets and liabilities	298	(17)	200	(101)
Tax Losses	55	(29)	10	(39)
<b>Total deferred tax benefit/(expense) represents movements in deferred tax assets/liabilities</b>	<b>231</b>	<b>(255)</b>	<b>143</b>	<b>(252)</b>

<sup>(1)</sup> Prima facie income tax on operating profit is calculated at the rate of 30 percent (2014: 30 percent).

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

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

The audit by the Australian Taxation Office (ATO) has concluded and all outstanding matters have been resolved. Macquarie continues to be part of the Pre-lodgment Compliance Review process, whereby the ATO undertakes a review prior to the lodgement of Macquarie's tax returns.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 5

### Dividends and distributions paid or provided for

#### (i) Dividends paid

##### Ordinary share capital

2014 final dividend paid	159	130	159	130
2015 interim dividend paid	494	280	494	280
<b>Total dividends paid (Note 29)</b>	<b>653</b>	<b>410</b>	<b>653</b>	<b>410</b>

#### (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 27 May 2015 from retained profits at 31 March 2015, but not recognised as a liability at the end of the financial year, is \$440 million (2014: \$159 million).

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

##### Macquarie Income Securities

Distributions paid (net of distributions previously provided)	14	14	–	–
Distributions provided for	4	4	–	–
<b>Total distributions paid or provided for (Note 29)</b>	<b>18</b>	<b>18</b>	<b>–</b>	<b>–</b>

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 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 28 – Contributed equity for further details on these instruments.

##### Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided)	3	2	–	–
Distributions provided for	2	2	–	–
<b>Total distributions paid or provided for</b>	<b>5</b>	<b>4</b>	<b>–</b>	<b>–</b>

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 29 – 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.

##### Convertible Debentures

Distributions paid (net of distributions previously provided)	–	–	3	2
Distributions provided for	–	–	2	2
<b>Total distributions paid or provided for (Note 29)</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>4</b>

	<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 6

### Receivables from financial institutions

Cash and other receivables <sup>(1)</sup>	<b>8,686</b>	6,922	<b>6,917</b>	5,583
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(2)</sup>	<b>17,295</b>	9,229	<b>17,217</b>	9,195
<b>Total receivables from financial institutions</b>	<b>25,981</b>	16,151	<b>24,134</b>	14,778

(1) Included within this balance is \$60 million (2014: \$60 million) provided as security over payables.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2015 is \$19,299 million (2014: \$10,228 million).

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

### Trading portfolio assets

Equities				
Listed	<b>14,805</b>	7,950	<b>10,814</b>	7,410
Unlisted	<b>63</b>	33	<b>53</b>	28
Commodities	<b>6,035</b>	4,506	<b>4,984</b>	3,750
Commonwealth government securities	<b>4,199</b>	5,707	<b>4,199</b>	5,707
Corporate loans and securities	<b>2,335</b>	1,448	<b>1,248</b>	1,058
Foreign government securities	<b>1,377</b>	1,756	<b>1,142</b>	1,356
Treasury notes	<b>1,133</b>	173	<b>443</b>	155
Other <sup>(1)</sup>	<b>92</b>	67	<b>34</b>	8
<b>Total trading portfolio assets<sup>(2),(3)</sup></b>	<b>30,039</b>	21,640	<b>22,917</b>	19,472

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

(2) Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is \$875 million (2014: \$538 million).

(3) Included within this balance are trading assets of \$5,713 million (2014: \$7,155 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 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Note 8</b>				
<b>Investment securities available for sale</b>				
Equity securities				
Listed	85	123	80	120
Unlisted	245	275	76	62
Debt securities <sup>(1),(2)</sup>	6,015	11,784	5,250	11,014
<b>Total investment securities available for sale<sup>(3)</sup></b>	<b>6,345</b>	<b>12,182</b>	<b>5,406</b>	<b>11,196</b>

(1) Included within this balance is \$1,206 million (2014: \$3,909 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and \$nil million (2014: \$100 million) of bank bills.

(2) Included within this balance is \$941 million (2014: \$1,161 million) provided as security over payables to other financial institutions.

(3) Included within this balance is \$411 million (2014: \$582 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, \$1,565 million (2014: \$5,636 million) is expected to be recovered by the Consolidated Entity and \$1,562 million (2014: \$5,532 million) is expected to be recovered by the Bank within 12 months of the balance date.

## Note 9

### Other assets

Debtors and prepayments	3,730	3,987	2,439	2,418
Security settlements <sup>(1)</sup>	2,483	2,436	2,333	2,291
Life investment contracts and other unitholder assets	1,061	1,115	-	-
Property held for sale and development	249	175	-	-
Income tax receivable	186	437	8	315
Other	109	152	8	11
<b>Total other assets<sup>(2)</sup></b>	<b>7,818</b>	<b>8,302</b>	<b>4,788</b>	<b>5,035</b>

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

(2) Included within this balance is \$126 million (2014: \$50 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, \$7,460 million (2014: \$7,975 million) and \$4,780 million (2014: \$5,024 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and by the Bank.



## Note 10

### Loan assets held at amortised cost

	Consolidated 2015			Consolidated 2014		
	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m
Residential mortgage loans	29,432	(14)	29,418	23,107	(13)	23,094
Corporate and commercial lending	18,700	(456)	18,244	15,865	(206)	15,659
Lease and retail financing	11,418	(56)	11,362	10,922	(72)	10,850
Margin money placed	8,830	–	8,830	4,800	–	4,800
Relationship banking mortgages	2,064	–	2,064	1,613	–	1,613
Investment and insurance premium lending	1,656	(5)	1,651	1,427	(9)	1,418
<b>Total loan assets before collective allowance for credit losses</b>	<b>72,100</b>	<b>(531)</b>	<b>71,569</b>	<b>57,734</b>	<b>(300)</b>	<b>57,434</b>
Less collective allowance for credit losses			(363)			(264)
<b>Total loan assets held at amortised cost<sup>(1),(2),(3)</sup></b>			<b>71,206</b>			<b>57,170</b>

(1) Included within this balance are loans of \$17,207 million (2014: \$14,025 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Included within this balance are other loans of \$2,235 million (2014: \$3,145 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Included within this balance are loans of \$1,854 million (2014: \$3,853 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of \$938 million (2014: \$720 million) are pledged under repurchase agreements.

Of the above amounts, \$22,553 million (2014: \$16,847 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	Bank 2015			Bank 2014		
	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m
Residential mortgage loans	22,549	(1)	22,548	13,845	(3)	13,842
Corporate and commercial lending	15,926	(433)	15,493	14,582	(192)	14,390
Lease and retail financing	1,159	(43)	1,116	926	(52)	874
Margin money placed	6,257	–	6,257	2,827	–	2,827
Relationship banking mortgages	2,064	–	2,064	1,613	–	1,613
Investment and insurance premium lending	592	(84)	508	1,675	(42)	1,633
<b>Total loan assets before collective allowance for credit losses</b>	<b>48,547</b>	<b>(561)</b>	<b>47,986</b>	<b>35,468</b>	<b>(289)</b>	<b>35,179</b>
Less collective allowance for credit losses			(275)			(201)
<b>Total loan assets held at amortised cost</b>			<b>47,711</b>			<b>34,978</b>

Of the above amounts, \$15,653 million (2014: \$10,587 million) is expected to be recovered within 12 months of the balance date by the Bank.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 10

### Loan assets held at amortised cost continued

#### Individually assessed provisions for impairment

Balance at the beginning of the financial year	300	277	289	242
Provided for during the financial year (Note 2)	278	106	296	134
Loan assets written off, previously provided for	(59)	(100)	(43)	(50)
Recovery of loans previously provided for (Note 2)	(27)	(11)	(23)	(53)
Net transfer from other provisions	(2)	10	(3)	3
Impact of foreign currency translation	41	18	45	13
<b>Balance at the end of the financial year</b>	<b>531</b>	<b>300</b>	<b>561</b>	<b>289</b>

#### Individually assessed provisions as a percentage of total gross loan assets

0.74%	0.52%	1.16%	0.81%
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#### Collective allowance for credit losses

Balance at the beginning of the financial year	264	205	201	151
Provided for during the period (Note 2)	71	53	47	45
Acquisitions during the period	14	–	14	–
Net transfer (to)/from other provisions	–	1	2	–
Impact of foreign currency translation	14	5	11	5
<b>Balance at the end of the financial year</b>	<b>363</b>	<b>264</b>	<b>275</b>	<b>201</b>

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

#### Finance lease receivables

Finance lease receivables are included within loan assets held at amortised cost. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment.

	Consolidated 2015			Consolidated 2014		
	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
No later than one year	1,963	(206)	1,757	1,733	(212)	1,521
Later than one year and no later than five years	3,742	(405)	3,337	4,435	(525)	3,910
Later than five years	241	(73)	168	269	(79)	190
<b>Total finance lease receivables</b>	<b>5,946</b>	<b>(684)</b>	<b>5,262</b>	<b>6,437</b>	<b>(816)</b>	<b>5,621</b>

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 11

### Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment	3	7	-	3
Less individually assessed provisions for impairment	(3)	(6)	-	(3)
Debt investment securities available for sale after individually assessed provisions for impairment	-	1	-	-
Impaired loan assets and other financial assets before individually assessed provisions for impairment	1,190	720	1,353	851
Less individually assessed provisions for impairment	(577)	(334)	(591)	(307)
Loan assets and other financial assets after individually assessed provisions for impairment	613	386	762	544
<b>Total net impaired financial assets</b>	<b>613</b>	<b>387</b>	<b>762</b>	<b>544</b>

## Note 12

### Other financial assets at fair value through profit or loss

Investment securities				
Equity securities	828	1,222	783	1,136
Debt securities	203	325	203	325
Loan assets	292	648	289	633
<b>Total other financial assets at fair value through profit or loss<sup>(1)</sup></b>	<b>1,323</b>	<b>2,195</b>	<b>1,275</b>	<b>2,094</b>

<sup>(1)</sup> Included within this balance is \$413 million (2014: \$655 million) provided as security over payables to other financial institutions.

Of the above amounts, \$326 million (2014: \$760 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$325 million (2014: \$774 million) by the Bank.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Note 13</b>				
<b>Property, plant and equipment</b>				
<b>Assets for own use</b>				
<b>Land and buildings</b>				
Cost	99	285	72	259
Less accumulated depreciation	(11)	(7)	–	–
Total land and building	88	278	72	259
<b>Furniture, fittings and leasehold improvements</b>				
Cost	96	81	11	20
Less accumulated depreciation	(43)	(41)	(10)	(13)
Total furniture, fittings and leasehold improvements	53	40	1	7
<b>Equipment</b>				
Cost	16	18	4	4
Less accumulated depreciation	(13)	(16)	(3)	(3)
Total equipment	3	2	1	1
<b>Infrastructure assets</b>				
Cost	1	2	–	–
Less accumulated depreciation	(1)	(1)	–	–
Total infrastructure assets	–	1	–	–
<b>Total assets for own use</b>	<b>144</b>	<b>321</b>	<b>74</b>	<b>267</b>
<b>Assets under operating lease</b>				
<b>Aviation</b>				
Cost	5,473	4,062	–	–
Less accumulated depreciation	(947)	(618)	–	–
Total aviation	4,526	3,444	–	–
<b>Meters</b>				
Cost	1,200	1,036	–	–
Less accumulated depreciation	(423)	(252)	–	–
Total meters	777	784	–	–
<b>Rail cars</b>				
Cost	808	1,282	–	–
Less accumulated depreciation	(64)	(95)	–	–
Total rail cars	744	1,187	–	–
<b>Other</b>				
Cost	686	429	345	79
Less accumulated depreciation	(134)	(120)	(29)	(18)
Total other	552	309	316	61
<b>Total assets under operating lease</b>	<b>6,599</b>	<b>5,724</b>	<b>316</b>	<b>61</b>
<b>Total property, plant and equipment</b>	<b>6,743</b>	<b>6,045</b>	<b>390</b>	<b>328</b>

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.

## Note 13

### Property, plant and equipment continued

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

Assets for own use	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
Balance at 1 April 2013	174	37	2	5	218
Acquisitions	101	17	2	–	120
Disposals	–	(7)	–	–	(7)
Reclassification	6	(2)	–	(4)	–
Impairments	(2)	–	–	–	(2)
Foreign exchange movements	1	2	–	–	3
Depreciation expense (Note 2)	(2)	(7)	(2)	–	(9)
<b>Balance at 31 March 2014</b>	<b>278</b>	<b>40</b>	<b>2</b>	<b>1</b>	<b>321</b>
Acquisitions	–	31	3	–	34
Disposals	–	–	–	(2)	(2)
Reclassification <sup>(1)</sup>	(188)	(8)	(1)	–	(197)
Impairments	–	–	–	1	1
Foreign exchange movements	2	1	–	–	3
Depreciation expense from continuing operations (Note 2)	(4)	(11)	(1)	–	(16)
Depreciation expense from discontinued operations	–	–	–	–	–
<b>Balance at 31 March 2015</b>	<b>88</b>	<b>53</b>	<b>3</b>	<b>–</b>	<b>144</b>

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.

<sup>(1)</sup> Includes reclassification of operating lease to finance lease as a result of lease re-negotiations.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 13

### Property, plant and equipment continued

Assets under operating lease	Aviation \$m	Meters \$m	Rail cars \$m	Other \$m	Total \$m
Balance at 1 April 2013	3,146	660	1,058	270	5,134
Acquisitions	110	176	1	91	378
Disposals	(5)	(1)	(20)	(14)	(40)
Reclassification	(3)	(104)	–	5	(102)
Foreign exchange movements	389	148	192	26	755
Depreciation expense (Note 2)	(193)	(95)	(44)	(69)	(401)
<b>Balance at 31 March 2014</b>	<b>3,444</b>	<b>784</b>	<b>1,187</b>	<b>309</b>	<b>5,724</b>
Acquisitions	633	104	3	223	963
Disposals	(48)	–	(476)	(40)	(564)
Reclassification	(46)	(67)	–	107	(6)
Impairments	(24)	–	–	–	(24)
Foreign exchange movements	772	63	71	40	946
Depreciation expense from continuing operations (Note 2)	(205)	(107)	(41)	(87)	(440)
<b>Balance at 31 March 2015</b>	<b>4,526</b>	<b>777</b>	<b>744</b>	<b>552</b>	<b>6,599</b>

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 \$323 million (2014: \$442 million).

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

Assets under operating lease	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
Not later than one year	749	597	26	7
Later than one year and no later than five years	1,463	1,145	103	18
Later than five years	354	138	147	–
<b>Total future minimum lease payments receivable</b>	<b>2,566</b>	<b>1,880</b>	<b>276</b>	<b>25</b>

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 14

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

Loans and investments without provisions for impairment	366	470	63	75
Loans and investments with provisions for impairment	193	186	62	98
Less provision for impairment	(88)	(105)	(57)	(63)
Loans and investments at recoverable amount	105	81	5	35
<b>Total interests in associates and joint ventures accounted for using the equity method<sup>(1)</sup></b>	<b>471</b>	<b>551</b>	<b>68</b>	<b>110</b>

<sup>(1)</sup> Included within this balance is \$458 million (2014: \$506 million) relating to interests in associates and \$13 million (2014: \$45 million) relating to interests in joint ventures in Consolidated Entity. Included within this balance is \$67 million (2014: \$109 million) relating to interests in associates and \$1 million (2014: \$1 million) relating to interests in joint ventures. All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

#### (i) Financial information of interests in associates and joint ventures that are not individually material is as follows:

Consolidated Entity's share of:

Profit or loss from continuing operations	(17)	6	-	-
Post-tax profit or loss from discontinued operations	27	8	-	-
Other comprehensive income	-	1	-	-
Total comprehensive income	10	15	-	-

#### (ii) Contingent liabilities of associates and joint ventures are as follows:

Share incurred jointly with other investors	-	17	-	-
For which the Consolidated Entity is severally liable	-	9	-	-

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
Goodwill	72	318	–	–
Intangible assets with indefinite lives	22	242	–	–
Customer and servicing contracts	2	90	–	–
Other identifiable intangible assets	133	135	123	57
<b>Total intangible assets</b>	<b>229</b>	<b>785</b>	<b>123</b>	<b>57</b>

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	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance at 1 April 2013	308	222	94	171	795
Acquisitions	20	–	–	39	59
Reclassifications during the financial year	2	–	2	(4)	–
Adjustments to purchase consideration	–	–	–	4	4
Disposals	(49)	(4)	–	(31)	(84)
Impairment	–	–	–	(20)	(20)
Amortisation expense from continuing operations (Note 2)	–	–	(6)	(32)	(38)
Amortisation expense from discontinued operations	–	–	(14)	(2)	(16)
Currency translation difference	37	24	14	10	85
<b>Balance at 31 March 2014</b>	<b>318</b>	<b>242</b>	<b>90</b>	<b>135</b>	<b>785</b>
Acquisitions	–	–	–	101	101
Reclassifications during the financial year	9	–	(9)	–	–
Transfer to assets of disposals group classified as held for sale	(204)	(271)	(59)	(17)	(551)
Disposals	(68)	–	(9)	(38)	(115)
Impairment	(40)	–	(10)	(10)	(60)
Amortisation expense from continuing operations (Note 2)	–	–	(3)	(36)	(39)
Amortisation expense from discontinued operations	–	–	(14)	(3)	(17)
Currency translation difference	57	51	16	1	125
<b>Balance at 31 March 2015</b>	<b>72</b>	<b>22</b>	<b>2</b>	<b>133</b>	<b>229</b>



Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 16

### Investments in subsidiaries

Investments at cost without provisions for impairment	–	–	<b>3,086</b>	3,990
Investments at cost with provisions for impairment	–	–	<b>1,168</b>	1,174
Less provisions for impairment	–	–	<b>(583)</b>	(576)
Investments at recoverable amount	–	–	<b>585</b>	598
<b>Total investments in subsidiaries</b>	<b>–</b>	<b>–</b>	<b>3,671</b>	<b>4,588</b>

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 Investment Advisers (United States)
- Delaware Investments Advisers Partner, Inc. (United States)
- Delaware Investments Management Company, LLC (United States)
- Delaware Management Company (United States)
- Delaware Management Holdings, Inc. (United States)
- Macquarie Aerospace Limited (Ireland)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Aircraft Leasing Limited (Ireland)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie Americas Holdings Pty Ltd (Australia)
- Macquarie Australia Pty Limited (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie BFS Holdings Ltd. (Canada)
- Macquarie CAF Holdings Inc. (United States)
- Macquarie Corporate and Asset Finance Limited (Australia)
- Macquarie Energy LLC (United States)
- Macquarie FG Holdings Inc. (United States)
- Macquarie FICC (UK) Limited (United Kingdom)
- Macquarie FICC Holdings USA Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Ltd./Financiere Macquarie Ltee. (Canada)
- Macquarie Financial Markets LLC (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Funding Holdings LLC (United States)
- Macquarie Funds Management Holdings Pty Limited (Australia)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Investments 2 Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Prism Pty Limited (Australia)
- Macquarie Rail Inc. (United States)
- Macquarie Real Estate Inc (United States)
- Macquarie Services (USA) LLC (United States)
- Macquarie TCG (USA) LLC (United States)
- Utility Metering Services Limited (United Kingdom).

Note: The country of incorporation has been stated in brackets next to the name of the entity, unless otherwise stated.

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

Beneficial interest in all material entities is 100 percent.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 17

### 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 (the deed) under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered the deed and on 22 March 2010 Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. On 31 March 2014, Macquarie NZ Holdings Pty Ltd, Macquarie Mortgages Canada Holdings Pty Limited and Macquarie Leasing NSW Pty Limited entered the deed. The wholly owned entities that have entered in the deed are extended licence entities, do not have any external debts and 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 MBL they also represent the 'Extended Closed Group'.

### Consolidated income statement of the Closed Group for the financial year ended 31 March 2015

	2015 \$m	2014 \$m
Interest and similar income	3,751	3,510
Interest expense and similar charges	(2,400)	(2,311)
Net interest income	1,351	1,199
Fee and commission income	318	272
Net trading income	1,994	1,411
Share of net profits of associates and joint ventures accounted for using the equity method	–	5
Other operating income and charges	998	905
Net operating income	4,661	3,792
Employment expenses	(1,032)	(929)
Brokerage, commission and trading-related expenses	(450)	(445)
Occupancy expenses	(92)	(87)
Non-salary technology expenses	(86)	(75)
Other operating expenses	(1,058)	(834)
Total operating expenses	(2,718)	(2,370)
Operating profit before income tax	1,943	1,422
Income tax expense	(249)	(442)
<b>Profit from ordinary activities after income tax</b>	<b>1,694</b>	<b>980</b>
<b>Loss from discontinued operations (net of income tax)</b>	<b>(32)</b>	<b>(73)</b>
<b>Profit from ordinary and discontinued operations attributable to equity holders of the Closed Group</b>	<b>1,662</b>	<b>907</b>
<b>Summary of movements in consolidated retained earnings</b>		
Retained earnings at the beginning of the financial year	868	375
Profit attributable to equity holder of the Closed Group	1,662	907
Dividends paid or provided	(653)	(414)
<b>Retained earnings at the end of the financial year</b>	<b>1,877</b>	<b>868</b>

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## Note 17

### Deed of cross guarantee continued

#### Consolidated statement of financial position of the Closed Group as at 31 March 2015

	2015 \$m	2014 \$m
<b>Assets</b>		
Receivables from financial institutions	24,134	15,515
Trading portfolio assets	22,917	19,473
Derivative assets	17,437	11,591
Investment securities available for sale	5,406	11,196
Other assets	4,793	5,045
Loan assets held at amortised cost	49,003	33,749
Other financial assets at fair value through profit or loss	1,275	2,094
Due from related body corporate entities	2,327	2,030
Due from subsidiaries	36,210	26,510
Property, plant and equipment	390	328
Interests in associates and joint ventures accounted for using the equity method	69	146
Intangible assets	123	57
Investments in subsidiaries	3,682	4,873
Deferred tax assets	213	–
Assets of disposals group classified as held for sale	187	–
<b>Total assets</b>	<b>168,166</b>	<b>132,607</b>
<b>Liabilities</b>		
Trading portfolio liabilities	4,803	2,344
Derivative liabilities	16,736	11,498
Deposits	46,356	38,979
Other liabilities	5,837	5,274
Payables to financial institutions	14,655	19,001
Other financial liabilities at fair value through profit or loss	2,297	1,959
Due to related body corporate entities	8,543	6,833
Due to subsidiaries	19,205	14,652
Debt issued at amortised cost	35,149	20,508
Provisions	63	60
Deferred tax liabilities	121	7
Liabilities of disposals group classified as held for sale	175	–
<b>Total liabilities excluding loan capital</b>	<b>153,940</b>	<b>121,115</b>
<b>Loan capital</b>		
Subordinated debt at amortised cost	3,240	2,464
<b>Total loan capital</b>	<b>3,240</b>	<b>2,464</b>
<b>Total liabilities</b>	<b>157,180</b>	<b>123,579</b>
<b>Net assets</b>	<b>10,986</b>	<b>9,028</b>
<b>Equity</b>		
Contributed equity	9,105	8,157
Reserves	4	3
Retained earnings	1,877	868
<b>Total equity</b>	<b>10,986</b>	<b>9,028</b>

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 18

### Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

Tax losses	348	298	38	28
Fixed assets	20	72	26	81
Intangible assets	4	(120)	2	2
Other assets and liabilities	510	297	268	110
Set-off of deferred tax liabilities	(644)	(369)	(126)	(131)
<b>Total deferred tax assets</b>	<b>238</b>	<b>178</b>	<b>208</b>	<b>90</b>
Leasing and financial instruments	(796)	(838)	(182)	(184)
Other assets and liabilities	(147)	(154)	(80)	(129)
Investments	(79)	(2)	40	50
Set-off of deferred tax assets	644	369	126	131
<b>Total deferred tax liabilities</b>	<b>(378)</b>	<b>(625)</b>	<b>(96)</b>	<b>(132)</b>
<b>Net deferred tax liabilities</b>	<b>(140)</b>	<b>(447)</b>	<b>112</b>	<b>(42)</b>

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 \$36 million (2014: \$21 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 within the same tax paying entity or group.

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 19

### Trading portfolio liabilities

Listed equity securities	4,469	1,849	4,469	1,849
Foreign government securities	336	363	219	363
Commodities	125	115	–	–
Corporate securities	115	132	115	132
<b>Total trading portfolio liabilities</b>	<b>5,045</b>	<b>2,459</b>	<b>4,803</b>	<b>2,344</b>

## Note 20

### Deposits

Interest bearing deposits				
Call	30,308	26,210	30,303	26,208
Term	8,099	9,410	8,099	9,410
Client monies, segregated fund and margin money held	7,722	5,524	6,757	4,848
Non-interest bearing deposits	1,204	1,158	1,197	1,158
<b>Total deposits</b>	<b>47,333</b>	<b>42,302</b>	<b>46,356</b>	<b>41,624</b>

## Note 21

### Other liabilities

Creditors	4,212	3,985	2,824	2,471
Due to brokers and customers	2,550	2,504	2,401	2,355
Life investment contracts and other unitholder liabilities	1,004	1,084	–	–
Accrued charges and sundry provisions	831	855	487	422
Income tax payable	497	37	96	4
Other	85	56	33	25
<b>Total other liabilities</b>	<b>9,179</b>	<b>8,521</b>	<b>5,841</b>	<b>5,277</b>

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 22

### Payables to financial institutions

Cash collateral on securities lent and repurchase agreements	11,374	12,247	12,012	13,304
OECD banks	2,070	2,434	1,428	1,725
Other	1,430	1,892	1,215	1,333
<b>Total payables to financial institutions</b>	<b>14,874</b>	<b>16,573</b>	<b>14,655</b>	<b>16,362</b>

## Note 23

### Other financial liabilities at fair value through profit or loss

Credit linked notes	1,064	297	1,064	297
Equity linked notes	173	640	1,233	1,662
<b>Total other financial liabilities at fair value through profit or loss</b>	<b>1,237</b>	<b>937</b>	<b>2,297</b>	<b>1,959</b>

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 24

### Debt issued at amortised cost

Debt issued at amortised cost <sup>(1)</sup>	53,033	37,255	35,149	20,508
<b>Total debt issued at amortised cost</b>	<b>53,033</b>	<b>37,255</b>	<b>35,149</b>	<b>20,508</b>

(1) Included within this balance are amounts payable to SPE note holders of \$15,952 million (2014: \$12,732 million).

The Consolidated Entity and the Bank 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):

United States dollars	26,315	16,326	23,686	13,053
Australian dollars	15,183	11,991	3,356	3,763
Euro	4,073	1,691	3,723	1,523
Great British pounds	3,519	1,090	3,482	1,012
Canadian dollars	1,949	3,932	–	20
Swiss franc	1,717	1,138	1,715	1,137
Japanese yen	797	1,503	797	1,503
Hong Kong dollars	205	174	205	174
Norwegian Krone	162	–	162	–
Yuan Renminbi	140	–	140	–
Korean won	124	207	124	177
Others	86	140	56	105
<b>Total by currency</b>	<b>54,270</b>	<b>38,192</b>	<b>37,446</b>	<b>22,467</b>

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.

## Note 25

### Provisions

Provision for annual leave	39	45	26	26
Provision for long service leave	35	32	35	32
Provision for other employee entitlements	3	3	–	–
Provision for dividends	6	6	2	2
<b>Total provisions</b>	<b>83</b>	<b>86</b>	<b>63</b>	<b>60</b>

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

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## Note 26

### 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 has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify MGL's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of MGL's risk profile. The economic capital model is used to support business decision-making and has three main applications:

- capital adequacy assessment
- risk appetite setting, and
- risk-adjusted performance measurement.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. APRA requires the Banking Group to have an Internal Capital Adequacy Assessment Process (ICAAP) that is Board approved and which meets a range of minimum requirements. The Banking Group reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

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 mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations.

APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of capital to risk weighted assets of 8 percent at both Level 1 and Level 2, with at least 6 percent of this capital in the form of Tier 1 capital and at least 4.5 percent of this minimum capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

The Banking Group's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments include Macquarie Income Securities, Macquarie Income Preferred Securities, Exchangeable Capital Securities, and Macquarie Bank Capital Notes. Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Banking Group's Tier 2 capital includes term subordinated debt, certain reserves and deductions.

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

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 27

### 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. Details of selected capital instruments are discussed below:

#### Exchangeable Capital Securities

On 26 March 2012, the Bank, acting through its London Branch (MBL London) issued \$US250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25 percent 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. If interest is not paid on the ECS, 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 ordinary shares of MGL 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 percent 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's ordinary shares will be issued at a 5 percent discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that 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 2015 would be 4,546,959 (31 March 2014: 5,067,970). 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 2015, the remaining principal liability related to the ECS was \$US250 million (31 March 2014: \$US250 million).

#### Macquarie Bank Capital Notes

On 8 October 2014, the Bank, issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Bank, subject to APRA's written approval.

BCN may also be exchanged into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or the Bank) or where APRA determines Macquarie Bank Limited would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, BCN holders will receive MGL ordinary shares worth up to approximately \$101 per BCN held. The total number of MGL ordinary shares that would be issued if BCN were exchanged at 31 March 2015 would be 5,704,369. The maximum number of MGL ordinary shares that can be issued on an exchange is 37,056,481.

The BCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 3.30 percent per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the BCN, the Bank will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.



<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 27

### Loan capital continued

#### Maturity and currency profiles of loan capital instruments

The dates upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:

Less than 12 months	<b>78</b>	69	<b>78</b>	69
21 September 2020	<b>953</b>	968	<b>953</b>	968
7 April 2021	<b>1,461</b>	1,160	<b>1,461</b>	1,160
<b>Subordinated debt</b>	<b>2,492</b>	2,197	<b>2,492</b>	2,197
Instrument with a conditional repayment obligation:				
BCN	<b>430</b>	–	<b>430</b>	–
ECS	<b>329</b>	270	<b>329</b>	270
Loan capital	<b>3,251</b>	2,467	<b>3,251</b>	2,467
Less directly attributable issue cost	<b>(11)</b>	(3)	<b>(11)</b>	(3)
<b>Total loan capital<sup>(1)</sup></b>	<b>3,240</b>	2,464	<b>3,240</b>	2,464

#### Reconciliation of loan capital by major currency: *(In Australian dollar equivalent)*

United States dollars	<b>1,842</b>	1,471	<b>1,842</b>	1,471
Euro	<b>979</b>	996	<b>979</b>	996
Australian dollars	<b>430</b>	–	<b>430</b>	–
Loan capital	<b>3,251</b>	2,467	<b>3,251</b>	2,467
Less directly attributable issue cost	<b>(11)</b>	(3)	<b>(11)</b>	(3)
<b>Total loan capital by currency<sup>(1)</sup></b>	<b>3,240</b>	2,464	<b>3,240</b>	2,464

<sup>(1)</sup> The balance is net of fair value hedge accounting adjustments.

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

In accordance with APRA guidelines, the Consolidated Entity includes the applicable portion of the subordinated debt as Tier 2 capital and the ECS as Additional Tier 1 capital.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated and Bank		Consolidated and Bank	
	2015 Number of shares	2014 Number of shares	2015 \$m	2014 \$m
<b>Ordinary share capital</b>				
Opening balance of fully paid ordinary shares	501,561,948	501,561,948	7,578	7,578
Issue of shares to Macquarie B.H. Pty Ltd on 17 December 2014 at \$18.81 per share	23,923,445	–	450	–
Issue of shares to Macquarie B.H. Pty Ltd on 25 March 2015 at \$18.81 per share	26,581,606	–	500	–
<b>Closing balance of fully paid ordinary shares</b>	<b>552,066,999</b>	501,561,948	<b>8,528</b>	7,578

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Equity contribution from ultimate parent entity</b>				
Balance at the beginning of the financial year	132	108	81	76
Additional paid up capital	31	24	(2)	5
<b>Balance at the end of the financial year</b>	<b>163</b>	132	<b>79</b>	81

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 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. For the year ended 31 March 2015, MEREP related compensation expense and its related tax effects treated as additional paid up capital totalled \$29,733,470 (2014: \$24,206,958) in the Consolidated Entity. For the year ended 31 March 2015, reversal of MEREP related compensation expense for not meeting the performance hurdles and its related tax effects treated as return of capital in the Bank totalled \$2,879,775 (expense booked in 2014: \$4,966,205). For further information regarding the terms and conditions of MEREP refer to Note 33 – 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 2015, reversal of MGESOP related compensation expense for not meeting the performance hurdles, treated as return of capital, totalled \$333,800 in the Consolidated Entity. There was no MGESOP expense booked in the standalone entity for the year ended 31 March 2015. For the year ended 31 March 2014, MGESOP related compensation expense treated as additional paid up capital totalled \$315,316 in the Consolidated Entity and \$2,557 in the Bank. 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, related compensation expense treated as additional paid up capital in the Consolidated Entity totalled \$541,491 (2014: \$528,865) and in the Bank \$541,491 (2014: \$527,900). Details of the MGESOP, MGSSAP and ESP are disclosed in Note 33 – Employee equity participation.

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 28

### Contributed equity continued

#### 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)
<b>Total Macquarie Income Securities</b>	<b>391</b>	391	<b>391</b>	391

The MIS 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 percent 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 Australian Securities Exchange on 19 October 1999 and became redeemable (in whole or in part) at the Bank's discretion on 19 November 2004.

#### Convertible Debentures

850 convertible debentures of £50,000 each	-	-	107	107
<b>Total convertible debentures</b>	<b>-</b>	-	<b>107</b>	107

As part of the issue of the MIPS (detailed in Note 29 – 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 percent (2014: 6.177 percent) 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 percent (2014: 2.35 percent) 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.

<b>Contributed equity</b>	<b>9,082</b>	8,101	<b>9,105</b>	8,157
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# Notes to the financial statements

## for the financial year ended 31 March 2015

continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
<b>Note 29</b>				
<b>Reserves, retained earnings and non-controlling interests</b>				
<b>Reserves</b>				
<b>Foreign currency translation reserve</b>				
Balance at the beginning of the financial year	(107)	(599)	(29)	(42)
Currency translation differences arising during the financial year, net of hedge and tax	726	492	6	13
<b>Balance at the end of the financial year</b>	<b>619</b>	<b>(107)</b>	<b>(23)</b>	<b>(29)</b>
<b>Available for sale reserve</b>				
Balance at the beginning of the financial year	67	85	48	68
Revaluation movement for the financial year, net of tax	(9)	11	16	(27)
Transfer to income statement upon impairment, net of tax	37	64	19	61
Transfer to income statement on realisation, net of tax	(24)	(93)	(22)	(54)
<b>Balance at the end of the financial year</b>	<b>71</b>	<b>67</b>	<b>61</b>	<b>48</b>
<b>Cash flow hedging reserve</b>				
Balance at the beginning of the financial year	(28)	(46)	3	8
Revaluation movement for the financial year, net of tax	(60)	18	(5)	(5)
<b>Balance at the end of the financial year</b>	<b>(88)</b>	<b>(28)</b>	<b>(2)</b>	<b>3</b>
<b>Share of reserves of interests in associates and joint ventures accounted for using the equity method</b>				
Balance at the beginning of the financial year	-	-	-	-
Share of other comprehensive income/(expense) during the financial year	1	-	-	-
<b>Balance at the end of the financial year</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total reserves at the end of the financial year</b>	<b>603</b>	<b>(68)</b>	<b>36</b>	<b>22</b>
<b>Retained earnings</b>				
Balance at the beginning of the financial year	1,388	1,046	499	162
Profit attributable to equity holders of MBL	1,114	770	1,395	751
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(18)	(18)	-	-
Distributions paid or provided on convertible debentures (Note 5)	-	-	(5)	(4)
Dividends paid on ordinary share capital (Note 5)	(653)	(410)	(653)	(410)
<b>Balance at the end of the financial year</b>	<b>1,831</b>	<b>1,388</b>	<b>1,236</b>	<b>499</b>

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 29

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

#### Non-controlling interests

##### Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of MIPS (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 percent (2014: 6.177 percent) 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 percent (2014: 2.35 percent) 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 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.

These instruments are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation* and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax. Distribution policies for these instruments are included in Note 5 – Dividends and distributions paid or provided for.

##### Macquarie Income Preferred Securities

Proceeds on issue of Macquarie Income Preferred Securities	109	109	–	–
Less issue costs	(1)	(1)	–	–
	<b>108</b>	108	–	–
Foreign currency translation reserve	(26)	(32)	–	–
Total Macquarie Income Preferred Securities	<b>82</b>	76	–	–
<b>Other non-controlling interests</b>				
Ordinary share capital	1	1	–	–
Total other non-controlling interests	<b>1</b>	1	–	–
<b>Total non-controlling interests</b>	<b>83</b>	77	–	–

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 30

### 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:

Receivables from financial institutions <sup>(1)</sup>	8,662	6,786	6,907	5,522
Trading portfolio assets <sup>(2)</sup>	1,134	498	444	156
Debt securities <sup>(3)</sup>	1,129	4,208	1,129	4,208
Loan asset at amortised cost <sup>(4)</sup>	3,738	1,893	2,200	771
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>14,663</b>	<b>13,385</b>	<b>10,680</b>	<b>10,657</b>

(1) Includes cash and other receivables.

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

(3) Includes short term debt securities.

(4) Includes amounts due from clearing houses.

(5) Cash and cash equivalents include \$4,316 million (31 March 2014: \$4,093 million) in the Consolidated entity and \$2,447 million (31 March 2014: \$2,248 million) in the Bank held by consolidated securitisation vehicles or in segregated deposit fund and escrow accounts which are restricted for use.

#### Reconciliation of profit after income tax to net cash flows used in operating activities

Profit after income tax	1,119	774	1,395	751
Adjustments to profit after income tax:				
Depreciation and amortisation	495	448	54	27
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	133	(337)	19	(117)
Provision and impairment charge on financial and non-financial assets	577	364	494	337
Interest on available for sale financial assets	(260)	(149)	(157)	17
Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets	(446)	(184)	(64)	(165)
Share of net profits of associates and joint ventures accounted for using the equity method	17	(18)	-	-
Changes in assets and liabilities:				
Change in dividends receivable	(113)	(59)	(106)	(128)
Change in values of associates due to dividends received	12	51	-	-
Change in fees and non-interest income receivable	44	(102)	(29)	38
Change in fees and commissions payable	(2)	9	27	8
Change in tax balances	462	539	102	265
Change in provisions for employee entitlements	97	(17)	-	-
Change in lease assets, net of depreciation, foreign exchange and impairment	(831)	(327)	-	-
Change in loan assets	(12,371)	(7,108)	(15,938)	(6,716)
Change in debtors, prepayments, accrued charges and creditors	847	442	449	843
Change in net trading portfolio assets and liabilities and net derivative financial instruments	(13,729)	(2,221)	(8,971)	(3,193)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	20,546	6,720	18,746	5,602
<b>Net cash flows used in operating activities</b>	<b>(3,403)</b>	<b>(1,175)</b>	<b>(3,979)</b>	<b>(2,431)</b>

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## Note 31

### 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.

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 2015, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to \$15 million assets (2014: \$266 million liabilities) and \$114 million assets (2014: \$146 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 the financial year end:

	<b>Consolidated 2015 \$m</b>	Consolidated 2014 \$m	<b>Bank 2015 \$m</b>	Bank 2014 \$m
Amounts receivable <sup>(1)</sup>	<b>77</b>	111	<b>42</b>	83

<sup>(1)</sup> As described in Note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes \$70 million (2014: \$98 million) for amounts paid in advance for MEREP awards 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 2015 are \$571 million (2014: \$573 million) positive value and \$39 million (2014: \$108 million) negative value.

A list of material subsidiaries is set out in Note 16 – Investments in subsidiaries.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
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## Note 31

### Related party information continued

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

Interest income received/receivable	–	–	401	422
Interest expense paid/payable	–	–	(369)	(269)
Fee and commission income	–	–	141	72
Other operating income	–	–	86	61
Dividends and distributions received/receivable	–	–	931	638
Management fees, group service charges and cost recoveries	–	–	381	454
Brokerage, commission and trading-related expenses	–	–	–	1

The following balances with subsidiaries were outstanding as at the financial year end:

Amounts receivable	–	–	33,102	26,228
Amounts payable	–	–	(15,531)	(14,835)

### 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:

Interest income received/receivable	8	11	17	9
Interest expense paid/payable	(230)	(200)	(194)	(176)
Occupancy income	9	–	9	–
Fee and commission expense	(328)	(169)	(314)	(161)
Other operating expenses	(1,179)	(739)	(985)	(642)
Other income	5	1	3	3

The following balances with other related body corporate entities were outstanding as at financial year end:

Amounts receivable	1,086	2,133	944	1,946
Amounts payable	(7,700)	(7,443)	(7,084)	(6,833)



<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 31

### 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:

Interest income received/receivable	<b>22</b>	2	<b>22</b>	–
Fee and commission expense <sup>(1)</sup>	<b>45</b>	(9)	<b>(52)</b>	(52)
Other income	–	2	–	–
Brokerage, commission and trading related expense	<b>(7)</b>	(5)	<b>(7)</b>	–
Dividends and distributions <sup>(2)</sup>	<b>12</b>	40	–	33

(1) Fee and commission expense includes all fees charged to associates.

(2) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as income 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 14 – Interests in associates and joint ventures accounted for using the equity method):

Amounts receivable	<b>924</b>	412	<b>917</b>	389
Amounts payable	<b>(113)</b>	(217)	<b>(113)</b>	(147)

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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 32

### Key Management Personnel disclosure

#### Key Management Personnel

The following persons were Directors of the Bank during the financial years ended 31 March 2015 and 31 March 2014, unless indicated:

#### Executive Voting Directors<sup>(1)</sup>

N.W. Moore	Macquarie Managing Director and Chief Executive Officer (CEO)
M.J. Reemst	Macquarie Bank CEO (effective from 1 July 2014) <sup>(2)</sup>

#### Non-Executive Directors

H.K. McCann AM	Non-Executive Chairman
G.R. Banks AO	(effective from 1 August 2013)
G.M. Cairns	(effective from 1 November 2014)
M.J. Coleman	
P.A. Cross	(effective from 7 August 2013)
D.J. Grady AM	
M.J. Hawker AM	
N.M. Wakefield Evans	(effective from 7 February 2014)
P.H. Warne	

#### Former Non-Executive Directors

P.M. Kirby	(retired on 24 July 2014)
C.B. Livingstone AO	(retired on 25 July 2013)
J.R. Niland AC	(retired on 31 December 2013)
H.M. Nugent AO	(retired on 24 July 2014)

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2015 and 31 March 2014, unless otherwise indicated.

#### Current Executives<sup>(1)</sup>

S.D. Allen	Head of RMG
B.A. Brazil	Co-Head of CAF (effective from 1 July 2014) <sup>(2)</sup>
A.J. Downe	Head of CFM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, Unites States of America
N. Sorbara	Head of COG
P.C. Upfold	CFO and Head of FMG (effective from 1 July 2014) <sup>(2)</sup>
S. Vrcelj	Head of MSG
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS <sup>(3)</sup>
S. Wikramanayake	Head of MAM

#### Former Executives

P.J. Maher	Head of BFS (ceased to be a member of the Executive Committee on 3 May 2013)
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<sup>(1)</sup> The Executive Voting Directors and all current Executives are members of the Bank's Executive Committee as at 8 May 2015.

<sup>(2)</sup> Refers to the date from which the relevant Executive was determined to be a KMP.

<sup>(3)</sup> Resigned from the Board on 30 June 2014, but remains a member of the Executive Committee.

The remuneration arrangements for all of the persons listed above are described in the Remuneration Report, contained in Schedule 2 of the Directors' Report.

## Note 32

### Key Management Personnel disclosure continued

#### Key Management Personnel remuneration

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

	Short term Employee Benefits			Total short term Employee Benefits	Long term Employee Benefits	Share-based Payments			Total remuneration
	Salary and fees (including superannuation)	Performance related remuneration <sup>(1)</sup>	Other benefits		Restricted profit share earnings on restricted profit share <sup>(2)</sup>	Equity awards including shares <sup>(3)</sup>	PSUs <sup>(4)</sup>		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Executive Remuneration</b>									
2015	6,025,360	28,048,814	–	34,074,174	9,758,972	18,139,621	10,160,554		72,133,321
2014	4,689,940	14,514,673	–	19,204,613	8,689,663	12,065,840	6,866,172		46,826,288
<b>Non-Executive Remuneration</b>									
2015	791,949	–	2,400	794,349	–	–	–		794,349
2014	791,626	–	–	791,626	–	–	–		791,626

<sup>(1)</sup> The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

<sup>(2)</sup> The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan) including earnings on notional investments from retained profit share in prior years.

<sup>(3)</sup> The current year amortisation for retained profit share calculated as described in Note 1(xx) – Summary of significant accounting policies.

<sup>(4)</sup> The current year amortisation for PSUs calculated as described in Note 1(xx) – Summary of significant accounting policies. Adjustments were made during the current and prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

#### 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 aggregate in the following tables:

		Opening balance at 1 April \$'000	Interest charged \$'000	Write-downs \$'000	Closing balance at 31 March <sup>(1)</sup> \$'000
<b>Total for Key Management Personnel and their related parties</b>	2015	600	14	–	559
	2014	5,706	6	–	600

<sup>(1)</sup> Number of persons included in the aggregate at 31 March 2015: 1 (2014: 3).

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

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 33

### Employee equity participation

#### Macquarie Group Employee Retained Equity Plan

MGL continues to operate the 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 MGL equity, an increase in the proportion of deferred remuneration and cessation of new option grants under the 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 of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights on 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). DSUs have been granted with an expiry period of 8 years.

##### Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU 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.

##### Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on Restricted Shares and to vote. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

## Note 33

### 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 2015	Number of RSU Awards 2014
RSUs on issue at the beginning of the financial year	9,408,821	10,092,603
Consolidation of one ordinary share into 0.9438 ordinary shares <sup>(1)</sup>	–	(563,232)
Granted during the financial year	2,258,701	2,356,880
Forfeited during the financial year	(218,929)	(376,884)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(2,879,296)	(2,159,620)
Transfers from related body corporate entities	(3,356)	59,074
RSUs on issue at the end of the financial year	8,565,941	9,408,821
RSUs vested and not withdrawn from the MEREP at the end of the financial year	316	8,327

The weighted average fair value of the RSU Awards granted during the financial year was \$59.72 (2014: \$41.07).

	Number of DSU Awards 2015	Number of DSU Awards 2014
DSUs on issue at the beginning of the financial year	1,325,381	1,252,739
Adjustment of DSUs due to 0.9438 ordinary share consolidation <sup>(1)</sup>	–	(78,275)
Granted during the financial year	325,023	373,887
Forfeited during the financial year	(15,026)	(26,374)
Exercised during the financial year	(406,633)	(228,824)
Transfers from related body corporate entities	(4,179)	32,228
DSUs on issue at the end of the financial year	1,224,566	1,325,381
DSUs exercisable at the end of the financial year	146,068	129,608

The weighted average fair value of the DSU Awards granted during the financial year was \$59.77 (2014: \$40.99).

	Number of PSU Awards 2015	Number of PSU Awards 2014
PSUs on issue at the beginning of the financial year	487,765	500,830
Adjustment of PSUs due to 0.9438 ordinary shares consolidation <sup>(1)</sup>	–	(29,043)
Granted during the financial year	120,825	117,796
Exercised during the financial year	(55,669)	(11,950)
Expired during the financial year	(41,861)	(89,868)
PSUs on issue at the end of the financial year	511,060	487,765
PSUs exercisable at the end of the financial year	–	6,961

The weighted average fair value of the PSU Awards granted during the financial year was \$47.89 (2014: \$41.32).

	Number of Restricted Share Awards 2015	Number of Restricted Share Awards 2014
Restricted shares on issue at the beginning of the financial year	28,928	12,471
Consolidation of one ordinary share into 0.9438 ordinary shares <sup>(1)</sup>	–	(1,774)
Granted during the financial year	–	31,577
Released during the financial year	(23,410)	(13,346)
Restricted shares on issue at the end of the financial year	5,518	28,928

There were no Restricted Share Awards granted during the financial year (2014 weighted average fair value was: \$42.40).

<sup>(1)</sup> Consolidation applied to MGL shares held in the MEREP as at the record date for the consolidation.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 33

### Employee equity participation continued

#### Macquarie Group Employee Retained Equity Plan continued

The awards are measured at their grant dates based on their fair value and for each PSU 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 from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members, have been granted in the current year in respect of 2014. The fair value of each of these grants is estimated using Macquarie's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 3.62 percent
- expected vest dates of PSU: 1 July 2017 and 1 July 2018, and
- dividend yield: 5.02 percent 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, MGL 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 Macquarie's share price as at 31 March 2015 (and for PSUs, also incorporates an interest rate to maturity of 2.61 percent; expected vest dates of PSU: 1 July 2018 and 1 July 2019; and a dividend yield of 4.76 percent per annum) and the number of equity instruments expected to vest. In the following financial year, MGL 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.

MGL annually revises its estimates of the number of awards (including those delivered through MEREP) 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.

For the year ended 31 March 2015, compensation expense relating to the MEREP totalled \$165 million (2014: \$112 million).

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 were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Group staff with retained commission (Commission Awards)
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MBL and MGL Executive Committees who are eligible for PSUs, and
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon 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 above as New Hire Awards).

## Note 33

### Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3 <sup>rd</sup> on or after each 1 July, in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
Retained DPS Awards representing 2009 retention	Executive Director	1/5 <sup>th</sup> on or after each 1 July, in the 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5 <sup>th</sup> on or after each 1 July in the 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3 <sup>rd</sup> on or after each 1 July in the 3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> year following the year of grant <sup>(1)</sup>
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50 percent on or after each 1 July, three and four years after the year of grant <sup>(3)</sup>
PSU Awards granted in relation to 2009, 2010 and 2011	Executive Committee members	1/3 <sup>rd</sup> on or after each 1 July, two, three and four years after the year of grant <sup>(3)</sup>
Pre-2009 DPS Transitioned into the MEREP	Executive Committee members	1/7 <sup>th</sup> each year from 1 July 2010 to 1 July 2016 <sup>(2)</sup>
Pre-2009 DPS Transitioned into the MEREP	Executive Directors (other than those on the Executive Committee)	1/5 <sup>th</sup> each year from 1 July 2010 to 1 July 2014 <sup>(2)</sup>
Commission Awards	Below Executive Director	1/3 <sup>rd</sup> on or after each 1 July, in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
Incentive Awards	All Macquarie Group staff	1/3 <sup>rd</sup> on each first day of a staff trading window on or after the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3 <sup>rd</sup> on each first day of a staff trading window on or after the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> anniversaries of the date of allocation

<sup>(1)</sup> Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

<sup>(2)</sup> 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.

<sup>(3)</sup> Subject to achieving certain performance hurdles – refer below.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 33

### Employee equity participation continued

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 example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share Awards representing 2014 retention, the allocation price was the weighted average price of the Shares acquired for the 2014 Purchase Period, which was 14 May 2014 to 25 June 2014 inclusive (excluding the period from 22 May to 3 June 2014). That price was calculated to be \$59.56 (2013 retention: \$43.56).

### Performance Share Units

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 percent of the total number of PSUs awarded. Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2015.

The hurdles are outlined below.

### Performance hurdle 1

Hurdle	Reference group	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50 percent of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three and four years) compared with a reference group of global peers. A sliding scale applies with 50 percent becoming exercisable above the 50 <sup>th</sup> percentile and 100 percent vesting at the 75 <sup>th</sup> percentile.	The current reference group <sup>(1)</sup> comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.	The reference group comprises ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation, Suncorp Metway Limited, Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG.

<sup>(1)</sup> Jefferies Group Inc. has been excluded from the reference group for awards made from 2013 following its acquisition by Leucadia National Corp.

### Performance hurdle 2

Hurdle	Required result	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50 percent of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50 percent becoming exercisable at EPS CAGR of 7.5 percent and 100 percent at EPS CAGR of 12.0 percent. For example, if EPS CAGR were 9.75 percent, 75 percent of the Award would become exercisable.	A sliding scale applies with 50 percent becoming exercisable at EPS CAGR of 9.0 percent and 100 percent at EPS CAGR of 13.0 percent. For example, if EPS CAGR were 11.0 percent, 75 percent 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 will not be exercisable upon vesting.

### 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 2015 was \$0.02 million (2014: \$0.16 million).



## Note 33

### Employee equity participation continued

#### Option Plan

MGL suspended new offers under the MGESOP under the remuneration arrangements which were the subject of shareholder approvals obtained at the General Meeting of MGL in December 2009. The last grant of Options under the MGESOP was on 8 December 2009. MGL does not currently expect to issue any further Options under the MGESOP.

At 31 March 2015, there were no (2014: 6) MBL participants in the MGESOP.

The following is a summary of the movement in options granted pursuant to the MGESOP:

	Number of options 2015	Weighted average exercise price 2015 \$	Number of options 2014	Weighted average exercise price 2014 \$
Outstanding at the beginning of the financial year	16,081	41.94	2,772,256	52.68
Adjustment of Options due to 0.9438 ordinary share consolidation <sup>(1)</sup>	–	–	(1,627)	41.68
Forfeited during the financial year	–	–	(1,200)	50.35
Exercised during the financial year	(16,081)	41.94	(137,719)	30.69
Transfers to related body corporate entities	–	–	(10,050)	53.91
Lapsed during the financial year	–	–	(2,605,579)	53.92
Outstanding at the end of the financial year	–	–	16,081	41.94
Exercisable at the end of the financial year	–	–	16,081	41.94

For options exercised during the financial year, the weighted average share price at the date of exercise was \$59.01 (2014: \$47.51<sup>(2)</sup>).

There are no outstanding options as at 31 March 2015.

<sup>(1)</sup> Consolidation applied to Options held in the MGESOP as at the record date for the consolidation.

<sup>(2)</sup> Some of the exercise prices reflect the impact of the SYD Distribution, a distribution of the majority of Macquarie Group's investment in Sydney Airport stapled securities (SYD Securities) to its ordinary shareholders implemented through a special dividend and a capital reduction along with a consolidation of one MGL share into 0.9438 of an ordinary share.

The weighted average remaining contractual life for the share options outstanding as at 31 March 2015 was nil (2014: 0.38 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range (\$)	Number of options 2015	Remaining life (years) 2015	Number of options 2014	Remaining life (years) 2014
30–40	–	–	10,417	0.26
40–50	–	–	2,832	0.69
50–60	–	–	2,832	0.48
	–	–	16,081	0.38

The market value of shares issued during the year as a result of the exercise of these options was \$0.95 million (2014: \$6.50 million).

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 33

### Employee equity participation continued

#### Employee Share Plan

MGL continues to operate the ESP whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid ordinary Macquarie shares for no cash payment.

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

The latest offer under the ESP was made during November 2014. A total of 571 (2014: 547) staff participated in this offer. On 8 December 2014, the participants were each allocated 16 (2014: 18) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$59.27 (2014: \$53.70), a total of 9,136 (2014: 9,846) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

#### Historical Share Plans

Shares are no longer being issued or purchased under the MGSSAP nor the NED Share Acquisition Plan. However employees and NEDs still hold shares issued in previous years.

#### Other plans

MGL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>2015</b>	2014	<b>2015</b>	2014
<b>\$m</b>	\$m	<b>\$m</b>	\$m

## Note 34

### Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

#### Contingent liabilities exist in respect of:

Letters of credit	597	543	1,126	950
Performance related contingents	276	342	287	342
Guarantees	146	376	739	885
Indemnities	15	44	15	93
<b>Total contingent liabilities<sup>(1)</sup></b>	<b>1,034</b>	<b>1,305</b>	<b>2,167</b>	<b>2,270</b>

#### Commitments exist in respect of:

Forward asset purchases	5,347	87	5,286	11
Undrawn credit facilities	3,664	3,166	3,114	2,536
<b>Total commitments<sup>(2)</sup></b>	<b>9,011</b>	<b>3,253</b>	<b>8,400</b>	<b>2,547</b>
<b>Total contingent liabilities and commitments</b>	<b>10,045</b>	<b>4,558</b>	<b>10,567</b>	<b>4,817</b>

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. 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.

## Note 35

### Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	4	3	-	-
Later than one year and not later than five years	5	3	-	-
Later than five years	1	1	-	-
<b>Total operating lease commitments</b>	<b>10</b>	<b>7</b>	<b>-</b>	<b>-</b>

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 2015

### continued

## Note 36

### Structured entities

The Consolidated Entity engages in various transactions with SEs. SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (eg decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision-making is required continuously. The Consolidated Entity has interests in SEs that are involved in securitisations, asset-backed financing structures and investment funds.

#### Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets of the Consolidated Entity or of its clients.

The Consolidated Entity engages in securitisation of mortgages, finance leases, credit card receivables and other types of instruments. The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to interest, management fees, servicing fees and gains and losses from revaluing financial instruments.

#### Asset-backed financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders.

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to revaluation of derivatives, dividends, interest and servicing fees.

#### Investment funds

SEs formed for the purpose of offering alternative investment opportunities relate primarily to fund-linked or funds of funds products. Investment structures are designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index by issuing credit-linked or equity-linked notes to investors. SEs typically obtain exposure to the underlying asset or index through a derivative instrument (eg swaps or call options) and place the remaining proceeds on deposit to serve as collateral for the derivative.

The Consolidated Entity may act as sponsor, manager, broker, funder, liquidity provider or derivative counterparty.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to management fees and revaluation of derivatives.

At 31 March 2015, the Consolidated Entity's interests in unconsolidated investment funds is immaterial.

#### Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (eg interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- (i) creates rather than absorbs variability of the unconsolidated SE (eg purchase of credit protection under a credit default swap)
- (ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and
- (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

## Note 36

### Structured entities continued

The following tables present the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs as at 31 March:

	Nature of activity	
	Securitisations \$m	Asset-backed financing \$m
Consolidated 2015		
<b>Carrying value of assets</b>		
Trading portfolio assets	145	–
Derivative assets	1	–
Investment securities available for sale <sup>(1)</sup>	1,692	129
Loan assets held at amortised cost	308	418
<b>Total carrying value of assets</b>	<b>2,146</b>	<b>547</b>
<b>Maximum exposure to loss</b>		
Debt and equity held	2,145	547
Derivatives and undrawn commitments	786	44
<b>Total maximum exposure to loss</b>	<b>2,931</b>	<b>591</b>

	Nature of activity	
	Securitisations \$m	Asset-backed financing \$m
Consolidated 2014		
<b>Carrying value of assets</b>		
Trading portfolio assets	555	–
Derivative assets	3	–
Investment securities available for sale <sup>(1)</sup>	2,430	137
Loan assets held at amortised cost	254	235
<b>Total carrying value of assets</b>	<b>3,242</b>	<b>372</b>
<b>Maximum exposure to loss</b>		
Debt and equity held	3,239	372
Derivatives and undrawn commitments	882	–
<b>Total maximum exposure to loss</b>	<b>4,121</b>	<b>372</b>

<sup>(1)</sup> Securitisations includes \$1,198 million (2014: \$1,749 million) of investments that are managed by the Consolidated Entity under the liquid assets holding policy described in Note 38.2 – Liquidity risk.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 36

### Structured entities continued

Maximum exposure to loss is the carrying value of debt and equity held, the undrawn amount for commitments, the maximum amount guaranteed and the notional amounts of derivative instruments. The amounts for commitments, guarantees and derivatives are reduced for any liabilities already recognised.

Of the above interests, the Consolidated Entity holds \$428 million (2014: \$313 million) in subordinated interests, included in asset-backed financing activities. This carrying value also represents the maximum exposure to loss.

The subordinated asset-backed interests are included within investments available for sale and loans, involve unconsolidated SEs with total size of \$1,419 million (2014: \$1,025 million), and the potential losses borne by others whose interests rank lower is \$9 million (2014: \$8 million).

Size represents either the assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); the principal amount of liabilities if there is nominal equity; or the notional amounts of derivatives if the SE was designed to primarily obtain exposure synthetically through derivative instruments. Size is based on the most current publicly available information to the Consolidated Entity.

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## Note 37

### 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. The Consolidated Entity is also exposed to foreign exchange risk from foreign currency denominated issued debt which is hedged with 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 2015, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was \$29 million negative value (2014: \$20 million negative value).

During the year the Consolidated Entity recognised \$1.2 million of losses (2014: \$0.6 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$144 million negative value (2014: \$58 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 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$8 million negative value (2014: \$153 million positive value).

During the year fair value losses on the hedging instruments of \$161 million have been recognised (2014: \$250 million gains), offset by \$177 million (2014: \$246 million losses) of gains on the hedged item.

**Net investment in foreign operations hedges:** The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its foreign operations.

At 31 March 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$108 million negative value (2014: \$67 million negative value). During the year the Consolidated Entity recognised \$nil (2014: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$2,814 million (2014: \$3,076 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$464 million (2014: \$278 million losses) on translation of the foreign currency borrowing to Australian Dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives 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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 38

### 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 credit, market, equity, operational, liquidity, regulatory, compliance, legal, insurance, tax and reputational risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. RMG independently assess all material risks.

RMG is independent of all other areas of the Consolidated Entity. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO 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.



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## Note 38.1

### 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. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary. Retail credit exposures are monitored on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Exposures for derivatives depend on potential future asset prices. 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 wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

<b>Credit Grading</b>	<b>Internal Rating</b>	<b>External Equivalent</b>
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

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 ensure provisioning is adequate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. 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, commodities, interests in associates and joint ventures or bank notes and coins.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### 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.

	Receivables from financial institutions \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets \$m
<b>Australia</b>					
Governments	-	4,208	534	1,166	-
Financial institutions	3,998	200	627	3,303	6
Other	-	2	1,189	92	1,341
Total Australia	3,998	4,410	2,350	4,561	1,347
<b>Asia Pacific</b>					
Governments	-	651	1	91	-
Financial institutions	2,638	876	355	224	-
Other	-	460	348	-	1,974
Total Asia Pacific	2,638	1,987	704	315	1,974
<b>Europe, Middle East and Africa</b>					
Governments	-	-	84	-	-
Financial institutions	7,560	438	5,129	471	-
Other	-	57	7,296	390	2,456
Total Europe, Middle East and Africa	7,560	495	12,509	861	2,456
<b>Americas</b>					
Governments	-	1,558	158	-	-
Financial institutions	11,785	106	1,969	43	-
Other	-	580	2,262	235	136
Total Americas	11,785	2,244	4,389	278	136
<b>Total gross credit risk</b>	<b>25,981</b>	<b>9,136</b>	<b>19,952</b>	<b>6,015</b>	<b>5,913</b>

Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2015				
61	-	-	-	5,969
899	-	-	131	9,164
42,091	291	418	1,975	47,399
43,051	291	418	2,106	62,532
6	76	-	-	825
481	-	-	11	4,585
729	-	386	30	3,927
1,216	76	386	41	9,337
6	20	-	-	110
2,638	45	-	171	16,452
8,152	1	109	6,458	24,919
10,796	66	109	6,629	41,481
1	-	-	-	1,717
4,963	-	-	104	18,970
11,179	62	250	1,165	15,869
16,143	62	250	1,269	36,556
71,206	495	1,163	10,045	149,906

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### Credit risk continued

#### Maximum exposure to credit risk continued

	Receivables from financial institutions \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets \$m
<b>Australia</b>					
Governments	–	5,715	324	2,494	1
Financial institutions	5,398	88	872	6,072	10
Other	–	56	407	81	1,066
<b>Total Australia</b>	<b>5,398</b>	<b>5,859</b>	<b>1,603</b>	<b>8,647</b>	<b>1,077</b>
<b>Asia Pacific</b>					
Governments	–	694	6	43	–
Financial institutions	1,269	466	312	522	–
Other	–	336	128	10	1,918
<b>Total Asia Pacific</b>	<b>1,269</b>	<b>1,496</b>	<b>446</b>	<b>575</b>	<b>1,918</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	52	53	53	–
Financial institutions	5,772	229	4,518	1,225	–
Other	–	47	2,295	349	1,664
<b>Total Europe, Middle East and Africa</b>	<b>5,772</b>	<b>328</b>	<b>6,866</b>	<b>1,627</b>	<b>1,664</b>
<b>Americas</b>					
Governments	–	1,008	22	–	–
Financial institutions	3,712	60	2,001	663	–
Other	–	400	1,530	272	1,496
<b>Total Americas</b>	<b>3,712</b>	<b>1,468</b>	<b>3,553</b>	<b>935</b>	<b>1,496</b>
<b>Total gross credit risk</b>	<b>16,151</b>	<b>9,151</b>	<b>12,468</b>	<b>11,784</b>	<b>6,155</b>

Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2014				
60	–	–	–	8,594
436	–	–	202	13,078
32,777	574	408	1,900	37,269
33,273	574	408	2,102	58,941
5	61	–	–	809
287	–	–	38	2,894
537	10	471	275	3,685
829	71	471	313	7,388
6	21	–	–	185
3,816	188	–	540	16,288
4,501	62	108	472	9,498
8,323	271	108	1,012	25,971
25	–	–	–	1,055
3,275	–	–	82	9,793
11,445	57	1,257	1,049	17,506
14,745	57	1,257	1,131	28,354
57,170	973	2,244	4,558	120,654

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### 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	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets \$m
<b>Australia</b>					
Governments	–	4,208	534	1,166	–
Financial institutions	3,321	200	216	3,056	5
Other	–	2	1,252	68	1,533
Total Australia	3,321	4,410	2,002	4,290	1,538
<b>Asia Pacific</b>					
Governments	–	440	1	91	–
Financial institutions	2,514	334	355	193	–
Other	–	42	342	–	1,874
Total Asia Pacific	2,514	816	698	284	1,874
<b>Europe, Middle East and Africa</b>					
Governments	–	–	85	–	–
Financial institutions	7,172	438	5,053	453	–
Other	–	57	6,366	174	1,156
Total Europe, Middle East and Africa	7,172	495	11,504	627	1,156
<b>Americas</b>					
Governments	–	868	3	–	–
Financial institutions	11,127	48	2,021	13	–
Other	–	429	1,209	36	35
Total Americas	11,127	1,345	3,233	49	35
<b>Total gross credit risk</b>	<b>24,134</b>	<b>7,066</b>	<b>17,437</b>	<b>5,250</b>	<b>4,603</b>

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 2015
61	-	-	-	-	5,969
900	-	-	-	131	7,829
30,502	289	357	15,366	1,889	51,258
31,463	289	357	15,366	2,020	65,056
-	76	-	-	-	608
325	-	-	-	11	3,732
587	-	344	5,723	138	9,050
912	76	344	5,723	149	13,390
3	20	-	-	-	108
2,808	42	-	-	171	16,137
6,433	-	100	7,382	6,530	28,198
9,244	62	100	7,382	6,701	44,443
-	-	-	-	-	871
1,745	-	-	-	63	15,017
4,347	65	185	4,631	1,634	12,571
6,092	65	185	4,631	1,697	28,459
47,711	492	986	33,102	10,567	151,348

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### Credit risk continued

#### Maximum exposure to credit risk continued

	Receivables from financial institutions \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets \$m
<b>Australia</b>					
Governments	–	5,715	324	2,494	–
Financial institutions	4,920	88	787	5,761	8
Other	–	56	393	40	1,237
<b>Total Australia</b>	<b>4,920</b>	<b>5,859</b>	<b>1,504</b>	<b>8,295</b>	<b>1,245</b>
<b>Asia Pacific</b>					
Governments	–	599	6	43	–
Financial institutions	1,128	218	312	484	–
Other	–	140	121	10	1,827
<b>Total Asia Pacific</b>	<b>1,128</b>	<b>957</b>	<b>439</b>	<b>537</b>	<b>1,827</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	52	53	53	–
Financial institutions	5,445	229	4,482	1,208	–
Other	–	47	2,479	327	1,257
<b>Total Europe, Middle East and Africa</b>	<b>5,445</b>	<b>328</b>	<b>7,014</b>	<b>1,588</b>	<b>1,257</b>
<b>Americas</b>					
Governments	–	685	2	–	–
Financial institutions	3,285	56	1,881	562	–
Other	–	399	751	32	178
<b>Total Americas</b>	<b>3,285</b>	<b>1,140</b>	<b>2,634</b>	<b>594</b>	<b>178</b>
<b>Total gross credit risk</b>	<b>14,778</b>	<b>8,284</b>	<b>11,591</b>	<b>11,014</b>	<b>4,507</b>



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 2014
60	–	–	–	–	8,593
436	–	–	–	202	12,202
20,845	624	358	13,755	1,504	38,812
21,341	624	358	13,755	1,706	59,607
1	61	–	–	–	710
222	–	–	–	37	2,401
334	10	431	1,583	316	4,772
557	71	431	1,583	353	7,883
–	21	–	–	–	179
3,975	185	–	–	540	16,064
3,519	–	91	6,242	433	14,395
7,494	206	91	6,242	973	30,638
–	–	–	–	–	687
1,749	–	–	–	77	7,610
3,837	57	1,149	4,648	1,708	12,759
5,586	57	1,149	4,648	1,785	21,056
34,978	958	2,029	26,228	4,817	119,184

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### Credit risk continued

#### Collateral and credit enhancements held

##### Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balance is included in receivables from financial institutions.

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

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains lender's mortgage insurance (LMI) to cover the majority of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is \$17,207 million (2014: \$14,025 million) which have been securitised by consolidated SPEs. Further, \$1,854 million (2014: \$3,853 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

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 loan to value ratios (LVRs) determined using current loan balances and the valuation at the time the mortgage was financed.

	2015			2014		
	Australia \$m	Americas \$m	EMEA \$m	Australia \$m	Americas \$m	EMEA \$m
<b>Consolidated</b>						
Fully collateralised						
Loan to value ratio						
Less than 25%	937	36	–	212	13	–
25% to 50%	3,261	226	–	1,222	161	244
51% to 75%	8,762	1,539	720	4,429	902	207
76% to 90%	10,293	1,534	–	8,716	2,630	32
91% to 100%	1,626	467	–	2,324	1,813	–
Partly collateralised	15	2	–	6	2	–
<b>Total mortgages</b>	<b>24,894</b>	<b>3,804</b>	<b>720</b>	<b>16,909</b>	<b>5,521</b>	<b>483</b>
<b>Bank</b>						
Fully collateralised						
Loan to value ratio						
Less than 25%	776	–	–	182	–	–
25% to 50%	2,782	–	–	915	–	244
51% to 75%	7,736	–	137	3,343	–	131
76% to 90%	9,557	–	–	7,021	–	–
91% to 100%	1,550	–	–	1,864	–	–
Partly collateralised	9	–	–	4	–	–
<b>Total mortgages</b>	<b>22,410</b>	<b>–</b>	<b>137</b>	<b>13,329</b>	<b>–</b>	<b>375</b>

##### Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of \$2,064 million (2014: \$1,199 million), \$166 million (2014: \$109 million) has a LVR of 50 percent or less, \$983 million (2014: \$615 million) has a LVR of between 50 and 75 percent and \$894 million (2014: \$462 million) has a LVR of between 75 and 100 percent. \$21 million (2014: \$13 million) is only partly secured by real estate with a LVR greater than 100 percent.

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## Note 38.1

### 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 investment as collateral. 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 \$1,650 million (2014: \$1,109 million), \$1,626 million (2014: \$728 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of \$508 million (2014: \$1,323 million), \$271 million (2014: \$942 million) is fully collateralised.

#### Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of \$11,269 million (2014: \$10,836 million), the credit exposure after considering the depreciated value of collateral is \$5,394 million (2014: \$3,087 million). For the Bank, of the lease and retail finance portfolio of \$1,116 million (2014: \$874 million), the credit exposure after considering the depreciated value of collateral is \$878 million (2014: \$222 million).

#### Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured positions over assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of \$17,940 million (2014: \$15,659 million), the credit exposure after the estimated value of collateral and credit enhancements is \$4,500 million (2014: \$2,997 million).

#### Additional collateral

Macquarie excludes 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 are uncertain and therefore are assigned no value 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 \$268 million (2014: \$644 million) and in the Bank of \$262 million (2014: \$625 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

#### Derivative financial instruments

Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as Over The Counter (OTC) derivatives. Certain of the bank's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as our counterparty is a clearing house that is responsible for risk managing their members to ensure the clearing house has adequate resources to fulfill its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or 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 2015 of \$4,618 million (2014: \$2,533 million). The Consolidated Entity has also placed margins on House and Client positions with exchanges, the balance at 31 March 2015 being \$4,794 million (2014: \$2,702 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 2015 of \$4,149 million (2014: \$2,326 million). The Bank has also placed margins on House and Client positions with exchanges, the balance at 31 March 2015 being \$4,057 million (2014: \$2,221 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### Credit risk continued

For 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. 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 (eg derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Bank also often executes 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.

As at 31 March 2015, the Consolidated Entity held OTC contracts with a negative replacement value of \$15,502 million (2014: \$10,001 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$8,702 million (2014: \$6,158 million) and margins held (excluding the impact of over-collateralisation) of \$1,728 million (2014: \$1,153 million). In addition, the Consolidated Entity has placed collateral of \$2,309 million (2014: \$1,582 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts.

As at 31 March 2015, the Bank held OTC contracts with a positive replacement value of \$13,666 million (2014: \$7,379 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$7,666 million (2014: \$5,655 million) and margins held (excluding the impact of over-collateralisation) of \$1,522 million (2014: \$1,058 million). In addition, the Bank has placed collateral of \$2,254 million (2014: \$1,461 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts.

### Other assets

In the Consolidated Entity, brokerage receivables of \$2,483 million (2014: \$2,436 million), and in the Bank of \$2,333 million (2014: \$2,291 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 or cash until settled, which is usually less than three days after trade.

### Debt investments securities available for sale

Included in this balance are holdings of \$225 million (2014: \$255 million) secured by specified Australian and Canadian assets under covered bonds.

### Credit commitments and contingent liabilities

In the Consolidated Entity, of the Undrawn facilities and lending commitments of \$4,306 million (2014: \$3,166 million), \$2,069 million (2014: \$1,640 million) are fully secured by underlying specific assets. In the Bank, of \$3,753 million (2014: \$2,536 million), \$1,801 million (2014: \$1,399 million) are fully secured.

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# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.1

### Credit risk continued

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Consolidated Entity's credit rating system.

#### Credit Quality – Consolidated 2015

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
<b>Receivables from financial institutions</b>	23,094	2,882	5	–	–	25,981
<b>Trading portfolio assets</b>						9,136
Governments	6,417	–	–	–	–	6,417
Financial institutions	1,367	189	64	–	–	1,620
Other	437	484	178	–	–	1,099
<b>Derivative assets</b>						19,952
Governments	769	8	–	–	–	777
Financial institutions	7,848	225	–	7	–	8,080
Other	7,284	3,744	–	67	–	11,095
<b>Debt investment securities available for sale</b>						6,015
Governments	1,257	–	–	–	–	1,257
Financial institutions	4,016	25	–	–	–	4,041
Other	91	504	–	–	122	717
<b>Other financial assets</b>						5,913
Financial institutions	–	–	–	–	6	6
Other	4,556	1,190	–	70	91	5,907
<b>Loan assets held at amortised cost</b>						71,206
Governments	70	4	–	–	–	74
Financial institutions	6,773	2,198	10	–	–	8,981
Other	33,350	26,273	–	–	2,528	62,151
<b>Other financial assets at fair value through profit or loss</b>						495
Governments	96	–	–	–	–	96
Financial institutions	45	–	–	–	–	45
Other	19	319	–	–	16	354
<b>Due from related body corporate entities</b>						1,163
Other	139	–	–	1,024	–	1,163
<b>Total</b>	<b>97,628</b>	<b>38,045</b>	<b>257</b>	<b>1,168</b>	<b>2,763</b>	<b>139,861</b>

Included in the past due category are balances in which an amount was overdue by one day or more.

## Note 38.1

### Credit risk continued

Credit Quality – Consolidated 2014

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
<b>Receivables from financial institutions</b>	14,224	1,911	16	–	–	16,151
<b>Trading portfolio assets</b>						9,151
Governments	7,417	52	–	–	–	7,469
Financial institutions	767	40	36	–	–	843
Other	382	320	137	–	–	839
<b>Derivative assets</b>						12,468
Governments	404	1	–	–	–	405
Financial institutions	7,451	252	–	–	–	7,703
Other	2,983	1,377	–	–	–	4,360
<b>Debt investment securities available for sale</b>						11,784
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,453	29	–	–	–	8,482
Other	134	577	–	–	1	712
<b>Other financial assets</b>						6,155
Governments	–	–	–	–	1	1
Financial institutions	–	–	–	–	10	10
Other	3,992	1,810	9	229	104	6,144
<b>Loan assets held at amortised cost</b>						57,170
Governments	91	5	–	–	–	96
Financial institutions	4,524	3,037	253	–	–	7,814
Other	24,791	22,699	109	–	1,661	49,260
<b>Other financial assets at fair value through profit or loss</b>						973
Governments	82	–	–	–	–	82
Financial institutions	188	–	–	–	–	188
Other	29	655	–	–	19	703
<b>Due from related body corporate entities</b>						2,244
Other	154	–	–	2,090	–	2,244
<b>Total</b>	<b>78,656</b>	<b>32,765</b>	<b>560</b>	<b>2,319</b>	<b>1,796</b>	<b>116,096</b>

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 2015

### continued

## Note 38.1

### Credit risk continued

The table below shows the credit quality by class of financial asset for credit exposures, based on the Bank's credit rating system.

#### Credit Quality – Bank 2015

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
<b>Receivables from financial institutions</b>	21,318	2,816	–	–	–	24,134
<b>Trading portfolio assets</b>						7,066
Governments	5,516	–	–	–	–	5,516
Financial institutions	843	113	64	–	–	1,020
Other	32	320	178	–	–	530
<b>Derivative assets</b>						17,437
Governments	621	2	–	–	–	623
Financial institutions	7,414	224	7	–	–	7,645
Other	4,399	4,728	42	–	–	9,169
<b>Debt investment securities available for sale</b>						5,250
Governments	1,257	–	–	–	–	1,257
Financial institutions	3,715	–	–	–	–	3,715
Other	6	150	–	–	122	278
<b>Other financial assets</b>						4,603
Financial institutions	–	–	–	–	5	5
Other	3,628	896	4	54	16	4,598
<b>Loan assets held at amortised cost</b>						47,711
Governments	63	1	–	–	–	64
Financial institutions	4,104	1,674	–	–	–	5,778
Other	25,850	14,060	–	–	1,959	41,869
<b>Other financial assets at fair value through profit or loss</b>						492
Governments	96	–	–	–	–	96
Financial institutions	42	–	–	–	–	42
Other	22	318	–	–	14	354
<b>Due from related body corporate entities</b>						986
Other	93	–	–	893	–	986
<b>Due from subsidiaries</b>						33,102
Other	28	85	–	32,989	–	33,102
<b>Total</b>	<b>79,047</b>	<b>25,387</b>	<b>295</b>	<b>33,936</b>	<b>2,116</b>	<b>140,781</b>

Included in the past due category are balances in which an amount was overdue by one day or more.



## Note 38.1

### Credit risk continued

Credit Quality – Bank 2014

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
<b>Receivables from financial institutions</b>	13,064	1,707	7	–	–	14,778
<b>Trading portfolio assets</b>						8,284
Governments	6,999	52	–	–	–	7,051
Financial institutions	525	30	36	–	–	591
Other	186	319	137	–	–	642
<b>Derivative assets</b>						11,591
Governments	385	–	–	–	–	385
Financial institutions	7,211	251	–	–	–	7,462
Other	2,602	1,142	–	–	–	3,744
<b>Debt investment securities available for sale</b>						11,014
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,008	7	–	–	–	8,015
Other	–	409	–	–	–	409
<b>Other financial assets</b>						4,507
Financial institutions	–	–	–	–	8	8
Other	2,868	1,087	9	517	18	4,499
<b>Loan assets held at amortised cost</b>						34,978
Governments	59	2	–	–	–	61
Financial institutions	3,004	3,125	253	–	–	6,382
Other	15,153	12,280	–	–	1,102	28,535
<b>Other financial assets at fair value through profit or loss</b>						958
Governments	82	–	–	–	–	82
Financial institutions	185	–	–	–	–	185
Other	32	642	–	–	17	691
<b>Due from related body corporate entities</b>						2,029
Other	246	–	–	1,783	–	2,029
<b>Due from subsidiaries</b>						26,228
Other	103	4	–	26,121	–	26,228
<b>Total</b>	<b>63,302</b>	<b>21,057</b>	<b>442</b>	<b>28,421</b>	<b>1,145</b>	<b>114,367</b>

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 2015

### continued

## Note 38.1

### Credit risk continued

#### Ageing analysis of assets past due but not impaired and impaired assets

Class of financial asset	Past due but not impaired				Impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m		
<b>Debt investment securities available for sale</b>						Consolidated 2015
Other	–	–	–	122	–	122
<b>Other assets</b>						
Financial institutions	6	–	–	–	–	6
Other	46	7	2	10	26	91
<b>Loan assets held at amortised cost</b>						
Other	779	185	72	907	585	2,528
<b>Other financial assets at fair value through profit or loss</b>						
Other	13	1	–	–	2	16
<b>Total</b>	<b>844</b>	<b>193</b>	<b>74</b>	<b>1,039</b>	<b>613</b>	<b>2,763</b>
<b>Debt investment securities available for sale</b>						Consolidated 2014
Other	–	–	–	–	1	1
<b>Other assets</b>						
Government	1	–	–	–	–	1
Financial institutions	8	1	1	–	–	10
Other	58	9	4	2	31	104
<b>Loan assets held at amortised cost</b>						
Other	752	160	62	340	347	1,661
<b>Other financial assets at fair value through profit or loss</b>						
Other	3	3	1	4	8	19
<b>Total</b>	<b>822</b>	<b>173</b>	<b>68</b>	<b>346</b>	<b>387</b>	<b>1,796</b>

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(xiv) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, \$1,058 million (2014: \$966 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.

## Note 38.1

Credit risk continued

Class of financial asset	Past due but not impaired				Impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m		
<b>Debt investment securities available for sale</b>						Bank 2015
Other	–	–	–	122	–	122
<b>Other assets</b>						
Financial institutions	5	–	–	–	–	5
Other	4	–	–	–	12	16
<b>Loan assets held at amortised cost</b>						
Other	292	106	38	775	748	1,959
<b>Other financial assets at fair value through profit or loss</b>						
Other	11	1	–	–	2	14
<b>Total</b>	<b>312</b>	<b>107</b>	<b>38</b>	<b>897</b>	<b>762</b>	<b>2,116</b>
<b>Debt investment securities available for sale</b>						Bank 2014
Other	–	–	–	–	–	–
<b>Other assets</b>						
Financial institutions	8	–	–	–	–	8
Other	1	–	–	–	17	18
<b>Loan assets held at amortised cost</b>						
Other	209	77	29	268	519	1,102
<b>Other financial assets at fair value through profit or loss</b>						
Other	2	2	1	4	8	17
<b>Total</b>	<b>220</b>	<b>79</b>	<b>30</b>	<b>272</b>	<b>544</b>	<b>1,145</b>

### 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 31 March 2015, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of \$79 million (2014: \$178 million). These assets are in the process of being sold.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 38.2

### 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 MGL CEO, MBL CEO, CFO, CRO, Group Treasurer and Business Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including the 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. MBL's risk appetite is to be able to meet all of its liquidity obligations 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.

#### 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 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 to determine the capacity for asset growth.

The scenarios separately consider the requirements of the Banking Group, Non-Banking Group and the Consolidated Entity. They are run over a number of timeframes and a range of conservative assumptions are used including the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

#### Liquid asset holdings

MBL's internal scenario projections determine 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 impacting derivatives and other margined positions. The size of the liquid asset portfolio must exceed the minimum requirement as calculated in this model at all times.

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 wholesale and retail market conditions. MBL's minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

#### 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 possible actions to conserve or raise additional liquidity 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 branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the liquidity contingency plan contains a supplement providing the specific information required for those branches or subsidiaries.

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## Note 38.2

### Liquidity risk continued

#### Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for the group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

#### Contractual undiscounted cash flows

The following tables 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.

Deposits are reported at their contractual maturity – 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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.2

### 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 2015
Trading portfolio liabilities	-	5,045	-	-	-	5,045
Derivative financial instruments (trading)	-	17,403	-	-	-	17,403
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	-	1,804	1,900	12,286	2,423	18,413
Contractual amounts receivable	-	(1,734)	(1,809)	(11,744)	(2,186)	(17,473)
Deposits	39,098	4,466	3,240	606	21	47,431
Other financial liabilities <sup>(1)</sup>	-	6,983	-	-	-	6,983
Payables to financial institutions	8,214	5,163	573	679	511	15,140
Other financial liabilities at fair value through profit or loss	-	50	64	156	1,175	1,445
Due to related body corporate entities	5,041	2,981	-	-	501	8,523
Debt issued at amortised cost <sup>(2)</sup>	3	10,066	11,255	24,762	18,210	64,296
Loan Capital <sup>(3)</sup>	-	108	179	1,443	2,270	4,000
<b>Total undiscounted cash flows</b>	<b>52,356</b>	<b>52,335</b>	<b>15,402</b>	<b>28,188</b>	<b>22,925</b>	<b>171,206</b>
Contingent liabilities	-	1,034	-	-	-	1,034
Commitments	26	2,937	5,214	825	9	9,011
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>26</b>	<b>3,971</b>	<b>5,214</b>	<b>825</b>	<b>9</b>	<b>10,045</b>

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance is \$25,861 million (2014: \$19,139 million) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 27 – Loan Capital.

(4) 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 38.2

### 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 2014
Trading portfolio liabilities	–	2,459	–	–	–	2,459
Derivative financial instruments (trading)	–	11,478	–	–	–	11,478
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,758	1,870	3,436	910	7,974
Contractual amounts receivable	–	(1,677)	(1,890)	(3,469)	(916)	(7,952)
Deposits	32,614	5,042	4,290	460	14	42,420
Other financial liabilities <sup>(1)</sup>	–	7,030	–	–	–	7,030
Payables to financial institutions	4,397	8,871	513	2,132	919	16,832
Other financial liabilities at fair value through profit or loss	–	222	237	187	303	949
Due to related body corporate entities	4,705	223	1,364	435	909	7,636
Debt issued at amortised cost <sup>(2)</sup>	–	8,581	8,345	15,685	12,065	44,676
Loan Capital <sup>(3)</sup>	–	80	136	842	2,189	3,247
<b>Total undiscounted cash flows</b>	<b>41,716</b>	<b>44,067</b>	<b>14,865</b>	<b>19,708</b>	<b>16,393</b>	<b>136,749</b>
Contingent liabilities	–	1,305	–	–	–	1,305
Commitments	–	2,670	199	384	–	3,253
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>–</b>	<b>3,975</b>	<b>199</b>	<b>384</b>	<b>–</b>	<b>4,558</b>

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance is \$19,139 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 27 – Loan Capital.

(4) 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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.2

### 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 2015
Trading portfolio liabilities	-	4,803	-	-	-	4,803
Derivative financial instruments (trading)	-	16,210	-	-	-	16,210
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	-	336	588	5,135	2,396	8,455
Contractual amounts receivable	-	(302)	(642)	(4,893)	(2,169)	(8,006)
Deposits	38,131	4,461	3,240	601	20	46,453
Other financial liabilities <sup>(1)</sup>	-	4,593	-	-	-	4,593
Payables to financial institutions	8,198	5,514	486	283	305	14,786
Other financial liabilities at fair value through profit or loss	1	1,140	81	105	1,175	2,502
Due to subsidiaries	7,267	992	412	557	6,382	15,610
Due to related body corporate entities	3,585	3,820	-	-	501	7,906
Debt issued at amortised cost	1	9,269	5,766	18,399	3,218	36,653
Loan Capital <sup>(2)</sup>	-	108	179	1,443	2,270	4,000
<b>Total undiscounted cash flows</b>	<b>57,183</b>	<b>50,944</b>	<b>10,110</b>	<b>21,630</b>	<b>14,098</b>	<b>153,965</b>
Contingent liabilities	-	2,167	-	-	-	2,167
Commitments	27	2,387	5,161	825	-	8,400
<b>Total undiscounted contingent liabilities and commitments<sup>(3)</sup></b>	<b>27</b>	<b>4,554</b>	<b>5,161</b>	<b>825</b>	<b>-</b>	<b>10,567</b>

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 27 – Loan Capital.

(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 38.2

### 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 2014
Trading portfolio liabilities	–	2,344	–	–	–	2,344
Derivative financial instruments (trading)	–	11,240	–	–	–	11,240
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	642	458	1,692	522	3,314
Contractual amounts receivable	–	(601)	(538)	(1,854)	(564)	(3,557)
Deposits	31,937	5,041	4,289	460	14	41,741
Other financial liabilities <sup>(1)</sup>	–	4,385	–	–	–	4,385
Payables to financial institutions	4,381	9,645	197	1,500	839	16,562
Other financial liabilities at fair value through profit or loss	–	786	741	131	303	1,961
Due to subsidiaries	10,803	44	3,964	27	17	14,855
Due to related body corporate entities	3,046	200	1,358	134	2,233	6,971
Debt issued at amortised cost	–	7,736	3,423	8,324	1,966	21,449
Loan Capital <sup>(2)</sup>	–	80	136	842	2,189	3,247
<b>Total undiscounted cash flows</b>	<b>50,167</b>	<b>41,542</b>	<b>14,028</b>	<b>11,256</b>	<b>7,519</b>	<b>124,512</b>
Contingent liabilities	–	2,270	–	–	–	2,270
Commitments	–	2,061	163	323	–	2,547
<b>Total undiscounted contingent liabilities and commitments<sup>(3)</sup></b>	<b>–</b>	<b>4,331</b>	<b>163</b>	<b>323</b>	<b>–</b>	<b>4,817</b>

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 27 – Loan Capital.

(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.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.3

### 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, and
- **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 percent 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 figures (1 day, 99 percent confidence level)

The tables below show the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity and Bank operates. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2015 Average \$m	2015 Maximum \$m	2015 Minimum \$m	2014 Average \$m	2014 Maximum \$m	2014 Minimum \$m
						<b>Consolidated</b>
Equities	6.36	13.42	3.34	5.38	8.11	2.83
Interest rates	7.87	13.98	4.81	7.29	9.85	5.15
Foreign exchange and bullion	2.47	4.46	0.52	3.95	8.10	1.03
Commodities	9.76	13.79	6.62	13.11	21.02	7.37
Aggregate	13.63	23.35	7.68	16.49	23.71	8.66

## Note 38.3

### Market risk continued

	2015 Average \$m	2015 Maximum \$m	2015 Minimum \$m	2014 Average \$m	2014 Maximum \$m	2014 Minimum \$m
						<b>Bank</b>
Equities	6.09	12.74	3.22	5.04	7.58	2.82
Interest rates	7.50	13.68	4.57	7.16	9.82	5.06
Foreign exchange and bullion	4.04	11.33	0.84	4.93	8.13	1.15
Commodities	10.47	14.98	6.21	6.39	9.20	3.67
Aggregate	15.54	23.48	10.13	12.60	16.87	8.45

#### 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 percent 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 CFM and Group Treasury Division 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 due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks have independent limits that are monitored by RMG and regularly reported to senior management.

#### 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.

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. Other than this there is no material non-trading foreign exchange risk in the profit and loss.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 38.3

### Market risk continued

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, CAD and EUR.

	2015		2014	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
				<b>Consolidated</b>
USD	+10	(351.9)	+10	(269.7)
GBP	+10	(69.5)	+10	(64.0)
CAD	+10	(23.8)	+10	(22.4)
EUR	+10	(33.5)	+10	(31.0)
Total		(478.7)		(387.1)
USD	-10	430.1	-10	329.6
GBP	-10	84.9	-10	78.3
CAD	-10	29.1	-10	27.3
EUR	-10	40.9	-10	37.9
Total		585.0		473.1

## Note 38.3

### 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:

Geographic region	2015			2014		
	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m
<b>Listed</b>						<b>Consolidated</b>
Australia	+10	0.4	5.2	+10	–	6.5
Americas	+10	–	0.7	+10	–	1.7
Europe, Middle East and Africa	+10	–	–	+10	1.8	0.6
<b>Unlisted</b>	<b>+10</b>	<b>0.7</b>	<b>18.2</b>	<b>+10</b>	<b>0.6</b>	<b>17.5</b>
<b>Listed</b>						
Australia	–10	(0.4)	(5.2)	–10	–	(6.5)
Americas	–10	–	(0.7)	–10	–	(1.7)
Europe, Middle East and Africa	–10	–	–	–10	(1.8)	(0.6)
<b>Unlisted</b>	<b>–10</b>	<b>(0.7)</b>	<b>(18.2)</b>	<b>–10</b>	<b>(0.6)</b>	<b>(17.5)</b>
<b>Listed</b>						<b>Bank</b>
Australia	+10	0.4	5.2	+10	–	6.5
Americas	+10	–	0.4	+10	–	1.3
Europe, Middle East and Africa	+10	–	–	+10	1.8	0.6
<b>Unlisted</b>	<b>+10</b>	<b>0.7</b>	<b>8.4</b>	<b>+10</b>	<b>0.6</b>	<b>4.6</b>
<b>Listed</b>						
Australia	–10	(0.4)	(5.2)	–10	–	(6.5)
Americas	–10	–	(0.4)	–10	–	(1.3)
Europe, Middle East and Africa	–10	–	–	–10	(1.8)	(0.6)
<b>Unlisted</b>	<b>–10</b>	<b>(0.7)</b>	<b>(8.4)</b>	<b>–10</b>	<b>(0.6)</b>	<b>(4.6)</b>

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### Fair value 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 (ie as prices) or indirectly (ie derived from prices), and

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

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

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

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

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## Note 39

### Fair value of financial assets and liabilities continued

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

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

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### Fair value 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 2015 and 31 March 2014:

	2015 Carrying value \$m	2015 Fair value \$m	2014 Carrying value \$m	2014 Fair value \$m
<b>Assets</b>				<b>Consolidated</b>
Receivables from financial institutions	25,981	25,981	16,151	16,151
Other financial assets	5,913	5,913	6,155	6,155
Loan assets held at amortised cost	71,206	71,250	57,170	57,323
Due from related body corporate entities	1,163	1,163	2,244	2,244
Assets of disposals group classified as held for sale	242	242	–	–
<b>Total assets</b>	<b>104,505</b>	<b>104,549</b>	<b>81,720</b>	<b>81,873</b>
<b>Liabilities</b>				
Deposits	47,333	47,306	42,302	42,314
Other financial liabilities	5,982	5,982	5,946	5,946
Payables to financial institutions	14,874	14,954	16,573	16,617
Due to related body corporate entities	7,700	7,700	7,443	7,443
Debt issued at amortised cost	53,033	53,284	37,255	37,768
Loan capital	3,240	3,527	2,464	2,645
Liabilities of disposals group classified as held for sale	444	444	–	–
<b>Total liabilities</b>	<b>132,606</b>	<b>133,197</b>	<b>111,983</b>	<b>112,733</b>

The fair values for "Assets of disposals group classified as held for sale" and "Deposits" have been predominantly classified as Level 1 except for \$9,936 million (March 2014: \$10,768 million) in Deposits which have been classified as Level 2.

Fair values for "Receivable from Financial Institutions", "Other financial assets", "Other financial liabilities", "Payable to financial institutions", "Debt issued at amortised cost", "Loan capital" and "Liabilities of disposals group classified as held for sale" have been predominantly classified as Level 2 except for \$8,668 million (March 2014: \$6,895 million) in "Receivables from Financial Institutions", \$1,859 million (March 2014: \$1,587 million) in Payable to financial institutions, \$1,599 million (March 2014: \$3,279 million) in Debt issued at amortised cost and \$801 million (March 2014: \$306 million) in Loan Capital has been classified as Level 1 and \$7,162 million (March 2014: \$5,999 million) in Debt issued at amortised cost is classified as Level 3.

Loan assets at amortised cost are primarily Level 3 except for \$10,327 million (March 2014: 11,657 million) which has been classified as Level 2 and \$9,019 million (March 2014: \$4,800 million) which has been classified as Level 1.



## Note 39

### Fair value of financial assets and liabilities continued

	2015 Carrying value \$m	2015 Fair value \$m	2014 Carrying value \$m	2014 Fair value \$m
<b>Assets</b>				<b>Bank</b>
Receivables from financial institutions	24,134	24,134	14,778	14,778
Other financial assets	4,603	4,603	4,507	4,507
Loan assets held at amortised cost	47,711	47,707	34,978	35,035
Due from related body corporate entities	986	986	2,029	2,029
Due from subsidiaries	33,102	33,102	26,228	26,228
<b>Total assets</b>	<b>110,536</b>	<b>110,532</b>	82,520	82,577
<b>Liabilities</b>				
Deposits	46,356	46,329	41,624	41,636
Other financial liabilities	4,593	4,593	4,385	4,385
Payables to financial institutions	14,655	14,679	16,362	16,400
Due to related body corporate entities	7,084	7,084	6,833	6,833
Due to subsidiaries	15,531	15,531	14,835	14,835
Debt issued at amortised cost	35,149	35,412	20,508	20,834
Loan capital	3,240	3,527	2,464	2,645
Liabilities of disposals group classified as held for sale	125	125	–	–
<b>Total liabilities</b>	<b>126,733</b>	<b>127,280</b>	107,011	107,568

The fair values for "Deposits" have been predominantly classified as Level 1 except for \$9,924 million (March 2014: \$10,766 million) which have been classified as Level 2.

Fair values for "Receivable from Financial Institutions", "Other financial assets", "Other financial liabilities", "Payable to financial institutions", "Debt issued at amortised cost" and "Loan capital" have been predominantly classified as Level 2 except for \$6,900 million (March 2014: \$5,564 million) in "Receivables from Financial Institutions, \$1,591 million (March 2014: \$1,323 million) in Payable to financial institutions, and \$801 million (March 2014: \$306 million) in Loan Capital has been classified as Level 1.

Loan assets at amortised cost are primarily Level 3 except for \$5,485 million (March 2014: 6,632 million) which has been classified as Level 2 and \$6,440 million (March 2014: \$4,800 million) which has been classified as Level 1.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### 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
				<b>Consolidated 2015</b>
<b>Assets</b>				
Trading portfolio assets	19,529	9,853	657	30,039
Derivative assets	947	18,678	327	19,952
Investment securities available for sale	3,430	2,230	685	6,345
Other financial assets at fair value through profit or loss	61	1,105	157	1,323
Assets of disposals group classified as held for sale	57	31	68	156
Other financial assets <sup>(1)</sup>	234	827	–	1,061
<b>Total assets</b>	<b>24,258</b>	<b>32,724</b>	<b>1,894</b>	<b>58,876</b>
<b>Liabilities</b>				
Trading portfolio liabilities	2,458	2,587	–	5,045
Derivative liabilities	1,154	16,707	239	18,100
Other financial liabilities at fair value through profit or loss	–	1,215	22	1,237
Other financial liabilities <sup>(1)</sup>	232	772	–	1,004
<b>Total liabilities</b>	<b>3,844</b>	<b>21,281</b>	<b>261</b>	<b>25,386</b>
				<b>Consolidated 2014</b>
<b>Assets</b>				
Trading portfolio assets	13,909	7,029	702	21,640
Derivative assets	589	11,799	80	12,468
Investment securities available for sale	8,225	3,550	407	12,182
Other financial assets at fair value through profit or loss	229	1,813	153	2,195
Other financial assets <sup>(1)</sup>	353	762	–	1,115
<b>Total assets</b>	<b>23,305</b>	<b>24,953</b>	<b>1,342</b>	<b>49,600</b>
<b>Liabilities</b>				
Trading portfolio liabilities	1,086	1,373	–	2,459
Derivative liabilities	738	10,924	86	11,748
Other financial liabilities at fair value through profit or loss	–	905	32	937
Other financial liabilities <sup>(1)</sup>	351	733	–	1,084
<b>Total liabilities</b>	<b>2,175</b>	<b>13,935</b>	<b>118</b>	<b>16,228</b>

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

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## Note 39

### Fair value of financial assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Assets</b>				Bank 2015
Trading portfolio assets	15,023	7,471	423	22,917
Derivative assets	774	16,171	492	17,437
Investment securities available for sale	3,427	1,660	319	5,406
Other financial assets at fair value through profit or loss	61	1,061	153	1,275
Assets of disposals group classified as held for sale	–	50	28	78
<b>Total assets</b>	<b>19,285</b>	<b>26,413</b>	<b>1,415</b>	<b>47,113</b>
<b>Liabilities</b>				
Trading portfolio liabilities	2,458	2,345	–	4,803
Derivative liabilities	1,082	15,519	135	16,736
Other financial liabilities at fair value through profit or loss	–	2,275	22	2,297
<b>Total liabilities</b>	<b>3,540</b>	<b>20,139</b>	<b>157</b>	<b>23,836</b>
<b>Assets</b>				Bank 2014
Trading portfolio assets	13,167	5,632	673	19,472
Derivative assets	634	10,658	299	11,591
Investment securities available for sale	8,169	2,808	219	11,196
Other financial assets at fair value through profit or loss	201	1,757	136	2,094
<b>Total assets</b>	<b>22,171</b>	<b>20,855</b>	<b>1,327</b>	<b>44,353</b>
<b>Liabilities</b>				
Trading portfolio liabilities	1,070	1,274	–	2,344
Derivative liabilities	841	10,583	74	11,498
Other financial liabilities at fair value through profit or loss	–	1,927	32	1,959
<b>Total liabilities</b>	<b>1,911</b>	<b>13,784</b>	<b>106</b>	<b>15,801</b>

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### 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 years ended 31 March 2015 and 31 March 2014:

	Trading portfolio assets \$m	Investment securities available for sale \$m
<b>Balance at 1st April 2013</b>	253	268
Purchases	346	190
Sales	(128)	(66)
Issues	–	4
Settlements	–	(3)
Net transfers into Level 3	312	16
Net transfers out of Level 3	(90)	–
Reclassifications	–	–
Fair value gains recognised in the income statement <sup>(1)</sup>	9	2
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(4)
<b>Balance at 31 March 2014</b>	<b>702</b>	<b>407</b>
Fair value gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	9	1
<b>Balance at 1st April 2014</b>	<b>702</b>	<b>407</b>
Purchases	<b>569</b>	<b>134</b>
Sales	<b>(537)</b>	<b>(145)</b>
Issues	–	–
Settlements	–	–
Net transfers into Level 3	<b>65</b>	<b>339</b>
Net transfers out of Level 3	<b>(152)</b>	<b>(12)</b>
Reclassifications	–	<b>(17)</b>
Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>	<b>10</b>	<b>18</b>
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	<b>(39)</b>
<b>Balance at 31 March 2015</b>	<b>657</b>	<b>685</b>
Fair value gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	<b>10</b>	<b>18</b>

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

<sup>(2)</sup> The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$327 million (2014: \$80 million) and derivative liabilities are \$239 million (2014: \$86 million).

Assets disposals group classified as held for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
				Consolidated 2014
–	69	(70)	14	534
–	62	–	(35)	563
–	(41)	40	(2)	(197)
–	–	–	(5)	(1)
–	–	2	(19)	(20)
–	57	–	11	396
–	–	–	(1)	(91)
–	–	–	–	–
–	6	(4)	31	44
–	–	–	–	(4)
–	153	(32)	(6)	1,224
–	1	(4)	25	32
				Consolidated 2015
–	153	(32)	(6)	1,224
27	–	–	108	838
(6)	(5)	–	(8)	(701)
–	–	–	(10)	(10)
–	–	11	2	13
–	–	–	(22)	382
–	–	–	29	(135)
31	(14)	–	–	–
9	23	(1)	(5)	54
7	–	–	–	(32)
68	157	(22)	88	1,633
9	24	(1)	(43)	17

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### 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
<b>Balance at 1st April 2013</b>	226	125
Purchases	340	118
Sales	(100)	(21)
Issues	–	4
Settlements	–	–
Net transfers into Level 3	288	16
Net transfers out of Level 3	(90)	–
Reclassifications	–	–
Fair value gains recognised in the income statement <sup>(1)</sup>	9	(7)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(16)
<b>Balance at 31 March 2014</b>	<b>673</b>	<b>219</b>
Fair value gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	9	(7)
<b>Balance at 1st April 2014</b>	<b>673</b>	<b>219</b>
Purchases	<b>334</b>	<b>99</b>
Sales	<b>(507)</b>	<b>(84)</b>
Issues	–	–
Settlements	–	<b>10</b>
Net transfers into Level 3	<b>65</b>	<b>119</b>
Net transfers out of Level 3	<b>(152)</b>	<b>(12)</b>
Reclassifications	–	<b>(3)</b>
Fair value gains recognised in the income statement <sup>(1)</sup>	<b>10</b>	<b>(3)</b>
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	<b>(26)</b>
<b>Balance at 31 March 2015</b>	<b>423</b>	<b>319</b>
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 <sup>(1)</sup>	<b>10</b>	<b>(3)</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$492 million (2014: \$299 million) and derivative liabilities are \$135 million (2014: \$74 million).

Assets of disposals group classified as held for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
				Bank 2014
-	42	(70)	266	589
-	61	-	(39)	480
-	(27)	42	(10)	(116)
-	-	-	(5)	(1)
-	-	-	(19)	(19)
-	57	-	-	361
-	-	-	-	(90)
-	-	-	-	-
-	3	(4)	32	33
-	-	-	-	(16)
-	136	(32)	225	1,221
-	-	(4)	26	24
				Bank 2015
-	136	(32)	225	1,221
26	-	-	100	559
(5)	(3)	-	(11)	(610)
-	-	-	(10)	(10)
(2)	-	11	2	21
-	-	-	14	198
-	-	-	40	(124)
5	(2)	-	-	-
3	22	(1)	(3)	28
1	-	-	-	(25)
28	153	(22)	357	1,258
3	23	(1)	(41)	(9)

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### 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:

	<b>Consolidated 2015 \$m</b>	Consolidated 2014 \$m	<b>Bank 2015 \$m</b>	Bank 2014 \$m
<b>Balance at the beginning of the financial year</b>	<b>8</b>	24	–	1
Deferral on new transactions	<b>43</b>	2	<b>2</b>	2
Amounts recognised in the income statement during the year	<b>2</b>	(18)	<b>(1)</b>	(3)
<b>Balance at the end of the financial year</b>	<b>53</b>	8	<b>1</b>	–



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## Note 39

### 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 or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
<b>Product type</b>				<b>Consolidated 2015</b>
Equity and equity linked products	10	6	(10)	(2)
Other products	80	17	(64)	(10)
<b>Total</b>	<b>90</b>	<b>23</b>	<b>(74)</b>	<b>(12)</b>
<b>Product type</b>				<b>Consolidated 2014</b>
Equity and equity linked products	–	10	–	(10)
Other products	17	–	(11)	–
<b>Total</b>	<b>17</b>	<b>10</b>	<b>(11)</b>	<b>(10)</b>
<b>Product type</b>				<b>Bank 2015</b>
Equity and equity linked products	8	2	(8)	(2)
Other products	30	3	(31)	(3)
<b>Total</b>	<b>38</b>	<b>5</b>	<b>(39)</b>	<b>(5)</b>
<b>Product type</b>				<b>Bank 2014</b>
Equity and equity linked products	(2)	2	2	(2)
Other products	11	–	(11)	–
<b>Total</b>	<b>9</b>	<b>2</b>	<b>(9)</b>	<b>(2)</b>

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 39

### Fair value of financial assets and liabilities continued

#### Significant unobservable inputs

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

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
<b>As at 31 Mar 2015</b>						
Equity and equity linked products	267	22	Discounted cash flows	Discount rate	-	-
			Pricing model	Volatility	17.0%	192.0%
				Correlation	-	-
			Market comparability	Price in %	(2.0)%	0.1%
Other products	1,627	239	Pricing model	Volatility	11.3%	150.0%
				Correlation	-	-
			Discounted cash flows	Discount rate	6.0%	22.0%
			Market comparability	Price in %	-	103.0%
<b>Total</b>	<b>1,894</b>	<b>261</b>				
<b>As at 31 Mar 2014</b>						
Equity and equity linked products	179	34	Discounted cash flows	Discount rate	13.0%	13.0%
			Pricing model	Volatility	9.2%	95.0%
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	-	1.00
			Market comparability	Price in %	7.0%	214.0%
<b>Total</b>	<b>1,342</b>	<b>118</b>				

#### Correlation

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

#### Volatility

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

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

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

## Note 40

### Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxiii) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to Note 38.1 – Credit risk for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
						Consolidated 2015
Receivables from financial institutions <sup>(1)</sup>	16,839	–	16,839	(283)	(16,193)	363
Derivative assets	21,250	(4,718)	16,532	(12,639)	(1,728)	2,165
Other assets	3,032	(2,228)	804	(58)	–	746
Loan assets held at amortised cost	155	(155)	–	–	–	–
Other financial assets at fair value through profit or loss	1,564	(1,400)	164	–	–	164
Due from related body corporate entities	12,249	(11,466)	783	–	–	783
<b>Total assets</b>	<b>55,089</b>	<b>(19,967)</b>	<b>35,122</b>	<b>(12,980)</b>	<b>(17,921)</b>	<b>4,221</b>
Derivative liabilities	(21,466)	4,725	(16,741)	12,639	1,935	(2,167)
Deposits	(336)	308	(28)	–	–	(28)
Other liabilities	(3,257)	2,281	(976)	58	–	(918)
Payables to financial institutions <sup>(2)</sup>	(9,958)	–	(9,958)	283	9,465	(210)
Other financial liabilities at fair value through profit or loss	(1,139)	1,139	–	–	–	–
Due to related body corporate entities	(17,452)	11,466	(5,986)	–	–	(5,986)
Debt issued at amortised cost	(48)	48	–	–	–	–
<b>Total liabilities</b>	<b>(53,656)</b>	<b>19,967</b>	<b>(33,689)</b>	<b>12,980</b>	<b>11,400</b>	<b>(9,309)</b>

<sup>(1)</sup> Included within this balance are reverse repurchase arrangements and other similar secured lending.

<sup>(2)</sup> Included within this balance are repurchase arrangements and other similar secured borrowing.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 40

### Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
						Consolidated 2014
Receivables from financial institutions <sup>(1)</sup>	8,535	(1)	8,534	(696)	(7,626)	212
Derivative assets	13,396	(1,881)	11,515	(8,285)	(1,153)	2,077
Other assets	3,554	(2,075)	1,479	(55)	(1)	1,423
Loan assets held at amortised cost	139	(139)	–	–	–	–
Other financial assets at fair value through profit or loss	1,377	(1,264)	113	–	–	113
Due from related body corporate entities	10,791	(9,249)	1,542	–	–	1,542
<b>Total assets</b>	<b>37,792</b>	<b>(14,609)</b>	<b>23,183</b>	<b>(9,036)</b>	<b>(8,780)</b>	<b>5,367</b>
Derivative liabilities	(13,124)	1,879	(11,245)	8,285	1,284	(1,676)
Deposits	(205)	169	(36)	–	1	(35)
Other liabilities	(3,588)	2,129	(1,459)	55	–	(1,404)
Payables to financial institutions <sup>(2)</sup>	(7,300)	1	(7,299)	696	6,587	(16)
Other financial liabilities at fair value through profit or loss	(1,150)	1,150	–	–	–	–
Due to related body corporate entities	(14,159)	9,249	(4,910)	–	–	(4,910)
Debt issued at amortised cost	(32)	32	–	–	–	–
<b>Total liabilities</b>	<b>(39,558)</b>	<b>14,609</b>	<b>(24,949)</b>	<b>9,036</b>	<b>7,872</b>	<b>(8,041)</b>

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

## Note 40

### Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
						Bank 2015
Receivables from financial institutions <sup>(1)</sup>	16,763	–	16,763	(282)	(16,120)	361
Derivative assets	18,720	(4,156)	14,564	(11,134)	(1,522)	1,908
Other assets	2,196	(1,612)	584	–	–	584
Loan assets held at amortised cost	54	(54)	–	–	–	–
Other financial assets at fair value through profit or loss	418	(254)	164	–	–	164
Due from related body corporate entities	11,889	(11,223)	666	–	–	666
Due from subsidiaries	49,151	(22,117)	27,034	–	–	27,034
<b>Total assets</b>	<b>99,191</b>	<b>(39,416)</b>	<b>59,775</b>	<b>(11,416)</b>	<b>(17,642)</b>	<b>30,717</b>
Derivative liabilities	(18,904)	4,156	(14,748)	11,134	1,705	(1,909)
Deposits	(254)	254	–	–	–	–
Other liabilities	(2,422)	1,666	(756)	–	–	(756)
Payables to financial institutions <sup>(2)</sup>	(9,916)	–	(9,916)	282	9,425	(209)
Due to related body corporate entities	(17,188)	11,223	(5,965)	–	–	(5,965)
Due to subsidiaries	(29,413)	22,117	(7,296)	–	–	(7,296)
<b>Total liabilities</b>	<b>(78,097)</b>	<b>39,416</b>	<b>(38,681)</b>	<b>11,416</b>	<b>11,130</b>	<b>(16,135)</b>

<sup>(1)</sup> Included within this balance are reverse repurchase arrangements and other similar secured lending.

<sup>(2)</sup> Included within this balance are repurchase arrangements and other similar secured borrowing.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 40

### Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
						Bank 2014
Receivables from financial institutions <sup>(1)</sup>	8,535	(1)	8,534	(696)	(7,626)	212
Derivative assets	12,300	(1,727)	10,573	(7,607)	(1,058)	1,908
Other assets	1,043	(693)	350	(3)	–	347
Loan assets held at amortised cost	54	(54)	–	–	–	–
Other financial assets at fair value through profit or loss	228	(115)	113	–	–	113
Due from related body corporate entities	10,569	(9,132)	1,437	–	–	1,437
Due from subsidiaries	37,488	(17,655)	19,833	–	–	19,833
<b>Total assets</b>	<b>70,217</b>	<b>(29,377)</b>	<b>40,840</b>	<b>(8,306)</b>	<b>(8,684)</b>	<b>23,850</b>
Derivative liabilities	(12,053)	1,727	(10,326)	7,607	1,179	(1,540)
Deposits	(125)	115	(10)	–	–	(10)
Other liabilities	(1,196)	747	(449)	3	–	(446)
Payables to financial institutions <sup>(2)</sup>	(7,300)	1	(7,299)	696	6,587	(16)
Due to related body corporate entities	(13,809)	9,132	(4,677)	–	–	(4,677)
Due to subsidiaries	(25,703)	17,655	(8,048)	–	–	(8,048)
<b>Total liabilities</b>	<b>(60,186)</b>	<b>29,377</b>	<b>(30,809)</b>	<b>8,306</b>	<b>7,766</b>	<b>(14,737)</b>

<sup>(1)</sup> Included within this balance are reverse repurchase arrangements and other similar secured lending.

<sup>(2)</sup> Included within this balance are repurchase arrangements and other similar secured borrowing.

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## Note 40

### Offsetting financial assets and financial liabilities continued

#### Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xxiii) – Offsetting financial instruments and are limited to the gross carrying value of the financial statements. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference and for the liability will be nil.

#### Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty in the event of default or other pre-determined events, such that their potential effect on the Consolidated Entity's and the Bank's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial collateral.

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

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## Note 41

### Transfers of financial assets

#### Transferred financial assets that are derecognised

The Consolidated Entity and Bank may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. There were no transfers of financial assets where the Consolidated Entity retained material continuing involvement at reporting date.

The Bank holds some securitisation interests at 31 March 2015 in vehicles wholly containing mortgages transferred by the Bank after it acquired the securitisation interests. The interests have a carrying amount, and maximum exposure to loss, of \$349 million (2014: \$372 million) as at 31 March 2015 and a fair value that approximates the carrying amount. Income of \$13 million (2014: \$19 million) was generated from securitisation interests during the year and \$62 million (2014: \$61 million) cumulative.

#### Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements, asset swaps or interests in securitisations.

#### Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the collateral is maintained.

#### Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Bank do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

#### Interests in securitisations

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Bank is entitled to any residual income of a securitisation vehicle, the Bank continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

#### Written put options

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset and are not priced at fair value.



## Note 41

### Transfers of financial assets continued

There were no material transfers of financial assets for the Bank where the assets continue to be recognised as at 31 March 2015 and at 31 March 2014. The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2015 and 31 March 2014:

	Repurchase and securities lending agreements \$m	Transfers with total return/asset swaps \$m	Transfer with written put option \$m
<b>Consolidated 2015</b>			
Carrying amount of transferred assets <sup>(1)</sup>	7,062	2,867	342
Carrying amount of associated liabilities	(7,091)	(2,891)	(361)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement <sup>(3)</sup>	–	–	361
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	948	1,883	345
Fair value of associated liabilities	(969)	(1,955)	(362)
<b>Net fair value</b>	<b>(21)</b>	<b>(72)</b>	<b>(17)</b>
<b>Consolidated 2014</b>			
Carrying amount of transferred assets <sup>(1),(2)</sup>	8,456	5,851	668
Carrying amount of associated liabilities <sup>(2)</sup>	(8,317)	(5,394)	(684)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement <sup>(3)</sup>	–	–	683
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	727	3,953	674
Fair value of associated liabilities	(724)	(4,014)	(689)
<b>Net fair value</b>	<b>3</b>	<b>(61)</b>	<b>(15)</b>

<sup>(1)</sup> The transferred financial assets are presented in Note 7 – Trading portfolio assets \$5,713 million (2014: \$7,155 million), Note 8 – Investment securities available for sale \$1,352 million (2014: \$1,743 million) and Note 10 – Loan assets held at amortised cost \$3,207 million (2014: \$6,077 million) in the statements of financial position.

<sup>(2)</sup> As a result of an asset swap, included in the carrying amount of associated liabilities is \$nil (2014: \$919 million) that will be settled partly by the transferred assets with a carrying amount of \$nil (2014: \$919 million). The Consolidated Entity had provided a guarantee to the extent of \$493 million, and has given \$493 million cash collateral to the counterparty that has been set off against the associated liability in 2014. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

<sup>(3)</sup> This disclosure is required only in respect of transfers that fail derecognition under the continuing involvement model.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 41

### Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Bank as at 31 March 2015 and 31 March 2014:

	Repurchase and securities lending agreements \$m	Transfers with total return/asset swaps \$m	Interests in securitisations \$m
			Bank 2015
Carrying amount of transferred assets <sup>(1)</sup>	7,796	1,005	17,604
Carrying amount of associated liabilities	(7,730)	(951)	(17,604)
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	1,673	–	17,655
Fair value of associated liabilities	(1,608)	–	(17,596)
<b>Net fair value</b>	<b>65</b>	<b>–</b>	<b>59</b>
			Bank 2014
Carrying amount of transferred assets <sup>(1)(2)</sup>	9,598	1,918	11,870
Carrying amount of associated liabilities <sup>(2)</sup>	(9,374)	(1,410)	(11,870)
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	1,862	–	11,885
Fair value of associated liabilities	(1,781)	–	(11,879)
<b>Net fair value</b>	<b>81</b>	<b>–</b>	<b>6</b>

<sup>(1)</sup> The transferred financial assets are presented in Trading portfolio assets \$5,713 million (2014: \$7,155 million), Investment securities available for sale \$1,352 million (2014: \$3,604 million), Due from controlled entities \$1,672 million (2014: \$1,862 million) and Loan assets held at amortised cost \$17,668 million (2014: \$12,626 million) in the statement of financial position.

<sup>(2)</sup> As a result of an asset swap, included in the carrying amount of associated liabilities is \$nil (2014: \$919 million) that will be settled partly by the transferred assets with a carrying amount of \$nil (2014: \$919 million). The Consolidated Entity had provided a guarantee to the extent of \$493 million, and has given \$493 million cash collateral to the counterparty that has been set off against the associated liability in 2014. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

## Note 42

### Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Bank and the Consolidated Entity, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	<b>Consolidated</b> 2015 \$'000	Consolidated 2014 \$'000	<b>Bank</b> 2015 \$'000	Bank 2014 \$'000
<b>PwC – Australia</b>				
Audit and review of financial reports of the Bank or any controlled entity	6,556	6,334	6,355	5,282
Other audit-related and assurance services	2,828	2,508	621	593
<b>Total audit and other assurance services</b>	<b>9,384</b>	8,842	<b>6,976</b>	5,875
Advisory services	85	833	–	–
Taxation	–	37	–	–
<b>Total non-audit services</b>	<b>85</b>	870	–	–
<b>Total remuneration paid to PwC Australia</b>	<b>9,469</b>	9,712	<b>6,976</b>	5,875
<b>Network firms of PwC Australia</b>				
Audit and review of financial reports of the Bank or controlled entity	5,867	5,532	1,679	–
Other audit-related and assurance services	341	294	–	–
<b>Total audit and other assurance services</b>	<b>6,208</b>	5,826	<b>1,679</b>	–
Other advisory services	–	6	–	–
Taxation	742	767	–	–
<b>Total non-audit services</b>	<b>742</b>	773	–	–
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>6,950</b>	6,599	<b>1,679</b>	–
<b>Total remuneration paid to PwC (Note 2)</b>	<b>16,419</b>	16,311	<b>8,655</b>	5,875

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Bank's *Auditor Independence Policy*. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for other audit-related and assurance 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 2015

### continued

## Note 43

### Acquisitions and disposals of subsidiaries and businesses

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

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

Aggregate details of the entities or businesses acquired or consolidated due to acquisition of control are as follows:

	2015 \$m	2014 \$m
<b>Fair value of net assets acquired</b>		
Cash and other assets	340	46
Property, plant and equipment	–	1
Goodwill and other intangible assets	18	36
Payables, provisions, borrowings and other liabilities	(5)	(9)
<b>Total fair value of net assets acquired</b>	<b>353</b>	<b>74</b>
<b>Consideration</b>		
Cash consideration	353	74
<b>Total consideration</b>	<b>353</b>	<b>74</b>
<b>Net cash outflow</b>		
Cash consideration	(353)	(74)
Less:		
Cash and cash equivalents acquired	–	42
<b>Net cash outflow</b>	<b>(353)</b>	<b>(32)</b>

The 31 March 2014 comparatives principally relate to the following entities or businesses acquired or consolidated due to acquisition of control:

Macquarie Investment Management Korea Co. Ltd and Corona Energy Retail 5 Limited.

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

There are no significant differences between the fair value of net assets acquired and their carrying amounts, 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.

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## 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 period are as follows:

Macquarie Rail Inc., Macquarie Rail Canada Limited, CMC Industries Inc., Texas Rail Terminal LLC, TRT LeaseCo LLC, Macquarie Equipment Finance Inc, Macquarie Equipment Funding LLC, UPL (No. 15) Pty Limited, Delaware Investment Advisers, Delaware Capital Management, Delaware Investments Fund Advisers, Delaware Large Cap Core Fund Class I, Macquarie Equities New Zealand Limited, Macquarie Equities Custodians, Macquarie PA TAP Management I Inc., Macquarie NM Management II Inc., Macquarie NM Management I Inc, Macquarie HiTIP Management I Inc., Macquarie Generation Management II Inc. and Macquarie Generation Management I Inc.

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

	2015	2014
	\$m	\$m
<b>Carrying value of assets and liabilities disposed of or deconsolidated</b>		
Cash and other assets	23	407
Other financial assets	1,345	445
Property, plant and equipment	500	10
Goodwill and other intangible assets	76	51
Payables, provisions, borrowings and other liabilities	(933)	(665)
Non-controlling interests	–	(131)
<b>Total carrying value of assets and liabilities disposed of or deconsolidated</b>	<b>1,011</b>	<b>117</b>
<b>Consideration</b>		
Cash consideration	1,290	132
Consideration received in equity	6	–
<b>Total consideration</b>	<b>1,296</b>	<b>132</b>
<b>Net cash flow</b>		
Cash consideration	1,290	132
Less:		
Investment retained	–	–
Cash and cash equivalents disposed of or deconsolidated	(14)	(284)
<b>Net cash inflow</b>	<b>1,276</b>	<b>(152)</b>

Other Entities or businesses disposed of or de-consolidated due to loss of control in the year ended 31 March 2014 comparatives are as follows:

- Bavarian Geothermal Energy Group Limited, Macquarie Visor, Macquarie European Alpha Fund, Macquarie Private Wealth Inc, Macquarie Precision Marketing (Japan) Limited and Macquarie Precision Marketing (Australia) Limited.

# Notes to the financial statements

## for the financial year ended 31 March 2015

### continued

## Note 44

### Discontinued operations and held for sale disposal group

#### (a) Description

As described in Note 45 – Events occurring after reporting date, the Consolidated Entity will dispose of its Macquarie Investment Management (MIM) business, which is currently operating within the MAM operating segment and offering asset and wealth management services within the products and services segment. MIM offers investment management expertise across a number of asset classes including fixed interest, credit and currencies, equities, infrastructure securities and multi-asset allocation solutions. MIM delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

The details of MIM are as follows:

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

	Consolidated 2015 \$m	Consolidated 2014 \$m	Bank 2015 \$m	Bank 2014 \$m
Net operating income	1,045	908	59	–
Total operating expenses	(758)	(687)	(119)	(109)
Operating profit before income tax	287	221	(60)	(109)
Income tax expense	(97)	(83)	28	36
<b>Profit after income tax<sup>(1)</sup></b>	<b>190</b>	<b>138</b>	<b>(32)</b>	<b>(73)</b>
Cash flow from operating activities	177	59	–	–
Cash flow from/(used in) investing activities	25	(57)	–	–
Cash flow used in financing activities	(190)	(11)	–	–
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12</b>	<b>(9)</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>141</b>	<b>150</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>153</b>	<b>141</b>	<b>–</b>	<b>–</b>

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

#### (c) Assets and liabilities of held for sale disposal group

##### Assets

Receivables from financial institutions	108	–	–	–
Investment securities available for sale	43	–	43	–
Intangible assets	552	–	–	–
Investment in subsidiaries	–	–	62	–
Other assets	369	–	82	–
<b>Total assets</b>	<b>1,072</b>	<b>–</b>	<b>187</b>	<b>–</b>

##### Liabilities

Due to related body corporate entities	388	–	118	–
Other liabilities	391	–	57	–
<b>Total liabilities</b>	<b>779</b>	<b>–</b>	<b>175</b>	<b>–</b>
<b>Net Assets</b>	<b>293</b>	<b>–</b>	<b>12</b>	<b>–</b>

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

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

Foreign currency translation reserve	25	–	–	–
<b>Total reserves</b>	<b>25</b>	<b>–</b>	<b>–</b>	<b>–</b>

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## Note 45

### Events occurring after reporting date

On 15<sup>th</sup> April 2015, the Bank, MGL, Macquarie Financial Holdings Limited (MFHL) and Macquarie B.H. Pty Ltd (MBHPL) signed a Restructure Deed. Through the Restructure Deed, the Consolidated Entity transferred all of the economic risks and rewards from, and control of, MIM at fair value to MFHL and its subsidiaries, representing a loss of control for accounting purposes. The fair value of MIM is \$3,709 million.

Upon signing of the Restructure Deed, the Consolidated Entity deconsolidated the net assets of the MIM business while the Bank derecognised directly held MIM assets and subsidiaries.

Upon settlement of the Restructure Deed, the Bank is expected to declare dividends of approximately \$3,100 million to MBHPL, the holding company of MBL.

# Macquarie Bank Limited

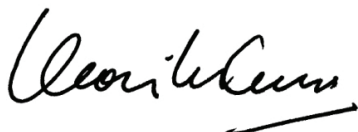
## Directors' declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 41 to 165 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 2015 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) – Basis of preparation set out on page 48, 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 17 – Deed of cross guarantee 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 17 – Deed of cross guarantee.

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



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

Sydney  
8 May 2015



# Independent auditor's 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 statements of financial position as at 31 March 2015, the income statements, statements of comprehensive income, statements of changes in equity and statements 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 Consolidated Entity. The Consolidated Entity comprises the Bank and the entities it controlled at 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 – Summary of significant accounting policies, 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. Those 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.

Liability limited by a scheme approved under Professional Standards Legislation.

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 2015 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*.
- 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 20 to 39 of the Directors' Report for the year ended 31 March 2015. 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 2015, complies with section 300A of the *Corporations Act 2001* (Cth).

PricewaterhouseCoopers

K.G. Smith  
Partner

Sydney  
8 May 2015

# Investor information

## Securityholder Calendar

### 2015

Date	Event
15 July	Payment date for MIS distribution
23 July	AGM
24 September	Payment date for BCN distribution
30 September	Half-year financial end
15 October	Payment date for MIS and MIPS distributions
30 October <sup>(1)</sup>	Half-year results announcement

(1) This date is subject to change.

### 2016

Date	Event
15 January	Payment date for MIS distribution
24 March	Payment date for BCN distribution
31 March	Full-year financial year end
15 April	Payment date for MIS and MIPS distributions

## 2015 Annual General Meeting

Macquarie Bank's 2015 AGM will be held on Thursday, 23 July 2015 in the Macquarie Auditorium, Level 10, 50 Martin Place, Sydney, NSW after the Macquarie Group Limited AGM but not earlier than 2.00 pm. Details of the business of the meeting will be forwarded to securityholders separately.

## Stock Exchange Listing

Macquarie Income Securities (MIS) are quoted on the ASX and trade under the code MBLHB.

Macquarie Bank Capital Notes (BCN) are quoted on the ASX and trade under the code MBLPA.

Macquarie Exchangeable Capital Securities (Macquarie ECS) are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Bank also has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange, SIX Swiss Exchange (Switzerland), Singapore Stock Exchange, Tokyo Stock Exchange and the Taipei Exchange (GrTai Securities Market).

## Distribution details

### Macquarie Bank Limited

Macquarie Bank Limited makes distribution payments twice annually in arrears in respect of the BCN on or about 24 March and September each year. Dates and payment rates are listed at [macquarie.com/investorrelations](http://macquarie.com/investorrelations)

### Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears in respect of MIS on or about 15 January, April, July and October each year. Dates and payment rates are listed at [macquarie.com/investorrelations](http://macquarie.com/investorrelations)

## Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative.

On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

- i) one vote for each fully paid ordinary share held, and
- ii) that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

## Macquarie Income Securities (MIS)

Holders of MIS, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of Macquarie Bank only in one or more of the following circumstances:

- i) during a period when two consecutive Semi-annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
- ii) on any proposal to reduce Macquarie Bank's share capital
- iii) on any resolution to approve the terms of a buy-back agreement
- iv) on any proposal that affects the rights attaching to the preference shares
- v) on a proposal to wind up Macquarie Bank
- vi) on any proposal for the disposal of the whole of Macquarie Bank's property, business and undertaking, and
- vii) during the winding up of Macquarie Bank.

In these circumstances, holders have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares.

## Macquarie Income Preferred Securities (MIPS)

Unpaid preference shares were issued by Macquarie Bank as part of the MIPS issue. Whilst these preference shares remain unpaid, they have no voting rights. If paid up, these preference shares will have the same voting rights as holders of MIS, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of Macquarie Bank during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

## Macquarie Bank Capital Notes (BCN)

BCN are unsecured, subordinated notes issued by Macquarie Bank Limited. They are non-cumulative and mandatorily convertible. BCN holders have no voting rights in respect of Macquarie Bank Limited or Macquarie Group Limited.

## Macquarie Exchangeable Capital Securities (Macquarie ECS)

Macquarie ECS are notes issued by Macquarie Bank acting through its London Branch. The ECS are exchangeable for ordinary shares of MGL under certain circumstances. Provisions for meetings of holders of the ECS are contained in the ECS Trust Deed. The ECS do not confer a right to attend or vote at any general meeting of Macquarie Bank.

## Macquarie Income Securities

<b>Twenty largest MIS holders at 22 April 2015:</b>	<b>MIS</b>	<b>Percentage of MIS</b>
JP Morgan Nominees Australia Limited	312,789	7.82
National Nominees Limited	242,886	6.07
HSBC Custody Nominees (Australia) Limited	157,145	3.93
Navigator Australia Ltd – MLC Investment Sett A/C	104,281	2.61
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	77,746	1.94
Questor Financial Services Limited – TPS RF A/C	63,540	1.59
RBC Investor Service Australia Nominees Pty Limited – GSENIIP A/C	43,857	1.10
BNP Paribas Noms Pty Ltd – DRP	26,319	0.66
Australian Executor Trustees Limited – DDH Preferred Income Fund	24,408	0.61
Citicorp Nominees Pty Ltd	22,792	0.57
UBS Nominees Pty Ltd – TP00014 10 A/C	15,784	0.39
Australian Executor Trustees Limited – No 1 Account	15,189	0.38
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Inc	15,000	0.38
JGW Investments Pty Ltd	10,320	0.26
Mrs Yvonne Marjan Black	10,000	0.25
Minbashian & Co Pty Ltd – Minbashian & Co P/L S/F A/C	10,000	0.25
Temple Society Australia 152 Tucker Road	10,000	0.25
Mr Victor Allan Whitby + Ms Lorraine Joyce Whitby – VA & LJ Whitby Superfund A/C	10,000	0.25
Questor Financial Services Limited – TPS PIP A/C	9,974	0.25
<b>Total</b>	<b>1,197,030</b>	<b>29.93</b>

## Spread of Macquarie Income Securities

Details of the spread of MIS holdings at 22 April 2015 are as follows:

<b>Range</b>	<b>Holders</b>	<b>Securities</b>
1 – 1,000	6,019	1,756,211
1,001 – 5,000	475	890,471
5,001 – 10,000	27	206,262
10,001 – 100,000	11	329,955
100,001 securities and over	4	817,101
<b>Total</b>	<b>6,536</b>	<b>4,000,000</b>

7 securityholders (representing 15 MIS) held less than a marketable parcel.

# Investor information

## continued

### Macquarie Bank Capital Notes

Twenty largest BCN holders at 22 April 2015:	BCN	Percentage of BCN
Navigator Australia Ltd – MLC Investment Sett A/C	139,046	3.24
HSBC Custody Nominees (Australia) Limited	123,142	2.87
National Nominees Limited	94,763	2.21
Citicorp Nominees Pty Ltd	80,000	1.86
Netwealth Investments Limited – Wrap Services A/C	79,870	1.86
Questor Financial Services Limited – TPS RF A/C	66,669	1.55
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	61,599	1.43
BNP Paribas Noms Pty Ltd – DRP	60,000	1.40
Mr Zhiliang Yang	60,000	1.40
J P Morgan Nominees Australia Limited	59,998	1.40
UBS Wealth Management Australia Nominees Pty Ltd	52,821	1.23
RBC Investor Services Australia Nominees Pty Limited – Multiport A/C	52,507	1.22
Aust Executor Trustees Ltd – DDH Preferred Income Fund	47,910	1.12
Netwealth Investments Limited – Super Services A/C	32,777	0.76
Pacific Development Corporation Pty Ltd	22,600	0.53
Pelatron Pty Ltd	22,500	0.52
Shengli Investments Pty Ltd – Chang Family A/C	20,000	0.47
Viridian Investment Fund No 1 Pty Ltd – Viridian Inv Fnd 1 Unit A/C	20,000	0.47
VIP Finance Pty Ltd	18,000	0.42
Cremorne Co Pty Ltd – Cremorne Co A/C	15,000	0.35
<b>Total</b>	<b>1,129,202</b>	<b>26.30</b>

### Spread of Macquarie Bank Capital Notes

Details of the spread of BCN holdings at 22 April 2015 are as follows:

Range	Noteholders	Notes
1 – 1,000	4,785	1,730,154
1,001 – 5,000	461	1,047,400
5,001 – 10,000	36	294,977
10,001 – 100,000	26	959,386
100,001 securities and over	2	262,188
<b>Total</b>	<b>5,310</b>	<b>4,294,105</b>

2 noteholders (representing 4 BCN) held less than a marketable parcel.

### Macquarie Income Preferred Securities

As at 22 April 2015, £42.5 million convertible debentures and 350,000 unpaid preference shares were on issue by Macquarie Bank as part of the MIPS. The £42.5 million convertible debentures and 42,500 of the unpaid preference shares were held by Macquarie Capital Funding LP and 307,500 of the unpaid preference shares were held by Macquarie BH Pty Limited. The registers in respect of the preference shares and the convertible debentures are kept at Macquarie Bank's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

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## Website

To view the Annual Reports, presentations, distribution information and other investor information, visit [macquarie.com/investorrelations](http://macquarie.com/investorrelations)

## Enquiries

Investors who wish to enquire about any administrative matter relating to their MIS or BCN securityholding are invited to contact the Share Registry office at:

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne VIC 8060 Australia

Telephone (within Australia): 1300 554 096  
Telephone (international): +61 3 9415 4137  
Facsimile: +61 3 9473 2500

Website: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

All other enquiries relating to a MIS holding can be directed to:

## Investor Relations

Macquarie Group  
Level 6, 50 Martin Place  
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333  
Facsimile: +61 2 8232 7780

Email: [macquarie.shareholders@macquarie.com](mailto:macquarie.shareholders@macquarie.com)  
Website: [macquarie.com/investorrelations](http://macquarie.com/investorrelations)

Macquarie Bank's Company Secretary, Dennis Leong, may be contacted on the above numbers.

*This is the end of the Investor information.*

## Glossary

AASB	Australian Accounting Standards Board
the Act	<i>Corporations Act 2001</i> (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
AMA	Advanced Measurement Approach
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ATO	Australian Taxation Office
BAC	Board Audit Committee
the Bank	Macquarie Bank Limited
Banking Group	the Banking Group comprises BFS, CAF, CFM, MAM and the trading activities of the MSG
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc
BCN	Macquarie Bank Capital Notes
BFS	Banking and Financial Services
the Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	Macquarie's Board Remuneration Committee
BRiC	Macquarie Board Risk Committee
CAF	Corporate and Asset Finance
CAGR	compound annual growth rate
CEO	Managing Director and Chief Executive Officer
CFM	Commodities and Financial Markets
CFO	Chief Financial Officer
COG	Corporate Operations Group
the Company	Macquarie Bank Limited
the Consolidated Entity	Macquarie Bank Limited and its subsidiaries
Corporate	head office and central support functions including Group Treasury
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Deed	Deed of Indemnity, Access and Insurance dated 4 August 1998
Deed Poll	Indemnity and Insurance Deed Poll dated 30 July 1999
Directors	the Voting Directors of Macquarie Bank Limited (unless the context indicates otherwise)
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
ECL	expected credit losses
ECS	Macquarie Exchangeable Capital Securities
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan

Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Bank Limited
Executive Voting Director	an executive board member
FIRB	Foundation Internal Ratings Based
FMG	Financial Management Group
FVA	funding value adjustment
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT	information technology
LMI	lender's mortgage insurance
LVRs	loan to value ratios
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Bank Limited
Macquarie Bank, MBL, the Company	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie ordinary shares, MQG	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie Funds	Macquarie-managed funds
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MAM	Macquarie Asset Management
MBHPL	Macquarie B.H. Pty Limited
MCN	Macquarie Group Capital Notes
MEREP	Macquarie Group Employee Retained Equity Plan
MFHL	Macquarie Financial Holdings Limited
MFL	Macquarie Finance Limited
MFL Note	an unsecured debt obligation of MFL, issued to a trustee on behalf of the holders of the MIS
MGESOP	Macquarie Group Employee Share Option Plan
MGSA	Macquarie Group Services Australia Pty Limited
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIM	Macquarie Investment Management
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
MSG	Macquarie Securities Group
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director

# Glossary

## continued

Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MAM and CFM that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OTC	over-the-counter
Post-2009 DPS Plan	retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP
SEs	structured entities
SPE	Special Purpose Entity
SYD	ASX-listed Sydney Airport
SYD Securities	Sydney Airport stapled securities
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Bank Limited as defined in the Bank's Constitution







[macquarie.com](http://macquarie.com)