MACQUARIE BANK


# 2014 Annual Report

## Macquarie Bank

**MACQUARIE BANK LIMITED** ACN 008 583 542

# Macquarie Bank Limited
## 2014 Annual Report

# Directors' Report

## for the financial year ended 31 March 2014

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL, Macquarie Bank, the Company), the Directors submit herewith the income statements and the cash flow statements for the year ended 31 March 2014 and the balance sheets as at 31 March 2014 of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial year ended on that date and report as follows:

### Directors

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

#### Independent Directors

H.K. McCann AM, Chairman
G.R. Banks AO[1]
M.J. Coleman
P.A. Cross[2]
D.J. Grady AM
M.J. Hawker AM
P.M. Kirby
H.M. Nugent AO
N.M. Wakefield Evans[3]
P.H. Warne

#### Executive Directors

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

Other than Mr Banks, Mrs Cross and Ms Wakefield Evans, the Voting Directors listed above each held office as a Director of Macquarie Bank throughout the financial year ended 31 March 2014. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Ms C.B. Livingstone AO retired as an Independent Voting Director on 25 July 2013.

Dr J.R. Niland AC retired as an Independent Voting Director on 31 December 2013.

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 Banks was appointed to the Board as an Independent Voting Director effective from 1 August 2013.
(2) Mrs Cross was appointed to the Board as an Independent Voting Director effective from 7 August 2013.
(3) Ms Wakefield Evans was appointed to the Board as an Independent Voting Director effective from 7 February 2014.

## Meeting Attendance

### Directors' meetings

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

**Board meetings**

| | Monthly Board meetings (12) | | Special Board meetings (1) | |
|---|---|---|---|---|
| | Eligible to attend as a member | Attended | Eligible to attend as a member | Attended |
| H.K. McCann | 12 | 12 | 1 | 1 |
| G.C. Ward | 12 | 12 | 1 | 1 |
| N.W. Moore | 12 | 12 | 1 | 1 |
| G.R. Banks(1) | 8 | 8 | 1 | 1 |
| M.J. Coleman | 12 | 12 | 1 | 1 |
| P.A. Cross(2) | 8 | 8 | 1 | 1 |
| D.J. Grady | 12 | 12 | 1 | 1 |
| M.J. Hawker | 12 | 12 | 1 | 1 |
| P.M. Kirby | 12 | 12 | 1 | 1 |
| C.B. Livingstone(3) | 4 | 3 | - | - |
| J.R. Niland(4) | 9 | 9 | - | - |
| H.M. Nugent | 12 | 12 | 1 | 1 |
| N.M. Wakefield Evans(5) | 2 | 2 | - | - |
| P.H. Warne | 12 | 12 | 1 | 1 |

**Board Committee meetings**

| | Board Audit Committee meetings (7)[a] | |
|---|---|---|
| | Eligible to attend as a member | Attended |
| M.J. Coleman(6) | 7 | 7 |
| G.R. Banks(1) | 5 | 5 |
| P.A. Cross | 5 | 5 |
| M.J. Hawker | 7 | 7 |
| P.M. Kirby | 7 | 7 |
| C.B. Livingstone | 2 | 2 |
| P.H. Warne(7) | 2 | 2 |

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

# Directors' Report
## for the financial year ended 31 March 2014
## continued

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, Ms Livingstone (as BAC Chairman for the first meeting), Mr Coleman (as BAC Chairman for the second meeting) and the Chief Financial Officer, Mr Upfold.

All Board members are sent BAC meeting agendas and may attend any meeting.

(1) Mr Banks was appointed to the Board as an Independent Voting Director effective from 1 August 2013. He joined the BAC on 1 August 2013.
(2) Mrs Cross was appointed to the Board as an Independent Voting Director effective from 7 August 2013. She joined the BAC on 1 September 2013.
(3) Ms Livingstone retired as an Independent Voting Director on 25 July 2013.
(4) Dr Niland retired as an Independent Voting Director on 31 December 2013.
(5) Ms Wakefield Evans was appointed to the Board as an Independent Voting Director effective from 7 February 2014.
(6) Mr Coleman was appointed Chairman of the BAC effective from 26 July 2013.
(7) Mr Warne ceased to be a member of the BAC on 1 September 2013.

### Principal activities

The principal activity of the Consolidated Entity during the financial year ended 31 March 2014 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). In the opinion of the Voting Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review not otherwise disclosed in this report.

### Result

The financial report for the financial years ended 31 March 2014 and 31 March 2013, 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 2014 was $A752 million (2013: $A650 million).

### 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 2013 | Final Dividend | 130,000,000 | 31 March 2013 | Paid |
| | 5 November 2013 | Interim Dividend | 280,000,000 | 31 March 2014 | Paid |
| Macquarie Income Securities(1) | 15 April 2013 | Periodic | 4,694,793 | 15 January 2013 to 14 April 2013 | Paid |
| | 15 July 2013 | Periodic | 4,736,984 | 15 April 2013 to 14 July 2013 | Paid |
| | 15 October 2013 | Periodic | 4,486,574 | 15 July 2013 to 14 October 2013 | Paid |
| | 15 January 2014 | Periodic | 4,315,181 | 15 October 2013 to 14 January 2014 | Paid |
| | 15 April 2014 | Periodic | 3,623,014 | 15 January 2014 to 31 March 2014 | Provided |
| Macquarie Income Preferred Securities(2) | 15 April 2013 | Periodic | 1,995,778 | 16 October 2012 to 15 April 2013 | Paid |
| | 15 October 2013 | Periodic | 2,129,916 | 16 April 2013 to 15 October 2013 | Paid |
| | 15 April 2014 | Periodic | 2,175,849 | 16 October 2013 to 31 March 2014 | Provided |

(1) Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in Macquarie Bank. The MIS are quoted on the Australian Securities Exchange (ASX). The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see note 29 to the financial report for further information on the MIS and MIS distributions.
(2) Macquarie Income Preferred Securities (MIPS) are limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, which are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) which are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see note 29 to the financial report for further information on the MIPS and MIPS distributions.

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

## State of affairs

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

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]

– [redacted]

- [redacted]
  - [redacted]
  - [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

# Directors' Report
## for the financial year ended 31 March 2014
## continued

[redacted]

### 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 2014 not otherwise disclosed in this report.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### Introduction

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

Macquarie's consistent approach to remuneration has served it well over the long-term, evolving incrementally over time to ensure it continues to meet its overriding objective of generating superior shareholder returns, while having due regard to risk.

As a matter of good corporate governance, Macquarie's Board of Directors (the Board) and the Board Remuneration Committee (the BRC) review the remuneration framework annually. Following this year's review, the Board's view is that:

**Macquarie's remuneration approach remains appropriate and creates a strong alignment of staff and shareholders' interests, while prudently managing risk. The Board support this view for the following reasons:**

1. Macquarie's remuneration framework, with only incremental change, continues to support the overarching objective of delivering superior value for shareholders over the long-term while prudently managing risk
2. Remuneration outcomes are aligned to business results and shareholder returns
3. Strong remuneration governance continues to be exercised
4. Non-Executive Director remuneration continues to recognise their independent role.

Each of these conclusions is outlined in turn.

### 1 Macquarie's remuneration framework, with only incremental change, continues to support the overarching objective of delivering superior value for shareholders over the long-term, while prudently managing risk

#### 1.1 Macquarie's overall remuneration objectives remain appropriate

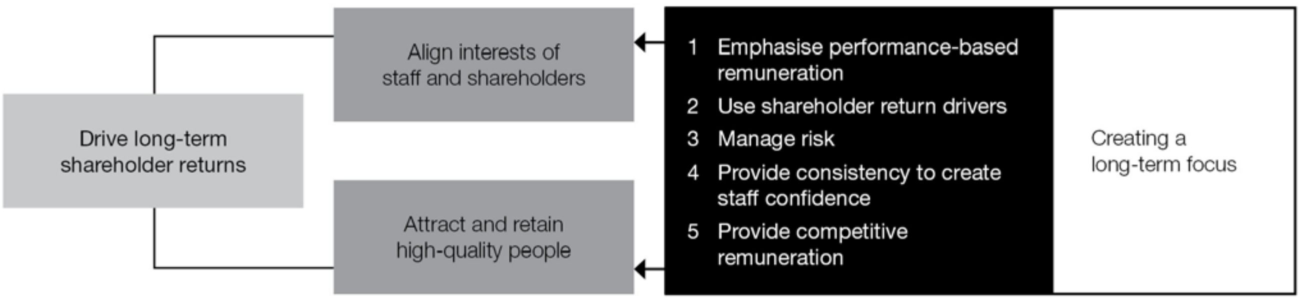
Directors consider that Macquarie's overall remuneration objectives of driving shareholder returns over the long-term, while prudently managing risk, remain appropriate. They recognise that to achieve these objectives, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

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

- emphasising a performance-based remuneration approach that balances return and risk over the short and longer-term
- employing the twin drivers of profitability and returns in excess of the cost of capital to motivate staff to drive shareholder returns
- structuring remuneration to align the interests of staff and shareholders, while prudently managing risk
- 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 following chart.

**Overall remuneration objectives and principles**




#### 1.2 The remuneration framework is appropriate

The Board considers that the overall remuneration framework supports the overarching objectives and principles.

The framework works as an integrated whole. It is comprised of fixed remuneration and a profit share system. In addition, MBL'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 following diagram.

**Fixed remuneration**

**Determine fixed remuneration**

**Fixed remuneration**

– modest compared to similar roles in other organisations but sufficient to avoid inappropriate risk-taking
– compared to profit share, generally higher for risk and financial control staff than for front office staff.

**Performance-based remuneration**

**Create Pool**
**– Profit Share**
**– PSUs**

**Profit share pool is determined annually by:**

– allocation of a proportion of Macquarie's NPAT and ROE over and above the cost of capital
– potential for Non-Executive Directors to exercise discretion to adjust the size of the pool up or down. Such discretion was not exercised in 2014.
– PSU pool reflects Macquarie's overall performance.

**Allocate**
**– Profit Share**
**– PSUs**

**Allocate to businesses**

– based on each business' relative contribution to profits (not revenue) taking into account capital usage, risk management, compliance and competitor dynamics.

**Allocate to risk and financial control groups and other support groups**

– based on the quality and integrity of control functions and the quality of business support services
– no direct link to profitability.

**Allocate to individuals**

– based on individual performance. Performance criteria vary depending on an individual's role including:
  – contribution to NPAT and ROE
  – risk management and compliance (assessed through independent reports from the CRO, the CFO and HR)
  – people leadership
  – upholding Macquarie's *Goals and Values*
– PSUs are only awarded to members of the Executive Committee. The allocation is based on role scope and complexity, financial and non-financial performance and upholding Macquarie's *Goals and Values.*

**Structure and deliver performance-based remuneration**

– create shareholder alignment by adopting an approach where a significant portion of performance-based remuneration is:
  – retained and deferred over a long period
  – delivered in equity
  – subject to forfeiture except in the case of genuine retirement, redundancy or other limited circumstances and for Executive Directors, subject to payout over two years post retirement or redundancy dependent on specific criteria being met
– apply Malus[1] subject to conditions and the exercise of discretion by the Board (from 2012) consistent with employment legislation
– employ ROE and EPS as PSU vesting hurdles.

[1] See section 1.3.4 for a description.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### 1.3 The remuneration framework operates effectively

Directors have reviewed the details of the way the remuneration framework operates in practice and consider that it remains appropriate and is consistent with achieving the overarching objectives.

Further details of the way the framework operates are outlined below. The system as it operates for individuals should be considered as an integrated whole rather than individual elements being looked at in isolation.

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. The way any such discretion has been exercised will be described below.

#### *1.3.1 How the features operate together to provide shareholder alignment*

The following table provides an overview of the key features of Macquarie's remuneration system, each of which is described in further detail below.

| | | Applicable to | | |
|---|---|---|---|---|
| **Section** | **Key Feature** | **Executive Committee[1] and Designated Executive Directors[2]** | **Other Executive Directors** | **Staff other than Executive Directors** |
| **Fixed remuneration** | | Fixed remuneration is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements | | |
| **Performance-based remuneration** | | | | |
| 1.3.2 | Amount of profit share retained[3] | 50 to 70 per cent | 40 to 70 per cent | 25 to 60 per cent dependent on specific thresholds |
| | Vesting and release of retained profit share[3][4] | Pro-rata annually over three to seven years after the year retained | Pro-rata annually over three to five years after the year retained | Pro-rata annually over two to four years after the year retained |
| 1.3.3 | How retained profit share is invested[5] | Invested in Macquarie equity or Macquarie-managed funds | | |
| 1.3.4 | Forfeiture of retained profit share whilst employed | BRC discretion to apply Malus | BRC discretion to apply Malus to certain staff | |
| 1.3.5 | Forfeiture of retained profit share on leaving | Unvested amounts are forfeited except in certain circumstances, subject to disqualifying events[6] | | Unvested amounts are forfeited except in certain circumstances[6] |
| | Promotion awards | Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP[7] awards, set with reference to an $A value, based on seniority | | |
| 1.3.6 | PSUs | Executive Committee only: vest over years three and four with exercise subject to achievement of performance hurdles | n.a. | n.a. |
| | Minimum Shareholding Requirement | Satisfied by the requirements of the profit share retention policy | | n.a. |
| | Hedging | Macquarie prohibits staff from hedging unvested options, shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP | | |
| 1.3.7 | No special contractual termination payments for staff | | | |

(1) Includes both the Managing Director and Chief Executive Officer of Macquarie (CEO) and the CEO of Macquarie Bank.
(2) Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.
(3) The Non-Executive Directors have exercised their discretion and increased the retention rate and amended the vesting and release period for FY2014 profit share to reflect the impact of the SYD Distribution on MEREP for Executive KMP and certain senior executives.
(4) The vesting period for each profit share allocation is established by the BRC, according to the prevailing market conditions and having regard to regulatory, corporate governance and remuneration developments at the time of allocation. For each year's allocation, once the vesting period has been determined, it will remain fixed for that allocation. 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.
(5) Retained profit share is invested either directly or notionally, and may also include an investment in subsidiaries in the case of acquired businesses. For staff other than Executive Director, retained profit share is generally (but not exclusively) invested in Macquarie equity.
(6) As approved by shareholders in July 2013.
(7) Macquarie Group Employee Retained Equity Plan.

### 1.3.2 *Profit share retention levels*

A percentage of each Executive Directors' annual gross profit share allocation will be 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.

This year, the Non-Executive Directors have exercised their discretion to increase the retention rate and to amend the vesting and release period for FY2014 profit share to reflect the impact of the SYD Distribution on MEREP to apply to Executive Key Management Personnel and certain senior executives. This is separate from the table below which reflects standard retention rates.

In addition, the Non-Executive Directors have exercised their discretion in relation to certain employees to amend their retention rates to reflect specific business and market conditions, taking into account both the percentage retained as well as the period for which it is retained.

**Standard retention rates by role**

| Role | % |
|---|---|
| Macquarie Group CEO | 70% |
| Macquarie Bank CEO | 50% |
| Other Executive Committee members | 50% – 60% |
| Designated Executive Directors | 50% – 60% |
| Other Executive Directors | 40% – 70% |
| Staff other than Executive Directors | 25% – 60% |

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### *1.3.3 Investment of retained profit share*

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the MEREP[1], and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan[2].

The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the Executive Director's role:

| Role | Post-2009 DPS Plan (notional investment in Macquarie-managed fund equity) | MEREP (Macquarie shares) |
|---|---|---|
| Macquarie Group CEO, Macquarie Bank CEO, CRO and Chief Operating Officer (COO) | 20% | 80% |
| 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 (but not exclusively) 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 Board or the BRC has discretion to review the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities and to strengthen shareholder alignment and risk management for Macquarie and the Macquarie-managed funds.

In limited circumstances, and only with the approval of the BRC, 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.

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 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.

(1) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, including different tax rules for employee equity and different securities laws, equity grants will be in the form of: 1. shares held by the staff member subject to restrictions (Restricted Shares); or 2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. For further details on the MEREP structure, refer to note 33 of the 2014 Financial Statements.

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

### *1.3.4 Forfeiture of retained profit share for employees (Malus)*

The Board or its delegate has discretion to reduce or eliminate unvested profit share amounts (in respect of profit share years ended 31 March 2012 and onwards) where it determines that certain senior employees' action or inaction has thereby caused Macquarie significant reputational harm, caused a significant unexpected financial loss or caused it to make a material financial restatement (Malus).

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

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

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations, including for example, Code Staff under the UK Regulators' Remuneration Code.

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 reviews the need to apply Malus, including the consideration of local employment laws, as part of its annual remuneration review. The BRC also reviews the continued appropriateness of the Malus provisions given regulatory and market practice.

### *1.3.5 Early vesting and release of retained profit share*

As approved by shareholders in July 2013, 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 disqualifying events provisions).

In considering whether discretion should be exercised in a particular case of genuine retirement, a range of factors are taken into account including whether the Executive Director:

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

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 (subject to the disqualifying event provisions) or, to the Executive Director's legal personal representative.

In certain other limited exceptional circumstances, discretion may be exercised to accelerate the vesting of retained profit share and reduce the retention period on the grounds of business efficacy, 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. In considering whether the discretion should be exercised all relevant factors will be considered and will include whether the employee has a record of sustained contribution and commitment to Macquarie over a considerable period of time and whether exercise of the discretion is in the best interests of Macquarie. This year discretion has been exercised and retained profit share released for two executives where the business, to which they provided services, was sold. The Board or its delegate may impose such other conditions as it considers appropriate, where such discretion is exercised.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### *1.3.5.1 Disqualifying events provision*

Where the Board or its delegate exercise discretion to accelerate the vesting of retained profit share, subject to prevailing employment laws, the Executive Director will not be entitled to receive any of their unvested retained profit share where the Board or its delegate determines that the Executive Director has during the period of employment with Macquarie or since leaving:

(a) committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)
(b) committed a significant and wilful breach of duty that causes material damage to Macquarie
(c) joined a competitor of Macquarie Group
(d) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
(e) otherwise acted or failed to act in a way that thereby causes damage to Macquarie, including but not limited to situations where the action or inaction leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

The release will occur over the period from six months to two years after the Executive Director leaves, subject to different disqualifying event provisions:

| | First period | Second period | Third period |
|---|---|---|---|
| **Time post departure** | 6 months | 6 months – 1 year | 1 year – 2 years |
| **Unvested retained profit share released** | 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 |
| **Subject to disqualifying events** | (a), (b), (c), (d) and (e) | No disqualification during First Period<br>**and** (a), (b), (d) and (e) in Second Period | No disqualification during First Period and Second Period<br>**and** (a), (b) and (e) 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.

### *1.3.6 Performance share units (PSUs)*

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

| | |
|---|---|
| Determination | – The Board approves the value of PSUs to be allocated to Executive Committee members each year |
| Allocation | – The allocation to individuals[1] is based on:<br>– role scope and complexity<br>– financial and non-financial performance assessment against a range of factors including financial results, risk management, business leadership and people and organisational leadership<br>– upholding Macquarie's *Goals and Values* |
| Vesting | – 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 1.3.6.1)<br>– Grants made prior to 2012 vested in three equal tranches after two, three and four years. |
| Upon leaving Macquarie | 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. |

(1) The allocation of PSUs to the Macquarie CEO, who is an Executive Voting Director of Macquarie Group, is subject to shareholder approval at the Macquarie Annual General Meeting.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### *1.3.6.1 Performance hurdles for PSUs*

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 |
|---|---|---|
| **Application to PSU awards** | 50 per cent | 50 per cent |
| **Performance measure** | Compound annual growth rate (CAGR) in earnings per share (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 to a reference group of global peers(1) |
| **Hurdle** | Sliding scale applies:<br>– 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent<br>– 100 per cent at EPS CAGR of 12 per cent<br>For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable.<br>For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent. | Sliding scale applies:<br>– 50 per cent becoming exercisable above the 50th percentile<br>– 100 per cent at the 75th percentile<br>For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable. |
| **Rationale for hurdles** | – 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 FY2014.<br>– ROE and EPS are considered appropriate measures of performance as they drive longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool.<br>– ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, TSR is influenced by many external factors, including market sentiment, over which executives have limited control.<br>– ROE and EPS can be substantiated using information that is disclosed in audited financial statements.<br>– 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.<br>– The approach is consistent with that advocated by APRA in not using TSR as a measure.<br>– 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.<br>Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2014, more than two-thirds of Macquarie's income and over half of Macquarie's staff were offshore. | |

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

The PSUs which vested in July 2013 comprised the third tranche of those granted in 2009, the second tranche of those granted in 2010 and the first tranche of those granted in 2011. Tranche 3 of the 2009 grant and Tranche 2 of the 2010 grant did not become exercisable due to the performance hurdles not being met. Tranche 1 of the 2011 grant did not become fully exercisable due to the performance hurdles not being fully met. As a result:

| | EPS CAGR Hurdle | | | ROE Hurdle | | |
|---|---|---|---|---|---|---|
| **PSU Tranche** | **Macquarie result (for vesting period)** | **Hurdle** | **Outcome** | **Macquarie result (for vesting period)** | **Hurdle** | **Outcome** |
| 2009 Tranche 3 | (5.1%) | At 9% | 100% not exercisable | 8.0% | > 50th percentile rank | 100% not exercisable |
| 2010 Tranche 2 | (7.8%) | At 9% | 100% not exercisable | 7.2% | > 50th percentile rank | 100% not exercisable |
| 2011 Tranche 1 | (5.7%) | At 9% | 100% not exercisable | 6.5% | > 50th percentile rank | 56% exercisable |

PSUs that did not meet performance hurdles expired.

### *1.3.7 No special contractual termination payments*

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

| | |
|---|---|
| Length of contract | Permanent open-ended |
| Remuneration review period | 1 April to 31 March annually |
| Profit share participation | 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 sections 1.3.1-1.3.5 for details. |
| PSU participation | Executive Committee members are eligible to receive PSUs. Refer to Section 1.3.6 for details. |
| Termination of employment | Termination of employment by Macquarie or the Executive Committee member requires no more than four weeks notice(1). |

(1) 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.

## 2 Remuneration outcomes are aligned to business results and shareholder returns

In the past year, Macquarie Bank's overall results have improved with NPAT increasing by 15.7 per cent.

| | | FY14 | FY13 | FY12 | FY11 | FY10 |
|---|---|---|---|---|---|---|
| Net profit after tax attributed to ordinary equityholders (NPAT) | $A million | 752 | 650 | 609 | 803 | 663 |
| Return on average ordinary shareholders' funds (p.a.) | % | 8.5 | 7.9 | 7.0 | 9.7 | 9.9 |

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

## 3 Strong remuneration governance continues to be exercised

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

### 3.1 Strong Board oversight exists to ensure sound overall remuneration governance

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 Non-Executive Directors:

| | Role | Other Macquarie Committees |
|---|---|---|
| Helen Nugent | Chairman | Board Risk Committee member, Board Nominating Committee member |
| Patricia Cross | Member | Board Risk Committee Chairman, Board Audit Committee member |
| Diane Grady | Member | Board Governance and Compliance Committee member, Board Risk Committee member |
| Kevin McCann | Member | Macquarie Chairman, Board Risk Committee member, Board Nominating Committee Chairman |
| Peter Warne | Member | Board Risk Committee member, Board Nominating Committee member |

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 ten times over the last financial year. Attendance at the meetings is set out in the Directors' Report. The Board pays serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

More specifically, the Board has strong processes for making remuneration decisions for senior staff, which also involve assiduous management of internal guidelines on declaring and dealing with conflicts of interest. These are rigidly followed by the BRC.

As part of its process, towards the end of each financial year, the Non-Executive Directors meet with the Macquarie Bank CEO to consider formal documentation that outlines his views on the Group's performance. This covers financial performance measures, performance against peers, capital management, operational and strategic initiatives, cost management initiatives, risk and compliance management, financial management, people and organisational leadership including upholding Macquarie's Goals and Values, reputation management and community and social responsibility matters. A similar process is followed for the CEO of Macquarie.

The Board and the BRC also consider formal documentation for each Executive Committee member which covers financial performance, risk management, business leadership and people and organisational leadership, including upholding Macquarie's *Goals and Values.*

In all cases, 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 CRO on material losses, impairments, compliance breaches, 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.

| The Board[1] approves (on BRC recommendation) | BRC approves (on behalf of the Board) |
|---|---|
| **Executive Remuneration Policy and Framework Recommendations**<br>– The *Remuneration Policy*, its effectiveness and its compliance with legal and regulatory requirements<br>– The appropriate levels of delegated responsibility to management for remuneration-related decisions<br>– The profit share methodology and any adjustments<br>– Adjustments to the profit share pool as a result of the Non-Executive Directors exercising their discretion | – Identification of the Designated Executive Director population, Code Staff population[2], Hong Kong Covered Staff[2], other persons whose activities may affect the financial soundness of Macquarie, and senior risk and financial control staff<br>– The profit share pool, calculated in accordance with the Board-approved methodology<br>– The percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity<br>– The implementation of the *Remuneration Policy*, including an annual review of compliance with the Executive Director minimum shareholding requirements |
| **Executive Remuneration Recommendations**<br>– Individual remuneration recommendations[3] for:<br>  – Executive Committee members<br>  – Designated Executive Directors<br>  – Staff covered under specific regulatory requirements<br>  – Senior risk and financial control staff<br>– The total PSU pool available for Executive Committee members<br>– The continued vesting or otherwise of retained profit share amounts for employees covered under the Malus provisions | – All individual profit share recommendations for other Executive Directors<br>– The standard number or value of promotion equity grants to Director-level staff |
| **Non-Executive Director Remuneration**<br>– The remuneration framework for the Non-Executive Directors of Macquarie and MBL<br>– Remuneration recommendations for Non-Executive Director fees (subject to the maximum aggregate amount being approved by shareholders)[4] | |

(1) The Boards of Macquarie and Macquarie Bank, as appropriate.
(2) Code Staff under the UK Regulators' Remuneration Code, Covered Staff under the Hong Kong Monetary Authority's (HKMA) Guideline on a Sound Remuneration System.
(3) Including base remuneration, profit share and PSUs where applicable
(4) The *Corporations Act 2001 (Cth)* (the Act) contains an exception to the general prohibition on voting on a matter in which a Director has a material personal interest in respect of a director's remuneration as a director.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### 3.2 An independent remuneration review has been undertaken

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, objectives and program and other employment conditions.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of executive remuneration from a USA office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was $US135,000.

Pay Governance has confirmed that its analyses and observations have been made free from undue influence by Macquarie Bank'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 executed by the Chairman of the BRC, and agreed to by the Global Head of Human Resources under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance attended one BRC meeting to present their findings
- Pay Governance held meetings with the BRC Chairman
- in relation to the Pay Governance Review, no senior executives had separate, direct contact with Pay Governance.

Pay Governance's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding, which has incrementally evolved by adopting many emerging best practices in response to the changing market and regulatory environment
- the objectives on which Macquarie's remuneration system are built are similar to those cited by other leading global investment banks, including the need to drive shareholder returns 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 system has a paramount goal to encourage management to drive shareholder returns over the short and longer term, whilst factoring in risk
- Macquarie's remuneration components support its remuneration objectives and principles and are very much in line with practices at peer global investment banks, including that:
  - for senior executives, fixed remuneration is modest (although meaningful) relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
  - the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive performance and therefore returns to shareholders, and takes risk management into account
  - individual profit share awards to executives are highly differentiated to take into account individual contribution and results
  - a significant portion of profit share is invested in both Macquarie equity and notionally in Macquarie-managed funds and withheld for several years
  - executives must maintain a meaningful equity stake in Macquarie
  - equity-based compensation (in the form of Macquarie shares and PSUs for Executive Committee) is used as a long-term incentive for executives
  - Macquarie imposes a long vesting period on the portion of profit share deferred
  - Macquarie's total compensation as a percentage of revenue is in the lower half of its global banking peers.

## 4 Non-Executive Director remuneration continues to recognise their independent role

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

### 4.1 Non-Executive Director remuneration policy

The overall objective of Macquarie's Non-Executive Director remuneration policy is to ensure that Non-Executive Directors are remunerated appropriately. 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, Non-Executive Directors are not granted equity, nor are they eligible to receive profit share payments. There are no, nor have there ever been, termination payments to Non-Executive Directors on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

The CEO is not remunerated for acting as a Voting Director.

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

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

### 4.2 Board and Committee fees

Non-Executive Directors 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. An internal review of Non-Executive Directors' remuneration was completed during the reporting period to ensure that it was in line with market rates for relevant Australian financial organisations and consistent with market trends. The BRC and the Board evaluated the analyses and the conclusions reached. Following this review, it was determined that Board and Committee fees should remain unchanged.

**Macquarie Bank Fees**

| | Macquarie Bank fees | |
|---|---|---|
| | **$A** | **$A** |
| | **Chairman** | **Members** |
| Board | 240,000 | 65,000 |

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

Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions.

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

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

### 4.3 Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares that they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each Non-Executive Director's current holding of Macquarie ordinary shares is included on page 30 of the Directors' Report.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

### 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 Non-Executive Directors. Macquarie's Non-Executive Directors are required by the *Corporations Act 2001 (Cth)* to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves part of 'management'. The table reflects KMP movements during the 2014 and 2013 financial years. The key changes included:

#### Non-Executive Directors:

- N.M. Wakefield Evans was appointed to the Board on 7 February 2014
- J.R. Niland AC retired from the Board on 31 December 2013
- P.A. Cross was appointed to the Board on 7 August 2013
- G.R. Banks AO was appointed to the Board on 1 August 2013
- C.B. Livingstone AO retired from the Board on 25 July 2013
- M.J. Coleman was appointed to the Board on 9 November 2012

#### Executives:

- P.J. Maher ceased to be a member of the Executive Committee on 3 May 2013
- N. Sorbara was appointed to the Executive Committee on 1 January 2013

| Name | Position | Term as KMP 2014 | Term as KMP 2013 |
|---|---|---|---|
| **Executive Voting Director:** | | | |
| N.W. Moore[1] | Macquarie Group Managing Director and Chief Executive Officer | Full year | Full year |
| G.C. Ward[1] | MBL Managing Director and CEO | Full year | Full year |
| | | | |
| **Non-Executive Directors:** | | | |
| G.R. Banks AO | Non-Executive Director | Part year | – |
| M.J. Coleman | Non-Executive Director | Full year | Part year |
| P.A. Cross | Non-Executive Director | Part year | – |
| D.J. Grady AM | Non-Executive Director | Full year | Full year |
| M.J. Hawker AM | Non-Executive Director | Full year | Full year |
| P.M. Kirby | Non-Executive Director | Full year | Full year |
| C.B. Livingstone AO | Non-Executive Director | Part year | Full year |
| H.K. McCann AM | Non-Executive Chairman | Full year | Full year |
| J.R. Niland AC | Non-Executive Director | Part year | Full year |
| H.M. Nugent AO | Non-Executive Director | Full year | Full year |
| N.M. Wakefield Evans | Non-Executive Director | Part year | – |
| P.H. Warne | Non-Executive Director | Full year | Full year |
| **Executives:** | | | |
| S.D. Allen[1] | Chief Risk Officer | Full year | Full year |
| A.J. Downe[1] | Group Head, Fixed Income, Currencies and Commodities Group | Full year | Full year |
| G.A. Farrell[1] | Co-Group Head, Corporate and Asset Finance Group | Full year | Full year |
| P.J. Maher | Former Group Head, Banking and Financial Services Group | Part year | Full year |
| M. McLaughlin[1] | Country Head, United States of America | Full year | Full year |
| N. Sorbara[1] | Chief Operating Officer | Full year | Part year |
| S. Vrcelj[1] | Group Head, Macquarie Securities Group | Full year | Full year |
| S. Wikramanayake[1] | Group Head, Macquarie Funds Group | Full year | Full year |

Except where otherwise noted, the remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)* and in compliance with AASB 124 *Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be KMP, as defined by AASB 124 *Related Party Disclosures*.

(1) Members of Macquarie Bank's Executive Committee as at 2 May 2014.

## Appendix 2: Statutory remuneration disclosures

### Executive remuneration

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

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2014 and 31 March 2013, 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 FY2014 and FY2013.

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, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2014 (and for PSUs, also incorporates an interest rate to maturity of 3.62 per cent; expected vest dates of PSU: 1 July 2017 and 3 July 2018; and a dividend yield of 5.02 per cent per annum) and the number of equity instruments expected to vest. 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 in section 1.3.3 above, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the tables on pages 24 and 25). When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

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

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

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

| | | | Short-Term Employee Benefits | | |
|---|---|---|---|---|---|
| | | | Salary (including superannuation) $A | Performance related remuneration[1] $A | Total short-term employee benefits $A |
| **Executive Directors** | | | | | |
| N. W. Moore | Macquarie Group Managing Director and CEO | **2014** | **543,467** | **2,037,317** | **2,580,784** |
| | | 2013 | 545,121 | 1,618,563 | 2,163,684 |
| G.C. Ward | MBL Managing Director and CEO | **2014** | **693,514** | **1,621,461** | **2,314,975** |
| | | 2013 | 694,035 | 1,620,086 | 2,314,121 |
| **Other Executives** | | | | | |
| S.D. Allen | Chief Risk Officer | **2014** | **511,499** | **1,145,942** | **1,657,441** |
| | | 2013 | 513,055 | 1,040,042 | 1,553,097 |
| A.J. Downe | Group Head, Fixed Income, Currencies and Commodities Group | **2014** | **677,275** | **3,586,246** | **4,263,521** |
| | | 2013 | 599,759 | 2,256,140 | 2,855,899 |
| G.A. Farrell | Co-Group Head, Corporate and Asset Finance Group | **2014** | **688,495** | **2,536,580** | **3,225,075** |
| | | 2013 | 686,379 | 2,332,996 | 3,019,375 |
| M. McLaughlin[7] | Country Head, United States of America | **2014** | **453,313** | **502,762** | **956,075** |
| | | 2013 | 400,463 | 809,501 | 1,209,964 |
| S. Vrcelj | Group Head, Macquarie Securities Group | **2014** | **119,395** | **114,016** | **233,411** |
| | | 2013 | 75,281 | – | 75,281 |
| S. Wikramanayake | Group Head, Macquarie Funds Group | **2014** | **475,235** | **2,146,176** | **2,621,411** |
| | | 2013 | 489,505 | 1,459,153 | 1,948,658 |
| **Total Remuneration – Comparable Executive KMP** | | **2014** | **4,162,193** | **13,690,500** | **17,852,693** |
| | | 2013 | 4,003,598 | 11,136,481 | 15,140,079 |
| **New Executives** | | | | | |
| N. Sorbara[8] | Chief Operating Officer | **2014** | **463,759** | **765,574** | **1,229,333** |
| | | 2013 | 113,953 | 115,813 | 229,766 |
| **Former Executives** | | | | | |
| P.J. Maher | Former Group Head, Banking and Financial Services Group | **2014** | **63,988** | **58,599** | **122,587** |
| | | 2013 | 701,229 | 756,623 | 1,457,852 |
| **Total Remuneration – Executive KMP (including new and former members)** | | **2014** | **4,689,940** | **14,514,673** | **19,204,613** |
| | | 2013 | 4,818,780 | 12,008,917 | 16,827,697 |

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

| Long-Term Employee Benefits | | | Share Based Payments | | | | | |
|---|---|---|---|---|---|---|---|---|
| Restricted profit share(2) $A | Earnings on prior year restricted profit share(3) $A | Total long-term employee benefits $A | Equity awards including shares(4) $A | PSUs(5) $A | Options(6) $A | Total share-based payments $A | Total remuneration $A | Percentage of remuneration that consists of options and PSUs % |
| | | | | | | | | |
| **950,748** | **924,023** | **1,874,771** | **3,218,691** | **1,207,607** | **–** | **4,426,298** | **8,881,853** | **13.60** |
| 755,329 | 535,974 | 1,291,303 | 2,609,934 | 176,976 | – | 2,786,910 | 6,241,897 | 2.84 |
| **324,292** | **341,941** | **666,233** | **1,364,743** | **948,871** | **–** | **2,313,614** | **5,294,822** | **17.92** |
| 324,017 | 184,176 | 508,193 | 1,193,459 | 150,538 | – | 1,343,997 | 4,166,311 | 3.61 |
| | | | | | | | | |
| **229,188** | **263,503** | **492,691** | **1,001,652** | **571,803** | **–** | **1,573,455** | **3,723,587** | **15.36** |
| 208,008 | 140,381 | 348,389 | 729,847 | 240,672 | (122,842) | 847,677 | 2,749,163 | 4.29 |
| **358,624** | **2,363,636** | **2,722,260** | **2,823,570** | **1,052,340** | **–** | **3,875,910** | **10,861,691** | **9.69** |
| 225,614 | 1,148,901 | 1,374,515 | 2,060,639 | (97,257) | – | 1,963,382 | 6,193,796 | (1.57) |
| **253,658** | **552,917** | **806,575** | **1,929,699** | **1,651,088** | **–** | **3,580,787** | **7,612,437** | **21.69** |
| 233,300 | 420,109 | 653,409 | 1,518,024 | 920,425 | (232,810) | 2,205,639 | 5,878,423 | 11.70 |
| **251,381** | **45,438** | **296,819** | **536,578** | **90,448** | **–** | **627,026** | **1,879,920** | **4.81** |
| 404,750 | 42,836 | 447,586 | 611,167 | 55,055 | 748 | 666,970 | 2,324,520 | 2.40 |
| **17,102** | **16,401** | **33,503** | **144,652** | **133,332** | **–** | **277,984** | **544,898** | **24.47** |
| – | – | – | – | – | – | – | 75,281 | – |
| **1,073,089** | **522,663** | **1,595,752** | **624,097** | **730,876** | **–** | **1,354,973** | **5,572,136** | **13.12** |
| 729,576 | 254,788 | 984,364 | 443,176 | 347,140 | – | 790,316 | 3,723,338 | 9.32 |
| **3,458,082** | **5,030,522** | **8,488,604** | **11,643,682** | **6,386,365** | **–** | **18,030,047** | **44,371,344** | |
| 2,880,594 | 2,727,165 | 5,607,759 | 9,166,246 | 1,793,549 | (354,904) | 10,604,891 | 31,352,729 | |
| | | | | | | | | |
| **153,115** | **27,550** | **180,665** | **334,757** | **471,075** | **–** | **805,832** | **2,215,830** | **21.26** |
| 23,163 | 691 | 23,854 | 55,683 | 45,044 | – | 100,727 | 354,347 | 12.71 |
| | | | | | | | | |
| **5,860** | **14,534** | **20,394** | **87,401** | **8,732** | **–** | **96,133** | **239,114** | **3.65** |
| 75,662 | 89,248 | 164,910 | 1,085,161 | (68,846) | – | 1,016,315 | 2,639,077 | (2.61) |
| **3,617,057** | **5,072,606** | **8,689,663** | **12,065,840** | **6,866,172** | **–** | **18,932,012** | **46,826,288** | |
| 2,979,419 | 2,817,104 | 5,796,523 | 10,307,090 | 1,769,747 | (354,904) | 11,721,933 | 34,346,153 | |

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

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

### *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 in section 1.3.3.
(4) The current year amortisation for retained profit share calculated as described in note 1(xxi) to the Financial Statements.
(5) The current year amortisation for PSUs calculated as described in note 1(xxi) to the Financial Statements. 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.
(6) The prior year amortisation for options as described in note 1(xxi) to the Financial Statements. During the prior year, previously recognised options expense was reversed due to performance hurdles not being met or not expected to be met.

### *Notes on individuals*

(7) 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 FY2014 differs to FY2013 due to exchange rate movements.
(8) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. Disclosed remuneration reflects Mrs Sorbara's time as KMP.
(9) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. Disclosed remuneration reflects Mr Maher's time as KMP.

### Non-Executive Director Remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 4 of the Remuneration Report.

| | | Directors Fees $A | Other Benefits[1] $A | Total Compensation $A |
|---|---|---|---|---|
| G.R. Banks[2] | **2014** | **43,333** | **–** | **43,333** |
| | 2013 | – | – | – |
| M.J. Coleman | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 25,639 | – | 25,639 |
| P.A. Cross[3] | **2014** | **39,140** | **–** | **39,140** |
| | 2013 | – | – | – |
| D.J. Grady | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 65,000 | – | 65,000 |
| M.J. Hawker | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 65,000 | 2,826 | 67,826 |
| P.M. Kirby | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 65,000 | – | 65,000 |
| C.B. Livingstone[4] | **2014** | **20,618** | **–** | **20,618** |
| | 2013 | 65,000 | – | 65,000 |
| H.K. McCann | **2014** | **240,000** | **–** | **240,000** |
| | 2013 | 240,000 | – | 240,000 |
| J.R. Niland[5] | **2014** | **48,750** | **–** | **48,750** |
| | 2013 | 65,000 | – | 65,000 |
| H.M. Nugent | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 65,000 | – | 65,000 |
| N.M Wakefield Evans[6] | **2014** | **9,785** | **–** | **9,785** |
| | 2013 | – | – | – |
| P.H. Warne | **2014** | **65,000** | **–** | **65,000** |
| | 2013 | 65,000 | – | 65,000 |
| Total Remuneration – Non-Executive KMP | **2014** | **791,626** | **–** | **791,626** |
| | 2013 | 720,639 | 2,826 | 723,465 |

(1) Other benefits for Non-Executive Directors include a travel allowance in FY2013 for Mr Hawker who was a resident of the UK until 30 June 2012.
(2) Mr Banks was appointed to the MBL Board on 1 August 2013.
(3) Mrs Cross was appointed to the MBL Board on 7 August 2013.
(4) Ms Livingstone retired from the MGL and MBL Boards on 25 July 2013.
(5) Dr Niland retired from the MBL Board on 31 December 2013.
(6) Ms Wakefield Evans was appointed to the MBL Board on 7 February 2014.

# Directors' Report – Remuneration Report
## for the financial year ended 31 March 2014
## continued

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

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

– financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2014 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).
– financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005.

*This is the end of the Remuneration Report.*

## Voting Directors' equity participation

At 2 May 2014, none of the Voting Directors held any relevant interests, as notified by the Voting Directors to the ASX in accordance with the *Corporations Act 2001 (Cth),* in shares or share options of Macquarie Bank.

## Directors' and officers' indemnification and insurance

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

- the liability is owed to Macquarie Bank or to a related body corporate
- the liability did not arise out of conduct in good faith
- the liability is for a pecuniary penalty order or a compensation order under the *Corporations Act 2001 (Cth)*
- in the case of legal costs: the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission (ASIC) or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs incurred in relation to proceedings for relief to the person under the *Corporations Act 2001 (Cth)* in which the court denies relief
- Macquarie Bank is forbidden by statute to indemnify the person against the liability or legal costs, or
- an indemnity by Macquarie Bank of the person against the liability or legal costs would, if given, be made void by statute.

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

Under the Deed, Macquarie Bank agrees to:

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

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

The Deed Poll was 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 persons who were directors and secretaries of companies in the Macquarie Bank group before the restructure have the benefit of the Deed Poll for their acts before, during and after the restructure implementation date.

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.

# Directors' Report
## for the financial year ended 31 March 2014
## continued

### Directors' relevant interests

The relevant interests of Directors on 2 May 2014 in managed investment schemes made available by related companies of Macquarie Bank and other disclosable relevant interests are listed in the table below:

| Name and position | Direct interests | | Indirect interests | |
|---|---|---|---|---|
| **Executive Voting Directors** | | | | |
| G.C. Ward | Macquarie Group Employee Retained Equity Plan (MEREP) Restricted Share Units (RSUs) | 193,242 | | |
| | MEREP Performance Share Units (PSUs) | 157,300 | | |
| N.W. Moore | Macquarie ordinary shares | 1,090,222 | Macquarie ordinary shares | 365,295 |
| | MEREP RSUs | 647,252 | Macquarie Global Infrastructure Fund III (B) units | 391,935 |
| | MEREP PSUs | 326,612 | | |
| | 2004 Macquarie Timber Land Trust units | 50 | | |
| | 2006 Macquarie Timber Land Trust units | 75 | | |
| | Macquarie Global Infrastructure Fund III (B) units | 1,771,171 | | |
| **Independent Voting Directors** | | | | |
| G.R. Banks | Macquarie ordinary shares | 1,416 | | - |
| M.J. Coleman | | - | Macquarie ordinary shares | 5,663 |
| P.A. Cross | | - | Macquarie ordinary shares | 3,936 |
| D.J. Grady | | - | Macquarie ordinary shares<br>Macquarie Group Capital Notes | 3,878<br>400 |
| M.J. Hawker | Macquarie ordinary shares | 4,248 | Macquarie ordinary shares | 1,888 |
| | | | Macquarie Wrap Cash Account units | 14,987 |
| P.M. Kirby | Macquarie ordinary shares | 23,913 | | - |
| H.K. McCann | | - | Macquarie ordinary shares | 12,728 |
| H.M. Nugent | Macquarie ordinary shares | 2,743 | Macquarie ordinary shares | 9,533 |
| N.M. Wakefield Evans | | - | | - |
| P.H. Warne | Macquarie ordinary shares | 2,590 | Macquarie ordinary shares | 12,343 |

## Environmental regulations

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

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

## Non-audit services

Fees paid or payable to the auditor of the Consolidated Entity, PwC, for non-audit services during the period ended 31 March 2014 total $A4,445,000. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 42 - Audit and other services provided by PwC.

The Voting 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, which is discussed in Macquarie's Corporate Governance Statement, 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 Board Audit Committee (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 Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices is compatible with the general standard of independence for auditors imposed by the Act.

## Auditor's independence declaration

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

## Rounding of amounts

In accordance with Australian Securities & Investments Commission 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 Voting Directors.

**H Kevin McCann, AM**

Independent Director and
Chairman

**Greg Ward**

Managing Director and
Chief Executive Officer

Sydney
2 May 2014

# Directors' Report Schedule 1
## for the financial year ended 31 March 2014

### Directors' experience and special responsibilities

#### H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 73)

*Independent Chairman since March 2011*

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

***Experience***

Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He has served as Chairman and a director of a number of major Australian companies. He was Chairman of Healthscope Limited.

***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
- Member, Australian Treasury Advisory Council
- Fellow, University of Sydney Senate
- Co-Vice Chair, New Colombo Plan Reference Group
- Member, Advisory Board, University of Sydney Business School
- Member, Corporate Governance Committee, Australian Institute of Company Directors

***Listed company directorships***

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

- Chairman, Origin Energy Limited (February 2000 to October 2013)
- Director, BlueScope Steel Limited (May 2001 to April 2013)
- Chairman, ING Management Limited (September 2010 to June 2011)

Mr McCann is a resident of New South Wales.

#### Greg C Ward, BEc (Macquarie), MEc (Macquarie), FCA, F Fin (age 46)

*Managing Director and Chief Executive Officer since December 2011*

Greg Ward joined Macquarie on listing in 1996 and was appointed Chief Financial Officer in 1997. In December 2011, Mr Ward became the Managing Director and Chief Executive Officer of Macquarie Bank and a member of its Board. He is also the Deputy Managing Director and a member of the Board Risk Committee of Macquarie Group. In May 2013, Mr Ward was appointed Group Head of Macquarie's Banking and Financial Services Group.

***Experience***

Prior to working with Macquarie, Mr Ward held senior roles with Westpac Banking Corporation and PricewaterhouseCoopers. Mr Ward was also an inaugural member of the Federal Treasury's Financial Reporting Panel and served as a Board member of the Australian Accounting Standards Board from September 1999 to February 2003.

***Other current directorships/appointments***

- Member, Macquarie University Council
- Director, Financial Markets Foundation for Children
- Board member, Australian Brandenburg Orchestra

Mr Ward is a resident of New South Wales.

#### Nicholas W Moore, BCom LLB (UNSW), FCA (age 55)

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***

Mr Moore joined Macquarie's Corporate Services Division in 1986. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Investment Banking Group on its inception in 2001. In this role, he oversaw significant growth in Macquarie's net income through the global growth of the advisory, fund management, financing and securities businesses.

***Other current directorships/appointments***

- 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.

## Gary R Banks, AO, BEc (Hons) (Monash), MEc (ANU) (age 64)

*Member - Board Audit Committee*

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

### *Experience*

Gary Banks is Dean and CEO of the Australia and New Zealand School of Government, and a Professorial Fellow at Melbourne University. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012. Professor Banks was previously a Senior Economist with the GATT Secretariat in Geneva, Visiting Fellow at the Trade Policy Research Centre in London, Projects Director with the Centre for International Economics in Canberra and has been a consultant to the World Bank, OECD and World Trade Organisation. He chaired the Regulation Taskforce in 2006 and the Infrastructure Stream at the Prime Minister's 2020 Summit.

### *Other current directorships/appointments*

- Director, the Australia and New Zealand School of Government
- Member, Prime Minister's Business Advisory Council
- Chairman, Regulatory Policy Committee of the Organisation for Economic Co-operation and Development
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Member, Public Policy Committee, Grattan Institute
- Adjunct Professor, Australian National University

Mr Banks is a resident of Victoria.

## Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD (age 63)

*Chairman - Board Audit Committee*

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

### *Experience*

Michael Coleman was a senior partner with KPMG for 30 years. He 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.

### *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
- Member, NSW Council, Australian Institute of Company Directors
- Member, Advisory Board of Norton Rose Fulbright Australia
- Chairman, Planet Ark Environmental Foundation
- Chairman, Advisory Board of the Centre for Accounting and Assurance Services Research at UNSW
- Director, Osteoporosis Australia
- Board member, Belvoir Street Theatre Foundation Limited

### *Listed company directorships*

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

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

Mr Coleman is a resident of New South Wales.

## Patricia A Cross, BSc (Hons) (Georgetown), FAICD (age 54)

*Member - Board Audit Committee*

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

### *Experience*

Patricia Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank, Chase Investment Bank, Banque Nationale de Paris and National Australia Bank. At National Australia Bank, Mrs Cross was responsible for the Wholesale Banking and Finance Division and was a member of the Executive Committee. Previously she was a Director of JBWere Limited, Wesfarmers Limited, AMP Limited, Suncorp-Metway Limited, Chairman of Qantas Superannuation Limited and Deputy Chairman of the Transport Accident Commission of Victoria.

Mrs Cross has held a number of honorary government positions, including five years as a founding member of the Financial Sector Advisory Council, APEC Business Advisory Council and as a member of the Panel of Experts to the Australia as a Financial Centre Forum. She has also served on a wide range of not for profit boards, including the Murdoch Childrens Research Institute. In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry.

### *Other current directorships/appointments*

- Director, Grattan Institute
- Ambassador, Australian Indigenous Education Foundation

### *Listed company directorships*

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

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

Mrs Cross is a resident of Victoria.

# Directors' Report Schedule 1
## for the financial year ended 31 March 2014
## continued

### Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 65)

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

***Experience***

Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994. She was a Director of Woolworths, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited, MLC and a Trustee of the Sydney Opera House. She was also President of Chief Executive Women and a Member of the UTS Business School Advisory Board.

Ms Grady was a partner at McKinsey & Company where she spent 15 years consulting to clients in a broad range of industries on strategic and operational issues. She was a worldwide leader of the firm's Organisation and Change Management Practice and the first woman outside the United States to be elected to McKinsey's global partnership. In Australia, she headed McKinsey's Consumer Goods, Retailing and Marketing Practice Group.

***Other current directorships/appointments***

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

***Listed company directorships***

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

- Director, BlueScope Steel Limited (May 2002 to February 2013)

Ms Grady is a resident of New South Wales.

### Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin (age 54)

*Member – Board Audit Committee*

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

***Experience***

Mr Hawker was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, Mr Hawker held a range of positions at Westpac, including Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of positions at Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe.

Mr Hawker was President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, board member of the Geneva Association and member of the Financial Sector Advisory Council. He is the founder of the Australian Business in the Community Network.

***Other current directorships/appointments***

- Chairman, Australian Rugby Union
- Chairman, the George Institute for Global Health
- Member, Board of Trustees of the Giant Steps Foundation

***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)

Mr Hawker is a resident of New South Wales.

### Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits), FAICD (age 66)

*Member – Board Audit Committee*

Peter Kirby joined the Board of Macquarie Bank as an Independent Voting Director in June 2003 and has been a member of the Board of Macquarie Group since August 2007.

***Experience***

Mr Kirby was Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was Chairman and a Director of Medibank Private Limited from 2004 to 2007, a Director of Orica Limited from 2007 to 2010 and a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries Plc group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coating businesses worldwide, and a member of the Executive Board of ICI Plc, with responsibility for ICI Americas and the western hemisphere.

***Listed company directorships***

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

- Chairman, DuluxGroup Limited (since July 2010)

Mr Kirby is a resident of Victoria.

### Helen M Nugent AO, BA (Hons) (Qld), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 65)

Helen Nugent was appointed as an Independent Voting Director of Macquarie Bank in June 1999 and has been a member of the Board of Macquarie Group since August 2007.

***Experience***

Dr Nugent's involvement in financial services spans 30 years as a Partner at McKinsey, Director of Strategy at Westpac Banking Corporation and in a number of non-executive roles. She has also been Chairman of Swiss Re (Australia), and a non-executive Director of the State Bank of New South Wales and Mercantile Mutual. She has also had a significant involvement in the energy and resources sector. While at McKinsey, she served a major resources company for eight years and has been a non-executive director of United Energy. She is an experienced non-executive director and has served on the boards of UNiTAB, Carter Holt Harvey, Australia Post and Freehills.

Dr Nugent has been actively involved in the arts and education. She was previously Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Nugent Inquiry into the major performing arts and Deputy Chairman of Opera Australia. Previously she has been a member of the four person Bradley Review into tertiary education and Professor in Management and Director of the MBA Programme at the Australian Graduate School of Management.

***Other current directorships/appointments***

- Chairman, Funds SA
- Chancellor, Bond University
- Chairman, National Portrait Gallery

***Listed company directorships***

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

- Chairman, Veda Group Limited (since September 2013)
- Director, Origin Energy Limited (since March 2003)

Dr Nugent is a resident of New South Wales.

### Nicola M Wakefield Evans, BJuris/BLaw (UNSW), MAICD (age 53)

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

***Experience***

Ms Wakefield Evans has extensive experience as a corporate finance lawyer at King & Wood Mallesons (previously Mallesons Stephen Jaques), where she was a partner for over 20 years, including Managing Partner, Practice division (Sydney) from 2004 to 2007 and Managing Partner, International division (Hong Kong) from 2007 to 2010. Ms Wakefield Evans is a member of the Australian Institute of Company Directors, the International Bar Association and Chief Executive Women.

***Other current directorships/appointments***

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

***Listed company directorships***

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

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

Ms Wakefield Evans is a resident of New South Wales.

### Peter H Warne, BA (Macquarie), FAICD (age 58)

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

***Experience***

Mr Warne was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this, he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006 he became a Director of ASX Limited.

He is a former Director of Next Financial Limited.

***Other current directorships/appointments***

- Director, Securities Industry Research Centre of Asia Pacific Limited
- Director, New South Wales Treasury Corporation
- Member, Advisory Board of the Australian Office of Financial Management
- Patron, Macquarie University Foundation

***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)
- Deputy Chairman, Crowe Horwath Australasia Limited (director since May 2007)
- Director, ASX Limited (since July 2006)

Mr Warne is a resident of New South Wales.

# Directors' Report Schedule 1
## for the financial year ended 31 March 2014
## continued

### Company secretaries' qualifications and experience

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

*Company Secretary since 25 October 1993*

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Company Secretarial Division that is responsible for the Group's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 20 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

#### Paula Walsh, ACIS

*Assistant Company Secretary since 29 May 2008*

Paula Walsh is a Division Director of Macquarie and has over 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), LLM (UNSW), AGIA

*Assistant Company Secretary since 1 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.

pwc

## Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

**DH Armstrong**
Partner
PricewaterhouseCoopers

Sydney
2 May 2014

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

# Macquarie Bank Limited
## 2014 Financial Report
## Contents



**The Financial Report was authorised for issue by the Directors on 2 May 2014.**
**The Consolidated Entity has the power to amend and reissue the Financial Report.**

# Income statements
## for the financial year ended 31 March 2014

| | Notes | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|---|
| Interest and similar income | | **4,316** | 4,394 | **3,352** | 3,203 |
| Interest expense and similar charges | | **(2,601)** | (2,966) | **(2,273)** | (2,491) |
| Net interest income | 2 | **1,715** | 1,428 | **1,079** | 712 |
| Fee and commission income | 2 | **1,685** | 1,513 | **237** | 127 |
| Net trading income | 2 | **1,602** | 1,278 | **1,408** | 1,057 |
| Share of net profits of associates and joint ventures accounted for using the equity method | 2 | **14** | 40 | **–** | – |
| Other operating income and charges | 2 | **470** | 342 | **961** | 1,173 |
| Net operating income | | **5,486** | 4,601 | **3,685** | 3,069 |
| Employment expenses | 2 | **(1,684)** | (1,511) | **(999)** | (875) |
| Brokerage, commission and trading-related expenses | 2 | **(697)** | (523) | **(448)** | (287) |
| Occupancy expenses | 2 | **(140)** | (145) | **(93)** | (93) |
| Non-salary technology expenses | 2 | **(100)** | (88) | **(64)** | (52) |
| Other operating expenses | 2 | **(1,470)** | (1,305) | **(964)** | (855) |
| Total operating expenses | | **(4,091)** | (3,572) | **(2,568)** | (2,162) |
| **Operating profit before income tax** | | **1,395** | 1,029 | **1,117** | 907 |
| Income tax expense | 4 | **(621)** | (355) | **(366)** | (86) |
| **Profit after income tax** | | **774** | 674 | **751** | 821 |
| Profit attributable to non-controlling interests: | | | | | |
| Macquarie Income Preferred Securities | 5 | **(4)** | (4) | **–** | – |
| Other non-controlling interests | | **–** | 1 | **–** | – |
| Profit attributable to non-controlling interests | | **(4)** | (3) | **–** | – |
| **Profit attributable to equity holders of Macquarie Bank Limited** | | **770** | 671 | **751** | 821 |
| Distributions paid or provided for on: | | | | | |
| Macquarie Income Securities | 5 | **(18)** | (21) | **–** | – |
| Convertible debentures | 5 | **–** | – | **(4)** | (4) |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | | **752** | 650 | **747** | 817 |

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

# Statements of comprehensive income
## for the financial year ended 31 March 2014

| | Notes | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|---|
| **Profit after income tax** | | **774** | 674 | **751** | 821 |
| Other comprehensive income/(expense) [1]: | | | | | |
| Available for sale investments, net of tax | 29 | **(18)** | 10 | **(20)** | 66 |
| Cash flow hedges, net of tax | 29 | **18** | (10) | **(5)** | 7 |
| Share of other comprehensive income/(expense) of associates and joint ventures, net of tax | 29 | **–** | (2) | **–** | – |
| Exchange differences on translation of foreign operations, net of hedge and tax | | **506** | (29) | **13** | (4) |
| Total other comprehensive income/(expense) | | **506** | (31) | **(12)** | 69 |
| **Total comprehensive income** | | **1,280** | 643 | **739** | 890 |
| Total comprehensive income/(expense) is attributable to: | | | | | |
| Ordinary equity holders of Macquarie Bank Limited | | **1,244** | 622 | **735** | 886 |
| Macquarie Income Securities holders | | **18** | 21 | **–** | – |
| Macquarie Income Preferred Securities holders | | **18** | 1 | **–** | – |
| Convertible debenture holders | | **–** | – | **4** | 4 |
| Other non-controlling interests | | **–** | (1) | **–** | – |
| **Total comprehensive income** | | **1,280** | 643 | **739** | 890 |

(1) 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
## as at 31 March 2014

| | Notes | Consolidated 2014 $m | Consolidated 2013[1] $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Receivables from financial institutions | 6 | **16,151** | 12,607 | **14,778** | 10,857 |
| Trading portfolio assets | 7 | **21,640** | 18,853 | **19,472** | 16,323 |
| Derivative assets | | **12,468** | 14,595 | **11,591** | 13,513 |
| Investment securities available for sale | 8 | **12,182** | 14,190 | **11,196** | 15,641 |
| Other assets | 9 | **8,302** | 7,895 | **5,035** | 4,836 |
| Loan assets held at amortised cost | 10 | **57,170** | 49,218 | **34,978** | 25,653 |
| Other financial assets at fair value through profit or loss | 12 | **2,195** | 4,645 | **2,094** | 3,358 |
| Due from related body corporate entities | 31 | **2,244** | 1,060 | **2,029** | 994 |
| Due from subsidiaries | 31 | **–** | – | **26,228** | 19,791 |
| Property, plant and equipment | 13 | **6,045** | 5,352 | **328** | 221 |
| Interests in associates and joint ventures accounted for using the equity method | 14 | **551** | 528 | **110** | 175 |
| Intangible assets | 15 | **785** | 795 | **57** | 55 |
| Investments in subsidiaries | 16 | **–** | – | **4,588** | 4,243 |
| Deferred tax assets | 18 | **178** | 262 | **90** | 363 |
| **Total assets** | | **139,911** | 130,000 | **132,574** | 116,023 |
| **Liabilities** | | | | | |
| Trading portfolio liabilities | 19 | **2,459** | 1,384 | **2,344** | 1,371 |
| Derivative liabilities | | **11,748** | 14,725 | **11,498** | 14,588 |
| Deposits | 20 | **42,302** | 40,966 | **41,624** | 39,992 |
| Other liabilities | 21 | **8,521** | 8,147 | **5,277** | 4,520 |
| Payables to financial institutions | 22 | **16,573** | 15,180 | **16,362** | 14,644 |
| Other financial liabilities at fair value through profit or loss | 23 | **937** | 919 | **1,959** | 739 |
| Due to related body corporate entities | 31 | **7,443** | 5,456 | **6,833** | 5,250 |
| Due to subsidiaries | 31 | **–** | – | **14,835** | 7,758 |
| Debt issued at amortised cost | 24 | **37,255** | 31,826 | **20,508** | 16,306 |
| Provisions | 25 | **86** | 104 | **60** | 68 |
| Deferred tax liabilities | 18 | **625** | 435 | **132** | 236 |
| **Total liabilities excluding loan capital** | | **127,949** | 119,142 | **121,432** | 105,472 |
| **Loan capital** | | | | | |
| Subordinated debt at amortised cost | | **2,464** | 2,203 | **2,464** | 2,203 |
| **Total loan capital** | 27 | **2,464** | 2,203 | **2,464** | 2,203 |
| **Total liabilities** | | **130,413** | 121,345 | **123,896** | 107,675 |
| **Net assets** | | **9,498** | 8,655 | **8,678** | 8,348 |
| **Equity** | | | | | |
| Contributed equity | 28 | **8,101** | 8,077 | **8,157** | 8,152 |
| Reserves | 29 | **(68)** | (560) | **22** | 34 |
| Retained earnings | 29 | **1,388** | 1,046 | **499** | 162 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | | **9,421** | 8,563 | **8,678** | 8,348 |
| **Non-controlling interests** | 29 | **77** | 92 | **–** | – |
| **Total equity** | | **9,498** | 8,655 | **8,678** | 8,348 |

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

*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 2014

| | Notes | Contributed equity[1] $m | Reserves $m | Retained earnings $m | Total $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | Consolidated |
| Balance at 1 April 2012 | | 8,077 | (532) | 1,658 | 9,203 | 68 | 9,271 |
| Profit after income tax | | – | – | 671 | 671 | 3 | 674 |
| Other comprehensive expense, net of tax | | – | (28) | – | (28) | (3) | (31) |
| Total comprehensive (expense)/income | | – | (28) | 671 | 643 | – | 643 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Dividends and distributions paid or provided for | 5 | – | – | (1,283) | (1,283) | – | (1,283) |
| Non-controlling interests: | | | | | | | |
| Contributions of equity, net of transaction costs | | – | – | – | – | 27 | 27 |
| Distributions paid or provided for | | – | – | – | – | (3) | (3) |
| | | – | – | (1,283) | (1,283) | 24 | (1,259) |
| **Balance at 31 March 2013** | | **8,077** | **(560)** | **1,046** | **8,563** | **92** | **8,655** |
| Profit 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 | | **–** | **–** | **–** | **–** | **(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)** |
| **Balance at 31 March 2014** | | **8,101** | **(68)** | **1,388** | **9,421** | **77** | **9,498** |

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i) - Summary of significant accounting policies.

| | Notes | Contributed equity $m | Reserves $m | Retained earnings $m | Total $m | Non-controlling interests $m | Total equity $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | **Bank** |
| Balance at 1 April 2012 | | 8,155 | (35) | 607 | 8,727 | – | 8,727 |
| Profit after income tax | | – | – | 821 | 821 | – | 821 |
| Other comprehensive income, net of tax | | – | 69 | – | 69 | – | 69 |
| Total comprehensive income | | – | 69 | 821 | 890 | – | 890 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Dividends and distributions paid or provided for | 5 | – | – | (1,266) | (1,266) | – | (1,266) |
| Other equity movements: | | | | | | | |
| Return of capital to ultimate parent entity in relation to share-based payments | 28 | (3) | – | – | (3) | – | (3) |
| | | (3) | – | (1,266) | (1,269) | – | (1,269) |
| **Balance at 31 March 2013** | | **8,152** | **34** | **162** | **8,348** | **–** | **8,348** |
| Profit after tax | | **–** | **–** | **751** | **751** | **–** | **751** |
| Other comprehensive expense, net of tax | | **–** | **(12)** | **–** | **(12)** | **–** | **(12)** |
| Total comprehensive income | | **–** | **(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)** |
| **Balance at 31 March 2014** | | **8,157** | **22** | **499** | **8,678** | **–** | **8,678** |

*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 2014

| | Notes | Consolidated 2014 $m | Consolidated 2013[(1)] $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|---|
| **Cash flows (used in)/from operating activities** | | | | | |
| Interest received | | **4,117** | 4,208 | **3,377** | 3,075 |
| Interest and other costs of finance paid | | **(2,582)** | (2,982) | **(2,246)** | (2,526) |
| Dividends and distributions received | | **24** | 64 | **561** | 1,136 |
| Fees and other non-interest income received | | **2,545** | 2,301 | **697** | 577 |
| Fees and commissions paid | | **(688)** | (670) | **(440)** | (429) |
| Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities | | **(951)** | (138) | **(1,773)** | 1,336 |
| Payments to suppliers | | **(1,370)** | (1,265) | **(335)** | (983) |
| Employment expenses paid | | **(1,591)** | (1,445) | **(956)** | (829) |
| Income tax paid | | **(82)** | (679) | **(101)** | (547) |
| Life investment contract premiums received, disposal of investement assets and other unitholder contributions | | **1,191** | 2,029 | **–** | – |
| Life insurance contract payments and payments for investment assets | | **(1,123)** | (1,965) | **–** | – |
| Net loan assets granted | | **(7,108)** | (1,185) | **(6,716)** | (5,328) |
| Recovery of loans previously written off | 2 | **17** | 15 | **6** | 4 |
| Net increase in amounts due to other financial institutions, deposits and other borrowings | | **6,753** | 1,427 | **5,495** | 4,790 |
| Net cash flows (used in)/from operating activities | 30 | **(848)** | (285) | **(2,431)** | 276 |
| **Cash flows from investing activities** | | | | | |
| Net proceeds from investment securities available for sale | | **3,875** | 1,423 | **3,990** | 871 |
| Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated | | **58** | 484 | **463** | 159 |
| Payments for the acquisition of associates and subsidiaries, net of cash acquired | | **(121)** | (813) | **(345)** | (316) |
| Proceeds from the disposal of property, plant and equipment, leased assets and intangible assets | | **104** | 176 | **–** | – |
| Payments for the acquisition of property, plant and equipment, leased assets and intangible assets | | **(519)** | (504) | **(110)** | (228) |
| Net cash flows from investing activities | | **3,397** | 766 | **3,998** | 486 |

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

| | Notes | Consolidated 2014 $m | Consolidated 2013[1] $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|---|
| **Cash flows used in financing activities** | | | | | |
| Proceeds from non-controlling interests | | **100** | 29 | **–** | – |
| Repayment of subordinated debt | | **–** | (299) | **–** | (299) |
| Dividends and distributions paid | | **(432)** | (1,288) | **(410)** | (1,266) |
| Net cash flows used in financing activities | | **(332)** | (1,558) | **(410)** | (1,565) |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,217** | (1,077) | **1,157** | (803) |
| Cash and cash equivalents at the beginning of the financial year | | **11,168** | 12,245 | **9,500** | 10,303 |
| **Cash and cash equivalents at the end of the financial year** | 30 | **13,385** | 11,168 | **10,657** | 9,500 |

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

*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 2014

# Note 1
**Summary of significant accounting policies**

**(i) Basis of preparation**

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

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

*Compliance with IFRS as issued by the IASB*

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

*Historical cost convention*

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

*Critical accounting estimates and significant judgements*

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Bank 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(xiii), 10 and 14);
- acquisitions and disposals of subsidiaries and associates and joint ventures (notes 1(ii), 14 and 43);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of structured entities (notes 1(ii), 10 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); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 15).

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

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

*New Accounting Standards and amendments to Accounting Standards 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 10** replaces the previous guidance on control and retains the core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity. Whereas the control definition in the previous guidance focussed on ‘risks and rewards’, AASB 10 focuses on the combination of power, exposure to variable returns and ability to use the power to affect the returns. The Consolidated Entity’s accounting policy for Principles of consolidation in accordance with AASB 10 is provided in note 1(ii).

Application of AASB 10 has resulted in the deconsolidation of certain entities that were previously consolidated due to exposure to a majority of risks and rewards; however the Consolidated Entity either does not have power over the relevant activities, or is not exposed to significant variable returns of the entity, or both. This includes entities where client monies are invested and the investors absorb substantially all the variable returns of the entity (leaving the Consolidated Entity with insignificant returns). Further, for such entities the Consolidated Entity acts as an agent for the investors as a result of their substantive right to remove the Consolidated Entity from its role as manager. For other entities, the Consolidated Entity has a majority of the risk of loss through its derivatives, however does not have significant variable returns since those derivatives create exposure that is passed through the entity and absorbed by investors.

The transitional provisions permit prior period comparatives to not be restated where the accounting outcome under the previous guidance is the same as that under AASB 10 as at the date of initial application, 1 April 2013. For all other situations, comparatives are restated retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if AASB 10 had always been applied.

Initial application has resulted in a decrease in Life investment contracts and other unitholder investment assets (included in Other assets as at 31 March 2014) and Total assets, with a corresponding decrease in Life investment contracts and other unitholder liabilities (included in Other liabilities as at 31 March 2014) and Total liabilities. The amount of the adjustment to each of these financial statement line items is $6,037 million as at 31 March 2013 and $4,612 million as at 1 April 2012. Further, Contributed equity and Other assets are increased by $7 million as at 31 March 2013 and $6 million as at 1 April 2012 due to the reclassification of treasury shares. Initial application has not affected basic and diluted earnings per share in these periods.

The amount of the adjustment for each line item affected in the Consolidated statement of cash flows is as follows:

Consolidated statement of cash flows (extract)

| | Consolidated 2013 $m Amount of adjustment |
|---|---|
| Cash flows from operating activities: | |
| Life investment contract premiums received, disposal of investment assets and other unitholder contributions | (7,139) |
| Life investment contract payments, payments for investment assets and other unitholder maturities | 7,139 |
| Net cash flows used in operating activities | – |

Initial application of AASB 11, AASB 127 (Dec 2012) and AASB 128 (Dec 2012) has not resulted in any material impact in the current or prior financial year.

**AASB 12** sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. The application of AASB 12 in the current financial year has not affected any of the amounts recognised in the financial statements, however has resulted in additional disclosures of structured entities as provided in note 36 AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 13 *Fair value measurement*

**AASB 13** became effective in the current financial year. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. In accordance with the transitional provisions, AASB 13 has been applied prospectively from 1 April 2013. The application of AASB 13 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional fair value disclosures as provided in note 39.

AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

**AASB 2012-2** requires additional disclosures of enforceable master netting arrangements and their effect, even if assets and liabilities are not offset on the statement of financial position. In accordance with the transitional provisions, AASB 2012-2 has been applied retrospectively. The application of AASB 2012 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional disclosures of certain netting arrangements as provided in note 40.

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

**AASB 2011-9** requires items included in other comprehensive income (OCI) in the Statement of comprehensive income (including prior period comparatives) to be grouped according to whether they may be reclassified subsequently to profit or loss. For the year ended 31 March 2014, all items have been presented as "Items that may be reclassified subsequently to profit or loss".

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

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 effective for annual reporting periods beginning on or after 1 January 2014. The Consolidated Entity will first apply AASB 2012-3 in the financial year beginning 1 April 2014. The Consolidated Entity is continuing to assess the impact of AASB 2012-3.

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,* and is effective for annual reporting periods beginning on or after 1 July 2013. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2014. Whilst the amendments may reduce the disclosures provided, it will not affect any of the amounts recognised in the financial statements.

AASB 9 *Financial Instruments* and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments. 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 contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in OCI, but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, 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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 1

**Summary of significant accounting policies** continued

In respect of 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 OCI, unless such presentation creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in credit risk) are presented in profit or loss. All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to AASB 9 unamended.

AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* makes amendments to AASB 9 to: (i) replace the general hedge accounting requirements to more closely align hedge accounting with risk management activities undertaken when hedging financial and non-financial risks; (ii) permit fair value changes due to changes in 'own credit risk' of financial liabilities measured at fair value to be recognised through other comprehensive income, without applying all other requirements of AASB 9 at the same time; and (iii) defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2017. This application date is subject to review and is expected to be revised by the IASB.

The Consolidated Entity is continuing to assess the full impact of adopting AASB 9.

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. The amendments also set out new disclosure requirements for investment entities.

AASB 2013-5 is effective for annual reporting periods beginning on or after 1 January 2014. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2014. Initial application is not expected to result in any material impact for the Consolidated Entity.

**(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 the power to direct the relevant activities, exposure to significant variable returns and 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, such as 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) an SE, judgement is required about whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

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

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 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

The Bank and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to 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**

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure any NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the 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 in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 1

**Summary of significant accounting policies** continued

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

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

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

*Combinations between entities or businesses under common control*

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

**(iv) Segment reporting**

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

**(v) Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The 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 OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 1(xi)).

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

*Subsidiaries and other entities*

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

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

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

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

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

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

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

*Net trading income*

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

*Dividends and distributions*

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognised in the income statement when the 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 (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;
- 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; and
- the basis for the amendment in May 2008 to the 'cost method' description in AASB 127 *Consolidated and Separate Financial Statements* so as to remove an approach solely relying upon determining post-acquisition retained earnings.

**(vii) Income tax**

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

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or where a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts 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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 1

**Summary of significant accounting policies** continued

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 resident wholly-owned subsidiaries of Macquarie Group comprise a tax consolidated group with Macquarie Group Limited (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, the 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). 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.

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

**(xi) Hedge accounting**

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

*Cash flow hedges*

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

*Fair value hedges*

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

*Net investment hedges*

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 37. Movements in the cash flow hedging reserve in equity are shown in note 29.

**(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).

*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.

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).

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 1

**Summary of significant accounting policies** continued

**(xiii) Impairment**

*Loan assets held at amortised cost*

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

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

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

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

**(xiv) Life insurance business**

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

*Disclosure*

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the 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.

**(xv) Property, plant and equipment**

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

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

| | |
|---|---|
| Buildings | 2.5 to 3.3 per cent |
| Furniture, fittings and leasehold improvements[(1)] | 10 to 20 per cent |
| Equipment | 33 to 50 per cent |
| Infrastructure assets | 5 to 20 per cent |
| Aviation | 2 to 4 per cent |
| Meters | 5 to 10 per cent |
| Rail cars | 2 to 3 per cent |
| Other operating lease assets | 2 to 50 per cent |

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

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

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

**(xvi) Goodwill and other identifiable intangible assets**

*Goodwill*

Goodwill represents the excess of the 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 carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

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

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

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

*Software*

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

*Impairment*

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

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 1
**Summary of significant accounting policies** continued

**(xvii) Financial liabilities**

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

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

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

**(xviii) Provisions**

*Employee benefits*

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

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

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

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the 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.

**(xix) Performance based remuneration**

*Share-based payments*

The ultimate parent entity, MGL, operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 33. The Consolidated Entity recognises an expense for its shares and options granted to its employees by MGL. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

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

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

Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2013. The fair value of each of these grants is estimated using MGL'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: 3.33 per cent;
- expected vest date of 1 July 2016 and 1 July 2017; and
- dividend yield: 5.18 per cent per annum.

While RSUs/DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, the Consolidated Entity and the Bank 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 MGL's share price as at 31 March 2014 (and for PSUs, also incorporates an interest rate to maturity of 3.62 per cent; expected vest dates of 1 July 2017 and 3 July 2018; and a dividend yield of 5.02 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity and the Bank will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

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

*Profit share remuneration*

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

**(xx) Cash and cash equivalents**

Cash and cash equivalents comprise:

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

**(xxi) Leases**

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

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

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

**(xxii) Offsetting financial instruments**

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

**(xxiii) Loan capital**

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

**(xxiv) Contributed equity**

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

**(xxv) Changes in ownership interests**

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary), previously held interests are revalued to their current fair value and any gain or loss is immediately recognised in profit or loss.

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.

**(xxvi) Comparatives**

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

**(xxvii) Rounding of amounts**

The Bank is of a kind referred to in *ASIC Class Order 98/100* (as amended), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Note 2** | | | | |
| **Profit for the financial year** | | | | |
| **Net interest income** | | | | |
| Interest and similar income received/receivable | **4,316** | 4,394 | **3,352** | 3,203 |
| Interest expense and similar charges paid/payable | **(2,601)** | (2,966) | **(2,273)** | (2,491) |
| Net interest income | **1,715** | 1,428 | **1,079** | 712 |
| **Fee and commission income** | | | | |
| Base fees | **797** | 639 | **12** | 9 |
| Performance fees | **56** | 25 | **–** | – |
| Mergers and acquisitions, advisory and underwriting fees | **39** | 41 | **22** | 17 |
| Brokerage and commissions | **467** | 364 | **262** | 129 |
| Other fee and commission income/(expense) | **326** | 444 | **(59)** | (28) |
| Total fee and commission income | **1,685** | 1,513 | **237** | 127 |
| **Net trading income[(1)]** | | | | |
| Equities | **351** | 225 | **256** | 187 |
| Commodities | **1,072** | 687 | **380** | 385 |
| Credit, interest rates and foreign exchange products | **179** | 366 | **772** | 485 |
| Net trading income | **1,602** | 1,278 | **1,408** | 1,057 |
| **Share of net profits of associates and joint ventures accounted for using the equity method** | **14** | 40 | **–** | – |

(1) Included in net trading income are fair value gains of $157 million (2013: $255 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity’s economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

# Note 2

**Profit for the financial year** continued

| | | | | |
|---|---|---|---|---|
| **Other operating income and charges** | | | | |
| Net gains on sale of investment securities available for sale | **166** | 98 | **113** | 88 |
| Impairment charge on investment securities available for sale | **(90)** | (170) | **(86)** | (167) |
| Net gains/(losses) on sale of associates and joint ventures (note 31) | **9** | 51 | **59** | (7) |
| Impairment charge on interest in associates and joint ventures | **(24)** | (27) | **(6)** | (12) |
| Impairment charge on subsidiaries | **–** | – | **(93)** | (109) |
| Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale | **15** | 19 | **21** | – |
| Gain on change of ownership interests | **2** | – | **–** | – |
| Impairment charge on non-financial assets | **(27)** | (27) | **(2)** | (6) |
| Net operating lease income | | | | |
| Rental income | **932** | 724 | **14** | – |
| Depreciation on operating lease assets (note 13) | **(401)** | (307) | **(11)** | – |
| Dividends/distributions received/receivable: | | | | |
| Investment securities available for sale | **32** | 19 | **18** | 6 |
| Subsidiaries and associates | **–** | – | **671** | 1,127 |
| Management fees, group service charges and cost recoveries | **–** | – | **454** | 341 |
| Collective allowance for credit losses (provided for)/ written back during the financial year (note 10) | **(53)** | 7 | **(45)** | 10 |
| Individually assessed provisions: | | | | |
| Loan assets provided for during the financial year (note 10) | **(106)** | (82) | **(134)** | (80) |
| Other receivables provided for during the financial year | **(16)** | (8) | **(3)** | (6) |
| Recovery of loans previously provided for | **11** | 12 | **53** | 50 |
| Loan losses written off | **(62)** | (94) | **(20)** | (48) |
| Recovery of loans previously written off | **17** | 15 | **6** | 4 |
| Other income/(charges) | **65** | 112 | **(48)** | (18) |
| Total other operating income and charges | **470** | 342 | **961** | 1,173 |
| **Net operating income** | **5,486** | 4,601 | **3,685** | 3,069 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 2
**Profit for the financial year** continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Employment expenses** | | | | |
| Salary and salary related costs including commissions, superannuation and performance-related profit share | **(1,566)** | (1,396) | **(932)** | (809) |
| Share-based payments | **(116)** | (113) | **(66)** | (66) |
| (Provision for)/reversal of annual leave | **(2)** | (1) | **(1)** | 1 |
| Reversal of long service leave | **–** | (1) | **–** | (1) |
| Total employment expenses | **(1,684)** | (1,511) | **(999)** | (875) |
| **Brokerage, commission and trading-related expenses** | | | | |
| Brokerage and other trading-related expenses | **(559)** | (397) | **(362)** | (226) |
| Other fee and commission expenses | **(138)** | (126) | **(86)** | (61) |
| Total brokerage, commission and trading-related expenses | **(697)** | (523) | **(448)** | (287) |
| **Occupancy expenses** | | | | |
| Operating lease rentals | **(43)** | (51) | **(21)** | (29) |
| Depreciation: buildings, furniture, fittings and leasehold improvements (note 13) | **(9)** | (12) | **(1)** | (2) |
| Other occupancy expenses | **(88)** | (82) | **(71)** | (62) |
| Total occupancy expenses | **(140)** | (145) | **(93)** | (93) |
| **Non-salary technology expenses** | | | | |
| Information services | **(69)** | (59) | **(49)** | (40) |
| Depreciation: equipment (note 13) | **(2)** | (2) | **–** | (1) |
| Service provider and other non-salary technology expenses | **(29)** | (27) | **(15)** | (11) |
| Total non-salary technology expenses | **(100)** | (88) | **(64)** | (52) |
| **Other operating expenses** | | | | |
| Professional fees | **(170)** | (152) | **(81)** | (79) |
| Auditor's remuneration (note 42) | **(16)** | (15) | **(6)** | (6) |
| Travel and entertainment expenses | **(64)** | (60) | **(38)** | (36) |
| Advertising and promotional expenses | **(60)** | (51) | **(17)** | (16) |
| Communication expenses | **(14)** | (16) | **(8)** | (7) |
| Amortisation of intangibles (note 15) | **(54)** | (52) | **(15)** | (10) |
| Other expenses[1] | **(1,092)** | (959) | **(799)** | (701) |
| Total other operating expenses | **(1,470)** | (1,305) | **(964)** | (855) |
| **Total operating expenses** | **(4,091)** | (3,572) | **(2,568)** | (2,162) |

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

# Note 3

## Segment reporting

### (i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into five operating groups and a corporate group. These segments have been set up based on the different core products and services offered. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy.

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

**Corporate and Asset Finance** is the lending and leasing business of the Consolidated Entity.

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

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

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

**Corporate** is not considered an operating group and includes head office and central support functions including Group Treasury. The Corporate segment also holds certain investments not aligned with 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, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non controlling interests (NCI) and holders of loan capital.

#### *Internal transactions*

All transactions and transfers between segments are 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 the key policies.

#### *Internal funding arrangements*

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.

During the year ended 31 March 2014, Group Treasury revised internal funding transfer pricing arrangements relating to Banking and Financial Services' deposit and lending activities. Comparative information presented in this document has been restated to reflect the current methodology.

#### *Transactions between Operating Groups*

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms. 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.

#### *Internal management revenue/charges*

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense and benefits. Non-assessable income generated by an Operating Group results in management revenue added to that group's operating result. Conversely a non-deductible expense results in a management charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that on aggregation the total nets to nil.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 3

**Segment reporting** continued

**(i) Operating segments** continued

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

| | Macquarie Funds Group $m | Corporate and Asset Finance $m | Banking and Financial Services Group $m |
|---|---|---|---|
| Net interest and trading income | **74** | **648** | **739** |
| Fee and commission income/(expense) | **983** | **36** | **576** |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | **(5)** | **2** | **1** |
| Other operating income and charges | | | |
| Impairment charges and provisions, net of recoveries | **–** | **(85)** | **(49)** |
| Other other operating income and charges | **64** | **577** | **49** |
| Internal management revenue/(charge) | **4** | **13** | **5** |
| Net operating income/(charge) | **1,120** | **1,191** | **1,321** |
| Total operating expenses | **(649)** | **(375)** | **(1,060)** |
| Profit/(loss) before tax | **471** | **816** | **261** |
| Tax expense | **–** | **–** | **–** |
| Loss/(profit) attributable to non-controlling interests | **1** | **–** | **–** |
| Profit/(loss) attributable to equity holders | **472** | **816** | **261** |
| Distributions paid or provided for on MIS | **–** | **–** | **–** |
| Net profit/(loss) attributable to ordinary equity holders | **472** | **816** | **261** |
| Reportable segment assets | **6,365** | **26,370** | **29,611** |

| | Macquarie Funds Group $m | Corporate and Asset Finance $m | Banking and Financial Services Group $m |
|---|---|---|---|
| Net interest and trading income | 59 | 569 | 642 |
| Fee and commission income/(expense) | 798 | 37 | 645 |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | 10 | (3) | 3 |
| Other operating income and charges | | | |
| Impairment charges and provisions, net of recoveries | (8) | (55) | (44) |
| Other other operating income and charges | 36 | 485 | 36 |
| Internal management revenue/(charge) | 8 | 3 | 9 |
| Net operating income/(charge) | 903 | 1,036 | 1,291 |
| Total operating expenses | (572) | (352) | (1,048) |
| Profit/(loss) before tax | 331 | 684 | 243 |
| Tax expense | – | – | – |
| Loss/(profit) attributable to non-controlling interests | 1 | – | – |
| Profit/(loss) attributable to equity holders | 332 | 684 | 243 |
| Distributions paid or provided for on MIS | – | – | – |
| Net profit/(loss) attributable to ordinary equity holders | 332 | 684 | 243 |
| Reportable segment assets | 6,849 | 23,181 | 26,051 |

| Macquarie Securities Group $m | Fixed Income, Currencies and Commodities $m | Corporate $m | Total $m |
|---|---|---|---|
| | | | **Consolidated 2014** |
| **231** | **1,499** | **126** | **3,317** |
| **97** | **115** | **(122)** | **1,685** |
| **–** | **24** | **(8)** | **14** |
| **(5)** | **(206)** | **(5)** | **(350)** |
| **(1)** | **129** | **2** | **820** |
| **1** | **(7)** | **(16)** | **–** |
| **323** | **1,554** | **(23)** | **5,486** |
| **(305)** | **(911)** | **(791)** | **(4,091)** |
| **18** | **643** | **(814)** | **1,395** |
| **–** | **–** | **(621)** | **(621)** |
| **–** | **–** | **(5)** | **(4)** |
| **18** | **643** | **(1,440)** | **770** |
| **–** | **–** | **(18)** | **(18)** |
| **18** | **643** | **(1,458)** | **752** |
| **20,830** | **43,646** | **13,089** | **139,911** |
| | | | Consolidated 2013 |
| 186 | 1,087 | 163 | 2,706 |
| (28) | 75 | (14) | 1,513 |
| – | 26 | 4 | 40 |
| (1) | (243) | (23) | (374) |
| 1 | 165 | (7) | 716 |
| 1 | 17 | (38) | – |
| 159 | 1,127 | 85 | 4,601 |
| (218) | (694) | (688) | (3,572) |
| (59) | 433 | (603) | 1,029 |
| – | – | (355) | (355) |
| – | – | (4) | (3) |
| (59) | 433 | (962) | 671 |
| – | – | (21) | (21) |
| (59) | 433 | (983) | 650 |
| 15,564 | 42,560 | 15,795 | 130,000 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 3

**Segment reporting** continued

**(ii) Products and services**

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

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

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

**Capital Markets:** corporate and structured finance, advisory, underwriting, facilitation, broking and property development; and

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

| | Asset and Wealth Management $m | Financial Markets $m | Capital Markets $m | Lending $m | Total $m |
|---|---|---|---|---|---|
| | | | | | **Consolidated 2014** |
| Revenues from external customers | **1,733** | **2,943** | **131** | **4,253** | **9,060** |
| | | | | | Consolidated 2013 |
| Revenues from external customers | 1,638 | 3,035 | 1 | 3,725 | 8,399 |

**(iii) Geographical areas**

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

| | Revenues from external customers $m | Non-current assets[(1)] $m |
|---|---|---|
| | | **Consolidated 2014** |
| Australia | **4,885** | **815** |
| Americas | **2,410** | **1,753** |
| Europe, Middle East and Africa | **1,447** | **4,736** |
| Asia Pacific | **318** | **279** |
| **Total** | **9,060** | **7,583** |
| | | Consolidated 2013 |
| Australia | 4,589 | 688 |
| Americas | 2,133 | 1,762 |
| Europe, Middle East and Africa | 1,525 | 4,223 |
| Asia Pacific | 152 | 275 |
| **Total** | 8,399 | 6,948 |

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

**(iv) Major customers**

The Consolidated Entity does not rely on any major customer.

# Note 4

**Income tax expense**

**(i) Income tax expense**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Current tax (expense)/benefit | **(366)** | (259) | **(114)** | 19 |
| Deferred tax expense | **(255)** | (96) | **(252)** | (105) |
| **Total** | **(621)** | (355) | **(366)** | (86) |
| **(ii) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | |
| Prima facie income tax expense on operating profit[1] | **(419)** | (309) | **(335)** | (272) |
| Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income: | | | | |
| Rate differential on offshore income | **(198)** | (17) | **(218)** | (49) |
| Intra-group dividends | **–** | – | **191** | 329 |
| Impairment charge on controlled entities | **–** | – | **(26)** | (33) |
| Other items | **(4)** | (29) | **22** | (61) |
| **Total income tax expense** | **(621)** | (355) | **(366)** | (86) |
| **(iii) Tax benefit/(expense) relating to items of other comprehensive income** | | | | |
| Available for sale reserve | **(2)** | (21) | **7** | (38) |
| Cash flow hedges | **(10)** | 8 | **2** | (1) |
| Foreign currency translation reserve | **–** | 13 | **–** | – |
| Share of other comprehensive income of associates and joint ventures | **–** | 1 | **–** | – |
| **Total tax benefit/(expense) relating to items of other comprehensive income** | **(12)** | 1 | **9** | (39) |
| **(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/ liabilities:** | | | | |
| Investments in subsidiaries, associates, securities available for sale and joint ventures | **(77)** | 45 | **(18)** | 22 |
| Fixed assets | **15** | (6) | **27** | 8 |
| Leasing and financial instruments | **(132)** | (75) | **(123)** | (28) |
| Intangible assets | **(15)** | 6 | **2** | – |
| Other assets and liabilities | **(17)** | (82) | **(101)** | (132) |
| Tax Losses | **(29)** | 16 | **(39)** | 25 |
| **Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities** | **(255)** | (96) | **(252)** | (105) |

(1) Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2013: 30 per cent).

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

During the current and prior years, the Bank has received amended assessments from the Australian Tax Office (ATO), which cover a range of matters. A number of these matters have been resolved.

In accordance with ATO practice, the Bank has paid a portion of the primary tax and interest covered by these amended assessments and this amount has been included in these financial statements as part of tax receivables, pending resolution.

The Bank has considered its position with respect to these and other tax claims, including seeking advice, and considers that it holds appropriate provisions.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 5
### Dividends and distributions paid or provided for
**(i) Dividends paid**

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Ordinary share capital** | | | | |
| 2012 special dividend paid | **–** | 500 | **–** | 500 |
| 2013 final dividend paid | **130** | 455 | **130** | 455 |
| 2014 interim dividend paid | **280** | 307 | **280** | 307 |
| **Total dividends paid (note 29)** | **410** | 1,262 | **410** | 1,262 |

**(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 06 May 2014 from retained profits at 31 March 2014, but not recognised as a liability at the end of the financial year, is $159 million (2013: $130 million).

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

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Macquarie Income Securities** | | | | |
| Distributions paid (net of distributions previously provided) | **14** | 17 | **–** | – |
| Distributions provided for | **4** | 4 | **–** | – |
| **Total distributions paid or provided for (note 29)** | **18** | 21 | **–** | – |

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.

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Macquarie Income Preferred Securities** | | | | |
| Distributions paid (net of distributions previously provided) | **2** | 2 | **–** | – |
| Distributions provided for | **2** | 2 | **–** | – |
| **Total distributions paid or provided for** | **4** | 4 | **–** | – |

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 29—Reserves, retained earnings and non-controlling interests for further details on these instruments. 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.

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Convertible Debentures** | | | | |
| Distributions paid (net of distributions previously provided) | **–** | – | **2** | 2 |
| Distributions provided for | **–** | – | **2** | 2 |
| **Total distributions paid or provided for (note 29)** | **–** | – | **4** | 4 |

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

# Note 6

**Receivables from financial institutions**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Cash and other receivables(1) | **6,922** | 6,884 | **5,583** | 5,303 |
| Cash collateral on securities borrowed and reverse repurchase agreements(2) | **9,229** | 5,723 | **9,195** | 5,554 |
| **Total receivables from financial institutions(3)** | **16,151** | 12,607 | **14,778** | 10,857 |

(1) Included within this balance is $60 million (2013: $58 million) provided as security over payables to other financial institutions.

(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 2014 is $10,228 million (2013: $6,088 million), which is generally sold or re-pledged.

(3) Margin monies placed of $1,292 million have been reclassed to note 10 - Loan assets held at amortised cost for the Consolidated Entity and the Bank for the period ended 31 March 2013.

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**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Equities | | | | |
| Listed | **7,950** | 6,476 | **7,410** | 6,474 |
| Unlisted | **33** | 31 | **28** | 27 |
| Commonwealth government securities | **5,707** | 5,601 | **5,707** | 5,601 |
| Commodities | **4,506** | 2,261 | **3,750** | 1,431 |
| Foreign government securities | **1,756** | 1,742 | **1,356** | 761 |
| Corporate securities | **1,448** | 1,704 | **1,058** | 1,116 |
| Treasury notes | **173** | 252 | **155** | 252 |
| Promissory notes | **59** | 132 | **–** | 21 |
| Other government securities(1) | **8** | 640 | **8** | 640 |
| Bank bills | **–** | 14 | **–** | – |
| **Total trading portfolio assets(2),(3)** | **21,640** | 18,853 | **19,472** | 16,323 |

(1) Other government securities 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 $538 million (2013: $907 million).

(3) Included within this balance are trading assets of $7,155 million (2013: $6,784 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 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 8
**Investment securities available for sale**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Equity securities | | | | |
| Listed | **123** | 246 | **120** | 229 |
| Unlisted | **275** | 236 | **62** | 72 |
| Debt securities[(1),(2),(3)] | **11,784** | 13,708 | **11,014** | 15,340 |
| **Total investment securities available for sale[(4)]** | **12,182** | 14,190 | **11,196** | 15,641 |

(1) Included within this balance is $3,909 million (2013: $3,357 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $100 million (2013: $20 million) of bank bills.
(2) Included within this balance is $1,161 million (2013: $1,002 million) provided as security over payables to other financial institutions.
(3) Included within the Bank's balance is $nil (2013: $2,037 million) of mortgage based securities issued by a subsidiary.
(4) Included within this balance is $582 million (2013: $297 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $5,636 million (2013: $6,120 million) is expected to be recovered by the Consolidated Entity and $5,532 million (2013: $8,041 million) is expected to be recovered by the Bank within 12 months of the balance date.

## Note 9
**Other assets**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Debtors and prepayments | **3,987** | 3,485 | **2,418** | 2,447 |
| Security settlements[(1)] | **2,436** | 2,256 | **2,291** | 2,005 |
| Life investment contracts and other unitholder assets[(2)] | **1,115** | 1,210 | **–** | – |
| Income tax receivable | **437** | 534 | **315** | 360 |
| Property held for sale and development | **175** | 245 | **–** | 5 |
| Other | **152** | 165 | **11** | 19 |
| **Total other assets[(3)]** | **8,302** | 7,895 | **5,035** | 4,836 |

(1) Security settlements are generally receivable within three working days of the relevant trade date.
(2) In the year ended 31st March 2013, Life Investment contracts and other unitholder assets were disclosed as a separate line item in the statements of financial position of the Consolidated Entity and of the Bank respectively.
(3) Included within this balance is $50 million (2013: $23 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, $7,975 million (2013: $7,485 million) and $5,024 million (2013: $4,812 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 2014 | | | Consolidated 2013 | | |
|---|---|---|---|---|---|---|
| | **Gross $m** | **Individually assessed provision for impairment $m** | **Net $m** | Gross $m | Individually assessed provision for impairment $m | Net $m |
| Residential mortgage loans | **23,107** | **(13)** | **23,094** | 19,536 | (23) | 19,513 |
| Corporate and commercial lending | **15,865** | **(206)** | **15,659** | 13,155 | (162) | 12,993 |
| Lease and retail financing | **10,922** | **(72)** | **10,850** | 9,574 | (85) | 9,489 |
| Margin money placed | **4,800** | **–** | **4,800** | 4,753 | – | 4,753 |
| Relationship banking mortgages | **1,613** | **–** | **1,613** | 1,244 | – | 1,244 |
| Investment and insurance premium lending | **1,427** | **(9)** | **1,418** | 1,438 | (7) | 1,431 |
| **Total loan assets before collective allowance for credit losses** | **57,734** | **(300)** | **57,434** | 49,700 | (277) | 49,423 |
| Less collective allowance for credit losses | | | **(264)** | | | (205) |
| **Total loan assets held at amortised cost[(1),(2),(3)]** | | | **57,170** | | | 49,218 |

(1) Included within this balance are loans of $14,025 million (2013: $10,774 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 $3,145 million (2013: $2,096 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Included within this balance are loans of $3,853 million (2013: $5,863 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 $720 million (2013: $455 million) are pledged under repurchase agreements.

Of the above amounts, $14,484 million (2013: $14,833 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

| | Bank 2014 | | | Bank 2013 | | |
|---|---|---|---|---|---|---|
| | **Gross $m** | **Individually assessed provision for impairment $m** | **Net $m** | Gross $m | Individually assessed provision for impairment $m | Net $m |
| Residential mortgage loans | **13,845** | **(3)** | **13,842** | 6,591 | (8) | 6,583 |
| Corporate and commercial lending | **14,582** | **(192)** | **14,390** | 12,181 | (153) | 12,028 |
| Lease and retail financing | **926** | **(52)** | **874** | 862 | (74) | 788 |
| Margin money placed | **2,827** | **–** | **2,827** | 3,721 | – | 3,721 |
| Relationship banking mortgages | **1,613** | **–** | **1,613** | 1,244 | – | 1,244 |
| Investment and insurance premium lending | **1,675** | **(42)** | **1,633** | 1,447 | (7) | 1,440 |
| **Total loan assets before collective allowance for credit losses** | **35,468** | **(289)** | **35,179** | 26,046 | (242) | 25,804 |
| Less collective allowance for credit losses | | | **(201)** | | | (151) |
| **Total loan assets held at amortised cost** | | | **34,978** | | | 25,653 |

Of the above amounts, $8,845 million (2013: $9,858 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 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 10

**Loan assets held at amortised cost** continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Individually assessed provisions for impairment** | | | | |
| Balance at the beginning of the financial year | **277** | 352 | **242** | 281 |
| Provided for during the financial year (note 2) | **106** | 82 | **134** | 80 |
| Loan assets written off, previously provided for | **(100)** | (141) | **(50)** | (67) |
| Recovery of loans previously provided for (note 2) | **(11)** | (12) | **(53)** | (50) |
| Net transfer from other provisions | **10** | – | **3** | – |
| Impact of foreign currency translation | **18** | (4) | **13** | (2) |
| **Balance at the end of the financial year** | **300** | 277 | **289** | 242 |
| **Individually assessed provisions as a percentage of total gross loan assets** | **0.52%** | 0.56% | **0.81%** | 0.93% |
| **Collective allowance for credit losses** | | | | |
| Balance at the beginning of the financial year | **205** | 213 | **151** | 161 |
| Written back during the financial year (note 2) | **53** | (7) | **45** | (10) |
| Transfer from other provisions | **1** | – | **–** | – |
| Impact of foreign currency translation | **5** | (1) | **5** | – |
| **Balance at the end of the financial year** | **264** | 205 | **201** | 151 |

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

### 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 2014 | | | Consolidated 2013 |
|---|---|---|---|---|---|---|
| | **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 | **1,733** | **(212)** | **1,521** | 1,926 | (208) | 1,718 |
| Later than one year and no later than five years | **4,435** | **(525)** | **3,910** | 4,007 | (503) | 3,504 |
| Later than five years | **269** | **(79)** | **190** | 97 | (34) | 63 |
| **Total finance lease receivables** | **6,437** | **(816)** | **5,621** | 6,030 | (745) | 5,285 |

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

# Note 11

**Impaired financial assets**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Impaired debt investment securities available for sale before individually assessed provisions for impairment | **7** | 9 | **3** | 3 |
| Less individually assessed provisions for impairment | **(6)** | (7) | **(3)** | (2) |
| Debt investment securities available for sale after individually assessed provisions for impairment | **1** | 2 | **–** | 1 |
| Impaired loan assets and other financial assets before individually assessed provisions for impairment | **720** | 660 | **851** | 570 |
| Less individually assessed provisions for impairment | **(334)** | (310) | **(307)** | (267) |
| Loan assets and other financial assets after individually assessed provisions for impairment | **386** | 350 | **544** | 303 |
| **Total net impaired financial assets** | **387** | 352 | **544** | 304 |

# Note 12

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Investment securities | | | | |
| Equity securities | **1,222** | 2,243 | **1,136** | 1,017 |
| Debt securities | **325** | 1,177 | **325** | 1,114 |
| Loan assets | **648** | 1,225 | **633** | 1,227 |
| **Total other financial assets at fair value through profit or loss(1)** | **2,195** | 4,645 | **2,094** | 3,358 |

(1) Included within this balance is $655 million (2013: $595 million) provided as security over payables to other financial institutions.

Of the above amounts, $760 million (2013: $2,339 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $774 million (2013: $1,061 million) by the Bank.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 13
### Property, plant and equipment

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Assets for own use** | | | | |
| **Land and buildings** | | | | |
| Cost | **285** | 180 | **259** | 140 |
| Less accumulated depreciation | **(7)** | (6) | **–** | – |
| Total land and building | **278** | 174 | **259** | 140 |
| **Furniture, fittings and leasehold improvements** | | | | |
| Cost | **81** | 80 | **20** | 34 |
| Less accumulated depreciation | **(41)** | (43) | **(13)** | (13) |
| Total furniture, fittings and leasehold improvements | **40** | 37 | **7** | 21 |
| **Equipment** | | | | |
| Cost | **18** | 16 | **4** | 3 |
| Less accumulated depreciation | **(16)** | (14) | **(3)** | (3) |
| Total equipment | **2** | 2 | **1** | – |
| **Infrastructure assets** | | | | |
| Cost | **2** | 5 | **–** | – |
| Less accumulated depreciation | **(1)** | – | **–** | – |
| Total infrastructure assets | **1** | 5 | **–** | – |
| **Total assets for own use** | **321** | 218 | **267** | 161 |
| **Assets under operating lease** | | | | |
| **Aviation** | | | | |
| Cost | **4,062** | 3,533 | **–** | – |
| Less accumulated depreciation | **(618)** | (387) | **–** | – |
| Total aviation | **3,444** | 3,146 | **–** | – |
| **Meters** | | | | |
| Cost | **1,036** | 798 | **–** | – |
| Less accumulated depreciation | **(252)** | (138) | **–** | – |
| Total meters | **784** | 660 | **–** | – |
| **Rail cars** | | | | |
| Cost | **1,282** | 1,105 | **–** | – |
| Less accumulated depreciation | **(95)** | (47) | **–** | – |
| Total rail cars | **1,187** | 1,058 | **–** | – |
| **Other** | | | | |
| Cost | **429** | 339 | **79** | 71 |
| Less accumulated depreciation | **(120)** | (69) | **(18)** | (11) |
| Total other | **309** | 270 | **61** | 60 |
| **Total assets under operating lease** | **5,724** | 5,134 | **61** | 60 |
| **Total property, plant and equipment** | **6,045** | 5,352 | **328** | 221 |

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

| | Land and buildings $m | Furniture, fittings and leasehold improvements $m | Equipment $m | Infrastructure assets $m | Total $m |
|---|---|---|---|---|---|
| **Assets for own use** | | | | | |
| Balance at 1 April 2012 | 36 | 47 | 5 | 6 | 94 |
| Acquisitions | 152 | 10 | – | 1 | 163 |
| Disposals | – | (2) | – | – | (2) |
| Reclassification | – | (7) | (1) | – | (8) |
| Impairments | (13) | – | – | (2) | (15) |
| Depreciation expense (note 2) | (1) | (11) | (2) | – | (14) |
| **Balance at 31 March 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)** | **–** | **(11)** |
| **Balance at 31 March 2014** | **278** | **40** | **2** | **1** | **321** |

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $nil (2013: $5 million).

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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 2012 | 3,419 | 655 | 460 | 207 | 4,741 |
| Acquisitions | 72 | 84 | 677 | 124 | 957 |
| Disposals | (135) | – | (25) | (7) | (167) |
| Reclassification | (33) | 32 | – | (4) | (5) |
| Foreign exchange movements | (15) | (34) | (33) | (3) | (85) |
| Depreciation expense (note 2) | (162) | (77) | (21) | (47) | (307) |
| **Balance at 31 March 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)** |
| **Balance at 31 March 2014** | **3,444** | **784** | **1,187** | **309** | **5,724** |

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 $442 million (2013: $2,289 million).

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

### Assets under operating lease

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Not later than one year | **597** | 578 | **7** | 8 |
| Later than one year and no later than five years | **1,145** | 1,203 | **18** | 14 |
| Later than five years | **138** | 183 | **–** | 2 |
| **Total future minimum lease payments receivable** | **1,880** | 1,964 | **25** | 24 |

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 14

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Loans and investments without provisions for impairment | **470** | 436 | **75** | 124 |
| Loans and investments with provisions for impairment | **186** | 248 | **98** | 119 |
| Less provision for impairment | **(105)** | (156) | **(63)** | (68) |
| Loans and investments at recoverable amount | **81** | 92 | **35** | 51 |
| **Total interests in associates and joint ventures accounted for using the equity method**[1],[2] | **551** | 528 | **110** | 175 |

(1) Included within this balance is $nil (2013: $25 million) provided as security over payables to other financial institutions.

(2) Included within this balance is $506 million (2013: $403 million) relating to interests in associates and $45 million (2013: $125 million) relating to interests in joint ventures in Consolidated Entity. Included within this balance is $109 million (2013: $128 million) relating to interests in associates and $1 million (2013: $47 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 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Consolidated Entity's share of: | | | | |
| Profit or loss from continuing operations | **6** | 42 | **–** | 13 |
| Post-tax profit or loss from discontinued operations | **8** | – | **–** | – |
| Other comprehensive income | **1** | 1 | **–** | – |
| Total comprehensive income | **15** | 43 | **–** | 13 |

**(ii) Contingent liabilities of associates and joint ventures[1] are as follows:**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Share incurred jointly with other investors | **17** | 24 | **–** | – |
| For which the Consolidated Entity is severally liable | **9** | 12 | **–** | – |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 15
**Intangible assets**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Goodwill | **318** | 308 | **–** | – |
| Intangible assets with indefinite lives | **242** | 222 | **–** | – |
| Customer and servicing contracts | **90** | 94 | **–** | – |
| Other identifiable intangible assets | **135** | 171 | **57** | 55 |
| **Total intangible assets** | **785** | 795 | **57** | 55 |

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 2012 | 336 | 224 | 111 | 203 | 874 |
| Acquisitions | – | – | 2 | 51 | 53 |
| Adjustments to purchase consideration(1) | 1 | – | – | 6 | 7 |
| Disposals | (25) | – | (2) | (14) | (41) |
| Impairment | – | – | – | (27) | (27) |
| Amortisation expense (note 2) | – | – | (15) | (37) | (52) |
| Currency translation difference | (4) | (2) | (2) | (11) | (19) |
| **Balance at 31 March 2013** | **308** | **222** | **94** | **171** | **795** |
| Acquisitions | **20** | **–** | **–** | **39** | **59** |
| Reclassifications during the financial year | **2** | **–** | **2** | **(4)** | **–** |
| Adjustments to purchase consideration(1) | **–** | **–** | **–** | **4** | **4** |
| Disposals | **(49)** | **(4)** | **–** | **(31)** | **(84)** |
| Impairment | **–** | **–** | **–** | **(20)** | **(20)** |
| Amortisation expense (note 2) | **–** | **–** | **(20)** | **(34)** | **(54)** |
| Currency translation difference | **37** | **24** | **14** | **10** | **85** |
| **Balance at 31 March 2014** | **318** | **242** | **90** | **135** | **785** |

(1) These balances relate to adjustments to purchase considerations and allocations.

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

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

Value-in-use calculations are based upon discounting estimated post-tax 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.

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

# Note 16

**Investments in subsidiaries**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Investments at cost without provisions for impairment | **–** | – | **3,990** | 3,562 |
| Investments at cost with provisions for impairment | **–** | – | **1,174** | 1,226 |
| Less provisions for impairment | **–** | – | **(576)** | (545) |
| Investments at recoverable amount | **–** | – | **598** | 681 |
| **Total investments in subsidiaries** | **–** | – | **4,588** | 4,243 |

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 Management Company (United States)
- Delaware Management Company, Inc. (United States)
- Delaware Management Holdings, Inc. (United States)
- Macquarie (Asia) PTE Ltd. Taiwan Branch (Taiwan)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Aircraft Leasing Limited (Ireland)
- Macquarie Airfinance Acquisitions Holdings Ltd. (Bermuda)
- Macquarie AirFinance Acquisitions Limited (Bermuda)
- Macquarie Airfinance International Group Limited (Bermuda)
- Macquarie Airfinance International Limited (Bermuda)
- Macquarie Airfinance Ltd. (Bermuda)
- Macquarie Airfinance Warehouse (No. 1) Limited (Bermuda)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Commodities Factoring Holdings (UK) Limited (United Kingdom)
- Macquarie Commodities Holdings (USA) LLC (United States)
- Macquarie Corporate And Asset Finance Limited (Australia)
- Macquarie Energy LLC (United States)
- Macquarie European Investment Holdings Limited (United Kingdom)
- Macquarie Finance Holdings Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Ltd. (Canada)
- Macquarie Financial Markets LLC (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Funding Holdings Inc (United States)
- Macquarie Funds Management Holdings Pty Limited (Australia)
- Macquarie Hong Kong Finance Limited (Cayman Islands)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Prism Pty Limited (Australia)
- Macquarie Real Estate Inc (United States)
- Macquarie Services (USA) Partners (United States)
- Macquarie TCG (USA) LLC (United States)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

In accordance with ASIC instruments 12-0250 and 12-1311, Macquarie Bank has been granted relief under section 340 of the *Corporations Act 2001 (Cth)* from synchronising the year-end of the following entities that are in its consolidated group:

- Pareto Global Risk Adjusted Alpha Trust (ARSN 134 011 313)
- Taurus Enhanced Gold and Precious Metals Fund (ARSN 150 309 934)
- Macquarie Mexico Real Estate Management, S.A. de C.V.

The asynchronous year-end has no impact on the group as, while the year ends of the above entities are different to that of Macquarie Bank, the results and balances included in the consolidation are at the reporting date of 31 March.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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 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 of cross guarantee. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

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

*Consolidated income statement of the Closed Group for the financial year ended 31 March 2014*

| | 2014 $m | 2013 $m |
|---|---|---|
| Interest and similar income | 3,504 | 2,539 |
| Interest expense and similar charges | (2,311) | (1,861) |
| Net interest income | 1,193 | 678 |
| Fee and commission income | 263 | 376 |
| Net trading income | 1,411 | 835 |
| Share of net profits of associates and joint ventures accounted for using the equity method | 5 | 17 |
| Other operating income and charges | 920 | 781 |
| Net operating income | 3,792 | 2,687 |
| Employment expenses | (1,000) | (874) |
| Brokerage, commission and trading-related expenses | (447) | (330) |
| Occupancy expenses | (93) | (94) |
| Non-salary technology expenses | (78) | (60) |
| Other operating expenses | (862) | (811) |
| Total operating expenses | (2,480) | (2,169) |
| Operating profit before income tax | 1,312 | 518 |
| Income tax expense | (405) | (95) |
| **Profit attributable to equity holders of the Closed Group** | 907 | 423 |
| **Summary of movements in consolidated retained earnings** | | |
| Retained earnings at the beginning of the financial year[1] | 375 | 1,224 |
| Profit attributable to equity holder of the Closed Group | 907 | 423 |
| Dividends paid or provided | (414) | (1,266) |
| **Retained earnings at the end of the financial year** | 868 | 381 |

(1) The opening retained earnings of the Closed Group for 2014 includes the opening retained earnings of Macquarie Mortgages Canada Holdings Pty Limited ($(14) million), Macquarie NZ Holdings Pty Ltd ($(1) million) and Macquarie Leasing NSW Pty. Limited ($9 million), entities which entered into the deed of cross guarantee in the year ended 31 March 2014.

## Note 17

**Deed of cross guarantee** continued

*Consolidated statement of financial position of the Closed Group as at 31 March 2014*

| | 2014 $m | 2013 $m |
|---|---|---|
| **Assets** | | |
| Receivables from financial institutions[1] | **15,515** | 10,894 |
| Trading portfolio assets | **19,473** | 16,323 |
| Derivative assets | **11,591** | 13,513 |
| Investment securities available for sale | **11,196** | 15,641 |
| Other assets | **5,045** | 4,823 |
| Loan assets held at amortised cost[1] | **33,749** | 25,306 |
| Other financial assets at fair value through profit or loss | **2,094** | 3,358 |
| Due from related body corporate entities | **2,030** | 1,001 |
| Due from subsidiaries | **26,510** | 19,264 |
| Property, plant and equipment | **328** | 221 |
| Interests in associates and joint ventures accounted for using the equity method | **146** | 250 |
| Intangible assets | **57** | 55 |
| Investments in subsidiaries | **4,873** | 4,573 |
| Deferred tax assets | **–** | 159 |
| **Total assets** | **132,607** | 115,381 |
| **Liabilities** | | |
| Trading portfolio liabilities | **2,344** | 1,371 |
| Derivative liabilities | **11,498** | 14,588 |
| Deposits | **38,979** | 37,775 |
| Other liabilities | **5,274** | 4,514 |
| Payables to financial institutions | **19,001** | 16,861 |
| Other financial liabilities at fair value through profit or loss | **1,959** | 739 |
| Due to related body corporate entities | **6,833** | 5,256 |
| Due to subsidiaries | **14,652** | 7,047 |
| Debt issued at amortised cost | **20,508** | 16,385 |
| Provisions | **60** | 68 |
| Deferred tax liabilities | **7** | – |
| **Total liabilities excluding loan capital** | **121,115** | 104,604 |
| **Loan capital** | | |
| Subordinated debt at amortised cost | **2,464** | 2,203 |
| **Total loan capital** | **2,464** | 2,203 |
| **Total liabilities** | **123,579** | 106,807 |
| **Net assets** | **9,028** | 8,574 |
| **Equity** | | |
| Contributed equity | **8,157** | 8,152 |
| Reserves | **3** | 41 |
| Retained earnings | **868** | 381 |
| **Total equity** | **9,028** | 8,574 |

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost for the Closed group.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 18
**Deferred tax assets/(liabilities)**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| The balance comprises temporary differences attributable to: | | | | |
| Tax losses | **298** | 343 | **28** | 67 |
| Fixed assets | **72** | 57 | **81** | 54 |
| Other assets and liabilities | **297** | 265 | **110** | 178 |
| Set-off of deferred tax liabilities | **(489)** | (403) | **(129)** | 64 |
| **Total deferred tax assets** | **178** | 262 | **90** | 363 |
| Intangible assets | **(120)** | (105) | **2** | – |
| Leasing and financial instruments | **(838)** | (640) | **(184)** | (63) |
| Other assets and liabilities | **(154)** | (170) | **(129)** | (170) |
| Investments in subsidiaries, associates, securities available for sale and joint ventures | **(2)** | 77 | **50** | 61 |
| Set-off of deferred tax assets | **489** | 403 | **129** | (64) |
| **Total deferred tax liabilities** | **(625)** | (435) | **(132)** | (236) |
| **Net deferred tax (liabilities)/assets** | **(447)** | (173) | **(42)** | 127 |

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

Potential tax assets of approximately $21 million (2013: $18 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable.

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

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

## Note 19
**Trading portfolio liabilities**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Listed equity securities | **1,849** | 1,029 | **1,849** | 1,029 |
| Foreign government securities | **363** | 179 | **363** | 179 |
| Corporate securities | **132** | 176 | **132** | 163 |
| Commodities | **115** | – | **–** | – |
| **Total trading portfolio liabilities** | **2,459** | 1,384 | **2,344** | 1,371 |

## Note 20
**Deposits**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Interest bearing deposits | | | | |
| Call | **26,210** | 24,393 | **26,208** | 24,386 |
| Term | **9,410** | 10,339 | **9,410** | 10,339 |
| Client monies, segregated fund and margin money held | **5,524** | 5,318 | **4,848** | 4,394 |
| Non-interest bearing deposits | **1,158** | 916 | **1,158** | 873 |
| **Total deposits** | **42,302** | 40,966 | **41,624** | 39,992 |

## Note 21
**Other liabilities**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Creditors | **3,985** | 3,511 | **2,471** | 1,953 |
| Due to brokers and customers | **2,504** | 2,505 | **2,355** | 2,079 |
| Life investment contracts and other unitholder liabilities[1] | **1,084** | 1,181 | **–** | – |
| Accrued charges and sundry provisions | **855** | 805 | **422** | 446 |
| Income tax payable | **37** | 26 | **4** | 5 |
| Other | **56** | 119 | **25** | 37 |
| **Total other liabilities** | **8,521** | 8,147 | **5,277** | 4,520 |

(1) In the year ended 31st March 2013, Life investment contracts and other unitholder liabilities were disclosed as a separate line item in the statements of financial position.

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**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Cash collateral on securities lent and repurchase agreements | **12,247** | 10,252 | **13,304** | 11,732 |
| OECD banks | **2,434** | 2,309 | **1,725** | 1,084 |
| Other | **1,892** | 2,619 | **1,333** | 1,828 |
| **Total payables to financial institutions** | **16,573** | 15,180 | **16,362** | 14,644 |

## Note 23
**Other financial liabilities at fair value through profit or loss**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Equity linked notes | **640** | 878 | **1,662** | 698 |
| Credit linked notes | **297** | – | **297** | – |
| Debt issued at fair value | **–** | 41 | **–** | 41 |
| **Total other financial liabilities at fair value through profit or loss** | **937** | 919 | **1,959** | 739 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

## Note 24
**Debt issued at amortised cost**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Debt issued at amortised cost[1] | **37,255** | 31,826 | **20,508** | 16,306 |
| **Total debt issued at amortised cost** | **37,255** | 31,826 | **20,508** | 16,306 |

[1] Included within this balance are amounts payable to SPE note holders of $12,732 million (2013: $9,393 million).

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

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

*(In Australian dollar equivalent):*

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| United States dollars | **16,326** | 13,505 | **13,053** | 10,225 |
| Australian dollars | **11,991** | 8,944 | **3,763** | 2,818 |
| Canadian dollars | **3,932** | 5,868 | **20** | 7 |
| Euro | **1,691** | 594 | **1,523** | 371 |
| Japanese yen | **1,503** | 1,805 | **1,503** | 1,805 |
| Swiss franc | **1,138** | 1,004 | **1,137** | 1,004 |
| Great British pounds | **1,090** | 442 | **1,012** | 329 |
| Korean won | **207** | 134 | **177** | 79 |
| Hong Kong dollars | **174** | 250 | **174** | 250 |
| Singapore dollars | **104** | 76 | **104** | 76 |
| Others | **36** | 123 | **1** | 81 |
| **Total by currency** | **38,192** | 32,745 | **22,467** | 17,045 |

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

## Note 25
**Provisions**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Provision for annual leave | **46** | 48 | **26** | 28 |
| Provision for long service leave | **31** | 38 | **32** | 38 |
| Provision for other employee entitlements | **3** | 12 | **–** | – |
| Provision for dividends | **6** | 6 | **2** | 2 |
| **Total provisions** | **86** | 104 | **60** | 68 |

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

# Note 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. From 1 January 2013, the Bank 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 ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least 6 per cent of this capital in the form of Tier 1 capital and at least 4.5 per cent 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.

The Banking Group's Tier 1 capital consists of share capital, retained earnings, certain reserves, hybrid instruments and deductions. The hybrid instruments include Macquarie Income Securities, Macquarie Income Preferred Securities and Exchangeable Capital Securities. Deductions from Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, 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 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 2014
## 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 US$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. 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 per cent or where APRA determines the Bank would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL's ordinary shares will be issued at a 5 per cent 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 2014 would be 5,067,970 (31 March 2013: 6,800,228). 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 2014, the remaining principal liability related to the ECS was US$250 million (31 March 2013: US$250 million).

## Note 27

**Loan capital** continued

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| The dates upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows: | | | | |
| Less than 12 months | **69** | 60 | **69** | 60 |
| 21 September 2020 | **968** | 808 | **968** | 808 |
| 7 April 2021 | **1,160** | 1,098 | **1,160** | 1,098 |
| | **2,197** | 1,966 | **2,197** | 1,966 |
| Instrument with a conditional repayment obligation: | | | | |
| ECS | **270** | 240 | **270** | 240 |
| Loan capital | **2,467** | 2,206 | **2,467** | 2,206 |
| Less directly attributable issue cost | **(3)** | (3) | **(3)** | (3) |
| **Total loan capital**[1] | **2,464** | 2,203 | **2,464** | 2,203 |
| **Reconciliation of loan capital by major currency:** *(In Australian dollar equivalent)* | | | | |
| United States dollars | **1,471** | 1,375 | **1,471** | 1,375 |
| Euro | **996** | 831 | **996** | 831 |
| Australian dollars | **–** | – | **–** | – |
| Loan capital | **2,467** | 2,206 | **2,467** | 2,206 |
| Less directly attributable issue cost | **(3)** | (3) | **(3)** | (3) |
| **Total loan capital by currency**[1] | **2,464** | 2,203 | **2,464** | 2,203 |

(1) 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 its loan capital principal as Tier 2 capital.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 28
### Contributed equity

| | Consolidated and Bank 2014 Number of shares | Consolidated and Bank 2013 Number of shares | Consolidated and Bank 2014 $m | Consolidated and Bank 2013 $m |
|---|---|---|---|---|
| **Ordinary share capital** | | | | |
| Opening balance of fully paid ordinary shares | **501,561,948** | 501,561,948 | **7,578** | 7,578 |
| **Closing balance of fully paid ordinary shares** | **501,561,948** | 501,561,948 | **7,578** | 7,578 |

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Equity contribution from ultimate parent entity** | | | | |
| Balance at the beginning of the financial year | **108** | 108 | **76** | 79 |
| Additional paid up capital/(return of capital) | **24** | – | **5** | (3) |
| **Balance at the end of the financial year** | **132** | 108 | **81** | 76 |

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 Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP Awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the equity provided as a capital contribution from MGL. For the year ended 31 March 2014, MEREP related compensation expense and its related tax effects, treated as additional paid up capital totalled $24,206,958 (2013: $3,998,212) in the Consolidated Entity and $4,966,205 in the Bank. For the year ended 31 March 2013, 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 $889,918. 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 2014, MGESOP related compensation expense treated as additional paid up capital totalled $315,316 in the Consolidated Entity and $2,557 in the Bank. For the year ended 31 March 2013, reversal of MGESOP related compensation expense for not meeting the performance hurdles, treated as return of capital, totalled $4,305,705 in the Consolidated Entity and $2,569,539 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 $528,865 (2013: $419,881) and in the Bank $527,900 (2013: $418,895). Details of the MGESOP, MGSSAP and ESP are disclosed in note 33—Employee equity participation.

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $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) |
| **Total Macquarie Income Securities** | **391** | 391 | **391** | 391 |

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

### Convertible Debentures

| | | | | |
|---|---|---|---|---|
| 850 convertible debentures of £50,000 each | **–** | – | **107** | 107 |
| **Total convertible debentures** | **–** | – | **107** | 107 |

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 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 per cent (2013: 6.177 per cent) semi–annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then prevailing five year benchmark sterling gilt rate. Following the redemption of 6,150 convertible debentures on 29 Spetember 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.

| | | | | |
|---|---|---|---|---|
| **Contributed equity** | **8,101** | 8,077 | **8,157** | 8,152 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 29
**Reserves, retained earnings and non-controlling interests**

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Reserves** | | | | |
| **Foreign currency translation reserve**[1] | | | | |
| Balance at the beginning of the financial year | **(599)** | (573) | **(42)** | (38) |
| Currency translation differences arising during the financial year, net of hedge and tax | **492** | (26) | **13** | (4) |
| **Balance at the end of the financial year** | **(107)** | (599) | **(29)** | (42) |
| **Available for sale reserve** | | | | |
| Balance at the beginning of the financial year | **85** | 75 | **68** | 2 |
| Revaluation movement for the financial year, net of tax | **11** | (37) | **(27)** | 14 |
| Transfer to income statement upon impairment, net of tax | **64** | 118 | **61** | 117 |
| Transfer to income statement on realisation, net of tax | **(93)** | (71) | **(54)** | (65) |
| **Balance at the end of the financial year** | **67** | 85 | **48** | 68 |
| **Cash flow hedging reserve** | | | | |
| Balance at the beginning of the financial year | **(46)** | (36) | **8** | 1 |
| Revaluation movement for the financial year, net of tax | **18** | (10) | **(5)** | 7 |
| **Balance at the end of the financial year** | **(28)** | (46) | **3** | 8 |
| **Share of reserves of interests in associates and joint ventures accounted for using the equity method** | | | | |
| Balance at the beginning of the financial year | **–** | 2 | **–** | – |
| Share of other comprehensive income/(expense) during the financial year | **–** | (2) | **–** | – |
| **Balance at the end of the financial year** | **–** | – | **–** | – |
| **Total reserves at the end of the financial year** | **(68)** | (560) | **22** | 34 |
| **Retained earnings**[1] | | | | |
| Balance at the beginning of the financial year | **1,046** | 1,658 | **162** | 607 |
| Profit attributable to equity holders of MBL | **770** | 671 | **751** | 821 |
| Distributions paid or provided for on Macquarie Income Securities (note 5) | **(18)** | (21) | **–** | – |
| Distributions paid or provided on convertible debentures (note 5) | **–** | – | **(4)** | (4) |
| Dividends paid on ordinary share capital (note 5) | **(410)** | (1,262) | **(410)** | (1,262) |
| **Balance at the end of the financial year** | **1,388** | 1,046 | **499** | 162 |

(1) The prior year balances of foreign currency translation reserve and retained earnings have been restated following a review of reserves and consideration of prior internal group restructures and entity transfers. Retained earnings is reduced by $85 million with a corresponding increase in foreign currency translation reserve as at 1 April 2012 and at 31 March 2013. There is no impact on total capital and reserves attributable to equity holders of Macquarie Bank Limited or total equity.

# 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 Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2013: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The 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.

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Macquarie Income Preferred Securities** | | | | |
| Proceeds on issue of Macquarie Income Preferred Securities | **109** | 107 | **–** | – |
| Less issue costs | **(1)** | (1) | **–** | – |
| | **108** | 106 | **–** | – |
| Foreign currency translation reserve | **(32)** | (46) | **–** | – |
| Total Macquarie Income Preferred Securities | **76** | 60 | **–** | – |
| **Other non-controlling interests** | | | | |
| Ordinary share capital | **1** | 29 | **–** | – |
| Retained earnings | **–** | 3 | **–** | – |
| Total other non-controlling interests | **1** | 32 | **–** | – |
| **Total non-controlling interests** | **77** | 92 | **–** | – |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## 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:

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Receivables from financial institutions[(1)] | **6,786** | 6,903 | **5,522** | 5,271 |
| Trading portfolio assets[(2)] | **498** | 223 | **156** | 253 |
| Debt securities[(3)] | **4,208** | 2,750 | **4,208** | 2,684 |
| Loan asset at amortised cost[(4)] | **1,893** | 1,292 | **771** | 1,292 |
| **Cash and cash equivalents at the end of the financial year[(5)]** | **13,385** | 11,168 | **10,657** | 9,500 |

(1) Includes cash and other receivables.
(2) Includes certificates of deposit, bank bills and treasury notes as per note 1(xx) – Summary of significant accounting policies.
(3) Includes short-term debt securities as per note 1(xx) – Summary of significant accounting policies.
(4) Includes amounts due from clearing houses as per note 1(xx) – Summary of significant accounting policies.
(5) Cash and cash equivalents include $4,093 million (31 March 2013: $3,119 million) in the Consolidated entity and $2,248 million (31 March 2013: $2,560 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 from operating activities

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Profit after income tax | **774** | 674 | **751** | 821 |
| Adjustments to profit after income tax: | | | | |
| Depreciation and amortisation | **466** | 373 | **27** | 13 |
| Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale | **(337)** | (273) | **(117)** | (378) |
| Provision and impairment charge on financial and non-financial assets | **367** | 388 | **336** | 367 |
| Interest on available for sale financial assets | **(149)** | (126) | **17** | (103) |
| Net gains on sale of investment securities available for sale and associates and joint ventures | **(177)** | (150) | **(172)** | (81) |
| Share-based payment (reversal)/expense | **–** | (5) | **–** | – |
| Share of net profits of associates and joint ventures accounted for using the equity method | **(14)** | (40) | **–** | – |
| Changes in assets and liabilities: | | | | |
| Change in dividends receivable | **(59)** | 3 | **(128)** | 3 |
| Change in values of associates due to dividends received | **51** | 42 | **–** | – |
| Change in fees and non-interest income receivable | **(102)** | (25) | **38** | (108) |
| Change in fees and commissions payable | **9** | (104) | **8** | (99) |
| Change in tax balances | **539** | 282 | **265** | (461) |
| Change in provisions for employee entitlements | **(17)** | 7 | **–** | – |
| Change in loan assets | **(7,108)** | (1,185) | **(6,716)** | (5,328) |
| Change in debtors, prepayments, accrued charges and creditors | **417** | 274 | **818** | 41 |
| Change in net trading portfolio assets and liabilities and net derivative financial instruments | **(2,228)** | (1,148) | **(3,160)** | 750 |
| Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings | **6,720** | 728 | **5,602** | 4,839 |
| **Net cash flows (used in)/from operating activities** | **(848)** | (285) | **(2,431)** | 276 |

# 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 2014, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to $266 million liabilities (2013: $146 million liabilities) and $146 million liabilities (2013: $29 million liabilities) respectively.

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

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| Amounts receivable[1] | **111** | 142 | **83** | 107 |

[1] As described in note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes $98 million (2013: $92 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 2014 are $573 million (2013: $2,565 million) positive value and $108 million (2013: $438 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 2014
## continued

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|

# Note 31
**Related party information** continued

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Interest income received/receivable | **–** | – | **269** | 340 |
| Interest expense paid/payable | **–** | – | **(422)** | (266) |
| Fee and commission income | **–** | – | **72** | 288 |
| Other operating income | **–** | – | **61** | 27 |
| Dividends and distributions received/receivable | **–** | – | **638** | 1,097 |
| Management fees, group service charges and cost recoveries | **–** | – | **454** | 341 |
| Brokerage, commission and trading-related expenses | **–** | – | **1** | – |

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Amounts receivable | **–** | – | **26,228** | 21,828 |
| Amounts payable | **–** | – | **(14,835)** | (7,758) |

### Other related body corporate entities

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

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

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Interest income received/receivable | **11** | 22 | **91** | 68 |
| Interest expense paid/payable | **(200)** | (116) | **(24)** | (96) |
| Fee and commission expense | **(169)** | (159) | **(161)** | (203) |
| Other operating expenses | **(739)** | (624) | **(642)** | (450) |
| Other income | **1** | 1 | **3** | 1 |

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

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Amounts receivable | **2,133** | 918 | **1,946** | 887 |
| Amounts payable | **(7,443)** | (5,456) | **(6,833)** | (5,250) |

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $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:

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Interest income received/receivable | **2** | – | **–** | – |
| Fee and commission income/(expense)[1] | **(9)** | 3 | **(52)** | (32) |
| Other income | **2** | 1 | **–** | – |
| Gains/(losses) on sale of securities[2] (note 2) | **9** | 51 | **59** | (7) |
| Brokerage and commission expense | **(5)** | (3) | **–** | – |
| Dividends and distributions[3] | **40** | 42 | **33** | 30 |

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

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

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

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 14 – Interests in associates and joint ventures accounted for using the equity method):

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Amounts receivable | **412** | 304 | **389** | 302 |
| Amounts payable | **(217)** | (110) | **(147)** | (110) |

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 2014
## continued

# Note 32
**Key Management Personnel disclosure**

### Key Management Personnel

The following persons were Voting Directors of the Bank during the financial years ended 31 March 2014 and 31 March 2013, unless indicated:

### Executive Directors[1]

| | |
|---|---|
| N.W. Moore | |
| G.C. Ward | Managing Director and Chief Executive Officer |

**Non-Executive Directors**

| | |
|---|---|
| H.K. McCann AM | Non-Executive Chairman |
| G.R. Banks AO | (appointed 1 August 2013) |
| M.J. Coleman | (appointed 9 November 2012) |
| P.A. Cross | (appointed 7 August 2013) |
| D.J. Grady AM | |
| M.J. Hawker AM | |
| P.M. Kirby | |
| H.M. Nugent AO | |
| N.M. Wakefield Evans | (appointed 7 February 2014) |
| P.H. Warne | |

**Former Non-Executive Directors**

| | |
|---|---|
| C.B. Livingstone AO | (retired 25 July 2013) |
| J.R. Niland AC | (retired 31 December 2013) |

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 2014 and 31 March 2013, unless otherwise indicated.

### Current Executives[1]

| | |
|---|---|
| S.D. Allen | Chief Risk Officer |
| A.J. Downe | Group Head, Fixed Income, Currencies and Commodities Group |
| G.A. Farrell | Co-Group Head, Corporate and Asset Finance Group |
| M. McLaughlin | Country Head, Unites States of America |
| N. Sorbara | Chief Operating Officer (appointed 1 January 2013)<br>Group Head, Corporate Operations Group (appointed 1 January 2013) |
| S. Vrcelj | Group Head, Macquarie Securities Group |
| S. Wikramanayake | Group Head, Macquarie Funds Group |

### Former Executives

| | |
|---|---|
| P.J. Maher | Group Head, Banking and Financial Services Group (ceased to be a member of the Executive Committee on 3 May 2013) |

(1) The Executive Directors and all current Executives are members of the Bank's Executive Committee as at 2 May 2014.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 23 to 28.

# 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 | | | | Long-term Employee Benefits | Share-based Payments | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees (including superannuation) $ | Performance related remuneration[1] $ | Other benefits $ | Total short-term Employee Benefits $ | Restricted profit share[2] $ | Equity awards including shares[3] $ | PSUs/ Options[4] $ | Total remuneration $ |
| **Executive Remuneration** | | | | | | | | |
| **2014** | **4,689,940** | **14,514,673** | **–** | **19,204,613** | **8,689,663** | **12,065,840** | **6,866,172** | **46,826,288** |
| 2013 | 4,818,780 | 12,008,917 | – | 16,827,697 | 5,796,523 | 10,307,090 | 1,414,843 | 34,346,153 |
| **Non-Executive Remuneration** | | | | | | | | |
| **2014** | **791,626** | **–** | **–** | **791,626** | **–** | **–** | **–** | **791,626** |
| 2013 | 720,639 | – | 2,826 | 723,465 | – | – | – | 723,465 |

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a 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) including earnings on notional investments from retained profit share in prior years.

(3) The current year amortisation for retained profit share calculated as described in note 1(xix) – Summary of significant accounting policies.

(4) The current year amortisation for PSUs and options calculated as described in note 1 (xix) – 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 $'000 |
|---|---|---|---|---|---|
| **Total for Key Management Personnel and their related parties** | **2014** | **5,706** | **6** | **–** | **600** |
| | 2013 | 5,714 | 375 | – | 5,706 |
| **Total for Key Management Personnel[1]** | **2014** | **5,706** | **6** | **–** | **600** |
| | 2013 | 5,714 | 375 | – | 5,706 |

(1) Number of persons included in the aggregate at 31 March 2014: 3 (2013: 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 2014
## continued

# Note 32

**Key Management Personnel disclosure** continued

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

**For the financial year ended 31 March 2014**

| Name and position | Balance at 1 April 2013 $'000 | Interest charged[1] $'000 | Write-downs $'000 | Balance at 31 March 2014[2] $'000 | Highest balance during financial year $'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| N.W. Moore | 5,274 | – | – | – | 5,274 |
| **Executives** | | | | | |
| N. Sorbara | 82 | 4 | – | 250 | 250 |
| **Former Executives** | | | | | |
| P.J. Maher[3] | 350 | 2 | – | 350 | 350 |

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

(2) Or date of resignation if earlier.

(3) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. The balance at 31 March 2014 represents loans held at the date of retirement from the Executive Committee.

For the financial year ended 31 March 2013

| Name and position | Balance at 1 April 2012 $'000 | Interest charged[1] $'000 | Write-downs $'000 | Balance at 31 March 2013 $'000 | Highest balance during financial year $'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| N.W. Moore | 5,274 | 348 | – | 5,274 | 5,274 |
| **Executives** | | | | | |
| P.J. Maher | 350 | 26 | – | 350 | 350 |

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

## Note 32

**Key Management Personnel disclosure** continued

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

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and iUnits from subsidiaries within the Consolidated Entity, which have been financed with limited recourse loans and some of which are subject to forward sale agreements. All the arrangements between the investor and Macquarie are subject to a legal right of set-off. The only amounts recognised by the Consolidated Entity in respect of these transactions are either: for iBonds, the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue; or for iUnits, the value of the option purchased. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

| | **Consolidated 2014 $m** | Consolidated 2013 $m |
|---|---|---|
| Total annual contributions in respect of Infrastructure Bonds and similar products | **476** | 554 |
| Total value of iUnits options | **161** | 520 |

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

### Executive Directors

N.W. Moore, G.C. Ward

### Executives

S.D. Allen, A.J. Downe, G.A. Farrell, N. Sorbara (2014), S. Vrcelj, G.C. Ward, S. Wikramanayake

### Former Executives

P.J. Maher (balance at the date ceased to be a member of the Executive Committee)

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

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 33
**Employee equity participation**

### Macquarie Group Employee Retained Equity Plan

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

### Award Types under the MEREP

*Restricted Share Units (RSUs)*

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

*Deferred Share Units (DSUs)*

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders 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).

*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. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU 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 2014 | Number of RSU Awards 2013 |
|---|---|---|
| RSUs on issue at the beginning of the financial year | **10,092,603** | 7,806,417 |
| Consolidation of one ordinary share into 0.9438 ordinary shares[1] | **(563,232)** | – |
| Granted during the financial year | **2,356,880** | 3,783,350 |
| Forfeited during the financial year | **(376,884)** | (421,239) |
| Vested RSUs withdrawn from the MEREP during the financial year | **(2,159,620)** | (1,351,936) |
| Transfers from related body corporate entities | **59,074** | 276,011 |
| RSUs on issue at the end of the financial year | **9,408,821** | 10,092,603 |
| RSUs vested and not withdrawn from the MEREP at the end of the financial year | **8,327** | 7,878 |

The weighted average fair value of the RSU Awards granted during the financial year was $41.07 (2013: $26.81).

| | Number of DSU Awards 2014 | Number of DSU Awards 2013 |
|---|---|---|
| DSUs on issue at the beginning of the financial year | **1,252,739** | 592,524 |
| Adjustment of DSUs due to 0.9438 ordinary share consolidation[1] | **(78,275)** | – |
| Granted during the financial year | **373,887** | 843,589 |
| Forfeited during the financial year | **(26,374)** | (39,867) |
| Exercised during the financial year | **(228,824)** | (207,220) |
| Transfers from related body corporate entities | **32,228** | 63,713 |
| DSUs on issue at the end of the financial year | **1,325,381** | 1,252,739 |
| DSUs exercisable at the end of the financial year | **129,608** | 96,783 |

The weighted average fair value of the DSU Awards granted during the financial year was $40.99 (2013: $26.77).

| | Number of PSU Awards 2014 | Number of PSU Awards 2013 |
|---|---|---|
| PSUs on issue at the beginning of the financial year | **500,830** | 314,350 |
| Adjustment of PSUs due to 0.9438 ordinary shares consolidation[1] | **(29,043)** | – |
| Granted during the financial year | **117,796** | 333,907 |
| Exercised during the financial year | **(11,950)** | – |
| Expired during the financial year | **(89,868)** | (40,168) |
| Transfers to related parties | **–** | (107,259) |
| PSUs on issue at the end of the financial year | **487,765** | 500,830 |
| 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 $41.32 (2013: $21.91).

| | Number of Restricted Share Awards 2014 | Number of Restricted Share Awards 2013 |
|---|---|---|
| Restricted shares on issue at the beginning of the financial year | **12,471** | – |
| Consolidation of one ordinary share into 0.9438 ordinary shares[1] | **(1,774)** | – |
| Granted during the financial year | **31,577** | 12,471 |
| Released during the financial year | **(13,346)** | – |
| Restricted shares on issue at the end of the financial year | **28,928** | 12,471 |

The weighted average fair value of the restricted shares granted during the financial year was $42.40 (2013: $26.70).

[1] 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 2014
## 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. For the year ended 31 March 2014, compensation expense relating to the MEREP totalled $112 million (2013: $114 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 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 either a fixed number of MEREP awards or 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).

Vesting periods are as follows:

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

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

(2) 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.

(3) Subject to achieving certain performance hurdles – refer below.

## 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 2013 retention, the allocation price was the weighted average price of the Shares acquired for the 2013 Purchase Period, which was 14 May 2013 to 25 June 2013 inclusive (excluding the period from 23 May to 6 June 2013). That price was calculated to be $43.56 (2012 retention: $26.97).

*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 per cent of the total number of PSUs awarded. These hurdles are set out below. 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 FY2014.

The hurdles are outlined below.

*Performance hurdle 1*

| | Reference group | |
|---|---|---|
| **Hurdle** | **Granted after 31 March 2013** | **Granted on or before 31 March 2013** |
| 50 per cent of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three and four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile. | The current reference group[1] 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. |

(1) 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*

| | Required result | |
|---|---|---|
| **Hurdle** | **Granted after 31 March 2013** | **Granted on or before 31 March 2013** |
| 50 per cent 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 per cent becoming exercisable at EPS CAGR of 7.5 per cent and 100 per cent at EPS CAGR of 12.0 per cent. For example, if EPS CAGR were 9.75 per cent, 75 per cent of the Award would become exercisable. | A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9.0 per cent and 100 per cent at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11.0 per cent, 75 per cent of the Award would become exercisable. |

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest 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 2014 was $0.16 million (2013: $0.24 million).

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 33
**Employee equity participation** continued

### Option Plan

MGL suspended new offers under the Macquarie Group Employee Option Plan (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.

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

At 31 March 2014 there were 6 (2013: 547) MBL participants in the MGESOP.

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

| | **Number of options 2014** | **Weighted average exercise price 2014 $** | Number of options 2013 | Weighted average exercise price 2013 $ |
|---|---|---|---|---|
| Outstanding at the beginning of the financial year | **2,772,256** | **52.68** | 5,660,449 | 60.32 |
| Adjustment of Options due to 0.9438 ordinary share consolidation[1] | **(1,627)** | **41.68** | – | – |
| Forfeited during the financial year | **(1,200)** | **50.35** | (513,493) | 49.07 |
| Exercised during the financial year | **(137,719)** | **30.69** | (13,954) | 21.94 |
| Transfers (to)/from related body corporate entities | **(10,050)** | **53.91** | 223,447 | 51.76 |
| Lapsed during the financial year | **(2,605,579)** | **53.92** | (2,584,193) | 70.21 |
| Outstanding at the end of the financial year | **16,081** | **41.94** | 2,772,256 | 52.68 |
| Exercisable at the end of the financial year | **16,081** | **41.94** | 2,733,574 | 52.92 |

For options exercised during the financial year the weighted average share price at the date of exercise was $47.51[2] (2013: $30.83).

The range of exercise prices for options outstanding at the end of the financial year was $36.35 to $53.66 (2013: $17.10 to $63.09).

(1) Consolidation applied to Options held in the MGESOP as at the record date for the consolidation.
(2) Some of the exercise prices reflect the impact of the SYD Distribution, a distribution of the majority of the 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 2014 was 0.38 years (2013: 0.4 years). The weighted average remaining contractual life when analysed by exercise price range is:

| **Exercise price range ($)** | **Number of options 2014** | **Remaining life (years) 2014** | Number of options 2013 | Remaining life (years) 2013 |
|---|---|---|---|---|
| 10–20 | **–** | **–** | 12,668 | 0.94 |
| 20–30 | **–** | **–** | 57,336 | 0.93 |
| 30–40 | **10,417** | **0.26** | 70,567 | 1.09 |
| 40–50 | **2,832** | **0.69** | 31,000 | 0.71 |
| 50–60 | **2,832** | **0.48** | 2,597,685 | 0.37 |
| 60–70 | **–** | **–** | 3,000 | 0.1 |
| | **16,081** | **0.38** | 2,772,256 | 0.41 |

The above tables exclude options that are not exercisable due to the failure to meet performance hurdles.

There were no options issued in the financial year.

## Note 33

**Employee equity participation** continued

### Option Plan continued

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

For options granted to the members of MBL and MGL's Executive Committee, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if MGL's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting. During the year ended 31 March 2013 the final tranches of these options failed to meet the performance hurdles and consequently did not vest.

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

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

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

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

For the year ended 31 March 2014, compensation expense relating to exchangeable shares, retention securities and option plans totalled $0.02 million (2013: credit of $4 million)

### Employee Share Plan

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

Shares 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 the Company or a subsidiary of the Company. 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 2013. A total of 547 (2013: 426) staff participated in this offer. On 6 December 2013, the participants were each allocated 18 (2013: 30) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $53.70 (2012: $32.85), a total of 9,846 (2013: 12,780) 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 Staff Share Acquisition Plan nor the Non-Executive Director Share Acquisition Plan. However employees and Non-Executive Directors still hold shares issued in previous years.

### Other plans

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

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 34
### Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| **Contingent liabilities exist in respect of:** | | | | |
| Guarantees | **466** | 545 | **885** | 750 |
| Letters of credit | **453** | 272 | **950** | 610 |
| Performance related contingents | **342** | 228 | **342** | 228 |
| Indemnities | **44** | 1 | **93** | 58 |
| Total contingent liabilities(1) | **1,305** | 1,046 | **2,270** | 1,646 |
| **Commitments exist in respect of:** | | | | |
| Undrawn credit facilities | **3,166** | 2,374 | **2,536** | 2,151 |
| Forward asset purchases | **87** | 17 | **11** | 12 |
| Total commitments(2) | **3,253** | 2,391 | **2,547** | 2,163 |
| **Total contingent liabilities and commitments** | **4,558** | 3,437 | **4,817** | 3,809 |

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. A provision is recognised where some loss is probable and can be reliably estimated. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

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

## Note 35
### Lease commitments

| | Consolidated 2014 $m | Consolidated 2013 $m | Bank 2014 $m | Bank 2013 $m |
|---|---|---|---|---|
| Non-cancellable operating leases expiring: | | | | |
| Not later than one year | **3** | 4 | **–** | – |
| Later than one year and not later than five years | **3** | 6 | **–** | – |
| Later than five years | **1** | 1 | **–** | – |
| **Total operating lease commitments** | **7** | 11 | **–** | – |

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

# Note 36

**Structured entities**

The Consolidated Entity engages in various transactions with Structured Entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (e.g. 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 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 (e.g. 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 2014, 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 (e.g. interest rate swaps and currency swaps) and positions where the Consolidated Entity: (i) creates rather than absorbs variability of the unconsolidated SE (e.g. 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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 36

**Structured entities** continued

The following table presents 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 2014:

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

(1) Securitisations includes $1,749 million of investments that are managed by the Consolidated Entity under the liquid assets policy described in note 38.2 - Liquidity risk.

Maximum exposure to loss is the carrying value of debt and equity held, the undrawn amount for commitments, the maximum amount if guarantees were to be called upon 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 $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 $1,025 million, and the potential losses borne by others whose interests rank lower is $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.

# 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 and cross–currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2014, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $20 million negative value (2013: $7 million negative value).

During the year the Consolidated Entity recognised $0.6 million of gains (2013: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $58 million negative value (2013: $161 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 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $153 million positive value (2013: $97 million negative value).

During the year fair value gains on the hedging instruments of $250 million have been recognised (2013: $236 million losses), offset by $246 million (2013: $221 million gains) of losses 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 non-core foreign operations.

At 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $67 million negative value (2013: $35 million positive value). During the year the Consolidated Entity recognised $nil (2013: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $3,076 million (2013: $1,798 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of $278 million (2013: $14 million gains) 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 2014
## continued

# 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 market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Legal and Governance, to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of the Consolidated Entity. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

# Note 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 determines the credit quality of a financial asset by the credit rating assigned to the specific counterparty by the RMG Credit Team. The RMG Credit Team assigns ratings of MQ1 to MQ99 to individual counterparties that equate to ratings assigned by external rating agencies as follows:

| Credit Grading | Internal Rating | External Equivalent |
|---|---|---|
| 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 2014
## 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 held.

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

| 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 | 16,285 |
| 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 | 1,050 | 17,507 |
| 14,745 | 57 | 1,257 | 1,132 | 28,355 |
| 57,170 | 973 | 2,244 | 4,558 | 120,654 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 38.1
**Credit risk** continued

**Maximum exposure to credit risk** continued

| | Receivables from financial institutions[1] $m | Trading portfolio assets $m | Derivative assets $m | Debt investment securities available for sale $m | Other financial assets $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Governments | – | 6,077 | 343 | 3,370 | 3 |
| Financial institutions | 4,575 | 120 | 3,086 | 5,360 | 7 |
| Other | – | 126 | 767 | 141 | 1,515 |
| Total Australia | 4,575 | 6,323 | 4,196 | 8,871 | 1,525 |
| **Asia Pacific** | | | | | |
| Governments | – | 915 | – | 95 | – |
| Financial institutions | 544 | 426 | 239 | 717 | – |
| Other | – | 306 | 131 | – | 1,444 |
| Total Asia Pacific | 544 | 1,647 | 370 | 812 | 1,444 |
| **Europe, Middle East and Africa** | | | | | |
| Governments | – | 19 | – | 63 | – |
| Financial institutions | 3,480 | 194 | 5,333 | 2,720 | – |
| Other | – | 7 | 1,778 | 282 | 1,661 |
| Total Europe, Middle East and Africa | 3,480 | 220 | 7,111 | 3,065 | 1,661 |
| **Americas** | | | | | |
| Governments | – | 1,121 | 25 | – | – |
| Financial institutions | 4,008 | 344 | 1,407 | 943 | – |
| Other | – | 430 | 1,486 | 17 | 813 |
| Total Americas | 4,008 | 1,895 | 2,918 | 960 | 813 |
| **Total gross credit risk** | 12,607 | 10,085 | 14,595 | 13,708 | 5,443 |

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

| Loan assets held at amortised cost[(1)] $m | Other financial assets at fair value through profit or loss $m | Due from related body corporate entities | Credit commitments and contingent liabilities $m | Total $m |
|---|---|---|---|---|
| | | | | Consolidated 2013 |
| 142 | 395 | – | – | 10,330 |
| 319 | 139 | – | 33 | 13,639 |
| 26,668 | 1,123 | 165 | 1,349 | 31,854 |
| 27,129 | 1,657 | 165 | 1,382 | 55,823 |
| | | | | |
| 2 | – | – | – | 1,012 |
| 207 | – | – | – | 2,133 |
| 432 | – | 305 | 310 | 2,928 |
| 641 | – | 305 | 310 | 6,073 |
| | | | | |
| 5 | 61 | – | – | 148 |
| 3,003 | 518 | – | 143 | 15,391 |
| 3,799 | 95 | 109 | 571 | 8,302 |
| 6,807 | 674 | 109 | 714 | 23,841 |
| | | | | |
| 20 | – | – | – | 1,166 |
| 2,423 | – | – | 85 | 9,210 |
| 12,198 | 71 | 481 | 946 | 16,442 |
| 14,641 | 71 | 481 | 1,031 | 26,818 |
| 49,218 | 2,402 | 1,060 | 3,437 | 112,555 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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 |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Governments | – | 5,715 | 324 | 2,494 | – |
| Financial institutions | 4,920 | 88 | 787 | 5,761 | 8 |
| Other | – | 56 | 393 | 40 | 1,237 |
| Total Australia | 4,920 | 5,859 | 1,504 | 8,295 | 1,245 |
| **Asia Pacific** | | | | | |
| Governments | – | 599 | 6 | 43 | – |
| Financial institutions | 1,128 | 218 | 312 | 484 | – |
| Other | – | 140 | 121 | 10 | 1,827 |
| Total Asia Pacific | 1,128 | 957 | 439 | 537 | 1,827 |
| **Europe, Middle East and Africa** | | | | | |
| Governments | – | 52 | 53 | 53 | – |
| Financial institutions | 5,445 | 229 | 4,482 | 1,208 | – |
| Other | – | 47 | 2,479 | 327 | 1,257 |
| Total Europe, Middle East and Africa | 5,445 | 328 | 7,014 | 1,588 | 1,257 |
| **Americas** | | | | | |
| Governments | – | 685 | 2 | – | – |
| Financial institutions | 3,285 | 56 | 1,881 | 562 | – |
| Other | – | 399 | 751 | 32 | 178 |
| Total Americas | 3,285 | 1,140 | 2,634 | 594 | 178 |
| **Total gross credit risk** | **14,778** | **8,284** | **11,591** | **11,014** | **4,507** |

| 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 2014
## continued

# Note 38.1
**Credit risk** continued

**Maximum exposure to credit risk** continued

| | Receivables from financial institutions[1] $m | Trading portfolio assets $m | Derivative assets $m | Debt investment securities available for sale $m | Other financial assets $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Governments | – | 6,077 | 343 | 3,370 | 3 |
| Financial institutions | 4,232 | 120 | 3,145 | 5,160 | 4 |
| Other | – | 127 | 852 | 32 | 1,657 |
| Total Australia | 4,232 | 6,324 | 4,340 | 8,562 | 1,664 |
| **Asia Pacific** | | | | | |
| Governments | – | 688 | – | 95 | – |
| Financial institutions | 426 | 47 | 239 | 705 | – |
| Other | – | 34 | 130 | – | 1,389 |
| Total Asia Pacific | 426 | 769 | 369 | 800 | 1,389 |
| **Europe, Middle East and Africa** | | | | | |
| Governments | – | 19 | – | 63 | – |
| Financial institutions | 3,288 | 194 | 5,149 | 2,703 | – |
| Other | – | 7 | 1,780 | 293 | 1,309 |
| Total Europe, Middle East and Africa | 3,288 | 220 | 6,929 | 3,059 | 1,309 |
| **Americas** | | | | | |
| Governments | – | 343 | 2 | – | – |
| Financial institutions | 2,911 | 330 | 1,347 | 882 | – |
| Other | – | 405 | 526 | 2,037 | 20 |
| Total Americas | 2,911 | 1,078 | 1,875 | 2,919 | 20 |
| **Total gross credit risk** | 10,857 | 8,391 | 13,513 | 15,340 | 4,382 |

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

| Loan assets held at amortised cost[1] $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 2013 |
| 153 | 395 | – | – | – | 10,341 |
| 308 | 81 | – | – | 33 | 13,083 |
| 13,740 | 1,215 | 123 | 13,210 | 1,329 | 32,285 |
| 14,201 | 1,691 | 123 | 13,210 | 1,362 | 55,709 |
| | | | | | |
| – | – | – | – | – | 783 |
| 116 | – | – | – | – | 1,533 |
| 251 | – | 291 | 1,046 | 360 | 3,501 |
| 367 | – | 291 | 1,046 | 360 | 5,817 |
| | | | | | |
| – | 61 | – | – | – | 143 |
| 2,984 | 518 | – | – | 124 | 14,960 |
| 3,118 | 1 | 114 | 1,981 | 631 | 9,234 |
| 6,102 | 580 | 114 | 1,981 | 755 | 24,337 |
| | | | | | |
| – | – | – | – | – | 345 |
| 1,697 | – | – | – | 85 | 7,252 |
| 3,286 | 70 | 466 | 3,554 | 1,247 | 11,611 |
| 4,983 | 70 | 466 | 3,554 | 1,332 | 19,208 |
| 25,653 | 2,341 | 994 | 19,791 | 3,809 | 105,071 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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*

The Consolidated Entity's residential mortgages are secured by fixed charges over a borrower's property. Further Macquarie obtains lender's mortgage insurance (LMI) to 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 $10,027 million (2013: $10,774 million) which have been securitised by consolidated SPEs. Further, $3,853 million (2013: $5,863 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.

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| **Consolidated** | **Australia $m** | **Americas $m** | **EMEA $m** | Australia $m | Americas $m | EMEA $m |
| Fully collateralised | | | | | | |
| Loan to value ratio | | | | | | |
| Less than 25% | **212** | **13** | **–** | 452 | 22 | – |
| 25% to 50% | **1,222** | **161** | **244** | 1,769 | 253 | 266 |
| 51% to 75% | **4,429** | **902** | **207** | 4,069 | 1,234 | 116 |
| 76% to 90% | **8,716** | **2,630** | **32** | 4,159 | 3,404 | 90 |
| 91% to 100% | **2,324** | **1,813** | **–** | 1,098 | 2,420 | – |
| Partly collateralised | **6** | **2** | **–** | 33 | 1 | – |
| Total mortgages | **16,909** | **5,521** | **483** | 11,580 | 7,334 | 472 |
| **Bank** | | | | | | |
| Fully collateralised | | | | | | |
| Loan to value ratio | | | | | | |
| Less than 25% | **182** | **–** | **–** | 175 | – | – |
| 25% to 50% | **915** | **–** | **244** | 794 | – | 266 |
| 51% to 75% | **3,343** | **–** | **131** | 1,952 | – | 33 |
| 76% to 90% | **7,021** | **–** | **–** | 2,480 | – | – |
| 91% to 100% | **1,864** | **–** | **–** | 809 | – | – |
| Partly collateralised | **4** | **–** | **–** | 22 | – | – |
| Total mortgages | **13,329** | **–** | **375** | 6,232 | – | 299 |

*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 $1,199 million (2013: $840 million), $109 million (2013: $103 million) has a LVR of 50 per cent or less, $615 million (2013: $532 million) has an LVR of between 50 and 75 per cent and $462 million, (2013: $193 million) an LVR of between 75 and 100 per cent. $13 million (2013: $12 million) is only partly secured by real estate with an LVR greater than 100 per cent.

*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 $1,109 million (2013: $1,541 million), $728 million (2013: $1,473 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of $1,323 million (2013: $1,428 million), $942 million (2013: $1,360 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 $10,836 million (2013: $9,364 million), the credit exposure after considering the depreciated value of collateral is $3,087 million (2013: $2,584 million). For the Bank, of the lease and retail finance portfolio of $874 million (2013: $973 million), the credit exposure after considering the depreciated value of collateral is $222 million (2013: $242 million).

*Corporate and commercial term lending*

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of $15,659 million (2013: $13,068 million), the credit exposure after collateral and credit enhancements is $2,997 million (2013: $2,474 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 $644 million (2013: $1,281 million) and in the Bank of $625 million (2013: $1,215 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

*Derivative financial instruments*

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfill 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/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 2014 of $,2,533 million (2013: $2,587 million). The Consolidated Entity has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being $2,702 million (2013: $3,287 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 2014 of $2,326 million (2013: $2,336 million). The Bank has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being $2,221 million (2013: $2,446 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 2014
## continued

## Note 38.1

**Credit risk** continued

For Over The Counter (OTC) derivative contracts, the Consolidated Entity and Bank often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (e.g. derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Bank also often execute a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2014, the Consolidated Entity held OTC contracts with a positive replacement value of $10,001 million (2013: $9,753 million). The credit risk of these contacts is reduced due to master netting agreements covering negative OTC contracts of $6,158 million (2013: $6,116 million) and margins held (excluding the impact of over-collateralisation) of $1,153 million (2013: $681 million). In addition, the Consolidated Entity has placed collateral of $1,582 million (2013: $2,036 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts. As at 31 March 2014, the Bank held OTC contracts with a positive replacement value of $7,379 million (2013: $8,894 million). The credit risk of these contacts is reduced due to master netting agreements covering negative OTC contracts of $5,655 million (2013: $5,523 million) and margins held (excluding the impact of over-collateralisation) of $1,058 million (2013: $615 million). In addition, the Bank has placed collateral of $1,461 million (2013: $2,010 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 $2,436 million (2013: $2,256 million), and in the Bank of $2,291 million (2013: $2,005 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 $nil (2013: $683 million) issued by Australian banks which are subject to an Australian Government Guarantee. A further $255 million (2013: $243 million) is secured by specified assets under covered bonds.

*Credit commitments and contingent liabilities*

In the Consolidated Entity, of the Undrawn facilities and lending commitments of $3,166 million (2013: $2,374 million), $1,640 million (2013: $1,147 million) are fully secured by underlying specific assets. In the Bank, of $2,536 million (2013: $2,151 million), $1,399 million (2013: $1,103 million) are fully secured.

# 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 2014

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

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 2014
## continued

# Note 38.1
**Credit risk** continued

Credit Quality – Consolidated 2013

| | Neither past due nor impaired | | | | | |
|---|---|---|---|---|---|---|
| | Investment Grade $m | Below Investment Grade $m | Default $m | Unrated $m | Past due or individually impaired $m | Total $m |
| **Receivables from financial institutions(1)** | 11,290 | 1,309 | 8 | – | – | 12,607 |
| **Trading portfolio assets** | | | | | | 10,085 |
| Governments | 7,973 | 159 | – | – | – | 8,132 |
| Financial institutions | 885 | 144 | 55 | – | – | 1,084 |
| Other | 335 | 486 | 48 | – | – | 869 |
| **Derivative assets** | | | | | | 14,595 |
| Governments | 365 | 3 | – | – | – | 368 |
| Financial institutions | 9,590 | 475 | – | – | – | 10,065 |
| Other | 2,689 | 1,473 | – | – | – | 4,162 |
| **Debt investment securities available for sale** | | | | | | 13,708 |
| Governments | 3,528 | – | – | – | – | 3,528 |
| Financial institutions | 9,720 | 20 | – | – | – | 9,740 |
| Other | 107 | 331 | – | – | 2 | 440 |
| **Other assets** | | | | | | 5,443 |
| Governments | – | – | – | – | 3 | 3 |
| Financial institutions | – | – | – | – | 7 | 7 |
| Other | 3,829 | 1,137 | 13 | 368 | 86 | 5,433 |
| **Loan assets held at amortised cost(1)** | | | | | | 49,218 |
| Governments | 164 | 5 | – | – | – | 169 |
| Financial institutions | 3,868 | 2,057 | 27 | – | – | 5,952 |
| Other | 20,830 | 20,262 | 173 | – | 1,832 | 43,097 |
| **Other financial assets at fair value through profit or loss** | | | | | | 2,402 |
| Governments | 456 | – | – | – | – | 456 |
| Financial institutions | 657 | – | – | – | – | 657 |
| Other | 82 | 1,171 | – | – | 36 | 1,289 |
| **Due from related body corporate entities** | | | | | | 1,060 |
| Other | 143 | – | – | 917 | – | 1,060 |
| **Total** | 76,511 | 29,032 | 324 | 1,285 | 1,966 | 109,118 |

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

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

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 2014

| | Neither past due nor impaired | | | | | |
|---|---|---|---|---|---|---|
| | Investment Grade $m | Below Investment Grade $m | Default $m | Unrated $m | Past due or individually impaired $m | Total $m |
| **Receivables from financial institutions** | 13,064 | 1,707 | 7 | – | – | 14,778 |
| **Trading portfolio assets** | | | | | | 8,284 |
| Governments | 6,999 | 52 | – | – | – | 7,051 |
| Financial institutions | 525 | 30 | 36 | – | – | 591 |
| Other | 186 | 319 | 137 | – | – | 642 |
| **Derivative assets** | | | | | | 11,591 |
| Governments | 385 | – | – | – | – | 385 |
| Financial institutions | 7,211 | 251 | – | – | – | 7,462 |
| Other | 2,602 | 1,142 | – | – | – | 3,744 |
| **Debt investment securities available for sale** | | | | | | 11,014 |
| Governments | 2,590 | – | – | – | – | 2,590 |
| Financial institutions | 8,008 | 7 | – | – | – | 8,015 |
| Other | – | 409 | – | – | – | 409 |
| **Other assets** | | | | | | 4,507 |
| Governments | – | – | – | – | – | – |
| Financial institutions | – | – | – | – | 7 | 7 |
| Other | 2,869 | 1,087 | 9 | 517 | 18 | 4,500 |
| **Loan assets held at amortised cost** | | | | | | 34,978 |
| Governments | 59 | 2 | – | – | – | 61 |
| Financial institutions | 3,004 | 3,125 | 253 | – | – | 6,382 |
| Other | 15,153 | 12,280 | – | – | 1,102 | 28,535 |
| **Other financial assets at fair value through profit or loss** | | | | | | 958 |
| Governments | 82 | – | – | – | – | 82 |
| Financial institutions | 185 | – | – | – | – | 185 |
| Other | 32 | 642 | – | – | 17 | 691 |
| **Due from related body corporate entities** | | | | | | 2,029 |
| Other | 246 | – | – | 1,783 | – | 2,029 |
| **Due from subsidiaries** | | | | | | 26,228 |
| Other | 103 | 4 | – | 26,121 | – | 26,228 |
| **Total** | 63,303 | 21,057 | 442 | 28,421 | 1,144 | 114,367 |

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 2014
## continued

## Note 38.1
**Credit risk** continued

Credit Quality – Bank 2013

| | Neither past due nor impaired | | | | | |
|---|---|---|---|---|---|---|
| | Investment Grade $m | Below Investment Grade $m | Default $m | Unrated $m | Past due or individually impaired $m | Total $m |
| **Receivables from financial institutions[1]** | 9,582 | 1,267 | 8 | – | – | 10,857 |
| **Trading portfolio assets** | | | | | | 8,391 |
| Governments | 6,968 | 159 | – | – | – | 7,127 |
| Financial institutions | 524 | 112 | 55 | – | – | 691 |
| Other | 95 | 430 | 48 | – | – | 573 |
| **Derivative assets** | | | | | | 13,513 |
| Governments | 345 | – | – | – | – | 345 |
| Financial institutions | 9,256 | 624 | – | – | – | 9,880 |
| Other | 2,204 | 1,084 | – | – | – | 3,288 |
| **Debt investment securities available for sale** | | | | | | 15,340 |
| Governments | 3,528 | – | – | – | – | 3,528 |
| Financial institutions | 9,445 | 5 | – | – | – | 9,450 |
| Other | – | 2,361 | – | – | 1 | 2,362 |
| **Other assets** | | | | | | 4,382 |
| Governments | – | – | – | – | 3 | 3 |
| Financial institutions | – | – | – | – | 4 | 4 |
| Other | 3,221 | 495 | 13 | 624 | 22 | 4,375 |
| **Loan assets held at amortised cost[1]** | | | | | | 25,653 |
| Governments | 150 | 3 | – | – | – | 153 |
| Financial institutions | 3,157 | 1,921 | 27 | – | – | 5,105 |
| Other | 8,405 | 11,094 | 160 | – | 736 | 20,395 |
| **Other financial assets at fair value through profit or loss** | | | | | | 2,341 |
| Governments | 456 | – | – | – | – | 456 |
| Financial institutions | 599 | – | – | – | – | 599 |
| Other | 82 | 1,168 | – | – | 36 | 1,286 |
| **Due from related body corporate entities** | | | | | | 994 |
| Other | 107 | – | – | 887 | – | 994 |
| **Due from subsidiaries** | | | | | | 19,791 |
| Other | – | – | – | 19,791 | – | 19,791 |
| **Total** | 58,124 | 20,723 | 311 | 21,302 | 802 | 101,262 |

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

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

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

| | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| Class of financial asset | Less than 30 days $m | 31 to 60 days $m | 61 to 90 days $m | More than 90 days $m | Impaired $m | Total $m |
| **Debt investment securities available for sale** | | | | | | **Consolidated 2014** |
| Other | **–** | **–** | **–** | **–** | **1** | **1** |
| **Other assets** | | | | | | |
| Government | **1** | **–** | **–** | **–** | **–** | **1** |
| Financial institutions | **8** | **1** | **1** | **–** | **–** | **10** |
| Other | **58** | **9** | **4** | **2** | **31** | **104** |
| **Loan assets held at amortised cost** | | | | | | |
| Other | **752** | **160** | **62** | **340** | **347** | **1,661** |
| **Other financial assets at fair value through profit or loss** | | | | | | |
| Other | **3** | **3** | **1** | **4** | **8** | **19** |
| **Total** | **822** | **173** | **68** | **346** | **387** | **1,796** |
| **Debt investment securities available for sale** | | | | | | Consolidated 2013 |
| Other | – | – | – | – | 2 | 2 |
| **Other assets** | | | | | | |
| Government | 2 | 1 | – | – | – | 3 |
| Financial institutions | 5 | 1 | 1 | – | – | 7 |
| Other | 54 | 8 | 7 | – | 17 | 86 |
| **Loan assets held at amortised cost** | | | | | | |
| Other | 1,003 | 171 | 86 | 259 | 313 | 1,832 |
| **Other financial assets at fair value through profit or loss** | | | | | | |
| Other | 9 | 3 | 4 | – | 20 | 36 |
| **Total** | 1,073 | 184 | 98 | 259 | 352 | 1,966 |

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance less provision is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in note 1(xiii) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $966 million (2013: $1,229 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets represents equity securities held as security against failed trade settlements.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 38.1
**Credit risk** continued

| Class of financial asset | Past due but not impaired Less than 30 days $m | 31 to 60 days $m | 61 to 90 days $m | More than 90 days $m | Impaired $m | Total $m |
|---|---|---|---|---|---|---|
| **Debt investment securities available for sale** | | | | | | **Bank 2014** |
| Other | **–** | **–** | **–** | **–** | **–** | **–** |
| **Other assets** | | | | | | |
| Government | **–** | **–** | **–** | **–** | **–** | **–** |
| Financial institutions | **7** | **–** | **–** | **–** | **–** | **7** |
| Other | **1** | **–** | **–** | **–** | **17** | **18** |
| **Loan assets held at amortised cost** | | | | | | |
| Other | **209** | **77** | **29** | **268** | **519** | **1,102** |
| **Other financial assets at fair value through profit or loss** | | | | | | |
| Other | **2** | **2** | **1** | **4** | **8** | **17** |
| **Total** | **219** | **79** | **30** | **272** | **544** | **1,144** |
| **Debt investment securities available for sale** | | | | | | Bank 2013 |
| Other | – | – | – | – | 1 | 1 |
| **Other assets** | | | | | | |
| Government | 2 | 1 | – | – | – | 3 |
| Financial institutions | 3 | – | 1 | – | – | 4 |
| Other | 4 | 2 | – | – | 16 | 22 |
| **Loan assets held at amortised cost** | | | | | | |
| Other | 236 | 70 | 39 | 124 | 267 | 736 |
| **Other financial assets at fair value through profit or loss** | | | | | | |
| Other | 9 | 3 | 4 | – | 20 | 36 |
| **Total** | 254 | 76 | 44 | 124 | 304 | 802 |

### 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 2014, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of $178 million (2013: $210 million).

### 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 Chief Executive Officer, MBL Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer 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.

# Note 38.2

Liquidity risk

## Liquidity policy

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. MBL's risk appetite is set so that MBL is 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 modeling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

## Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum liquid asset requirement is calculated from scenario projections and complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves 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.

## 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.

## 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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 38.2
**Liquidity risk** continued

### Contractual undiscounted cash flows

The following tables below summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. 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.

## 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(1) | – | 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(2) | – | 8,581 | 8,345 | 15,685 | 12,065 | 44,676 |
| Loan Capital | – | 80 | 136 | 842 | 2,189 | 3,247 |
| **Total undiscounted cash flows** | 41,716 | 44,067 | 14,865 | 19,708 | 16,393 | 136,749 |
| Contingent liabilities | – | 1,305 | – | – | – | 1,305 |
| Commitments | – | 2,665 | 199 | 384 | – | 3,253 |
| **Total undiscounted contingent liabilities and commitments(3)** | – | 3,970 | 199 | 384 | – | 4,558 |

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

(2) Included in this balance is $19,139 million (2013: $15,033 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) 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 2014
## 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 2013 |
| Trading portfolio liabilities | – | 1,384 | – | – | – | 1,384 |
| Derivative financial instruments (trading) | – | 12,145 | – | – | – | 12,145 |
| Derivative financial instruments (hedging relationship) | | | | | | |
| Contractual amounts payable | – | 3,155 | 1,909 | 2,696 | 597 | 8,357 |
| Contractual amounts receivable | – | (3,170) | (1,938) | (2,223) | (477) | (7,808) |
| Deposits | 29,578 | 5,947 | 5,122 | 440 | 14 | 41,101 |
| Other financial liabilities[(1),(2)] | – | 6,702 | – | – | – | 6,702 |
| Payables to financial institutions | 4,055 | 7,717 | 1,191 | 1,799 | 557 | 15,319 |
| Other financial liabilities at fair value through profit or loss | 1 | 187 | 321 | 389 | 26 | 924 |
| Due to related body corporate entities | 3,912 | 1,102 | 23 | 458 | 139 | 5,634 |
| Debt issued at amortised cost[(3)] | – | 6,270 | 7,190 | 14,911 | 10,354 | 38,725 |
| Loan Capital | – | 70 | 117 | 755 | 1,996 | 2,938 |
| **Total undiscounted cash flows** | 37,546 | 41,509 | 13,935 | 19,225 | 13,206 | 125,421 |
| Contingent liabilities | – | 1,046 | – | – | – | 1,046 |
| Commitments | – | 1,939 | 216 | 236 | – | 2,391 |
| **Total undiscounted contingent liabilities and commitments[(4)]** | – | 2,985 | 216 | 236 | – | 3,437 |

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

(2) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i) - Summary of significant accounting policies.

(3) Included in this balance is $15,033 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.

(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 the 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[1] | **–** | **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 | **–** | **80** | **136** | **842** | **2,189** | **3,247** |
| **Total undiscounted cash flows** | **50,167** | **41,542** | **14,028** | **11,256** | **7,519** | **124,512** |
| Contingent liabilities | **–** | **2,270** | **–** | **–** | **–** | **2,270** |
| Commitments | **–** | **2,061** | **163** | **323** | **–** | **2,547** |
| **Total undiscounted contingent liabilities and commitments[2]** | **–** | **4,331** | **163** | **323** | **–** | **4,817** |

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) 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.

| | 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 2013 |
| Trading portfolio liabilities | – | 1,371 | – | – | – | 1,371 |
| Derivative financial instruments (trading) | – | 14,175 | – | – | – | 14,175 |
| Derivative financial instruments (hedging relationship) | | | | | | |
| Contractual amounts payable | – | 1,479 | 524 | 872 | 553 | 3,428 |
| Contractual amounts receivable | – | (1,556) | (740) | (921) | (477) | (3,694) |
| Deposits | 28,648 | 5,944 | 5,121 | 409 | 5 | 40,127 |
| Other financial liabilities[1] | – | 3,872 | – | – | – | 3,872 |
| Payables to financial institutions | 4,019 | 9,079 | 25 | 1,132 | 515 | 14,770 |
| Other financial liabilities at fair value through profit or loss | – | 176 | 290 | 273 | – | 739 |
| Due to related body corporate entities | 5,835 | 101 | 1,339 | 662 | 20 | 7,957 |
| Due to subsidiaries | 3,900 | 1,142 | 7 | 131 | 139 | 5,319 |
| Debt issued at amortised cost | – | 4,758 | 4,444 | 6,695 | 1,452 | 17,349 |
| Loan Capital | – | 70 | 117 | 755 | 1,996 | 2,938 |
| **Total undiscounted cash flows** | 42,402 | 40,611 | 11,127 | 10,008 | 4,203 | 108,351 |
| Contingent liabilities | – | 1,646 | – | – | – | 1,646 |
| Commitments | – | 1,754 | 173 | 236 | – | 2,163 |
| **Total undiscounted contingent liabilities and commitments[2]** | – | 3,400 | 173 | 236 | – | 3,809 |

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) 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 2014
## 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, including the risks arising from equity underwriting activity; 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 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

**Value-at-Risk (VaR) figures (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 operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

| | 2014 Average $m | 2014 Maximum $m | 2014 Minimum $m | 2013 Average $m | 2013 Maximum $m | 2013 Minimum $m |
|---|---|---|---|---|---|---|
| | | | | | | **Consolidated** |
| Equities | **5.38** | **8.11** | **2.83** | 4.11 | 6.13 | 2.67 |
| Interest rates | **7.29** | **9.85** | **5.15** | 7.98 | 10.66 | 6.38 |
| Foreign exchange and bullion | **3.95** | **8.10** | **1.03** | 2.60 | 7.06 | 0.62 |
| Commodities | **13.11** | **21.02** | **7.37** | 10.04 | 17.11 | 6.35 |
| Aggregate | **16.49** | **23.71** | **8.66** | 13.21 | 19.98 | 9.95 |

## Note 38.3

**Market risk** continued

| | 2014 Average $m | 2014 Maximum $m | 2014 Minimum $m | 2013 Average $m | 2013 Maximum $m | 2013 Minimum $m |
|---|---|---|---|---|---|---|
| | | | | | | **Bank** |
| Equities | **5.04** | **7.58** | **2.82** | 3.88 | 6.03 | 2.31 |
| Interest rates | **7.16** | **9.82** | **5.06** | 7.63 | 10.82 | 5.98 |
| Foreign exchange and bullion | **4.93** | **8.13** | **1.15** | 3.76 | 10.05 | 0.55 |
| Commodities | **6.39** | **9.20** | **3.67** | 4.98 | 7.88 | 1.16 |
| Aggregate | **12.60** | **16.87** | **8.45** | 10.97 | 16.41 | 8.14 |

### Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

### Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of FICC and Group Treasury which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book. These residual risks have independent limits that are monitored by RMG.

### 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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Movement in exchange rates %** | **Sensitivity of equity after tax $m** | Movement in exchange rates % | Sensitivity of equity after tax $m |
| | | | | **Consolidated** |
| USD | **+10** | **279** | +10 | 297 |
| GBP | **+10** | **(12)** | +10 | (13) |
| CAD | **+10** | **26** | +10 | 29 |
| EUR | **+10** | **27** | +10 | 11 |
| Total | | **320** | | 324 |
| USD | **–10** | **(341)** | –10 | (364) |
| GBP | **–10** | **15** | –10 | 16 |
| CAD | **–10** | **(32)** | –10 | (35) |
| EUR | **–10** | **(33)** | –10 | (13) |
| Total | | **(391)** | | (396) |

# 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:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| **Geographic region** | **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 |
| **Listed** | | | | | | **Consolidated** |
| Australia | **+10** | **–** | **6.5** | +10 | 0.8 | 8.0 |
| Asia Pacific | **+10** | **–** | **–** | +10 | – | – |
| Europe, Middle East and Africa | **+10** | **1.8** | **0.6** | +10 | 2.9 | 1.2 |
| Americas | **+10** | **–** | **1.7** | +10 | – | 7.9 |
| **Unlisted** | **+10** | **0.6** | **17.5** | +10 | 0.8 | 15.8 |
| **Listed** | | | | | | |
| Australia | **-10** | **–** | **(6.5)** | -10 | (0.7) | (8.0) |
| Asia Pacific | **-10** | **–** | **–** | -10 | – | – |
| Europe, Middle East and Africa | **-10** | **(1.8)** | **(0.6)** | -10 | (2.9) | (1.2) |
| Americas | **-10** | **–** | **(1.7)** | -10 | – | (7.9) |
| **Unlisted** | **-10** | **(0.6)** | **(17.5)** | -10 | (0.1) | (15.8) |
| **Listed** | | | | | | **Bank** |
| Australia | **+10** | **–** | **6.5** | +10 | 0.8 | 7.9 |
| Asia Pacific | **+10** | **–** | **–** | +10 | – | – |
| Europe, Middle East and Africa | **+10** | **1.8** | **0.6** | +10 | 2.9 | 1.2 |
| Americas | **+10** | **–** | **1.3** | +10 | – | 6.9 |
| **Unlisted** | **+10** | **0.6** | **4.6** | +10 | 0.8 | 5.2 |
| **Listed** | | | | | | |
| Australia | **-10** | **–** | **(6.5)** | -10 | (0.7) | (7.9) |
| Asia Pacific | **-10** | **–** | **–** | -10 | – | – |
| Europe, Middle East and Africa | **-10** | **(1.8)** | **(0.6)** | -10 | (2.9) | (1.2) |
| Americas | **-10** | **–** | **(1.3)** | -10 | – | (6.9) |
| **Unlisted** | **-10** | **(0.6)** | **(4.6)** | -10 | (0.1) | (5.2) |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39
### Fair values of financial assets and liabilities

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

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

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

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
– investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt;
– for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
– for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations;
– 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).

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

# Note 39

**Fair values of financial assets and liabilities** continued

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the 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; and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39

**Fair values of financial assets and liabilities** continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Bank at 31 March 2014 and 31 March 2013:

| | **2014 Carrying value $m** | **2014 Fair value $m** | 2013 Carrying value $m | 2013 Fair value $m |
|---|---|---|---|---|
| **Assets** | | | | **Consolidated** |
| Receivables from financial institutions | **16,151** | **16,151** | 12,607 | 12,607 |
| Other financial assets | **6,155** | **6,155** | 5,443 | 5,443 |
| Loan assets held at amortised cost | **57,170** | **57,323** | 49,218 | 49,765 |
| Due from related body corporate entities | **2,244** | **2,244** | 1,060 | 1,060 |
| **Total assets** | **81,720** | **81,873** | 68,328 | 68,875 |
| **Liabilities** | | | | |
| Deposits | **42,302** | **42,314** | 40,966 | 40,980 |
| Other financial liabilities | **5,946** | **5,946** | 5,521 | 5,521 |
| Payables to financial institutions | **16,573** | **16,617** | 15,180 | 15,222 |
| Due to related body corporate entities | **7,443** | **7,443** | 5,456 | 5,456 |
| Debt issued at amortised cost | **37,255** | **37,768** | 31,826 | 32,380 |
| Loan capital | **2,464** | **2,645** | 2,203 | 2,288 |
| **Total liabilities** | **111,983** | **112,733** | 101,152 | 101,847 |

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for cash and at-call amounts of $6,895 million in ‘Receivables from financial institutions’, $4,800 million in ‘Loan assets held at amortised cost’, $31,546 million in ‘Deposits’, $1,587 million in ‘Payables to financial institutions’ and $306 million in ‘Loan capital’ classified as level 1.

| | | | | |
|---|---|---|---|---|
| **Assets** | | | | **Bank** |
| Receivables from financial institutions | **14,778** | **14,778** | 11,378 | 11,378 |
| Other financial assets | **4,507** | **4,507** | 4,382 | 4,382 |
| Loan assets held at amortised cost | **34,978** | **35,035** | 25,132 | 25,432 |
| Due from related body corporate entities | **2,029** | **2,029** | 994 | 994 |
| Due from subsidiaries | **26,228** | **26,228** | 19,791 | 19,791 |
| **Total assets** | **82,520** | **82,577** | 61,677 | 61,977 |
| **Liabilities** | | | | |
| Deposits | **41,624** | **41,636** | 39,992 | 40,006 |
| Other financial liabilities | **4,385** | **4,385** | 3,872 | 3,872 |
| Payables to financial institutions | **16,362** | **16,400** | 14,644 | 14,686 |
| Due to related body corporate entities | **6,833** | **6,833** | 5,250 | 5,250 |
| Due to subsidiaries | **14,835** | **14,835** | 7,758 | 7,758 |
| Debt issued at amortised cost | **20,508** | **20,834** | 16,306 | 16,544 |
| Loan capital | **2,464** | **2,645** | 2,203 | 2,288 |
| **Total liabilities** | **107,011** | **107,568** | 90,025 | 90,404 |

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for cash and at-call amounts of $5,564 million in ‘Receivables from financial institutions’, $2,827 million in ‘Loan assets held at amortised cost’, $30,870 million in ‘Deposits’, $1,323 million in ‘Payables to financial institutions’ and $306 million in ‘Loan capital’ classified as level 1.

# Note 39

**Fair values 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 |
|---|---|---|---|---|
| **Assets** | | | | **Consolidated 2014** |
| 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[1] | **353** | **762** | **–** | **1,115** |
| **Total assets** | **23,305** | **24,953** | **1,342** | **49,600** |
| **Liabilities** | | | | |
| 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[1] | **351** | **733** | **–** | **1,084** |
| **Total liabilities** | **2,175** | **13,935** | **118** | **16,228** |
| **Assets** | | | | Consolidated 2013 |
| Trading portfolio assets | 13,694 | 4,906 | 253 | 18,853 |
| Derivative assets | 2,268 | 12,269 | 58 | 14,595 |
| Investment securities available for sale | 11,121 | 2,801 | 268 | 14,190 |
| Other financial assets at fair value through profit or loss | 1,115 | 3,461 | 69 | 4,645 |
| Other financial assets[1],[2] | 407 | 803 | – | 1,210 |
| **Total assets** | 28,605 | 24,240 | 648 | 53,493 |
| **Liabilities** | | | | |
| Trading portfolio liabilities | 522 | 862 | – | 1,384 |
| Derivative liabilities | 2,397 | 12,284 | 44 | 14,725 |
| Other financial liabilities at fair value through profit or loss | – | 849 | 70 | 919 |
| Other financial liabilities[1],[2] | 404 | 777 | – | 1,181 |
| **Total liabilities** | 3,323 | 14,772 | 114 | 18,209 |

(1) Included within this balance are life investment contracts and unitholder assets and liabilities.

(2) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

## Note 39

**Fair values of financial assets and liabilities** continued

| | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **Assets** | | | | **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** |
| **Total assets** | **22,171** | **20,855** | **1,327** | **44,353** |
| **Liabilities** | | | | |
| 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** |
| **Total liabilities** | **1,911** | **13,784** | **106** | **15,801** |
| **Assets** | | | | Bank 2013 |
| Trading portfolio assets | 12,891 | 3,206 | 226 | 16,323 |
| Derivative assets | 2,245 | 10,972 | 296 | 13,513 |
| Investment securities available for sale | 11,055 | 4,461 | 125 | 15,641 |
| Other financial assets at fair value through profit or loss | 1,043 | 2,273 | 42 | 3,358 |
| **Total assets** | 27,234 | 20,912 | 689 | 48,835 |
| **Liabilities** | | | | |
| Trading portfolio liabilities | 508 | 863 | – | 1,371 |
| Derivative liabilities | 2,393 | 12,165 | 30 | 14,588 |
| Other financial liabilities at fair value through profit or loss | – | 669 | 70 | 739 |
| **Total liabilities** | 2,901 | 13,697 | 100 | 16,698 |

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# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39

**Fair values 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 2014 and 31 March 2013:

| | Trading portfolio assets $m | Investment securities available for sale $m |
|---|---|---|
| **Balance at 1st April 2013** | **253** | **268** |
| Purchases | **346** | **190** |
| Sales | **(128)** | **(66)** |
| Issues | **–** | **4** |
| Settlements | **–** | **(3)** |
| Transfers into Level 3 | **312** | **16** |
| Transfers out of Level 3 | **(90)** | **–** |
| Fair value gains/(losses) recognised in the income statement(1) | **9** | **2** |
| Fair value losses recognised in other comprehensive income(1) | **–** | **(4)** |
| **Balance at 31 March 2014** | **702** | **407** |
| Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1) | **9** | **1** |
| **Balance at 1st April 2012** | 452 | 184 |
| Purchases | 225 | 29 |
| Sales | (360) | (37) |
| Issues | – | – |
| Settlements | – | – |
| Transfers into Level 3 | – | 108 |
| Transfers out of Level 3 | (80) | (40) |
| Fair value gains/(losses) recognised in the income statement(1) | 16 | (7) |
| Fair value gains recognised in other comprehensive income(1) | – | 31 |
| **Balance at 31 March 2013** | 253 | 268 |
| Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1) | 24 | – |

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $80 million (2013: $58 million) and derivative liabilities are $86 million (2013: $44 million).

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| 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)[2] $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 2013 |
| 160 | (110) | 33 | 719 |
| – | – | 11 | 265 |
| (79) | – | (11) | (487) |
| – | – | (9) | (9) |
| (10) | 40 | 4 | 34 |
| – | – | (2) | 106 |
| – | 1 | (28) | (147) |
| (2) | (1) | 16 | 22 |
| – | – | – | 31 |
| 69 | (70) | 14 | 534 |
| 2 | (1) | 6 | 31 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39
**Fair values of financial assets and liabilities** continued

### Reconciliation of balances in Level 3 of the fair value hierarchy continued

| | Trading portfolio assets $m | Investment securities available for sale $m |
|---|---|---|
| **Balance at the beginning of the financial year** | **226** | **125** |
| Purchases | **340** | **118** |
| Sales | **(100)** | **(21)** |
| Issues | **–** | **4** |
| Settlements | **–** | **–** |
| Transfers into Level 3 | **288** | **16** |
| Transfers out of Level 3 | **(90)** | **–** |
| Fair value gains/(losses) recognised in the income statement[1] | **9** | **(7)** |
| Fair value losses recognised in other comprehensive income[1] | **–** | **(16)** |
| **Balance at the end of the financial year** | **673** | **219** |
| Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1] | **9** | **(7)** |
| **Balance at the beginning of the financial year** | 273 | 93 |
| Purchases | 172 | 13 |
| Sales | (126) | (22) |
| Issues | – | – |
| Settlements | – | – |
| Transfers into Level 3 | 57 | 99 |
| Transfers out of Level 3 | (166) | (31) |
| Fair value gains/(losses) recognised in the income statement[1] | 16 | (14) |
| Fair value losses recognised in other comprehensive income[1] | – | (13) |
| **Balance at the end of the financial year** | 226 | 125 |
| Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1] | 26 | – |

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $297 million (2013: $296 million) and derivative liabilities are $74 million (2013: $30 million).

| 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)[2] $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 2013 |
| 131 | (110) | 258 | 645 |
| – | – | 14 | 199 |
| (74) | – | (8) | (230) |
| – | – | (9) | (9) |
| (10) | 40 | 4 | 34 |
| – | 1 | (7) | 150 |
| – | – | (2) | (199) |
| (5) | (1) | 16 | 12 |
| – | – | – | (13) |
| 42 | (70) | 266 | 589 |
| (2) | – | 5 | 29 |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39

**Fair values of financial assets and liabilities** continued

### Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Bank did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the year.

### Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Bank recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

| | **Consolidated 2014 $m** | Consolidated 2013 $m | **Bank 2014 $m** | Bank 2013 $m |
|---|---|---|---|---|
| **Balance at the beginning of the financial year** | **24** | 7 | **1** | 5 |
| Deferral on new transactions | **2** | 23 | **2** | 2 |
| Amounts recognised in the income statement during the year | **(18)** | (6) | **(3)** | (6) |
| **Balance at the end of the financial year** | **8** | 24 | **-** | 1 |

## Note 39

**Fair values 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 |
| **Product type** | | | | **Consolidated 2014** |
| Equity and equity linked products | **–** | **10** | **–** | **(10)** |
| Other products | **17** | **–** | **(11)** | **–** |
| **Total** | **17** | **10** | **(11)** | **(10)** |
| **Product type** | | | | Consolidated 2013 |
| Equity and equity linked products | 15 | 11 | (14) | (11) |
| Other products | 27 | – | (24) | – |
| **Total** | 42 | 11 | (38) | (11) |
| **Product type** | | | | **Bank 2014** |
| Equity and equity linked products | **(2)** | **2** | **2** | **(2)** |
| Other products | **11** | **–** | **(11)** | **–** |
| **Total** | **9** | **2** | **(9)** | **(2)** |
| **Product type** | | | | Bank 2013 |
| Equity and equity linked products | 11 | 1 | (10) | (1) |
| Other products | 20 | – | (18) | – |
| **Total** | 31 | 1 | (28) | (1) |

### 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 |
|---|---|---|---|---|---|---|
| | | | | | **As at 31 Mar 2014** | |
| 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 | 0.00 | 1.00 |
| | | | Market comparability | Price in % | 7.0% | 214.0% |
| **Total** | **1,342** | **118** | | | | |

# Notes to the financial statements
## for the financial year ended 31 March 2014
## continued

# Note 39

**Fair values of financial assets and liabilities** continued

### Significant unobservable inputs continued

#### Correlation

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

#### Volatility

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.

#### Forward prices

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

#### Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earning multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) 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(xxiv). 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 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 2014** |
| Receivables from financial institutions[1] | **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** |
| **Total assets** | **37,792** | **(14,609)** | **23,183** | **(9,036)** | **(8,780)** | **5,367** |
| Derivative liabilities | **(13,124)** | **1,879** | **(11,245)** | **8,285** | **1,285** | **(1,676)** |
| Deposits | **(205)** | **169** | **(36)** | **–** | **1** | **(35)** |
| Other liabilities | **(3,588)** | **2,129** | **(1,459)** | **55** | **–** | **(1,404)** |
| Payables to financial institutions[2] | **(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** | **–** | **–** | **–** | **–** |
| **Total liabilities** | **(39,558)** | **14,609** | **(24,949)** | **9,036** | **7,872** | **(8,041)** |
| | | | | | | **Consolidated 2013** |
| Receivables from financial institutions[1] | 5,528 | – | 5,528 | (507) | (4,817) | 204 |
| Derivative assets | 12,810 | (1,492) | 11,318 | (8,704) | (681) | 1,933 |
| Other assets | 2,291 | (1,372) | 919 | (76) | (4) | 839 |
| Loan assets held at amortised cost | 496 | (421) | 75 | – | (69) | 6 |
| Other financial assets at fair value through profit or loss | 1,262 | (1,188) | 74 | – | – | 74 |
| Due from related body corporate entities | 8,020 | (7,375) | 645 | – | – | 645 |
| **Total assets** | **30,407** | **(11,848)** | **18,559** | **(9,287)** | **(5,571)** | **3,701** |
| Derivative liabilities | (13,269) | 1,492 | (11,777) | 8,704 | 1,843 | (1,230) |
| Deposits | (245) | 171 | (74) | 1 | 73 | – |
| Other liabilities | (3,948) | 2,612 | (1,336) | 75 | – | (1,261) |
| Payables to financial institutions[2] | (5,237) | 172 | (5,065) | 507 | 4,456 | (102) |
| Due to related body corporate entities | (11,087) | 7,375 | (3,712) | – | – | (3,712) |
| Debt issued at amortised cost | (26) | 26 | – | – | – | – |
| **Total liabilities** | **(33,812)** | **11,848** | **(21,964)** | **9,287** | **6,372** | **(6,305)** |

(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.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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[1] | **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** |
| **Total assets** | **70,217** | **(29,377)** | **40,480** | **(8,306)** | **(8,684)** | **23,850** |
| 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[2] | **(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)** |
| **Total liabilities** | **(60,186)** | **29,377** | **(30,809)** | **8,306** | **7,766** | **(14,737)** |
| | | | | | | Bank 2013 |
| Receivables from financial institutions[1] | 5,527 | – | 5,527 | (507) | (4,817) | 203 |
| Derivative assets | 12,810 | (1,492) | 11,318 | (8,704) | (681) | 1,933 |
| Other assets | 976 | (687) | 289 | (11) | – | 278 |
| Loan assets held at amortised cost | 345 | (342) | 3 | – | – | 3 |
| Other financial assets at fair value through profit or loss | 2 | (2) | – | – | – | – |
| Due from related body corporate entities | 7,639 | (7,149) | 490 | – | – | 490 |
| Due from subsidiaries | 29,062 | (14,358) | 14,704 | – | – | 14,704 |
| **Total assets** | **56,361** | **(24,030)** | **32,331** | **(9,222)** | **(5,498)** | **17,611** |
| Derivative liabilities | (13,269) | 1,492 | (11,777) | 8,704 | 1,843 | (1,230) |
| Deposits | (118) | 118 | – | – | – | – |
| Other liabilities | (1,118) | 741 | (377) | 11 | – | (366) |
| Payables to financial institutions[2] | (5,182) | 172 | (5,010) | 507 | 4,456 | (47) |
| Due to related body corporate entities | (10,839) | 7,149 | (3,690) | – | – | (3,690) |
| Due to subsidiaries | (20,790) | 14,358 | (6,432) | – | – | (6,432) |
| **Total liabilities** | **(51,316)** | **24,030** | **(27,286)** | **9,222** | **6,299** | **(11,765)** |

(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

**Offsetting on balance sheet**

Amounts are offset in accordance with the criteria described in Note 1(xxii) "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 2014
## continued

## 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 2014 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 $372 million (2013: $479 million) as at 31 March 2014 and a fair value that approximates the carrying amount. Income of $19 million (2013: $21 million) was generated from securitisation interests during the year and $61 million (2013: $59 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

The following table presents information about transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2014 and 31 March 2013:

| | Repurchase and securities lending agreements $m | Transfers with total return/asset swaps $m | Transfer with written put option $m |
|---|---|---|---|
| | | | **Consolidated 2014** |
| Carrying amount of transferred assets[1],[2] | **8,456** | **5,851** | **668** |
| Carrying amount of associated liabilities[2] | **(8,317)** | **(5,394)** | **(684)** |
| Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3] | **–** | **–** | **683** |
| **For those liabilities that have recourse only to the transferred assets:** | | | |
| Fair value of transferred assets | **727** | **3,953** | **674** |
| Fair value of associated liabilities | **(724)** | **(4,014)** | **(689)** |
| **Net fair value** | **3** | **(61)** | **(15)** |
| | | | Consolidated 2013 |
| Carrying amount of transferred assets[1],[2] | 7,535 | 7,623 | 829 |
| Carrying amount of associated liabilities[2] | (7,469) | (7,100) | (836) |
| Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3] | – | – | 828 |
| **For those liabilities that have recourse only to the transferred assets:** | | | |
| Fair value of transferred assets | 461 | 5,888 | 837 |
| Fair value of associated liabilities | (436) | (5,988) | (847) |
| **Net fair value** | 25 | (100) | (10) |

(1) The transferred financial assets are presented in note 7 Trading portfolio assets $7,155 million (2013: $6,784 million), note 8 Investment securities available for sale $1,743 million (2013: $1,299 million) and note 10 Loan assets held at amortised cost $6,077 million (2013: $7,904 million) in the statements of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $919 million (2013: $749 million) that will be settled partly by the transferred assets with a carrying amount of $919 million (2013: $749 million). The Bank has 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. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

(3) 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 2014
## 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 2014 and 31 March 2013:

| | Repurchase and securities lending agreements $m | Transfers with total return/ asset swaps $m | Interests in securitisations $m |
|---|---|---|---|
| | | | **Bank 2014** |
| Carrying amount of transferred assets[1],[2] | **9,598** | **1,918** | **11,870** |
| Carrying amount of associated liabilities[2] | **(9,374)** | **(1,410)** | **(11,870)** |
| **For those liabilities that have recourse only to the transferred assets:** | | | |
| Fair value of transferred assets | **1,862** | **–** | **11,885** |
| Fair value of associated liabilities | **(1,781)** | **–** | **(11,879)** |
| **Net fair value** | **81** | **–** | **6** |
| | | | Bank 2013 |
| Carrying amount of transferred assets[1] | 9,572 | 1,835 | 6,536 |
| Carrying amount of associated liabilities | (9,386) | (1,304) | (6,536) |
| **For those liabilities that have recourse only to the transferred assets:** | | | |
| Fair value of transferred assets | 2,498 | – | 6,547 |
| Fair value of associated liabilities | (2,353) | – | (6,536) |
| **Net fair value** | 145 | – | 11 |

(1) The transferred financial assets are presented in Trading portfolio assets $7,155 million (2013: $6,784 million), Investment securities available for sale $3,604 million (2013: $3,336 million) and Loan assets held at amortised cost $12,626 million (2013: $7,823 million) in the statement of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $919 million (2013: $749 million) that will be settled partly by the transferred assets with a carrying amount of $919 million (2013: $749 million). The Bank has 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. 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 Consolidated Entity and the Bank, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

| | **Consolidated 2014 $'000** | Consolidated 2013 $'000 | **Bank 2014 $'000** | Bank 2013 $'000 |
|---|---|---|---|---|
| **PwC – Australia** | | | | |
| Audit and review of financial reports of the Bank or any controlled entity | **6,334** | 6,012 | **5,282** | 4,973 |
| Other audit-related work | **832** | 683 | **413** | 317 |
| Other assurance services | **1,676** | 1,737 | **180** | 740 |
| **Total audit and other assurance services** | **8,842** | 8,432 | **5,875** | 6,030 |
| Advisory services | **833** | – | **–** | – |
| Taxation | **37** | 123 | **–** | – |
| **Total remuneration paid to PwC – Australian Firm** | **9,712** | 8,555 | **5,875** | 6,030 |
| **Network firms of PwC Australia** | | | | |
| Audit and review of financial reports of the Bank or controlled entity | **5,532** | 5,441 | **–** | – |
| Other audit-related work | **140** | 43 | **–** | – |
| Other assurance services | **154** | 185 | **–** | – |
| **Total audit and other assurance services** | **5,826** | 5,669 | **–** | – |
| Advisory services | **6** | – | **–** | – |
| Taxation | **767** | 598 | **–** | 63 |
| **Total remuneration paid to network firms of PwC Australia** | **6,599** | 6,267 | **–** | 63 |
| **Total remuneration paid to PwC (note 2)** | **16,311** | 14,822 | **5,875** | 6,093 |

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's and the Bank's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to initial public offerings and due diligence services for new funds. These fees may be recovered by the Consolidated Entity upon the successful establishment of the funds.

It is the Consolidated Entity's and the Bank's policy to seek competitive tenders for all major advisory projects.

# Notes to the financial statements
## for the financial year ended 31 March 2014
## 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.

### Other entities or businesses acquired or consolidated due to acquisition of control during the financial year are as follows:

Macquarie Investment Management Korea Co. Ltd and Corona Energy Retail 5 Limited.

Aggregate details of the above entities or businesses acquired or consolidated due to acquisition of control are as follows:

| | 2014 $m | 2013 $m |
|---|---|---|
| **Fair value of net assets acquired** | | |
| Cash and other assets | 46 | 19 |
| Other financial assets | – | 370 |
| Property, plant and equipment | 1 | 666 |
| Goodwill and other intangible assets | 36 | 3 |
| Payables, provisions, borrowings and other liabilities | (9) | (310) |
| **Total fair value of net assets acquired** | 74 | 748 |
| **Consideration** | | |
| Cash consideration | 74 | 748 |
| **Total consideration** | 74 | 748 |
| **Net cash outflow** | | |
| Cash consideration | (74) | (748) |
| Less: | | |
| Cash and cash equivalents acquired | 42 | 4 |
| **Net cash outflow** | (32) | (744) |

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.

The 31 March 2013 comparatives principally relate Macquarie European Rail, being the significant entity consolidated due to acquisition of control.

# Note 43

**Acquisitions and disposals of subsidiaries and businesses** continued

### Significant entities or businesses disposed of or deconsolidated due to loss of control

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

### Other entities or businesses disposed of or deconsolidated during the financial year are as follows:

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.

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

| | 2014 $m | 2013 $m |
|---|---|---|
| **Carrying value of assets and liabilities disposed of or deconsolidated** | | |
| Cash and other assets | **407** | 42 |
| Other financial assets | **445** | 257 |
| Property, plant and equipment | **10** | 9 |
| Goodwill and other intangible assets | **51** | 34 |
| Payables, provisions, borrowings and other liabilities | **(665)** | (109) |
| Non-controlling interests | **(131)** | (1) |
| **Total carrying value of assets and liabilities disposed of or deconsolidated** | **117** | 232 |
| **Consideration** | | |
| Cash consideration | **132** | 245 |
| Deferred consideration | **–** | 3 |
| **Total consideration** | **132** | 248 |
| **Net cash flow** | | |
| Cash consideration | **132** | 245 |
| Less: | | |
| Investment retained | **–** | (4) |
| Cash and cash equivalents disposed of or deconsolidated | **(284)** | (16) |
| **Net cash inflow** | **(152)** | 225 |

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year ended 31 March 2013.

# Note 44

**Events after the reporting period**

There were no material events subsequent to 31 March 2014 that have not been reflected in the financial statements.

# Macquarie Bank Limited
## Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 39 to 157 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 2014 and performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 46; 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 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.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

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

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

**Greg Ward**
Managing Director and
Chief Executive Officer

Sydney
2 May 2014

# 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 of the statements of financial position as at 31 March 2014, and the income statements, the 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 Macquarie Bank Group (the Consolidated Entity). The Consolidated Entity comprises the Bank and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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.



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*.

#### *Auditor's opinion*

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2014 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, and

b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 28 of the directors' report for the year ended 31 March 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

**PricewaterhouseCoopers**

**DH Armstrong**
Partner

Sydney
2 May 2014

# Glossary

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| the Act | *Corporations Act 2001 (Cth)* |
| ADI | authorised deposit-taking institution |
| AGM | Annual General Meeting |
| APRA | Australian Prudential Regulation Authority |
| ASIC | Australian Securities & Investments Commission |
| ASX | Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited |
| BAC | Board Audit Committee |
| the Bank | Macquarie Bank Limited |
| Banking Group | the Banking Group comprises BFS, CAF, FICC, MFG and the trading activities of the MSG. There is also one division within the Banking Group: REB |
| BBSW | Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc |
| BFS | Banking and Financial Services Group |
| the Board | the Board of Voting Directors of Macquarie Bank Limited |
| BRC | Macquarie's Board Remuneration Committee |
| CAF | Corporate and Asset Finance Group |
| CAGR | compound annual growth rate |
| CEO | Managing Director and Chief Executive Officer |
| CFO | Chief Financial Officer |
| the Company | Macquarie Bank Limited |
| the Consolidated Entity | Macquarie Bank Limited and its subsidiaries |
| CRO | Chief Risk Officer |
| CVA | credit valuation adjustments |
| 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 |
| 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 |
| FICC | Fixed Income, Currencies and Commodities |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| Key Management Personnel (KMP) | all Voting Directors and members of the Executive Committee of Macquarie Bank Limited |
| Macquarie Bank, MBL | Macquarie Bank Limited ABN 46 008 583 542 |

# Glossary
## continued

| | |
|---|---|
| Macquarie Board, the Board | the Board of Voting Directors of Macquarie Group Limited |
| Macquarie ordinary shares | 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 |
| MBEDSAP | Macquarie Bank Executive Director Share Acquisition Plan |
| MEREP | Macquarie Group Employee Retained Equity Plan |
| MFG | Macquarie Funds Group |
| MFL | Macquarie Finance Limited |
| MGESOP | Macquarie Group Employee Share Option Plan |
| MGSA | Macquarie Group Services Australia Pty Limited |
| MGSSAP | Macquarie Group Staff Share Acquisition Plan |
| MIPS | Macquarie Income Preferred Securities |
| MIS | Macquarie Income Securities |
| MSG | Macquarie Securities Group |
| NCD | negotiable certificates of deposit |
| NCI | non-controlling interests |
| NED | Non-Executive Director |
| NEDSAP | Non-Executive Director Share Acquisition Plan |
| Non-Banking Group | the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group |
| NPAT | net profit after tax |
| OECD | Organisation for Economic Co-operation and Development |
| PSU | Performance Share Unit issued under the MEREP |
| PwC | PricewaterhouseCoopers |
| REB | Real Estate Banking Division |
| RMG | Risk Management Group |
| ROE | return on ordinary equity |
| RSU | Restricted Share Unit issued under the MEREP |
| S&P | Standard & Poor’s |
| SPE | Special Purpose Entity |
| TSR | total shareholder returns |
| VaR | Value-at-Risk |
| Voting Directors | the Voting Directors of Macquarie Bank Limited as defined in the Bank's Constitution |

## Contact details

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## Paper stock

Monza Recycled is Certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. Monza Recycled contains 55 per cent recycled fibre (25 per cent post consumer and 30 per cent pre consumer) and is FSC Mix Certified, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. It is manufactured by an ISO 14001 certified mill.


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