MACQUARIE

2014 Annual Financial Report

Macquarie Group

Macquarie's approach to Corporate Governance

Macquarie's approach to governance, which has remained largely consistent over time, is to:

- promote the long term profitability of Macquarie while prudently managing risk
- drive superior and sustainable shareholder value over the long term through the alignment of the interests of shareholders and staff
- meet stakeholder expectations of sound corporate governance as part of Macquarie's broader responsibility to clients, shareholders, investors and the communities in which it operates.

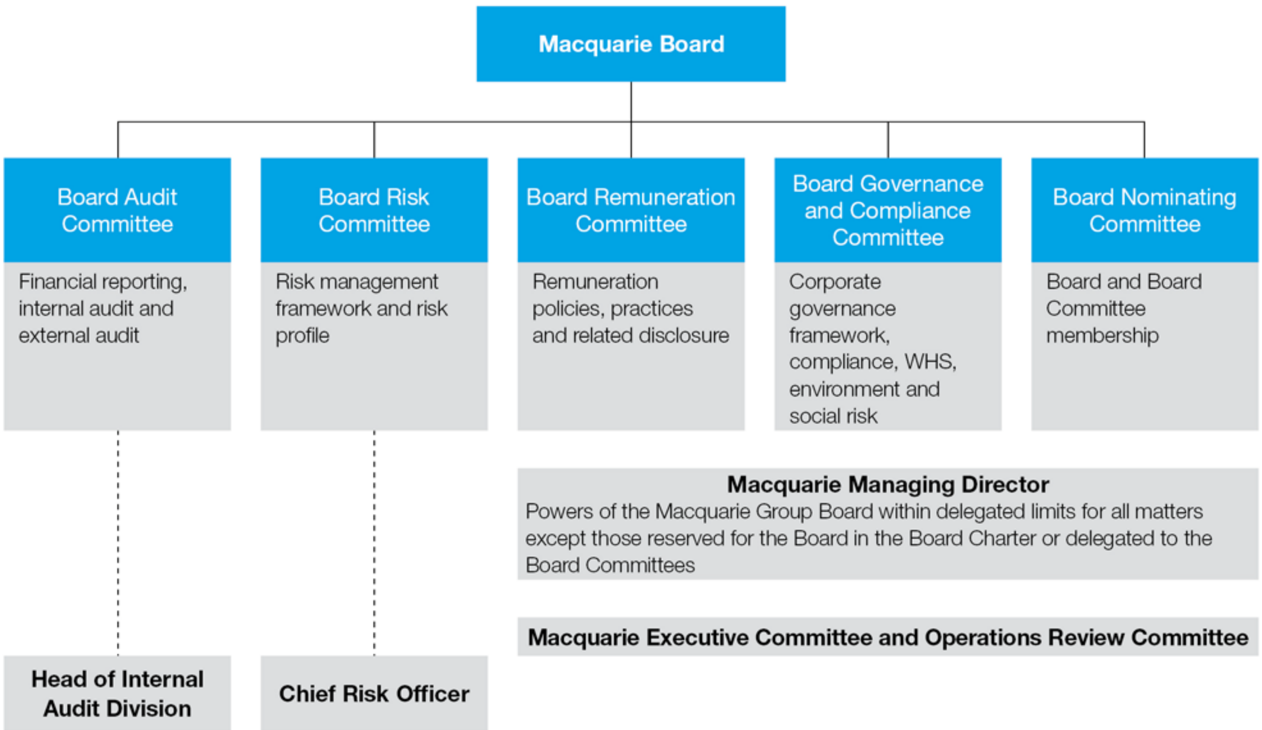
Macquarie recognises that a key factor in delivering long term shareholder returns is providing superior services to clients. Macquarie recruits high quality staff and expects staff to uphold the company's *Goals and Values*.

Macquarie Group Limited (Macquarie) is a global financial services provider and its shares are listed on the Australian Securities Exchange (ASX). As an ASX-listed company, Macquarie is required to report on the extent to which the company has followed the governance recommendations of the ASX Corporate Governance Council (ASX Recommendations) during the reporting period. Macquarie's corporate governance remains consistent with the ASX Recommendations. A summary of the ASX Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website [redacted]

Macquarie as a non-operating holding company of a licensed Australian bank, Macquarie Bank Limited (Macquarie Bank), is regulated by the Australian Prudential Regulation Authority (APRA). APRA's prudential standards include governance requirements. Macquarie also has subsidiaries that are supervised by regulators in the overseas jurisdictions in which they operate. The notes to Macquarie's financial statements include a list of material subsidiaries of the company.

Macquarie's corporate governance framework continues to evolve to respond to regulatory changes in the global markets in which it operates.

Corporate Governance framework



Corporate Governance Statement
continued

Board oversight

The primary role of the Board is to promote the long-term health and prosperity of Macquarie. The Macquarie Board consists of eleven Voting Directors, ten of whom are independent. Kevin McCann, an Independent Director, is Chairman. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member.

During the year, Gary Banks, Patricia Cross and Nicola Wakefield Evans were appointed to the Board, and Catherine Livingstone and John Niland retired on 25 July 2013 and 31 December 2013, respectively. Schedule 1 of the Directors' Report includes when each Voting Director joined the Board.

The table below sets out the current composition of the Board and the membership of each Board Committee. Details of each Voting Director's experience are summarised in Schedule 1 of the Directors' Report.

Macquarie's Constitution sets out requirements concerning the setting of board size, meetings, election of directors and the powers and duties of directors. In accordance with the Constitution, the Board has resolved that the maximum number of Voting Directors is currently eleven.

A copy of the *Constitution* is available on Macquarie's website.

Decision-making authority

The Board has reserved certain matters for its approval and has delegated specific authorities to its various Board Committees. The Managing Director, who is also Macquarie's CEO, has been granted general authority for those matters not reserved for the Board or a Board Committee. Macquarie's Executive and Operations Review Committees, appointed by the Managing Director, operate as management committees to assist in the exercise of the Managing Director's delegated authority.

The CEO, the Chief Risk Officer and the Chief Financial Officer report to the Board at each monthly Board meeting. In addition to regular reporting from Management, the Board has unlimited access to senior management as well as external advisers.

The *Board Charter*, which is available on Macquarie's website, details the Board's role and responsibilities and its relationship with Management.

Director Independence

Macquarie recognises that independent directors have an important role in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of Management.

The independence of directors is reviewed annually by the Board Governance and Compliance Committee (BGCC). Based on Macquarie's criteria for assessing director independence, each independent director is asked to confirm whether they have any material interests or relationships with Macquarie, other than as a director.

At its meeting in March 2014, the BGCC determined that while some Directors noted commercial relationships between Macquarie and other large companies of which they are a director as well as professional service providers of which, within the last three years, they were a partner, there were no interests or relationships that could interfere with the Non-Executive Director's ability to act in the best interests of Macquarie and independently of Management. Each Director's experience and directorships are set out in Schedule 1 of the Directors' Report. The BGCC confirmed that, excluding the CEO, all directors continued to be independent.

The criteria used to assess independence, including guidance for determining materiality, are reviewed annually and are available on Macquarie's website.

Directors are able to consult independent experts at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable, and also have unlimited access to senior management of Macquarie.

Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. Each Board Committee has an independent director as its Chairman. All Board members are sent Board Committee meeting agendas and may attend any Board Committee meetings. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Board Committee Chairmen.

The Audit, Governance and Compliance, Nominating and Remuneration Committees comprise members who are independent directors. The Board Risk Committee includes all members of the Board and the Managing Director of Macquarie Bank to focus appropriate attention on the oversight of risk. Members' attendance at Board and Board Committee meetings during the past year is set out at the beginning of the Directors' Report.

The *Board Committee Charters*, detailing the responsibilities of each Committee and how they exercise their authority, are available on Macquarie's website.

Board and Board Committee membership

	Macquarie Board	Audit	Governance and Compliance	Nominating	Remuneration	Risk
Macquarie Independent Directors						
Kevin McCann AM*	Chairman			Chairman	Member	Member
Gary Banks AO	Member	Member				Member
Michael Coleman	Member	Chairman	Member			Member
Patricia Cross	Member	Member			Member	Chairman
Diane Grady AM	Member		Member		Member	Member
Michael Hawker AM	Member	Member	Chairman	Member		Member
Peter Kirby	Member	Member	Member			Member
Helen Nugent AO	Member			Member	Chairman	Member
Nicola Wakefield Evans	Member		Member			Member
Peter Warne	Member			Member	Member	Member
Macquarie Managing Director and Chief Executive Officer						
Nicholas Moore	Member					Member
Macquarie Bank Managing Director and Chief Executive Officer						
Greg Ward						Member

* The Chairman attends meetings of Board Committees of which he is not a member.

Corporate Governance Statement
continued

Allocation of responsibilities between Board Committees

Primary responsibility for ensuring an appropriate risk management framework, including the establishment of policies for the control of risk, lies with the **Board Risk Committee**. The Board Risk Committee receives information on the risk profile and policy framework of the Group and external developments that may have an impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and the framework.

The **Board Audit Committee** (BAC) assists the Board with its oversight of the integrity of the financial statements including compliance with the requirements of the *Corporations Act 2001 (Cth)* (the Act) as well as other mandatory professional reporting requirements. In addition, it is responsible for reviewing the adequacy of the Group's financial regulatory reporting control framework to banking regulators and monitoring the internal control environment. To assist with its role of monitoring the internal control environment, the BAC reviews reports from business operational risk managers, the external auditor and Internal Audit referring matters relating to the duties and responsibilities of the Board Risk Committee and Board Governance and Compliance Committee to the appropriate Committee.

The **Board Remuneration Committee** (BRC) makes recommendations to the Board that promote appropriate remuneration policies and practices for the Macquarie Group consistent with Macquarie Group's risk management framework. The BRC is responsible for liaising with the Board Risk Committee to ensure there is effective coordination between the two Committees to assist in producing a properly integrated approach to remuneration that reflects prudent and appropriate risk. The BRC is also responsible for liaising with the BAC in relation to remuneration related disclosures in the remuneration report.

The **Board Governance and Compliance Committee** (BGCC) has responsibility for recommending to the Board the most appropriate corporate governance policies for the Macquarie Group and for assisting the Board in fulfilling its responsibility for oversight of the compliance practices of the Group. In addition, it has oversight of Macquarie's work health and safety practices and environmental and social risk policies.

The **Board Nominating Committee** is responsible for assisting the Board in maintaining a diverse board that contributes to the successful oversight and stewardship of Macquarie and has an appropriate mix of skills and experience to be an effective decision-making body.

Macquarie's *Policy on Board Renewal and Appointment of Directors* sets out the fundamental factors relevant to the selection and appointment of new Directors and is available on Macquarie's website. Under the policy, which was amended during the year, new Non-Executive Directors are appointed for three 3-year terms from first election by shareholders. The Board has discretion to extend a Non-Executive Director's term of appointment if the Board determines that extending the term will be of significant benefit to Macquarie. Previously independent directors were appointed for a maximum term of 12 years or the end of their final three year term.

Board performance

Director induction and development

All new Directors undertake an induction program to familiarise themselves with Macquarie, its Board practices and procedures and prudential requirements. In addition to briefings with members of senior management, Non-Executive Directors (NEDs) identify business awareness needs on an ongoing basis and regular board education sessions are held during the year.

The Board and Directors

The Board reviews its performance and the performance of each Director on an annual basis with emphasis on those individual Directors who are required to stand for re-election at the next Annual General Meeting. The process for conducting the review is agreed by the Board. Typically the process includes individual interviews by the Chairman or an external facilitator with each Director, and the use of a questionnaire to cover matters such as:

- the Board's contribution to developing strategy and policy
- the Board's performance relative to its objectives
- interaction between the Board and Management and between Board members
- the Board's oversight of business performance and compliance, risk controls and management
- Board composition, including consideration of relevant skills and structure
- the operation of the Board, including the conduct of Board meetings and group behaviours.

A nominated independent Director or an external facilitator provides feedback to the Chairman on the Chairman's performance based on discussion with the other independent Directors. A written report summarising the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting.

The Board's review for 2014 is being conducted internally in accordance with the process described above.

Board Committees

Each Board Committee undertakes a periodic review of its performance, at least biennially. The process for the review also includes use of a questionnaire and discussion of the outcomes, including recommendations, which is led by the Chairman of the Board Committee. During the year, four Board Committees undertook an evaluation of their performance.

A summary of the processes adopted by Macquarie for *Board and Key Executive Performance Review* is available on Macquarie's website.

Performance of key executives

Formal processes have been adopted by Macquarie to review the performance of Macquarie's most senior executives. The BGCC oversees the process for the CEO's annual performance review. Oversight of this process will transfer to the BRC for Macquarie's 2015 financial year.

As part of the annual review, the CEO prepares a formal report on his performance and presents to the NEDs. The NEDs review performance by considering a range of indicators including financial performance measures, performance against peers, operational and strategic initiatives, cost management initiatives, financial management, prudential and compliance matters, risk management, human resources matters, upholding Macquarie's *Goals and Values*, reputation management and monitoring, and community and sustainability matters. A similar process is also followed to review the performance of the CEO of Macquarie Bank.

The CEO evaluates, at least annually, the performance of the Operating Group Heads, including the Chief Risk Officer (CRO) and the Chief Financial Officer. Performance criteria vary according to the individual's role. Factors relevant to assessing performance include (as appropriate) financial performance, risk management, business leadership and people and organisational leadership. The CEO reports to the BRC on the performance of these key executives and recommends individual senior executive remuneration for Board approval.

The Board and Management seek to ensure that remuneration for the CRO is determined in a way that preserves the independence of this function and maintains Macquarie's robust risk management framework.

A performance evaluation for senior executives has taken place during the year in accordance with the process described above. Further detail on the remuneration policy and performance review for Executive Key Management Personnel is found in the Remuneration Report in the Directors' Report.

Ethical and responsible decision making

Code of Conduct

Macquarie has adopted a *Code of Conduct* that incorporates Macquarie's *Goals and Values*. The *Code of Conduct* is also reflected in, and supported by, a broad range of Macquarie's internal policies and practices.

The *Code of Conduct*, which is endorsed by the Board, is intended to provide staff with an understanding of their responsibility to uphold the following goals and values to which Macquarie aspires: Integrity, Client commitment, Strive for profitability, Fulfillment for our people, Teamwork and Highest standards. It also details standards and expectations regarding conflicts of interest, disclosure and corruption, to ensure that the highest standards are maintained and Macquarie's reputation is protected and enhanced.

A copy of the *Code of Conduct* is available on Macquarie's website.

Integrity office

Macquarie staff are expected to uphold, and are supported in, maintaining the highest standards.

Macquarie established the position of Integrity Officer in 1998. The Integrity Officer acts as an independent point of contact for staff on integrity issues and works to ensure, through training and awareness, that all Macquarie business is conducted in accordance with sound ethical practices and the *Goals and Values* of the organisation. Supporting the group-wide Integrity Officer are regional Integrity Officers located in key areas around the globe.

The group-wide Integrity Officer reports directly to the CEO and provides an annual report on the activities and developments of the Integrity Office to the BGCC.

Further information about the role of the Integrity Officer and activities of the Integrity Office is provided in the Sustainability section of the Annual Financial Report.

Dealing with potential conflicts

Failure to identify a conflict of interest before entering into a transaction, undertaking any dealing (either directly with clients or otherwise), or undertaking any fiduciary role, can give rise to considerable harm to Macquarie's relationship with clients and its reputation.

Macquarie has systems and protocols in place to identify a conflict of interest and a framework for managing conflicts. It is the responsibility of each business head to ensure that conflicts of interest are adequately managed and that their business is conducted in accordance with applicable laws, regulations, rules and statements of regulatory policy.

Macquarie has adopted a variety of measures to manage conflicts of interest, including Macquarie-wide policies and divisional policies, systems, lists, information protocols and appropriate disclosures. The appropriate mechanism to manage a conflict will depend on the circumstances and nature of the conflict. Conflict management arrangements at Macquarie are subject to the oversight function of the Compliance division within the Risk Management Group.

The Board has guidelines for its members for declaring and dealing with potential conflicts of interest that include:

– Board members declaring their interests as required under the Corporations Act, the ASX Listing Rules and general law requirements
– Board members with a material personal interest in a matter before the Board do not receive the relevant Board paper and are not present at a Board meeting during the consideration of the matter and subsequent vote, unless the Board (excluding the relevant Board member) resolves otherwise
– Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

Corporate Governance Statement
continued

Macquarie Bank is a subsidiary of Macquarie, and the Macquarie Bank Board is ultimately responsible for the sound and prudent management of Macquarie Bank, with due consideration for the interests of deposit holders. Where potential conflicts arise, Management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

Staff and Director trading

Macquarie's personal dealing policies apply to Directors and all Macquarie staff. They identify the principles by which Macquarie balances personal investment interests against the responsibility of Macquarie and its staff to ensure that all personal dealing and investment activities are conducted appropriately. Key aspects of Macquarie's personal dealing policies include:

- pre-clear securities trading: Directors and staff must pre-clear their securities trading with Macquarie
- trading windows: Generally, Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks duration and follow Macquarie's announcement of its interim and full year results and after the Annual General Meeting (AGM)
- excluded dealings: Certain types of transactions such as acquisition of securities under an employee share plan or participation in the dividend reinvestment plan may be effected outside a trading window without pre-clearance
- trading prohibition while in possession of material non-public price-sensitive information: In all cases Macquarie prohibits Directors and staff from dealing in any security, including a Macquarie security, if they possess non-public price-sensitive information about or affecting the relevant security
- deferred and unvested equity awards, retained shares and minimum shareholding requirements cannot be hedged: Staff are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares that are subject to retention arrangements, or their deferred and unvested equity awards. NEDs may not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement
- net short positions not permitted: Directors and staff are not permitted to take net short positions in Macquarie shares or any securities in Macquarie-managed funds.

Macquarie's *Trading Policy* sets out the restrictions that apply to dealing in Macquarie securities by Macquarie staff, including Key Management Personnel, and is available on its website.

Each member of the Board is encouraged to consider positions in a Macquarie security as a long term investment and is not permitted to trade derivatives relating to a Macquarie security without the prior approval of the Chairman (or the CEO in the case of the Chairman). Board members and Executive Committee members are also required to annually disclose to Macquarie any financing arrangements relating to their Macquarie securities and manage their financing arrangements in accordance with Macquarie's policies.

Corporate governance in Macquarie-managed funds

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie-managed funds (Funds).

The Macquarie-managed funds' governance standards adopt an appropriate governance framework to ensure that key decisions are taken in the best interests of investors consistent with the fund's mandate and regulatory requirements.

The key elements of Macquarie's corporate governance framework for Funds are:

- appropriate management of conflicts of interest arising between a Fund and its related parties. Related party transactions should be identified clearly, conducted on arm's length terms and tested by reference to whether they meet market standards. Decisions by listed Funds about transactions with Macquarie or its affiliates should be made by parties independent of Macquarie
- appropriate resourcing of funds management businesses. In particular:
  - staff involved in managing a Fund should be dedicated to the relevant funds management business, rather than to advisory or other activities
  - all recommendations to Fund boards (and supporting information) should be prepared or reviewed by funds management staff
  - each listed Fund that invests in operating assets or businesses should have its own managing director or chief executive officer and a majority of independent directors on the Fund board
  - Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses.

Sustainability, diversity and the community

Macquarie's Board and Management view the commitment to sustainability and Environmental, Social and Governance (ESG) performance as part of their broader responsibility to clients, shareholders and the communities in which Macquarie operates.

Macquarie's approach is detailed in the ESG Report in the Annual Financial Report. Macquarie has continued efforts to: manage ESG risks in its business activities; advance environmental management; and pursue investments, markets and products with an ESG focus, including in renewable energy and energy efficiency. Macquarie values its people and continues to invest in the development and well-being of its diverse talent base. A Global Reporting Initiative (GRI) index is available on Macquarie's website. The diversity of our people remains fundamental to Macquarie's success. Macquarie's *Workforce Diversity Policy* defines Macquarie's diversity commitment and the structures in place to facilitate its realisation. Our approach to diversity is detailed in the Diversity Report in the Annual Financial Report.

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). Together with Macquarie staff, the Foundation has contributed more than $A200 million to over 2,500 community organisations since its inception. In the year to 31 March 2014, the Foundation and Macquarie staff contributed a total of $A24.7 million to community organisations globally. There are also a number of Foundation-coordinated volunteer programs.

Details of Macquarie staff community initiatives and organisations supported by the Foundation and *Our Commitment to Workforce Diversity Statement* are available on Macquarie's website.

Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, ratings agencies and the investment community should be informed of all major business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a continuous disclosure policy that is incorporated in the *External Communications Policy*.

It is Macquarie's policy that any price-sensitive material for public announcement, including annual and interim profit announcements, release of financial reports, presentations to investors and analysts, and other prepared investor briefings for Macquarie and Macquarie Bank, will:

- be factual and reviewed internally before issue
- not omit material information
- be timely and expressed in a clear and objective manner.

A summary of the *External Communications Policy* is available on Macquarie's website.

Shareholder meetings

Macquarie typically holds its AGM in July of each year. Macquarie encourages shareholders to participate in general meetings and aims to choose a date, time and venue convenient to its shareholders. For shareholders who are unable to attend in person, Macquarie provides a webcast of its AGM and any other general meetings. The results of all meetings are lodged with ASX after the meeting as soon as they are available.

This year Macquarie's AGM will be held in Sydney, Australia. Other general meetings may be held as required during the year.

Macquarie's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit, and the preparation and content of the auditor's report. Notices of meeting are accompanied by explanatory notes on the items of business and together they seek to clearly and accurately explain the nature of business of the meeting.

Shareholders, if unable to attend the meeting, are encouraged to vote on the proposed motions by appointing a proxy. The proxy form included with a notice of meeting will explain how the proxy form is to be completed and submitted.

Online proxy voting is also available to shareholders. Unless specifically stated in a notice of meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions.

A shareholder calendar is available on Macquarie's website.

[redacted]

[redacted]

Financial reporting

On behalf of the Boards of Macquarie and Macquarie Bank, the BAC monitors:

- the integrity of Macquarie's financial reporting and the operation of the financial reporting processes. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards, and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year-end financial reports the BAC meets with the external auditor in the absence of Management
- the external auditor engagement. The BAC reviews the appointment, the terms of the engagement and the performance of the external auditor before making recommendations to the Board on the appointment and removal of the external auditor
- the operation of the Internal Audit and Credit Assurance (CA) functions. The BAC reviews the independence, appointment, performance and remuneration of the Head of the Internal Audit Division (IAD), as well as monitoring the effectiveness of the Internal Audit function. It also provides oversight of the IAD and CA annual plans.
- Macquarie's control framework for financial regulatory reporting to banking regulators.

Auditor independence

Before the approval of the interim and year-end financial reports, the BAC reports to the Board on its monitoring of the independence of the external auditors in accordance with the Act, the Macquarie *Auditor Independence Policy,* and the *BAC Charter.*

Macquarie's *Auditor Independence Policy* requires BAC approval, or between meetings the approval of the BAC Chairman, for material non-audit work performed by its auditors. Also in accordance with the policy, Macquarie's lead auditor and review auditor must be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

Mr David Armstrong of PricewaterhouseCoopers is Macquarie's lead auditor for the 2014 financial year. From the 2015 financial year audit, Macquarie's lead auditor will be Mr Kim Smith of PricewaterhouseCoopers.

The *BAC Charter* and the *External Auditor Policy Statement* are available on Macquarie's website. They describe key aspects of Macquarie's *Auditor Independence Policy* and external auditor selection process.

Corporate Governance Statement
continued

Chief Executive Officer and Chief Financial Officer declaration

The Macquarie and Macquarie Bank Boards have each received written confirmation from their respective CEO and Chief Financial Officer that their statement given to the Board in accordance with section 295A of the Act is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial reporting risks.

Macquarie's senior management has also reported to the Boards of Macquarie and Macquarie Bank on the effectiveness of the management of material business risks for the year ended 31 March 2014.

Oversight of risk management

Risk management is sponsored by the Board and is a top priority for Management. All members of the Board and the CEO of Macquarie Bank are members of the Board Risk Committee to focus appropriate attention on the oversight of risk.

Macquarie's risk appetite statement is approved by the Board and sets out the degree of risk Macquarie is willing to take overall and for each material risk type. The Board reviews Macquarie's risk appetite as part of the annual corporate strategy review process. Macquarie recognises that an effective risk management framework involves more than just robust controls. Macquarie's risk culture, which is less tangible, is equally as important and at Macquarie the risk culture remains strong, and controls are respected by staff.

The Chief Risk Officer (CRO) is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the CRO. The CRO presents on risk matters at the Board Risk Committee meeting, and in months where there is no scheduled Risk Committee meeting, at the Board meeting.

The Head of Internal Audit is jointly accountable to the BAC and the CRO. Internal Audit findings are reported to the BAC. The Head of Internal Audit cannot be removed or replaced without the approval of the BAC.

At the executive management level, the Macquarie and Macquarie Bank Executive Committees and Operations Review Committee focus on strategic issues, operational issues, material transactions, the management of risk and the review the performance of Macquarie on a monthly basis. Beneath this level, there are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and the Asset and Liability Committee are examples of these committees.

Macquarie's approach to risk management is detailed in the *Risk Management Report* in the Annual Financial Report and is available on Macquarie's website.

Oversight of remuneration arrangements

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Macquarie's NEDs. The Board is assisted by the BRC. The BRC annually reviews the remuneration strategy to ensure it delivers the best outcomes for Macquarie and its shareholders.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive bonus payments. They do not receive payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for that purpose. The current limit of $A4 million was approved by Macquarie shareholders at the 2010 AGM. Details of Macquarie's approach and the amount of remuneration paid to NEDs are contained in the Remuneration Report in the Directors' Report.

To align the interests of the Board with shareholders, NEDs are required to progressively acquire a minimum of 6,000 shares in Macquarie over a period of five years from the date of their appointment.

Each NED's remuneration and current Macquarie shareholding are set out in the Key Management Personnel disclosure in the Remuneration Report and the Key Management Personnel disclosure in the notes to the financial statements in the 2014 Annual Financial Report.

Details of the nature and amount of remuneration (including non-monetary components such as equity grants) for each Executive Voting Director and the members of the Executive Committee as well as Macquarie's remuneration policies and practices are set out in the Remuneration Report.

Risk Management Report

Introduction – Macquarie's risk management framework

The acceptance of risk is an integral part of Macquarie's businesses. Management of that risk is, therefore, critical to Macquarie's continuing profitability. Strong independent prudential management has been a key to Macquarie's success and stability over many years. Where risk is assumed it is within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence'.

The primary responsibility for risk management lies at the business level, which forms the first line of defence. Part of the role of all business managers throughout the Macquarie business units is to ensure risks are managed appropriately. The risk management function forms the second line of defence and independently assesses all material risks. The third line, which includes internal audit, independently reviews and challenge the group's risk management controls, processes and systems.

Macquarie's core risk management principles have remained stable and continue to be highly effective. These are:

Ownership of risk at the business level – Operating Group Heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie. Business ownership of risk is an essential element in understanding and controlling risk.

Understanding worst case outcomes – Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. The effectiveness of this approach was demonstrated over the recent past. Shocks observed in the markets generally remained within Macquarie's stress scenarios, resulting in very few of our worst case loss scenarios being exceeded. While Macquarie operates a number of sophisticated quantitative risk management processes, the foundation of its risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals.

Requirement for an independent signoff by risk management – Macquarie places significant importance on having a strong independent Risk Management Group (RMG) that is charged with signing off all material risk acceptance decisions. It is essential RMG has the capability to do this effectively and hence RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision making process and independent input from RMG on risk and return is included in the approval document submitted to senior management.

Risk appetite setting

Risk appetite is the nature and amount of risk that the Group is willing to accept. At Macquarie, this is expressed through the Board-approved risk appetite statement, aggregate and specific risk limits, relevant policies, and requirement to consider risk adjusted returns.

The Board reviews and endorses Macquarie's risk appetite as part of the annual corporate strategy review process.

1 Risk Appetite Statement

Macquarie's risk appetite statement is approved by the Board and sets out the degree of risk Macquarie is willing to take overall and for each material risk type. It also conveys the process for ensuring that risk limits (tolerances) are set at an appropriate level, monitored and reviewed. Macquarie determines its overall appetite for risk with reference to earnings and not just capital. Aggregate risk is expressed by setting a Global Risk Limit designed to ensure that in a prolonged and severe downturn, losses would be covered by earnings and surplus capital, and market confidence in Macquarie is maintained.

2 Limits

These consist of specific risk limits given to various businesses and products or industry sectors as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk.

In accordance with Macquarie's 'no limits, no dealing' approach, individual credit and equity exposures must also fit within approved counterparty limits. Market risk exposures are governed by a suite of individual and portfolio limits.

3 Relevant policies

There are numerous Macquarie-wide policies that set out the principles that govern the acceptance and management of risks. A key policy is the *New Product and Business Approval Policy*, which is designed so that the proposed transaction or operation can be managed properly and does not create unknown or unwanted risks for Macquarie in the future.

4 Requirement to consider risk-adjusted returns

At Macquarie, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns.

Risk capacity is allocated to activities that earn an appropriate reward for the risk. This is a binding discipline on risk acceptance to ensure the risk-return trade-off does not deteriorate. The level of acceptable return for any proposal must also account for strategic fit and broader risk analysis (for example tail risk and concentration).

Existing businesses are subject to regular risk-return monitoring and reporting. Risk-adjusted performance metrics for each division are a significant input into performance based remuneration.

Risk Management Report
continued

Macquarie's risk culture is well established

Macquarie recognises that an effective risk management framework involves more than just robust controls. Macquarie's risk culture, which is less tangible, is equally as important and at Macquarie the risk culture remains strong and controls are respected by staff. Risk culture is established and maintained in the organisation broadly through three steps:

Setting expectations - The Board sets expectations regarding appropriate behaviours and oversees performance.

Leading and executing - Management implement these expectations by their leadership actions and communication, organisational governance, incentives and consequences as well as establishing appropriate capability.

Monitoring and measuring - Effectiveness is assessed and reported to allow adjustment and refinement as necessary.

Key aspects supporting Macquarie's risk culture include:

- **Macquarie's businesses are fundamentally client based.** Therefore, across Macquarie, greater emphasis is placed on fostering long-term relationships with our clients and building franchise businesses as opposed to short-term profits from proprietary trading
- **Consideration of worst-case scenarios is part of everyday risk controls rather than supplementary to them.** Even though the worst case scenarios are often in excess of what has been historically observed, they play a major role in influencing and limiting positions particularly for extreme loss events. For example, we apply limits to contingent losses from an instantaneous 40 per cent gap move in stock prices. This effectively constrains trading divisions from issuing well out of the money options and encourages hedging of extreme loss events. We have over 14,000 contingent loss limits that consider a variety of worst case scenarios
- **The role of risk management staff is one of active engagement in risk-taking decisions.** In accordance with the principle of risk ownership, the primary risk analysis and initial decisions to reject or accept a transaction are taken by Operating Groups. In its review of a new proposal, RMG provides an independent confirmation of the risk acceptance decision. RMG works closely with the deal team and shares the goal of making the transaction successful by requiring improvements to the transaction terms where applicable. Strong emphasis is placed on transferring knowledge to transaction teams so that the same risk management principles are applied to future proposals from an early stage
- **Macquarie's remuneration policy for senior management encourages a long-term view in decision making.** It discourages excessive risk taking as incentives are aligned with the long-term profitability of the firm through retention of remuneration and equity participation. The principles behind our current remuneration structure have been in place for many years.

Risk governance structure

Risk management is sponsored by the Macquarie Group Board (Board), and is a top priority for senior managers, starting with the Managing Director and CEO (CEO).

The Head of RMG, as Macquarie's Chief Risk Officer (CRO), is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the Board Risk Committee that approves the replacement, appointment, reassignment or dismissal of the CRO.

The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

All Board members are members of the Board Risk Committee. The Board Risk Committee reviews and endorses Macquarie's risk management framework which includes the establishment of policies for the control of risk. The Board Risk Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments that may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework and approves Macquarie's risk appetite. The Board Risk Committee is assisted by the following Committees:

- The Board Audit Committee (BAC) monitors the effectiveness of internal controls with Macquarie's management, the Head of Internal Audit and the external auditor. The BAC also monitors and reviews the effectiveness of the external auditors and the Internal Audit and Credit Assurance functions
- The Board Remuneration Committee liaises with the Board Risk Committee and the CRO to ensure there is a properly integrated approach to remuneration that appropriately reflects risk
- The Board Governance and Compliance Committee (BGCC) reviews Macquarie's corporate governance arrangements and compliance matters. The BGCC also has oversight of Work Health and Safety and environmental matters on behalf of the Board.

Committees exist at the executive management level to ensure that the necessary elements of expertise are focused on specific risk areas. The Macquarie and Macquarie Bank Executive Committees and the Macquarie Operations Review Committee focus on strategic issues, operational issues, material transactions and the management of risk and review the performance of Macquarie on a monthly basis. Beneath this level, there are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and Asset and Liability Committee are examples of these committees.

While committees oversee Macquarie's risk appetite and acceptance process, risk acceptance decisions are ultimately delegated to individuals to ensure that approvers are individually accountable when signing off on risk acceptance decisions.

Risk Management Group

RMG's oversight of risk is based on the following five principles:

Independence

RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of the operating areas of Macquarie, and the Head of RMG, as Macquarie's CRO, reports directly to the CEO with a secondary reporting line to the Board Risk Committee. RMG approval is required for all material risk acceptance decisions.

Centralised prudential management

RMG's responsibility covers the whole of Macquarie. Therefore, it can assess risks from a Macquarie-wide perspective and provide a consistent approach across all operating areas.

Approval of all new business activities

Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses risk and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Continuous assessment

RMG continually reviews risks to account for changes in market circumstances and developments within Macquarie's operating areas.

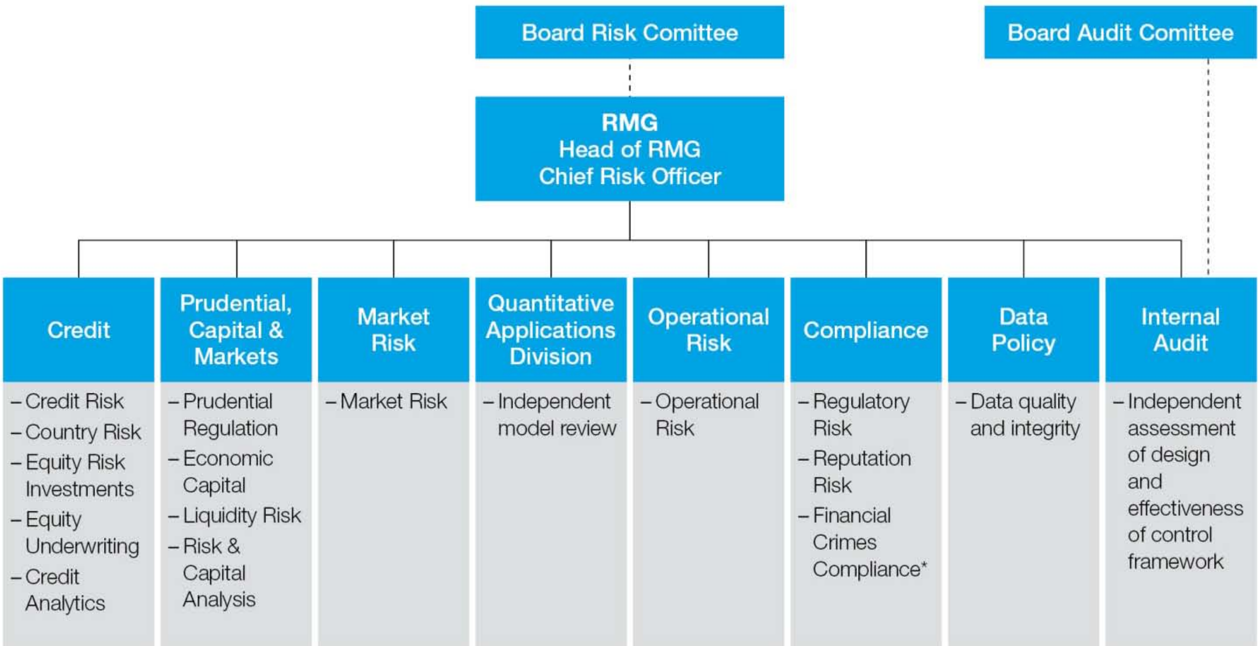
Frequent monitoring

Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support divisions.

RMG structure and resourcing

Effective risk management is not only a function of disciplined processes but also of imaginative analysis by talented individuals. RMG attracts high calibre candidates. It recruits experienced individuals both from within Macquarie and externally and is a source of talent for Macquarie's Operating Groups when recruiting.

While RMG is structured into specialist teams as detailed below, we employ an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the teams to ensure that a detailed analysis takes place both at the individual and aggregate risk level.

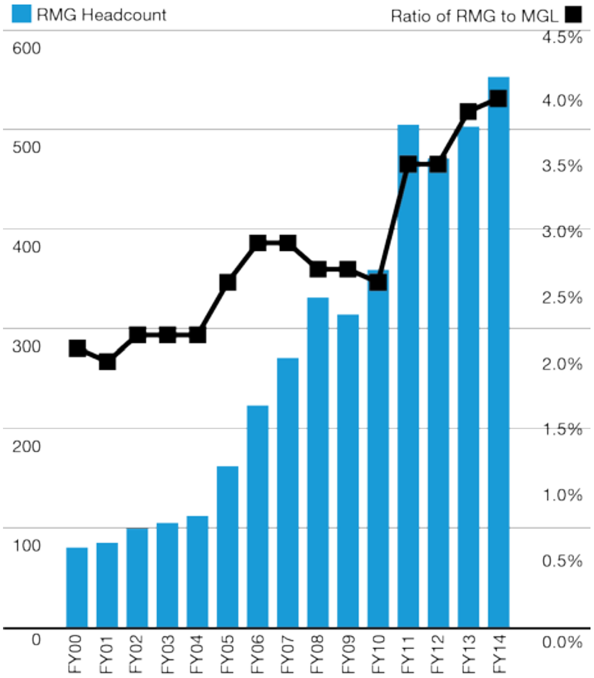


*Financial Crimes Compliance includes Anti-money laundering, Anti-bribery & Corruption and Sanctions

Risk Management Report
continued

The change in staffing levels within RMG is generally in line with the changes in staffing overall at Macquarie. RMG staff numbers as at 31 March 2014 were 553, which is a ten per cent increase over the year.

Ratio of RMG headcount to total Macquarie[(1)]



(1) Headcount numbers only include permanent, active staff (full-time and part-time). Figures prior to FY2011 have not been restated to account for business compliance staff who joined RMG in FY2011 and FY2013.

To ensure that, on a global basis, risks are managed in a controlled manner, about half of total RMG staff as at 31 March 2014 were based outside of Australia. All offices are subject to the same risk management controls and standards. This is supported by regular staff communication and visits to international offices.

Consistent with the concept of Operating Groups owning risk, specific day-to-day operations are more appropriately discharged and embedded within the Operating Groups. This applies particularly to the management of compliance and operational risk. The majority of these functions are discharged within the Operating Groups as follows:

- A significant number of RMG Compliance staff are co-located with the business and ensure that day-to-day compliance obligations are discharged at the business level. These staff report into their Regional Head of Compliance and ultimately into the Global Head of Compliance
- Business Operational Risk Managers (BORMs) are appointed by the Operating Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk and standards are addressed appropriately within their division. BORMs have functional reporting lines to the RMG divisional Head of Operational Risk.

New business and acquisitions

Innovation is encouraged across Macquarie's businesses and activities. Therefore, it is important that all elements of new business initiatives are well understood before commencement.

All new business initiatives must be signed off by RMG prior to commencement.

The formal new business approval process requires all relevant risks (for example, market, credit, equity, legal, compliance, taxation, accounting, operational and systems) to be reviewed to ensure that all risks are identified and addressed prior to implementation (including ongoing risk monitoring processes). The approvals of RMG, Finance Division, Taxation Division, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

For all material transactions, independent input from RMG on the risk and return of the transaction is included in the approval document submitted to senior management.

The Operational Risk function within RMG oversees the new product and business approval process.

RMG Internal Audit performs an audit of the operations of any significant new businesses based on an assessment of the associated risk faced by Macquarie. The audit typically takes place within six to twelve months following acquisition or launch and includes confirmation that operations are in line with the new product approval document.

Risk management and monitoring

The risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, regulatory and legal risks. It is designed to ensure policies and procedures are in place to manage the risks arising within each division. Application varies in detail from one part of Macquarie to another; however, the same risk management framework applies across all business activities.

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 RMG Credit team maintains a comprehensive and robust framework for the identification, analysis and monitoring of credit risks arising within each business. Key aspects of this framework are discussed below.

Analysis and approval of exposures

The Macquarie and Macquarie Bank Boards are responsible for establishing the framework for approving credit exposures. The Boards delegate discretions to approve credit exposure to designated individuals within Macquarie whose capacity to exercise authority prudently has been assessed.

Operating Groups are assigned modest levels of credit discretions. Credit exposures above these levels are assessed independently by RMG and approved by senior RMG staff, the CEO and the Boards as required.

Macquarie enforces a strict 'no limit, no dealing' rule; all proposed transactions are analysed and approved by designated individuals before they can proceed.

All wholesale credit exposures are reviewed at least once a year, or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

Independent analysis

The RMG Credit team provides independent analysis of credit risk exposures. The team works closely with the Operating Groups to identify the risks inherent in Macquarie’s businesses, and apply analysis commensurate to the level and nature of risks.

Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable so that a balanced assessment can be made of the worst case outcome against the expected rewards. Downside analysis includes stress testing and scenario analysis.

Macquarie does not rely on quantitative models to assess credit risk in our wholesale portfolio, but uses fundamental credit analysis to make credit risk acceptance decisions.

Macquarie Group ratings

Macquarie has established a proprietary internal credit rating framework to assess counterparty credit risk. Macquarie ratings are used to estimate the likelihood of the counterparty defaulting on financial obligations. The Macquarie ratings system ensures a consistent assessment of borrower and transaction characteristics across Macquarie and provides the mechanism for meaningful differentiation of credit risk.

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.

All wholesale exposures are allocated a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Credit Assurance, located within RMG, independently verifies the effectiveness of Macquarie’s credit risk management.

Measuring and monitoring exposures

Credit exposures for loans are evaluated as either the full current face value or where appropriate the acquisition cost when acquired in the secondary market.

Credit exposures for derivatives are a function of potential market movements. Portfolio credit exposure is determined using a high-confidence-level portfolio revaluation on the assumption of Macquarie having to go to the market to replace defaulting deals at the worst possible time during the active life of the portfolio. The RMG Credit Analytics team proposes and regularly reviews the market risk factor evolution models that are used in generating the possible market moves. The models are back-tested to ensure that they would have provided the required confidence level over a representative historical period. Evolution model and portfolio credit exposure reviews are conducted using a combination of fundamental and technical analysis and adjustments are made for market liquidity, risks associated with physical delivery and other significant risks.

Where trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount.

All credit exposures are monitored regularly against limits. To mitigate credit risk, Macquarie makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees and letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to Macquarie’s Operations Review Committee quarterly and Board semi-annually. Policies are in place to manage credit risk and avoid unacceptable concentrations to any counterparty or country.

Risk Management Report
continued

Loan impairment review

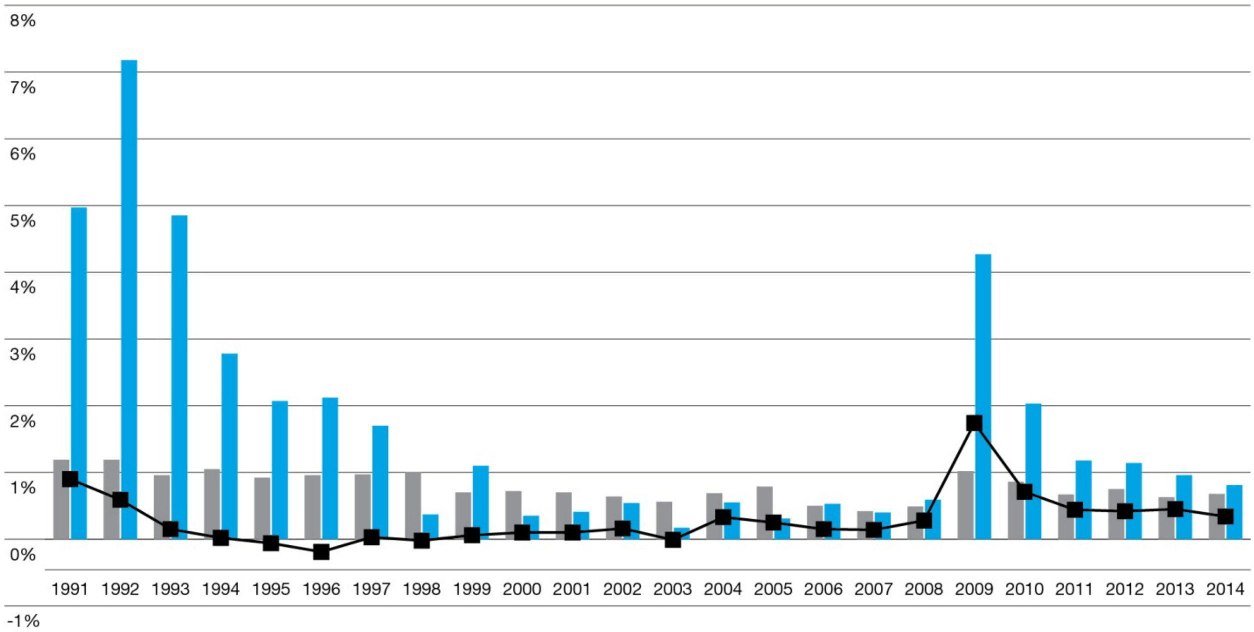
All exposures are subject to recurring review and assessment for possible impairment. Provisions for loan losses are based on an incurred loss model that recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where specific impairment is identified. The rest of the loans are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

Impaired assets continue to decline from the past year, driven by a combination of write-backs, write-downs and foreign currency movements.

Ratio of provisions and impaired assets to loans, advances and leases

Collective provision to loans, advances and leases (Balance sheet
Net impaired assets to loans, advances and leases (Balance sheet)
Net credit losses to loans, advances and leases (Income statement)



Notes:

— Loan assets exclude securitised mortgages, securitised Macquarie Capital loans/leases, segregated future funds and receivables in the form of fees.
— Net impaired assets and net losses exclude investment securities.
— Collective provision (as per Note 11 of the Financial Report) is intended to cover losses inherent in the existing overall credit portfolio that are not yet specifically identifiable.
— Net credit losses represent total profit and loss impact in the stated period due to additional specific provisions and direct write-offs net of any write-backs.
— Please refer to Note 12 of the Financial Report for further information on impaired assets.

Country risk

Country risk is defined as losses arising from events in a country that include an act of government, war, terrorism, civil strife or economic crisis.

The Country Risk Policy guides the management of Macquarie's country risk. Countries are grouped into categories based on the country's risk profile. Before any exposure is taken in a country that is considered to be high-risk, a review of the economic, political and operating environment is undertaken to determine the level of exposure that is considered to be acceptable. Where appropriate, measures to mitigate country risk are put in place.

Market risk

Market risk is the exposure to adverse changes in the value of Macquarie's trading portfolios as a result of changes in market prices or volatility. Macquarie is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion** – changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities** – changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities** – changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity
- **commodities and energy** – changes in the price and volatility of base metals, agricultural commodities and energy products.

Macquarie is also exposed to the correlation of market prices and rates within and across markets.

Macquarie has long favoured transparent scenario analysis over complex statistical modelling as the cornerstone of risk measurement.

Trading market risk

All trading activities contain calculated elements of risk taking. Macquarie 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 Macquarie according to a limit structure that sets limits for all exposures in all markets. Limits are applied at a granular level to individual trading desks, through increasing levels of aggregation to divisions and Operating Groups, and ultimately, Macquarie. This approach removes the need for future correlations or scenarios to be precisely predicted as all risks are stressed to the extreme and accounted for within the risk profile agreed for each business and Macquarie in aggregate.

Limits are approved by senior management with appropriate authority for the size and nature of the risk, and Macquarie adheres to a strict 'no limit, no dealing' policy. If a product or position has not been authorised and given a limit structure by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Macquarie and Macquarie Bank Boards. 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
- **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
- **Value-at-Risk (VaR) limits** – statistical measure that determines the potential loss in trading value at both a business and aggregate level.

The risk of loss from incorrect or inappropriate pricing and hedging models is mitigated by the requirement for all new pricing models to be independently tested by the specialist Quantitative Applications Division within RMG.

Aggregate measures of market risk

Aggregate market risk is constrained by two risk measures, VaR and the Macro-Economic-Linkages (MEL) stress scenarios. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and 10 days. The MEL scenario utilises the contingent loss approach to capture simultaneous, worst case movements across all major markets. Whereas MEL focuses on extreme price movements, VaR focuses on unexceptional changes in price so that it does not account for losses that could occur beyond the 99 per cent level of confidence. For this reason, stress testing remains the predominant focus of RMG as it is considered to be the most effective mechanism to reduce Macquarie's exposure to unexpected market events.

Macro-Economic-Linkages

MEL calculates Macquarie's total market risk exposure to global market stress test scenarios extrapolated from historical crisis events and global market correlations. Each stress test scenario includes a primary shock to either equity or energy markets as well as cross-market effects in corporate margins, metals, foreign exchange, interest rates and commodities. MEL is Macquarie's preferred internal measure of aggregate market risk because of the severity of the shocks applied and the ability for scenarios to develop with changing market dynamics. MEL is monitored and reported to senior management daily and to the Board regularly. It is reviewed by RMG regularly to ensure the measure remains appropriate for changing market conditions and the risks to which Macquarie is exposed.

The 'Market Contagion' scenario, typically the most conservative of the MEL stress test scenarios, accounts for all the significant markets to which Macquarie is exposed. The assumptions in this scenario are considerably more severe than the conditions that prevailed throughout the Global Financial Crisis. The 'Market Contagion' scenario measures the impact of an instantaneous equity market crash of 15 to 30 per cent as well as additional shocks to foreign exchange, metals, interest rate, energy, agricultural commodity and credit markets. Macquarie's exposure to the 'Market Contagion' stress test scenario increased slightly compared to last year as trading businesses managed exposures whilst looking to take advantage of recovering markets. The average exposure to the MEL stress test scenario represents less than five per cent of total equity.

Risk Management Report
continued

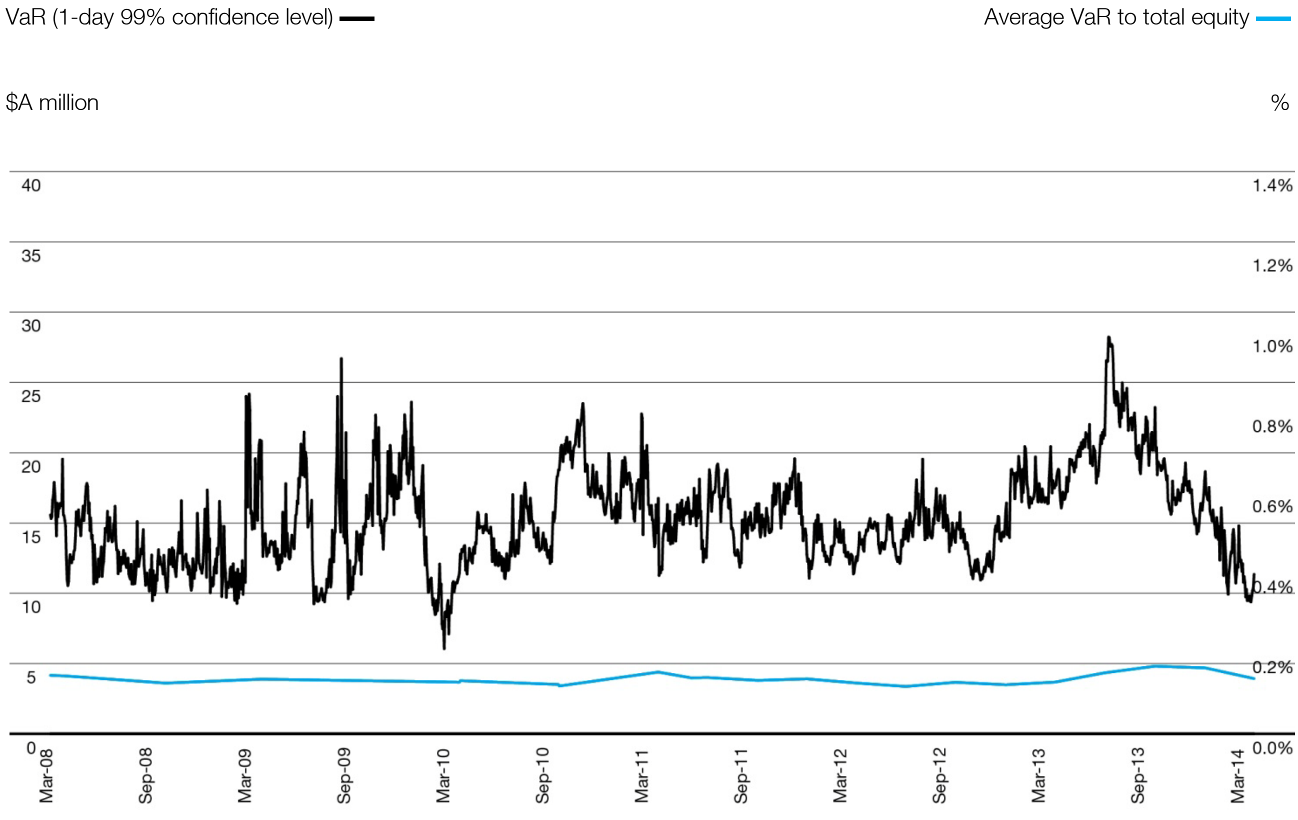
Value-at-Risk

VaR provides a statistically based summary of overall market risk in Macquarie. The magnitude of VaR reflects changes in positions as well as changes in market volatility and correlations and enhancements to the model. The integrity of the VaR model is tested regularly against daily profit and loss.

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 2,800 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded in different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

Macquarie's market risk, as measured by VaR, peaked in July 2013 driven by higher benchmark volatilities (reflecting general market volatility in June) and larger commodity exposures. VaR subsequently reduced to levels in line with previous years. VaR remains modest in comparison to capital and earnings and continues to represent less than 0.2 per cent of total equity. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

Aggregate VaR



VaR figures for year ended 31 March 2014 (1-day, 99% confidence level)

	2014 Average $Am	**2014 Maximum $Am**	**2014 Minimum $Am**	2013 Average $Am	2013 Maximum $Am	2013 Minimum $Am
Equities	5.55	8.21	2.98	4.26	6.64	2.78
Interest rates	10.37	15.56	6.17	10.45	14.19	8.19
Foreign exchange and bullion	3.97	8.05	1.05	2.58	7.00	0.42
Commodities and energy	13.08	20.89	7.36	10.02	16.95	6.35
Aggregate	18.09	28.23	9.38	14.95	20.44	10.94

Trading revenue

The effectiveness of Macquarie's risk management methodology can be measured by Macquarie's daily trading results. In light of uncertain market conditions, the small quantity and magnitude of daily losses incurred by Macquarie are indicative of both an effective risk management framework and business operations focused on servicing client needs.

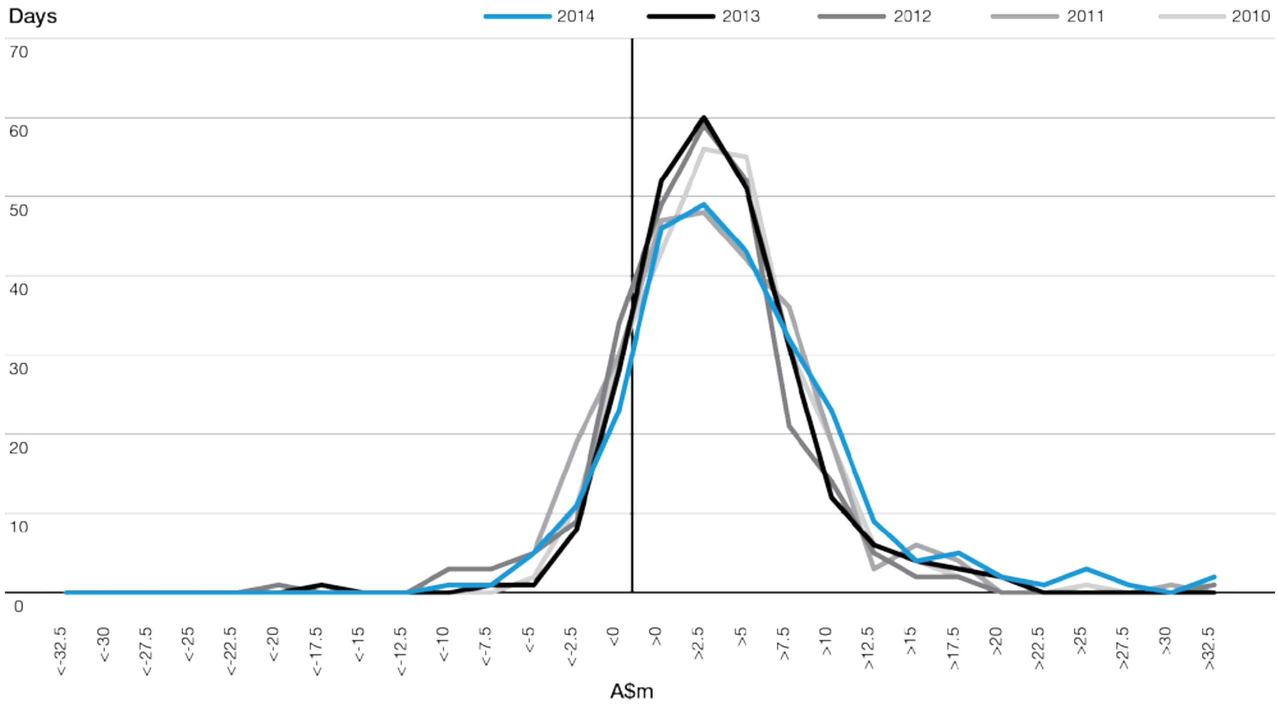
Macquarie's market risk activities continue to be based on earning income from spreads, franchise businesses and client flows. The majority of trading income is derived from client franchise activities rather than outright proprietary trading activity.

Macquarie's trading approach has shown consistent profits and low volatility in trading results over time. This is evident in the graph below, and reflects the client-based nature of trading activities. In FY2014 Macquarie made a net trading profit on 220 out of the 261 trading days (2013 results: 221 out of 260 trading days).

Non-traded market risk

Macquarie also has exposure to non-traded interest rate risk, generated by banking products such as loans and deposits. Interest rate exposures, where possible, are transferred into the trading books of FICC and Group Treasury and managed under market risk limits. However, some residual interest rate risks remain in the banking book due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks in the banking book are monitored and controlled by RMG and reported to senior management regularly.

Daily Trading Profit and Loss



Risk Management Report
continued

Equity risk

Equity risk is the risk of loss arising from banking book equity-type exposures. These exposures include:

- holdings in specialised funds managed by Macquarie
- principal exposures taken by Macquarie Capital, including direct investments in entities external to Macquarie
- property equity, including property trusts and direct property investments
- lease residuals
- other equity, including investments in resource companies.

Equity Risk Limit

All of the above equity risk positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board with reference to the Risk Appetite Test that is described further in the economic capital section. In setting the limit, consideration is also given to the level of earnings, capital and market conditions. The limit is reviewed on a semi-annual basis by RMG and the results of the review are reported to the Operations Review Committee and the Board Risk Committee.

Concentrations within the equity portfolio are managed by a number of additional limits approved by the Executive Committee and/or the Board. These include limits on:

- property equity investments
- investments in the resources sector
- lease residuals (by type of leased asset)
- co-investments and other assets of Macquarie Capital.

Transaction review and approval process

The division executing the transaction is responsible for due diligence and risk analysis of each equity investment. For material deals, RMG undertakes shadow due diligence and performs a comprehensive analysis of all risks and potential losses associated with the acquisition such as:

- market and credit risks
- regulatory, capital, liquidity and compliance requirements
- business, operational and reputation risks.

All material equity risk positions are subject to approval by RMG and by the CEO, Executive Committee and the Board, depending on the size and nature of the risk. RMG ensures that the transaction is correctly represented to the relevant approvers.

Operational risk

Macquarie defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Macquarie has established procedures and controls to manage market, credit, reputation and strategic risks. The potential for failure or inadequacy in these procedures and controls is classified as an operational risk. Operational risk failures could lead to reputation damage, financial loss or regulatory consequences.

RMG is responsible for ensuring an appropriate framework exists to identify, assess and manage operational risk and that resources are available to support it. RMG is also responsible for Macquarie's operational risk capital measurement methodology.

In general, changes in Macquarie's operational risk profile are the net result of greater innovation and growth. This is offset by constant gradual adaptation and development of the control environment to accommodate new risks.

Operational Risk Management framework

Macquarie's Operational Risk Management Framework (ORMF) is designed to identify, assess and manage operational risks within the organisation. The key objectives of the framework are as follows:

- risk identification, analysis and acceptance
- execution and monitoring of risk management practices
- reporting and escalation of risk information on a routine and exception basis.

Businesses carry out elements of the ORMF in a manner that is tailored to their specific operational risk profile. However, to ensure consistency and minimum standards the framework includes the following mandatory elements:

- a robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation
- a semi-annual operational risk self assessment process to identify operational risks at the business level, assess controls and develop action plans to address deficiencies
- recording of operational risk incidents into a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
- allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behavior in Macquarie's day-to-day management of operational risk
- Macquarie-wide policies that require a consistent approach and minimum standards on specific operational risk matters
- embedded operational risk representatives in Operating Groups who act as delegates of the Operating Group Head. These representatives are required to assess whether operational risks are addressed appropriately and that the ORMF is executed within their area.

Macquarie's operational risk capital framework

Macquarie's framework for operational risk capital has two main elements:

- an annual scenario approach for modelling operational risk losses and to determine operational risk capital
- a quarterly scorecard analysis that is used to update operational risk capital between scenario analyses, and as a basis for updating the allocation of capital to businesses.

Operational risk scenarios identify key risks that, while very low in probability may, if they occurred, result in very high impact losses. In identifying the potential for such losses consideration is given to the individual statistical distribution for each scenario, external loss data, internal loss data, risk and control factors determined by the operational risk self assessments, and the contribution of expert opinion from businesses. Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9th percentile level. Monte Carlo techniques are used to aggregate these individual distributions to determine a Macquarie-wide operational risk loss distribution. The model also reflects recent changes in operational risk capital regulatory requirements.

Over time operational risk capital changes to reflect:

- new business activity, business growth and significant change in activity that may require new or increased loss scenarios and/or an increased loss probability
- decreases in the probability of loss as business changes bed down and the control environment continues to mature, reducing the capital requirement
- changes in the external environment such as new regulations or movements in the economic cycle that also influence scenario estimates.

Macquarie allocates capital to individual businesses. The capital allocation effectively rewards positive risk behaviour and penalises increased risks. This is done using scorecards that measure changes in a number of key factors such as the size and complexity of the business, risk and control assessments, incident and exception management and governance. The quarterly change in the sum of divisional capital is also used as an estimate to update the Macquarie capital requirement between annual assessments.

Assessment of aggregate risk

Macquarie has developed an economic capital model that quantifies Macquarie'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 Macquarie'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
- risk-adjusted performance measurement.

Capital adequacy assessment

Macquarie assesses capital adequacy for both Macquarie Group and Macquarie Bank. In each case, capital adequacy is assessed on a regulatory basis and on an economic basis, with capital requirements assessed as follows:

	Economic	Regulatory
Macquarie Bank	Internal model, covering exposures of the Banking Group	Capital to cover risk-weighted assets and regulatory deductions, according to APRA's banking prudential standards
Macquarie Group	Internal model, covering all exposures of Macquarie Group	Bank regulatory capital requirement as above plus economic capital requirement of the non-banking entities

Economic capital adequacy means an internal assessment of capital adequacy, designed to ensure Macquarie has sufficient capital to absorb potential losses and provide creditors with the required degree of protection.

Potential losses are quantified using the Economic Capital Adequacy Model (ECAM). These potential losses are compared to the capital resources available to absorb loss, consisting of book equity and eligible hybrid equity. Earnings are also available to absorb losses, however only a fraction of potential earnings are recognised as a buffer against losses.

The ECAM quantifies the following types of risk:

- equity risk
- credit risk
- operational risk
- traded market risk.

The ECAM also covers insurance risk, underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

The regulatory capital requirement of Macquarie's non-banking entities as agreed with APRA is determined by the ECAM. Macquarie is currently well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy. The remaining capital surplus is available to support growth and provide strategic flexibility.

In order to reduce volatility in Macquarie's capital adequacy, Macquarie actively manages the sensitivity of its 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.

The Common Equity Tier 1, Tier 1 and total capital ratios for the Banking Group as at 31 March 2014 were 9.6 per cent, 10.6 per cent and 12.6 per cent respectively.

The capital adequacy results are reported to the Board and senior management on a regular basis, together with projections of capital adequacy under a range of scenarios.

The Risk Appetite Test – an aggregate stress test

The key tool that the Board uses to quantify aggregate risk appetite is the Risk Appetite Test. This is a Macquarie-wide stress test that considers losses and earnings under a severe economic downturn scenario with the aim of Macquarie emerging from the severe downturn with sufficient capital to operate.

The Risk Appetite Test asserts that potential losses must be less than the Global Risk Limit, which comprises underlying earnings that Macquarie can achieve in a three year downturn (downturn forward earnings capacity) plus surplus regulatory capital. Consideration is also given to the year by year outcome of the modelled downturn scenario to ensure that market confidence is maintained.

Risk Management Report
continued

Downturn forward earnings capacity is estimated by the Operating Groups and divisions with reference to a three year downturn scenario provided to them by RMG.

Aggregate risk can be therefore broken down into two categories:

- **business risk** – meaning decline in earnings through deterioration in volumes and margins due to market conditions
- **potential losses** – including potential credit losses, write-downs of equity investments, operational risk losses and losses on trading positions.

Business risk is captured by the difference in base case and downturn forward earnings estimates. Potential losses are quantified using a version of the economic capital model. A principal use of the Risk Appetite Test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any changes to the ERL are sized to ensure that even under full utilisation of this limit, and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

Liquidity risk

Liquidity management

The two primary external funding vehicles for Macquarie are MGL and MBL. MGL provides funding principally to the Non-Banking Group and limited funding to some MBL Group subsidiaries. MBL provides funding to the Banking Group.

The high level funding structure within Macquarie is shown below.

Macquarie's liquidity risk management framework is designed to ensure that both MGL and MBL are able to meet their 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. MGL and MBL liquidity policies are approved by the respective Boards 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 CEO, MBL CEO, CFO, CRO and Business Group Heads.

RMG provides independent prudential oversight of liquidity risk management, including the validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity policy and principles

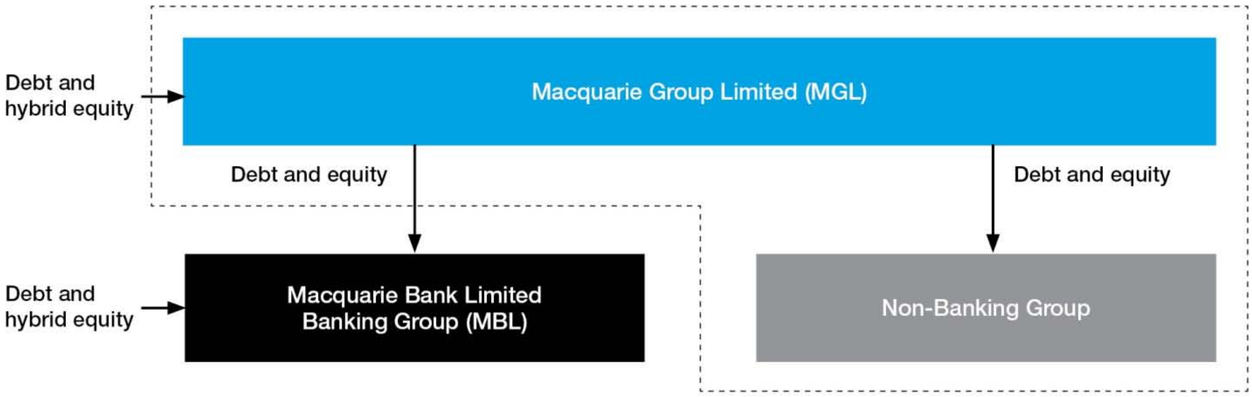
MGL provides funding predominantly to the Non-Banking Group. As such, the *MGL Liquidity Policy* outlines the liquidity requirements for the Non-Banking Group. MGL's risk appetite is set so that MGL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

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 impact on franchise businesses.

MBL is funded mainly by capital, long-term liabilities and deposits.

Macquarie Group – high level funding structure



The liquidity risk appetite is supported by a number of risk tolerances and management principles Macquarie applies to oversee liquidity risk in both MGL and MBL:

Risk Tolerances

- term assets must be funded by term liabilities
- cash and liquid assets are sufficient to cover a 12 month stress scenario
- cash and liquid assets held to meet stress scenarios must be unencumbered liquid assets and cash
- short-term assets exceed short term wholesale liabilities
- diversity and stability of funding sources is a key priority
- balance sheet currency mismatches are managed within set tolerances
- funding and liquidity exposures between entities in the Macquarie Group are subject to constraints where required.

Liquidity Management Principles

- Macquarie has a centralised approach to liquidity management
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities
- a Regional Liquidity Framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis
- a Liquidity Contingency Plan is maintained that provides an action plan in the event of a liquidity 'crisis'
- a funding strategy is prepared annually and monitored on a regular basis
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them
- strong relationships are maintained to assist with managing confidence and liquidity
- the MBL and MGL Boards and senior management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market wide and firm-specific crises. The objective of this modelling is to ensure the ability of MGL and MBL 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 both MGL and MBL 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.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90 per cent of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank, either by Macquarie or other counterparties. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2014, 97 per cent of the liquid asset portfolio was eligible for repurchase with a central bank.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible government, semi-government, supranational, government guaranteed bank and unguaranteed bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed securities.

The liquid asset portfolio is largely denominated and held in Australian dollars although liquid assets denominated in US dollars or other currencies are held where appropriate.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Macquarie Group 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.

Risk Management Report
continued

Funds transfer pricing

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

Regulatory and compliance risk

The Compliance Division is an independent function responsible for ensuring that all Compliance Risks are appropriately assessed and managed across Macquarie.

In line with the core risk management principle of risk ownership, business heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. The Compliance Division enables business management to fulfil these supervisory responsibilities by establishing a robust and effective compliance framework, and by performing an advisory, training and monitoring role in respect of the compliance risks arising from Macquarie's business activities.

The Compliance Division communicates and delivers on its priorities by defining and implementing a risk-based compliance program that sets out planned activities, such as the implementation and review of specific policies and procedures, compliance testing and staff training. The compliance program is overseen by the Global Head of Compliance to ensure appropriate coverage across businesses and co-ordination among other risk management functions.

The Head of Compliance reports directly to the CRO.

The Head of Compliance has free access to the BGCC at any time and meets privately with the BGCC at least once a year.

The RMG Compliance role is closely supported by RMG Prudential, Capital & Markets (PCM) to ensure compliance with prudential standards and consistency of Macquarie's approach to prudential regulation globally.

Legal risk

Legal risk includes the risk that:

- transactions are not capable of being enforced as expected
- business does not adequately understand the legal and regulatory framework in which it operates
- the organisation may be found to be responsible for a claim based on a breach of contract, law or regulation.

Legal risk is managed through identification and assessment of legal risk, and by minimising or mitigating legal risk as far as reasonably practical. Responsibility for legal risk lies with Macquarie's businesses in conjunction with Legal and Governance. The Head of Legal and Governance, the General Counsel, is a member of Macquarie's Operations Review Committee and reports directly to the CEO. The General Counsel has access to the Board and any Board committees. Each Macquarie Operating Group has a business General Counsel who reports to the General Counsel and to the relevant Operating Group Head.

Reputation risk

All activities have embedded elements of reputation risk. Managing reputation risk is an essential role of senior management as it has the potential to impact both earnings and access to capital. Macquarie seeks to manage and minimise reputation risk through its corporate governance structure and risk management framework.

Macquarie operates under a strong corporate governance structure consistent with the regulatory requirements of various regulators including the Australian Securities & Investments Commission (ASIC), the Australian Securities Exchange (ASX) and Australian Prudential Regulation Authority (APRA). *Goals and Values* incorporating a clear code of ethics are communicated to all staff and regional Integrity Officers deal with potential issues of integrity.

Operating Groups take ownership of risk, including reputation risk. In addition, a robust, independent risk management framework incorporates active management and monitoring of risks arising within Macquarie. The operation of this framework and oversight by RMG are major mitigants to reputation risk.

The various policies, procedures and practices in place aim to minimise reputation risk. Regular reporting to the Operations Review Committee and Boards includes detail on reputation risk issues as appropriate.

The direct financial losses arising from reputation risk (such as breach of mandates and regulatory fines) as well as legal costs are taken into account in the operational risk capital model.

Internal Audit

Internal Audit provides independent assurance to Management and the Board on the quality and effectiveness of Macquarie's internal control, risk management and governance systems and processes. Internal Audit provides an independent and objective assessment as to whether risks have been adequately identified; adequate internal controls are in place to manage those risks; and whether those controls are working effectively. Internal Audit is independent of both business management and the activities it reviews.

The Head of Internal Audit is jointly accountable to the BAC and the CRO. The BAC approves the appointment and removal of the Head of Internal Audit who has unlimited access to the BAC.

Basel III

Macquarie Bank 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[1] and the internal model approach for interest rate risk in the banking book.

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

(1) Standard approach applied for specific risk on debt securities.

Directors' Report
for the financial year ended 31 March 2014

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, the Company), the Directors submit herewith the income statements and 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 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 Director

N.W. Moore, Managing Director and Chief Executive Officer

Other than Mr Banks, Mrs Cross and Ms Wakefield Evans, the Voting Directors listed above each held office as a Director of Macquarie 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.

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

Meeting attendance

Directors' meetings

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

Board meetings

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

Board Committee meetings

	Board Audit Committee meetings (7)		Board Governance and Compliance Committee meetings (5)		Board Nominating Committee meetings (10)		Board Remuneration Committee meetings (10)		Board Risk Committee meetings (7)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	-	-	-	-	10	10	10	9	7	7
N.W. Moore	-	-	-	-	-	-	-	-	7	7
G.R. Banks[1]	5	5	-	-	-	-	-	-	5	4
M.J. Coleman[6]	7	7	2	2	-	-	-	-	7	7
P.A. Cross[2]	5	5	-	-	-	-	3	3	5	5
D.J. Grady[7]	-	-	3	2	-	-	10	10	7	7
M.J. Hawker[8]	7	7	5	5	6	6	-	-	7	7
P.M. Kirby	7	7	5	5	-	-	-	-	7	7
C.B. Livingstone[3]	2	2	2	2	4	2	-	-	2	1
J.R. Niland[4]	-	-	3	3	-	-	8	8	5	5
H.M. Nugent	-	-	-	-	10	10	10	10	7	7

	Board Audit Committee meetings (7)		Board Governance and Compliance Committee meetings (5)		Board Nominating Committee meetings (10)		Board Remuneration Committee meetings (10)		Board Risk Committee meetings (7)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
N.M. Wakefield Evans[(5)]	-	-	1	1	-	-	-	-	2	2
P.H. Warne[(9)]	2	2	-	-	10	10	10	10	7	7
G.C. Ward[(10)]	-	-	-	-	-	-	-	-	7	7

There were two Board sub-committees convened during the period. For the first sub-committee, there were two meetings held. Both meetings were attended by all the eligible sub-committee members, being Mr McCann, Mr Moore, 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. For the second sub-committee, one meeting was held. All eligible members attended, being Mr McCann, Mr Moore and Mr Upfold.

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

(1) Mr Banks was appointed to the Board as an Independent Voting Director effective from 1 August 2013. He joined the Board Audit Committee (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, was appointed Chairman of the Board Risk Committee effective from 1 September 2013 and joined the Board Remuneration Committee on 1 November 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. She joined the Board Governance and Compliance Committee (BGCC) on 1 March 2014.

(6) Mr Coleman was appointed the Chairman of the BAC effective from 26 July 2013, and joined the BGCC on 1 November 2013.

(7) Ms Grady joined the BGCC on 1 September 2013.

(8) Mr Hawker joined the Board Nominating Committee on 26 July 2013 and was appointed Chairman of the BGCC effective from 1 January 2014.

(9) Mr Warne ceased to be Chairman of the Board Risk Committee and a member of the BAC on 1 September 2013.

(10) Although not a Voting Director of Macquarie Group Limited, Mr Ward, as Managing Director and Chief Executive Officer of Macquarie Bank Limited, is a member of the Board Risk Committee.

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

Principal activities

The principal activity of the Company during the financial year ended 31 March 2014 was to act as a non-operating holding company (NOHC) for the Consolidated Entity.
The activities of the Consolidated Entity were those of a financial services provider of banking, financial, advisory, investment and funds management services. 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 owners for the financial year ended 31 March 2014 was $A1,265 million (2013: $A851 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of $A1.60 per share, 40 per cent franked based on tax paid at 30 per cent ($A509 million in aggregate). The final ordinary dividend is payable on 2 July 2014.

On 13 January 2014, the Company distributed the majority of its investment in Sydney Airport stapled securities to its ordinary shareholders through a special dividend and capital reduction (SYD distribution). The special dividend component of the distribution was $1.1563 per share, 40 per cent franked ($A389 million in aggregate).

On 12 December 2013, the Company paid an interim ordinary dividend of $A1.00 per share 40 per cent franked ($A336 million in aggregate) in respect of the financial year ended 31 March 2014.

On 2 July 2013, the Company paid the final dividend of $A1.25 per share 40 per cent franked ($A419 million in aggregate) in respect of the financial year ended 31 March 2013.

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

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]

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

Executive summary

During the year, Macquarie's Board of Directors (the Board) and the Board Remuneration Committee (the BRC) have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of generating superior shareholder returns, while having due regard for risk. In undertaking this assessment, the Directors of the Board (Directors) have considered factors including:

- the degree of alignment between staff and shareholders
- the evolving regulatory landscape
- market developments
- feedback from shareholders
- the employment environment and
- Macquarie's performance during the year and the performance of each business.

Directors have concluded that Macquarie's remuneration approach remains appropriate and creates a strong alignment of staff and shareholders' interests, while prudently managing risk.

They support this conclusion for the following reasons.

The objectives and framework remain appropriate.

The remuneration framework seeks to attract, motivate and retain high quality people, while aligning the interests of staff and shareholders. The framework, which works as an integrated whole rather than in isolation, is comprised of fixed remuneration, a profit share scheme, and for Macquarie's most senior executives, the Executive Committee, Performance Share Units (PSUs).

Fixed remuneration for senior staff remains relatively low relative to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. Moreover, it is low as a proportion of overall remuneration. In 2014, fixed remuneration for Macquarie's 10 Executive Committee members comprised approximately 10 per cent of total remuneration. The balance remains at risk and is explicitly linked to performance.

Performance-based remuneration in the form of **profit share** is aligned with shareholders' interests. The profit share pool is determined annually using the twin measures of net profit after tax (NPAT) and return on ordinary equity (ROE), measures which are known to be drivers of returns to shareholders. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool. The Non-Executive Directors have not exercised their discretion to make any adjustment to the quantum of the profit share pool for FY2014. Over time, the net aggregate impact on net profit of the exercise of these discretions has been nominal.

Profit share is allocated to Macquarie's businesses and, in turn, to individuals, based predominantly on 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 Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and Human Resources (HR)
- people leadership
- upholding Macquarie's *Goals and Values*.

The Board also seeks to ensure that remuneration for staff whose primary role is risk and financial control, including the CRO and the CFO, preserves the independence of the function and maintains Macquarie's robust risk management framework.

Performance-based remuneration is delivered in ways that encourage a longer-term perspective and ensure alignment with shareholders' longer-term interests and staff retention. In turn, this encourages staff to maximise profit without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation. To achieve this outcome, a significant portion of performance-based remuneration is:

- retained and deferred over a long period (for example, the standard retention rate for the Managing Director and Chief Executive Officer's (CEO) profit share allocation is 70 per cent, retained for up to seven years). After PSUs and other deferrals are taken into account, the effective deferral rate for the CEO is 79 per cent for this year
- delivered in equity
- subject to forfeiture in certain circumstances.

This year, 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.

Performance-based remuneration in the form of **PSUs** are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. PSUs vest in equal tranches after three and four years and are exercisable subject to the achievement of two performance hurdles, with no retesting. 50 per cent of the PSUs will become exercisable based on Macquarie's ROE performance relative to a group of global investment banks based on a sliding scale. 50 per cent will become exercisable above the 50th percentile and 100 per cent at the 75th percentile. The other 50 per cent of PSUs will become exercisable in the future based on Macquarie's compound average annual growth (CAGR) in earnings per share (EPS) on a sliding scale. 50 per cent will become exercisable where EPS CAGR is 7.5 per cent and 100 per cent will become exercisable where it is 12 per cent or higher.

Other conditions apply that seek to align staff and shareholder interests, while prudently managing risk. All Executive Directors are subject to a minimum shareholding requirement which can be satisfied through the delivery of equity under the current remuneration arrangements. This aligns shareholder and staff interests and provides the strongest incentive to staff to strive continuously to maximise long-term profitability and shareholder returns.

Macquarie prohibits staff from hedging any of the following types of securities:

- shares held to satisfy the minimum shareholding requirement
- deferred and unvested awards to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP), including PSUs
- unvested options (under a previous scheme).

Staff can only trade Macquarie ordinary shares and other securities during designated trading windows.

Remuneration outcomes are aligned to business results and shareholder returns.

Macquarie has delivered strong financial results for shareholders while appropriately managing remuneration for staff. Directors are of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

While NPAT, EPS and dividends have all significantly increased compared to FY2013, total compensation does not reflect the same rate of growth. The compensation expense to income ratio has declined from 46.1 per cent to 43.1 per cent, placing it in the lower half of peers.

To demonstrate the link between pay and performance, a comparison of performance measures and executive remuneration outcomes allows shareholders to see how the remuneration for Executive KMP is aligned with performance. Whilst remuneration outcomes for Executive KMP varied according to their individual performance and the performance of their business, the analysis shows that for both the CEO and Comparable KMP, remuneration, both including and excluding earnings on retained profit share amounts, has not increased to the same extent as NPAT, EPS,TSR and total dividends. This reflects the way performance takes a range of factors into consideration.

		2014	2013	Increase/(Decrease)%
Performance measures				
NPAT	$Am	**1,265**	851	49
Basic EPS	Cents per share	**383.6**	251.2	53
Ordinary dividends	Cents per share	**260.0**	200.0	30
Total dividends[(1)]	Cents per share	**376.0**	200.0	88
Annual TSR[(2)]	Per cent	**66.0**	34.4	
Executive remuneration measures				
Total Compensation Expense	$Am	**3,505**	3,072	14
Compensation Expense to Income ratio	Per cent	**43.1**	46.1	
Statutory Remuneration – CEO	$Am	**13.08**	8.82	48
Statutory Remuneration less earnings on restricted profit share[(3)] – CEO	$Am	**11.72**	8.07	45
Statutory Remuneration – Comparable KMP[(3)]	$Am	**72.77**	52.76	38
Statutory Remuneration less earnings on restricted profit share – Comparable KMP	$Am	**64.66**	48.12	34

(1) Includes the special dividend component of 116 cents per share in relation to the SYD Distribution in January 2014.
(2) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.
(3) Earnings on restricted profit share and Comparable KMP are defined in section 2.

Strong remuneration governance continues to be exercised.

The Board and the BRC remain committed to strong remuneration governance structures and processes. Conflicts of interest are managed proactively and assiduously. The BRC makes recommendations to the Non-Executive Directors on key decisions.

An independent remuneration review has also been obtained from an independent consultant, Pay Governance, to provide an opinion on the appropriateness of Macquarie's remuneration arrangements. Pay Governance has provided its report free from management influence and has confirmed that Macquarie's remuneration approach remains appropriate.

Non-Executive Director fees take into account market rates for relevant Australian financial organisations and reflect the time commitment and responsibilities involved within the shareholder approved aggregate limit.

In summary, the overall approach to remuneration supports the overarching objective of delivering superior value for shareholders over the long-term while prudently managing risk.

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

Introduction

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. Macquarie's performance has been strong relative to peers
4. Strong remuneration governance continues to be exercised
5. 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

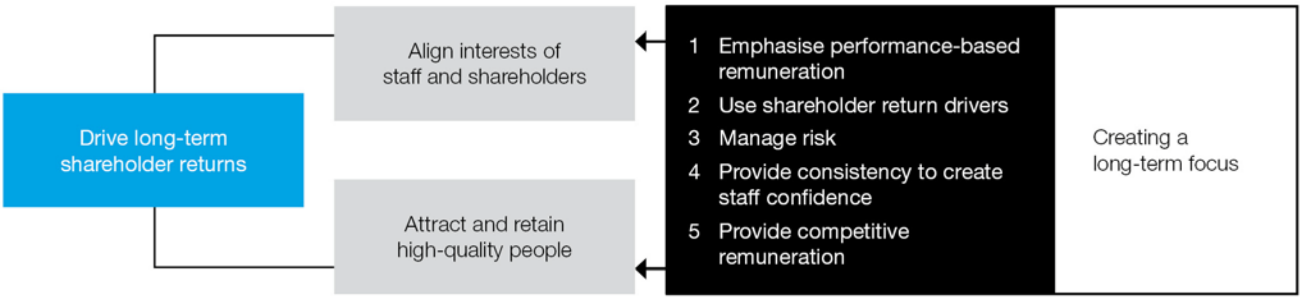
1.1 Macquarie's overall remuneration objectives remain appropriate

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, the Group's most senior executives, the Executive Committee, may be awarded Performance Share Units (PSUs). The way in which these three elements work together as part of an integrated framework to support the objectives and principles is outlined in the following diagram.

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continued

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 the Group'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 the Group'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.

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 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 CEO and the Deputy CEO.

(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 above table reflects Macquarie's standard arrangements. This year, 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.

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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.

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	%
CEO	70%
Deputy 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%

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)
CEO, Deputy 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.

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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 three executives who transferred employment to an operating asset owned by a Macquarie-managed fund or 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.

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 **and** (a), (b), (d) and (e) in Second Period	No disqualification during First Period and Second Period **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.

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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: – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management, business leadership and people and organisational leadership – 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) – 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 CEO, who is an Executive Voting Director, is subject to shareholder approval at the Annual General Meeting.

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: – 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent – 100 per cent at EPS CAGR of 12 per cent For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.	Sliding scale applies: – 50 per cent becoming exercisable above the 50th percentile – 100 per cent at the 75th percentile 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. – 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. – 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. – ROE and EPS can be substantiated using information that is disclosed in audited financial statements. – 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. – The approach is consistent with that advocated by APRA in not using TSR as a measure. – 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. 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).

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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 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

Macquarie has delivered strong financial results in FY2014. While NPAT, EPS and dividends have all significantly increased compared to FY2013, total compensation does not reflect the same rate of growth. Shareholder returns have also been strong, both over the past year and over the longer term.

The Directors are of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

To demonstrate the link between pay and performance, a comparison of performance measures and executive remuneration outcomes allows shareholders to see how the remuneration for Executive KMP is aligned with performance. Whilst remuneration outcomes for Executive KMP varied according to their individual performance and the performance of their business, the analysis shows that for both the CEO and Comparable KMP, remuneration, both including and excluding earnings on retained profit share amounts, has not increased to the same extent as NPAT, EPS,TSR and total dividends. This reflects the way performance takes a range of factors into consideration.

Table 2.1: Comparison of performance measures and executive remuneration measures: FY2013 – FY2014

		2014	2013	Increase/(Decrease)%
Performance measures				
NPAT	$Am	1,265	851	49
Basic EPS	Cents per share	383.6	251.2	53
Ordinary dividends	Cents per share	260.0	200.0	30
Total dividends[1]	Cents per share	376.0	200.0	88
Annual TSR	Per cent	66.0	34.4	
Executive remuneration measures				
Total Compensation Expense	$Am	3,505	3,072	14
Compensation Expense to Income ratio	Per cent	43.1	46.1	
Average staff headcount		13,796	13,743	–
Actual staff headcount		13,913	13,663	2
Statutory Remuneration – CEO	$Am	13.08	8.82	48
Statutory Remuneration less earnings on restricted profit share[2] – CEO	$Am	11.72	8.07	45
Statutory Remuneration – Comparable KMP[3]	$Am	72.77	52.76	38
Statutory Remuneration less earnings on restricted profit share – Comparable KMP	$Am	64.66	48.12	34

(1) Includes the special dividend component of 116 cents per share in relation to the SYD distribution in January 2014.

(2) Earnings on restricted profit share reflect the investment performance of the assets in the Macquarie-managed funds in which prior year retained profit share been notionally invested.

(3) Comparable KMP are Executive KMP who were members of the Executive Committee for the full year in both FY2014 and FY2013.

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Table 2.2: Performance over past 10 years FY2005–2014

Years ended 31 March	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05
Income statement										
NPAT attributable to ordinary owners ($A million)	1,265	851	730	956	1,050	871	1,803	1,463	916	812
Basic earnings per share (cents per share)	383.6	251.2	210.1	282.5	320.2	309.6	670.6	591.6	400.3	369.6
ROE										
Return on average ordinary shareholders' funds (% pa)	11.1	7.8	6.8	8.8	10.1	9.9	23.7	28.1	26.0	29.8
Total shareholder returns (TSR)										
Dividend – Interim and Final (cents per share)	260	200	140	186	186	185	345	315	215	161
Dividend – Special (cents per share)	116[1]	–	–	–	–	–	–	–	–	40
Share price at 31 Mar ($A)	57.9	37.2	29.1	36.6	47.3	27.1	52.8	82.8	64.7	48.0
Annual TSR (%)	66.0	34.4	(16.0)	(19.0)	79.6	(44.1)	(33.6)	32.6	40.2	39.0
10 Year TSR (%)	162									

(1) The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD Distribution in January 2014. The total distribution including return on capital was 373 cents per share.

3 Macquarie's performance has been strong relative to peers

The analysis below demonstrates that Macquarie has performed well relative to peers on the following key indicators of performance:

- NPAT compound annual growth rate (CAGR) over the short and longer term (base currency and $US)
- ROE over the short and longer term
- TSR since listing
- Compensation ratio over the past three years

Where possible, the same international investment banking peer group as last year has been used throughout the Remuneration Report. Merrill Lynch is a subsidiary of Bank of America Corporation. Macquarie has previously used Merrill Lynch for NPAT and compensation peer analysis, and Bank of America Corporation for ROE and TSR analysis. NPAT and compensation data for Merrill Lynch is no longer available and it has therefore been excluded from the analysis. The ROE and TSR analysis continues to include Bank of America Corporation. Jefferies Group Inc. was acquired by Leucadia National Corp in March 2013 and as a result, ROE and TSR data is no longer available. Applicable peers are set out below under each piece of analysis. The BRC considers these firms to be appropriate peers on the basis that they broadly operate in the same markets and compete for the same people as Macquarie. Nonetheless, comparisons are complicated for the following reasons:

- each peer has a different business mix. Some peers are or have become parts of larger organisations, often with large retail operations which can distort comparisons
- where peer information is published, comparative information may not include a share of central overhead costs such as support functions
- the level and detail of disclosure differs amongst peers. Segment data is particularly relevant where the investment banking segment is part of a larger organisation
- variations in accounting practices used by comparator organisations. For example, some peers report net revenue on a 'pre-impairment' basis, whereas others include impairments in net revenue, as does Macquarie
- peers located in different jurisdictions report in different currencies and comparisons do not always reflect the impact of changes in foreign exchange rates
- remuneration delivered as deferred equity is amortised over the vesting period of the equity. Different deferral levels and different vesting periods, therefore, result in different accounting results, even if the underlying quantum of remuneration is the same.

Where appropriate, segment information has been used as disclosed throughout the Report. Peer information is presented in the same order throughout the Report.

3.1 Macquarie's increase in NPAT over the long term is above the majority of peers

One of the measures used to compare relative performance is NPAT. The NPAT CAGR is shown in both local currency and a common currency ($US) to reduce the impact of significant changes in foreign exchange rates over the period when comparing the performance of peers from different jurisdictions. Using the common currency of $US, Macquarie's performance against peers is above all but one peer over a ten year period and is in the mid-range of peers over a one year period.

Peer relative growth in NPAT: FY2004-2014(1)

	1 year CAGR Base Currency %	10 year CAGR Base Currency %	1 year CAGR $US %	10 year CAGR $US %
Macquarie	49%	10%	29%	12%
Peer	n.a.	(15%)	n.a.	(16%)
Peer	72%	12%	77%	15%
Peer	153%	(7%)	164%	(6%)
Peer	6%	10%	6%	10%
Peer	(15%)	11%	(15%)	11%
Peer	(17%)	9%	(17%)	9%
Peer	90%	(4%)	90%	(4%)
Peer	n.a.	(3%)	n.a.	(3%)
Peer	n.a.	(7%)	n.a.	(3%)

Source: Peer underlying data from Annual Reports

(1) A 'n.a.' is noted where the peer recorded a loss 10 years ago, in the prior year or in the current year. Peers are noted at the end of the next chart.

This observation is reinforced using a 10 year change in NPAT in both base currency and $US.

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for the financial year ended 31 March 2014
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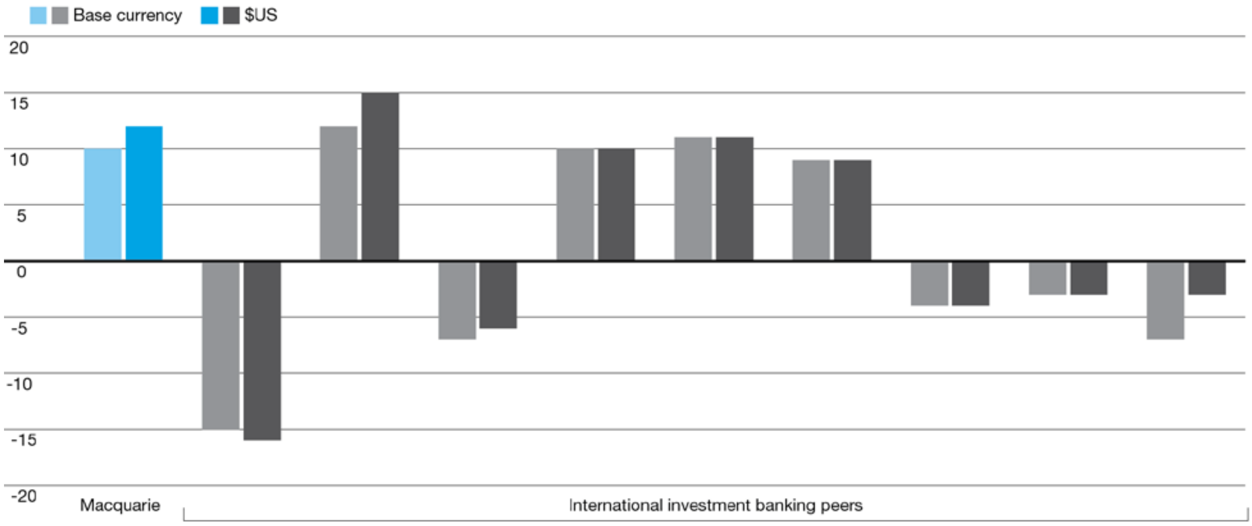
NPAT 10 year CAGR[1] Macquarie versus international investment banking peers (%)



[1] Peers comprise Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies, JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. In contrast, Macquarie has not incurred a loss in any year. Merrill Lynch data has been excluded as its NPAT data cannot be ascertained.

3.2 ROE is well above the peer average

While it is acknowledged that further improvement is possible, Macquarie's current 11.1 per cent annual ROE has significantly improved compared to the prior year (7.8 per cent), and is higher than all but one peer. In addition, Macquarie's 10 year average annual ROE is higher than all but one of its peers, despite holding relatively higher levels of excess capital.

Peer ROE over 10 years FY2005–2014[1]

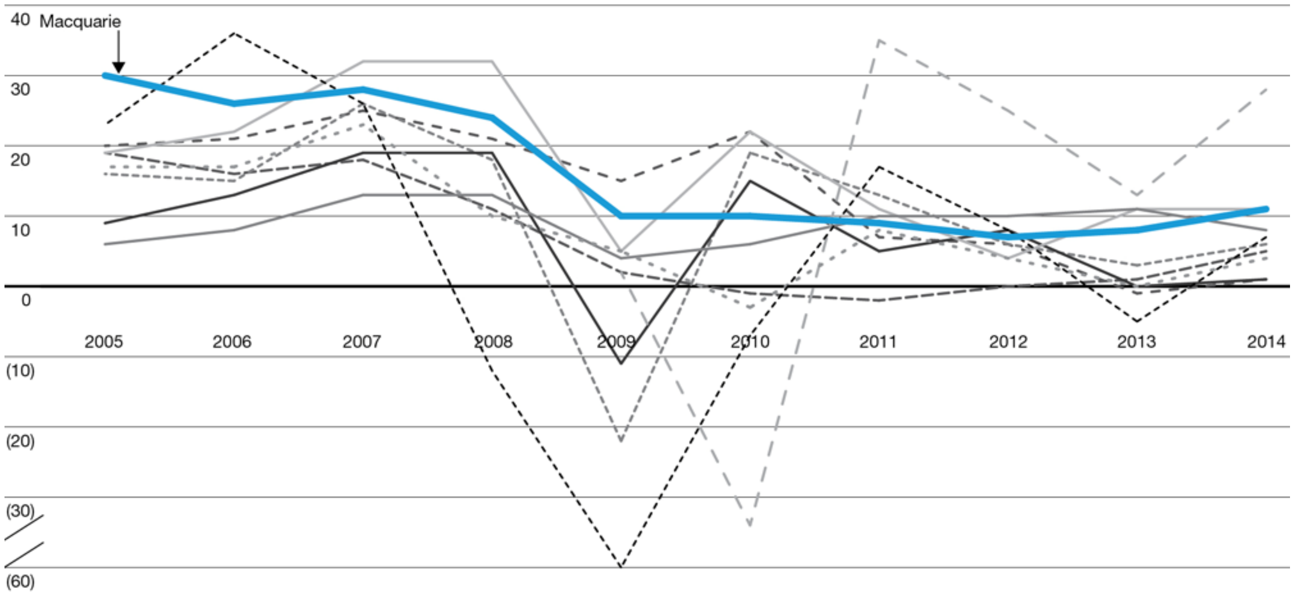
Macquarie versus international investment banking peers

	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	11.1	8.6	8.9	16.2
Average of Peers	8.0	6.5	6.9	9.5
Peer	4.6	2.0	0.6	6.9
Peer	1.0	1.8	7.0	13.5
Peer	6.5	5.1	9.6	10.1
Peer	1.2	3.2	6.0	7.8
Peer	11.0	8.4	11.7	16.8
Peer	8.4	9.8	9.0	8.9
Peer	28.4	22.2	11.7	n.a
Peer	4.3	2.7	2.8	8.6
Peer	6.8	3.3	3.9	3.2

Source: Peer underlying data from Bloomberg and Annual Reports. Peers are noted at the end of the next chart.

Macquarie's ROE has also exhibited less volatility over a ten year period.

10 year chart of annual ROE
Macquarie versus international investment banking peers[1](%)



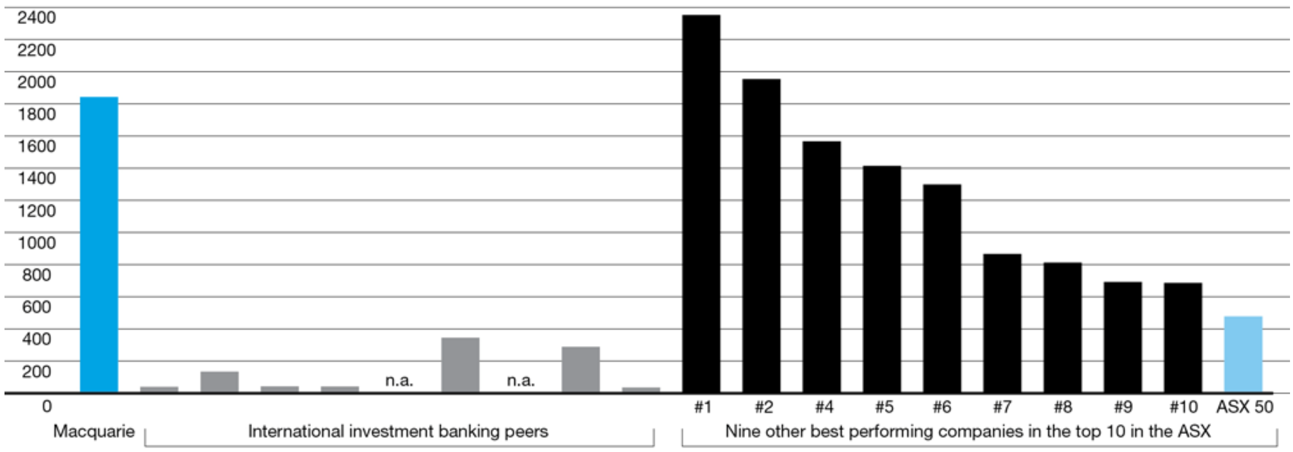
Source: Peer underlying data from Bloomberg and Annual Reports

(1) Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.

3.3 Macquarie's TSR compares favourably to peers

Macquarie's shareholder return over the long term has been strong and significantly higher than international investment banking peers. In additon, TSR since listing is currently ranked third of all companies that were in the ASX Top 50 at the time that Macquarie Bank Limited (MBL) listed in July 1996.

TSR since listing (July 1996)
Macquarie Group Limited, international investment banking peers, other top performing ASX 50 companies (%)



(1) Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, JP Morgan Chase, Morgan Stanley and UBS AG. Peers which have been included in comparative analysis elsewhere in this Report but which have not been continuously listed since Macquarie Bank Limited's date of listing (29 July 1996) have been excluded from this chart, ie Goldman Sachs and Lazard.

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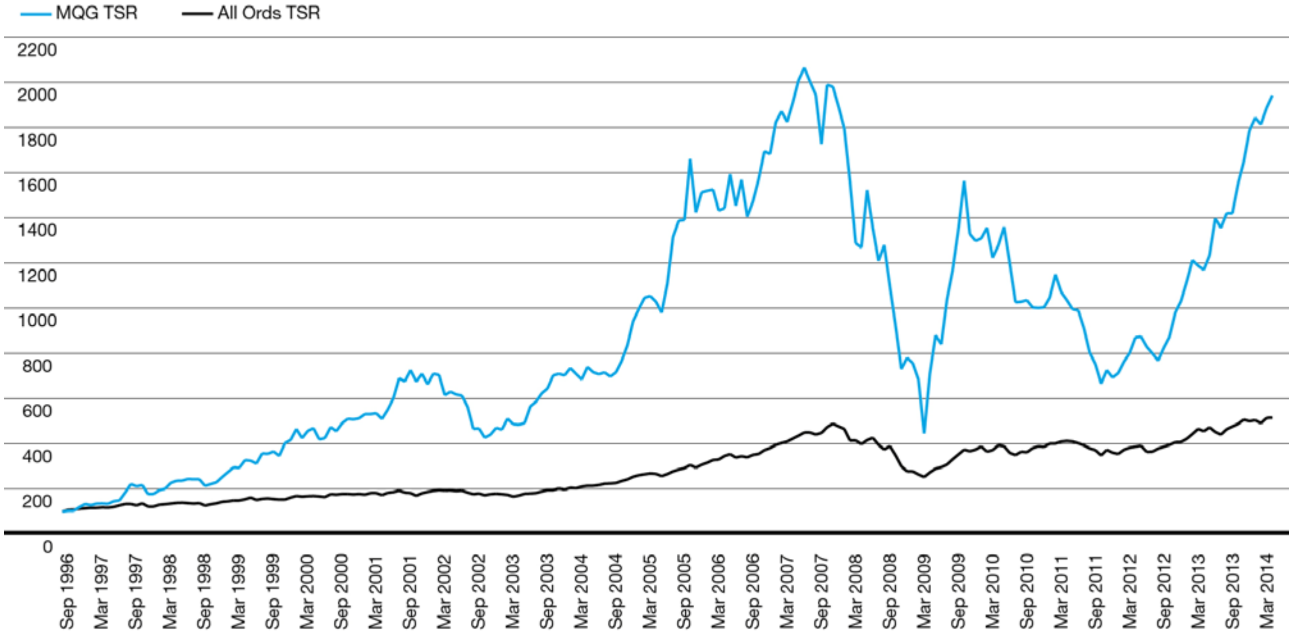
Similarly, Macquarie's shareholder returns continue to outperform the All Ordinaries Accumulation Index (All Ords) since listing.

Macquarie TSR versus the All Ordinaries Accumulation Index
29 July 1996 to 31 March 2014



Note: Indexed to 100 on 29 July 1996
The All Ordinaries Accumulation Index line in the above chart is based on the S&P/ASX 500 Accumulation Index from 31 March 2000. Prior to this, it was based on the All Ordinaries Accumulation Index. Macquarie TSR calculations here and throughout this Report assume continuous listing. Hence, they are based on Macquarie Bank Limited (ASX code: MBL) data up to and including 2 November 2007, the last day of trading of Macquarie Bank Limited shares, and Macquarie Group Limited (ASX code: MQG) data from the commencement of trading of Macquarie Group Limited shares on 5 November 2007 onwards.

3.4 Macquarie's compensation expense to income ratio is in the lower half of peers

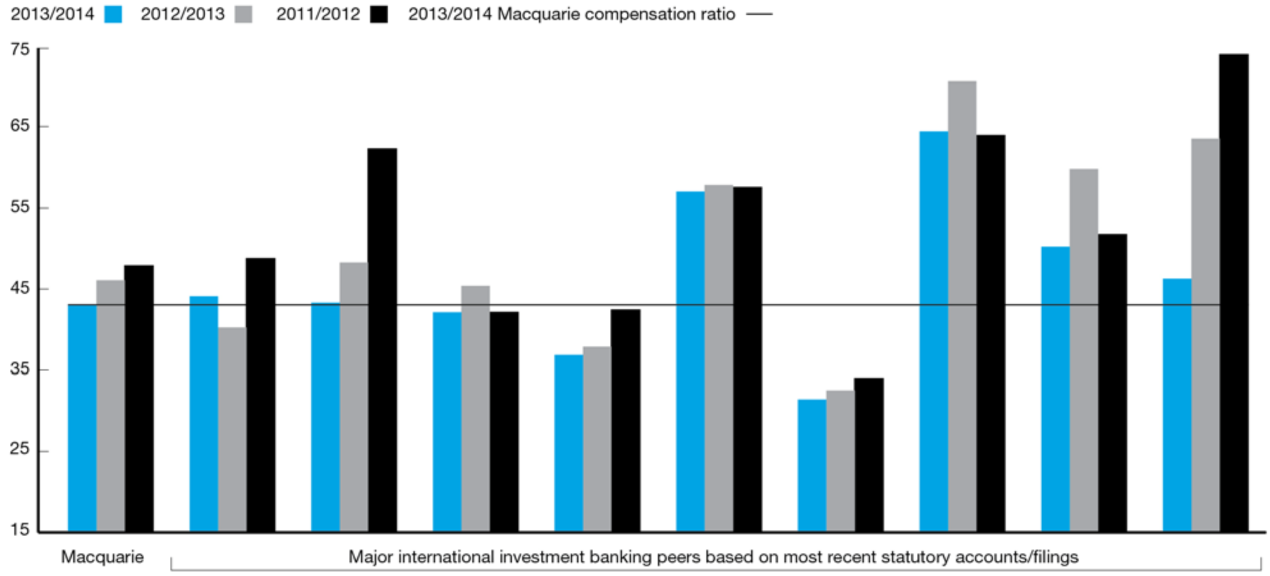
One guideline used to evaluate overall remuneration levels is the organisation's compensation expense to income ratio (compensation ratio). The compensation ratio is widely used within the investment banking industry as a broad measure of comparative remuneration levels. It is not, however, the basis on which Macquarie's profit share pool is created.

Macquarie's compensation ratio is compared with that of a group of peers in the following chart. While the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely satisfactory measure to use in assessing compensation levels because it does not take into account factors such as:

- differences in the business mix between comparator organisations. For example, segment data is particularly relevant where the investment banking segment is part of a larger organisation. Some peers are, or have become, parts of larger organisations, often with large retail operations which can distort comparisons
- differences in the way that remuneration is delivered (delivery vehicle, amount deferred, vesting timeframe). Different deferral levels and different vesting periods result in different accounting results, even if the underlying quantum of remuneration is the same. The higher the deferral rate, the smaller the portion of reported compensation expense that is actually attributable to pay earned for the current year (i.e. includes an increasing portion of compensation expense attributable to prior year equity deferrals)
- performance differences between organisations, including such factors as capital usage and quality of earnings
- variations in accounting practices used by comparator organisations. The compensation ratio is a non-GAAP measure, allowing peers to adopt different definitions of 'income' used in the calculation of the ratio. For example, some peers report the compensation ratio using 'net revenue' on a 'pre-impairment' basis, whereas others include impairments in net revenue, as does Macquarie
- the extent of outsourcing activities.

Notwithstanding these factors, Macquarie's ratio of 43.1 per cent is in the lower half of peers.

Compensation ratio: FY2012–2014[1](%)



Source: Data has been calculated by Macquarie. The information is based on publicly available information for the peer firms.

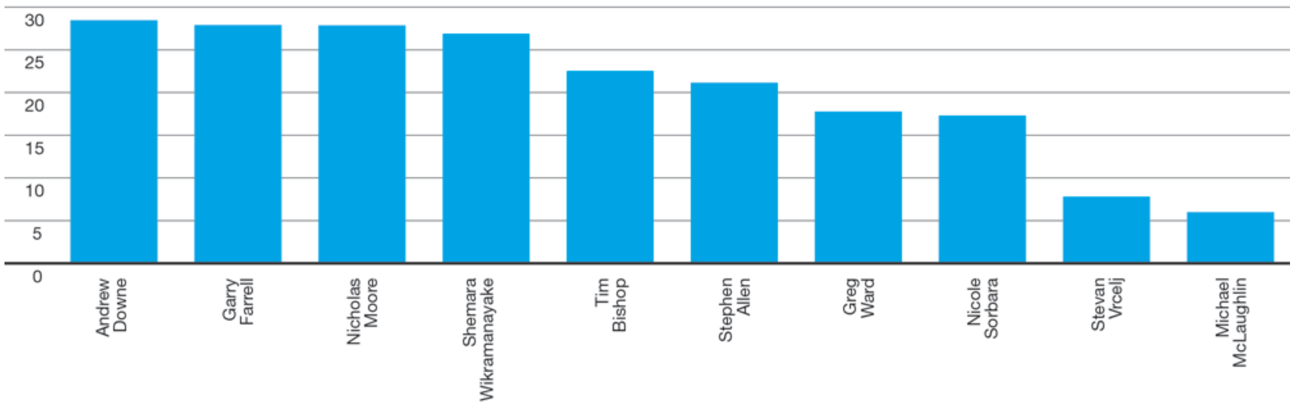
(1) Peers comprise Barclays PLC (Investment Banking segment), Credit Suisse Group AG (Investment Banking segment), Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies Group Inc., JP Morgan Chase (Corporate and Investment Banking segment), Lazard Ltd, Morgan Stanley and UBS AG (Investment Banking segment). In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers. Merrill Lynch data has been excluded as its compensation data cannot be ascertained.

3.5 Staff retention has been high, especially at Director level

One of the primary goals of Macquarie's remuneration arrangements is to attract and retain high performing staff. The Board's view is that Macquarie continues to achieve this goal. Overall voluntary turnover has decreased from the prior year and director-level voluntary turnover of 6.5 per cent remains low and is in line with last year.

Macquarie continues to have a highly experienced senior management team. The average tenure[1] of Macquarie's Executive Committee is approximately 20 years.

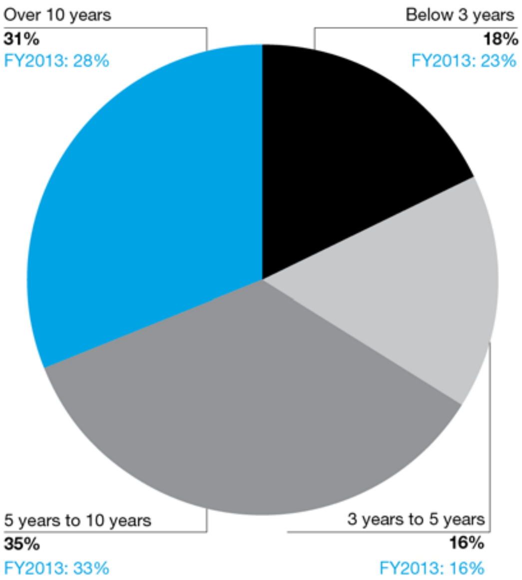
Tenure of Executive Committee members
Number of years at Macquarie



This depth of experience continues outside of the Executive Committee. As at 31 March 2014, 31 per cent of Director-level staff[2] have ten years' experience or more with Macquarie, and a further 35 per cent have between five and ten years' experience with Macquarie.

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

Directors' tenure as at 31 March 2014



(1) This includes accumulated service at acquired companies, for example Bankers Trust Investment Bank Australia and ING's Asian Equities business.

(2) Directors include all Director-level staff, being Associate Directors, Division Directors and Executive Directors. As at 31 March 2014, there were a total of 3,278 Director-level staff, of whom 334 were Executive Directors.

4 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.

4.1 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 Limited (Macquarie Bank or MBL), a key operating subsidiary, with Macquarie's remuneration policies and practices.

The BRC currently comprises five Independent Non-Executive Directors:

	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 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 Bank.

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.

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

The Board approves (on BRC recommendation)	BRC approves (on behalf of the Board)
Executive Remuneration Policy and Framework Recommendations – The *Remuneration Policy*, its effectiveness and its compliance with legal and regulatory requirements – The appropriate levels of delegated responsibility to management for remuneration-related decisions – The profit share methodology and any adjustments – 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[1], Hong Kong Covered Staff[1], other persons whose activities may affect the financial soundness of Macquarie, and senior risk and financial control staff – The profit share pool, calculated in accordance with the Board-approved methodology – The percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity – The implementation of the *Remuneration Policy*, including an annual review of compliance with the Executive Director minimum shareholding requirements

Executive Remuneration Recommendations
– Individual remuneration recommendations[2] for:
  – Executive Committee members
  – Designated Executive Directors
  – Staff covered under specific regulatory requirements
  – Senior risk and financial control staff
– The total PSU pool available for Executive Committee members
– The continued vesting or otherwise of retained profit share amounts for employees covered under the Malus provisions
	– All individual profit share recommendations for other Executive Directors
	– The standard number or value of promotion equity grants to Director-level staff

Non-Executive Director Remuneration – The remuneration framework for the Non-Executive Directors of Macquarie and MBL – Remuneration recommendations for Non-Executive Director fees (subject to the maximum aggregate amount being approved by shareholders)[3]	

(1) Code Staff under the UK Regulators' Remuneration Code, Covered Staff under the Hong Kong Monetary Authority's (HKMA) Guideline on a Sound Remuneration System.
(2) Including base remuneration, profit share and PSUs where applicable, with the proviso that PSU grants to Executive Voting Directors (including the CEO) must be approved by shareholders at the Annual General Meeting.
(3) 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.

4.2 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'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.

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

5 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.

5.1 Non-Executive Director remuneration policy

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

5.2 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 and Macquarie Bank Fees

	Macquarie fees		Macquarie Bank fees		Total fees	
	$A Chairman	$A Member	$A Chairman	$A Member	$A Chairman[1]	$A Member
Board	585,000	165,000	240,000	65,000	825,000	230,000
Board Risk Committee[2]	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Audit Committee[2]	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Remuneration Committee[2]	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Governance and Compliance Committee[2]	57,500	25,000	n.a.	n.a.	57,500	25,000
Board Nominating Committee[2]	n.a.[3]	8,000	n.a.	n.a.	n.a.[3]	8,000

(1) The Chairman attends Committee meetings but is not paid separate Committee fees.
(2) Macquarie Group Limited has five standing Board committees. The Macquarie Board Audit Committee is a joint committee of Macquarie Group Limited and Macquarie Bank and the BRC also supports both Boards.
(3) No separate fee is paid for this role as it is filled by the Chairman.

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 38 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.

5.3 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 84 of the Directors' Report.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
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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)	Managing Director and Chief Executive Officer	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
T.C. Bishop(1)	Group Head, Macquarie Capital	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
G.C. Ward(1)	Deputy Managing Director,	Full year	Full year
	Group Head, Banking and Financial Services Group (appointed 3 May 2013)		
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'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, the Consolidated Entity begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 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, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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 74 and 75). 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.

In FY2012 and FY2013, Macquarie included three additional disclosures for the CEO, in line with CAMAC's indicative guidelines. These disclosures were provided in anticipation of the Australian Government adopting these guidelines into legislation. In April 2014, the Australian Government released new draft legislation (*Corporations Legislation Amendment (Deregulatory and Other Measures) Bill 2014*) that does not require these additional disclosures. Macquarie's remuneration disclosures for FY2014 are those that are required under Australian Accounting Standards and the *Corporation Act 2001 (Cth)*.

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	Managing Director and Chief Executive Officer	**2014**	**818,731**	**2,995,900**	**3,814,631**
		2013	819,347	2,273,804	3,093,151
Other Executives					
S.D. Allen	Chief Risk Officer	**2014**	**770,571**	**1,690,987**	**2,461,558**
		2013	771,150	1,563,240	2,334,390
T.C. Bishop	Group Head, Macquarie Capital	**2014**	**722,410**	**1,350,454**	**2,072,864**
		2013	722,953	994,789	1,717,742
A.J. Downe[7]	Group Head, Fixed Income, Currencies and Commodities Group	**2014**	**831,520**	**4,047,673**	**4,879,193**
		2013	739,178	2,933,599	3,672,777
G.A. Farrell	Co-Group Head, Corporate and Asset Finance Group	**2014**	**722,410**	**2,569,494**	**3,291,904**
		2013	722,953	2,368,546	3,091,499
M. McLaughlin[7]	Country Head, United States of America	**2014**	**644,045**	**1,913,885**	**2,557,930**
		2013	544,278	2,630,081	3,174,359
S. Vrcelj	Group Head, Macquarie Securities Group	**2014**	**722,410**	**683,624**	**1,406,034**
		2013	708,436	–	708,436
G.C. Ward	Deputy Managing Director, Group Head Banking and Financial Services Group	**2014**	**770,571**	**1,801,623**	**2,572,194**
		2013	771,150	1,800,095	2,571,245
S. Wikramanayake	Group Head, Macquarie Funds Group	**2014**	**722,410**	**4,777,592**	**5,500,002**
		2013	722,953	3,315,964	4,038,917
Total Remuneration – Comparable Executive KMP		**2014**	**6,725,078**	**21,831,232**	**28,556,310**
		2013	6,522,398	17,880,118	24,402,516
New Executives					
N. Sorbara[8]	Chief Operating Officer	**2014**	**698,651**	**1,129,705**	**1,828,356**
		2013	171,277	174,074	345,351
Former Executives					
P.J. Maher[9]	Former Group Head, Banking and Financial Services Group	**2014**	**65,967**	**58,599**	**124,566**
		2013	722,953	757,935	1,480,888
Total Remuneration – Executive KMP (including new and former members)		**2014**	**7,489,696**	**23,019,536**	**30,509,232**
		2013	7,416,628	18,812,127	26,228,755

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 %
1,398,087	**1,358,788**	**2,756,875**	**4,733,125**	**1,775,801**	**–**	**6,508,926**	**13,080,432**	**13.58**
1,061,108	752,951	1,814,059	3,666,510	248,621	–	3,915,131	8,822,341	2.82
338,197	**388,834**	**727,031**	**1,478,068**	**843,770**	**–**	**2,321,838**	**5,510,427**	**15.31**
312,648	211,001	523,649	1,097,000	361,743	(184,638)	1,274,105	4,132,144	4.29
202,568	**1,310,573**	**1,513,141**	**2,183,282**	**1,042,387**	**–**	**3,225,669**	**6,811,674**	**15.30**
232,117	764,610	996,727	2,033,337	476,377	(551,506)	1,958,208	4,672,677	(1.61)
404,767	**2,667,755**	**3,072,522**	**3,186,866**	**1,187,740**	**–**	**4,374,606**	**12,326,321**	**9.64**
293,360	1,493,885	1,787,245	2,679,394	(126,461)	–	2,552,933	8,012,955	(1.58)
256,949	**560,092**	**817,041**	**1,954,739**	**1,672,512**	**–**	**3,627,251**	**7,736,196**	**21.62**
236,855	426,511	663,366	1,541,156	934,450	(236,358)	2,239,248	5,994,113	11.65
956,943	**172,969**	**1,129,912**	**2,042,615**	**344,311**	**–**	**2,386,926**	**6,074,768**	**5.67**
1,315,041	139,175	1,454,216	1,985,692	178,874	2,429	2,166,995	6,795,570	2.67
102,544	**98,341**	**200,885**	**867,314**	**799,441**	**–**	**1,666,755**	**3,273,674**	**24.42**
–	59,808	59,808	773,235	304,494	(220,604)	857,125	1,625,369	5.16
360,325	**379,934**	**740,259**	**1,516,382**	**1,054,302**	**–**	**2,570,684**	**5,883,137**	**17.92**
360,019	204,640	564,659	1,326,065	167,264	–	1,493,329	4,629,233	3.61
2,388,797	**1,163,498**	**3,552,295**	**1,389,298**	**1,627,001**	**–**	**3,016,299**	**12,068,596**	**13.48**
1,657,982	579,012	2,236,994	1,007,129	788,884	–	1,796,013	8,071,924	9.77
6,409,177	**8,100,784**	**14,509,961**	**19,351,689**	**10,347,265**	**–**	**29,698,954**	**72,765,225**	
5,469,130	4,631,593	10,100,723	16,109,518	3,334,246	(1,190,677)	18,253,087	52,756,326	
225,941	**40,654**	**266,595**	**493,978**	**695,132**	**–**	**1,189,110**	**3,284,061**	**21.17**
34,815	1,038	35,853	83,695	67,704	–	151,399	532,603	12.71
5,860	**14,534**	**20,394**	**87,401**	**8,732**	**–**	**96,133**	**241,093**	**3.62**
75,793	89,403	165,196	1,087,043	(68,965)	–	1,018,078	2,664,162	(2.59)
6,640,978	**8,155,972**	**14,796,950**	**19,933,068**	**11,051,129**	**–**	**30,984,197**	**76,290,379**	
5,579,738	4,722,034	10,301,772	17,280,256	3,332,985	(1,190,677)	19,422,564	55,953,091	

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Notes to the statutory remuneration disclosures

(1) The cash portion of each individual's profit share allocation for the reporting period when they were an Executive KMP.

(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS Plan).

(3) The earnings on restricted profit share as described 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 5 of the Remuneration Report.

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
G.R. Banks[2]	**2014**	**193,333**	**–**	**193,333**
	2013	–	–	–
M.J. Coleman[3]	**2014**	**327,728**	**12,900**	**340,628**
	2013	114,389	–	114,389
P.A. Cross[4]	**2014**	**222,473**	**–**	**222,473**
	2013	–	–	–
D.J. Grady[5]	**2014**	**304,583**	**–**	**304,583**
	2013	290,000	–	290,000
M.J. Hawker[6]	**2014**	**328,587**	**–**	**328,587**
	2013	312,917	10,000	322,917
P.M. Kirby	**2014**	**315,000**	**–**	**315,000**
	2013	315,000	–	315,000
C.B. Livingstone[7]	**2014**	**115,145**	**–**	**115,145**
	2013	363,000	–	363,000
H.K. McCann	**2014**	**825,000**	**–**	**825,000**
	2013	825,000	–	825,000
J.R. Niland[8]	**2014**	**260,625**	**–**	**260,625**
	2013	347,500	–	347,500
H.M. Nugent	**2014**	**338,000**	**38,500**	**376,500**
	2013	338,000	21,600	359,600
N.M Wakefield Evans[9]	**2014**	**40,774**	**–**	**40,774**
	2013	–	–	–
P.H. Warne[10]	**2014**	**327,167**	**4,500**	**331,667**
	2013	369,417	–	369,417
Total Remuneration – Non-Executive KMP	**2014**	**3,598,415**	**55,900**	**3,654,315**
	2013	3,275,223	31,600	3,306,823

(1) Other benefits for Non-Executive Directors include due diligence committee fees paid to Mr Coleman of $A12,900; a travel allowance of $A10,000 in FY2013 for Mr Hawker who was a resident of the UK until 30 June 2012; BRC related per diem fees for Dr Nugent of $A34,000 for approved additional work (FY2013: $A21,600); and per diem fees of $A4,500 paid to Dr Nugent and Mr Warne for additional work related to the Board Nominating Committee.

(2) Mr Banks was appointed to the MGL and MBL Boards, the Board Audit Commttee and the Board Risk Committee on 1 August 2013.

(3) Mr Coleman was appointed as Chair of the Board Audit Committee on 26 July 2013 and appointed to the Board Governance and Compliance Committee on 1 November 2013.

(4) Mrs Cross was appointed to the MGL and MBL Boards and the Board Risk Committee on the 7 August 2013, the Board Audit Committee on 1 September 2013 and the Board Remuneration Committee on 1 November 2013. She was appointed Chair of the Board Risk Committee on 1 September 2013.

(5) Ms Grady was appointed to the Board Governance and Compliance Committee on 1 September 2013.

(6) Mr Hawker was appointed Chair of the Board Governance and Compliance Committee on 1 January 2014. He was appointed to the Board Nominating Committee on 26 July 2013.

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

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

(9) Ms Wakefield Evans was appointed to the MGL and MBL Boards and the Board Risk Committee on 7 February 2014. She was appointed to the Board Governance and Compliance Committee on 1 March 2014.

(10) Mr Warne retired from the Board Audit Committee on 1 September 2013. He also ceased to be the Chair of the Board Risk Committee on 1 September 2013 but remained a member of this Committee.

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Appendix 3: Share and option disclosures

MEREP RSU Awards to KMP

The following tables set out details of the MEREP RSU awards associated with Macquarie shares granted to Executive KMP. Grants made to Executive KMP prior to their joining the Executive Committee are not disclosed. PSUs are disclosed in a separate table.

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs. There have been no alterations to the terms or conditions of the above grants since the grant date. RSU awards are subject to forfeiture as set out in sections 1.3.4 - 1.3.5. The value of the grants at vesting could vary significantly as they are dependent on the Macquarie Group Limited share price at the time of vesting. Retention rates, the vesting profile and service and performance criteria for the current year are set out in section 1.3. RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, RSUs granted in August 2013 relate to the CEO's performance in the 2013 financial year. No awards were forfeited during the year.

Name and position	RSU awards granted to date[(1)]	Grant date	Number vested during the year[(1)(2)]	RSU awards consolidation[(1)(3)]
Executive Voting Directors				
N.W. Moore	97,531	15-Aug-13	–	5,483
	141,772	15-Aug-12	–	7,967
	152,602	15-Aug-11	–	8,576
	105,362	13-Aug-10	21,072	4,737
	466,460	3-Mar-10	69,864	11,778
Executives				
S.D. Allen[(4)]	28,736	25-Jun-13	–	1,616
	43,600	7-Jun-12	–	2,450
	40,158	20-Jun-11	–	2,256
	14,182	15-Feb-11	–	797
	26,122	30-Jun-10	15,119	255
	113,565	3-Mar-10	7,501	3,852
T.C. Bishop[(5)(6)]	48,003	25-Jun-13	–	2,698
	33,228	7-Jun-12	–	1,867
	62,369	20-Jun-11	–	3,505
	5,769	15-Apr-11	1,153	260
A.J. Downe	61,647	25-Jun-13	–	3,465
	101,266	7-Jun-12	–	5,691
	87,129	20-Jun-11	–	4,896
	97,961	30-Jun-10	19,592	4,404
	80,877	3-Mar-10	16,175	2,727
G.A. Farrell[(5)]	48,983	25-Jun-13	–	2,754
	93,354	7-Jun-12	–	5,246
	60,668	20-Jun-11	–	3,409
P.J. Maher[(7)]	50,633	7-Jun-12	–	–
	46,469	20-Jun-11	–	–
	36,245	30-Jun-10	–	–
	88,468	3-Mar-10	–	–
M. McLaughlin[(8)]	30,189	25-Jun-13	–	1,699
	15,795	7-Jun-12	–	887
N. Sorbara[(9)]	13,062	25-Jun-13	–	735

Name and position	RSU awards granted to date(1)	Grant date	Number vested during the year(1)(2)	RSU awards consolidation(1)(3)
S. Vrcelj(5)	56,021	20-Jun-11	–	3,149
G.C. Ward	33,090	25-Jun-13	–	1,861
	49,226	7-Jun-12	–	2,766
	45,895	20-Jun-11	–	2,579
	38,313	30-Jun-10	7,662	1,722
	92,688	3-Mar-10	15,295	2,578
S. Wikramanayake(10)	38,098	25-Jun-13	–	2,141
	61,533	7-Jun-12	–	3,458
	37,290	20-Jun-11	897	2,045
	13,605	30-Jun-10	8,922	–
	69,028	3-Mar-10	3,312	2,417

(1) Or during the period that the Executive was a KMP.

(2) The number of RSUs that vested during the year includes the impact of the transitional remuneration arrangements that were put in place in 2009 when shareholders approved the establishment of the MEREP.

(3) Consolidation of one ordinary share into 0.9438 ordinary shares for shares held in the MEREP as at the record date for the consolidation.

(4) At 31 March 2014, due to a change in employment jurisdiction, 64,698 awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

(5) Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. Each had RSUs vested during the current financial year in respect of grants made prior to their joining the Executive Committee.

(6) At 31 March 2014, due to a change in employment jurisdiction, 57,542 awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

(7) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013 before the share consolidation on 23 December 2013. The details set out above reflect his time, during the current financial year, as a member of the Executive Committee.

(8) Mr McLaughlin was appointed to the Executive Committee on 1 January 2012 and had RSUs vested during the current financial year in respect of grants made prior to his joining the Executive Committee.

(9) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013 and had RSUs vested during the current financial year in respect of grants made prior to her joining the Executive Committee.

(10) At 31 March 2014, due to a change in employment jurisdiction, 40,602 awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

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MEREP PSU Awards to KMP

The following tables set out details of MEREP PSU awards granted to Executive KMP.

PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, PSUs granted in August 2013 relate to the Executive KMP's performance in the 2013 financial year.

	Granted to date			Forfeited/Lapsed during the financial year(2)(3)			Exercised during the financial year(3)		
Name and position	Number	Date	Value $A(1)	Number	%	Value $A(4)	Number exercised	Value exercised(5)	PSU awards consolidation (3)(6)
Executive Voting Directors									
N.W. Moore	82,664	15-Aug-13	3,415,676	–	–	–	–	–	4,647
	120,667	15-Aug-12	2,643,814	–	–	–	–	–	6,781
	159,981	15-Aug-11	3,342,003	38,396	24%	1,555,038	14,931	666,371	5,993
	108,225	13-Aug-10	3,747,832	36,075	33%	1,461,038	–	–	2,027
	38,300	3-Mar-10	1,621,622	12,768	33%	517,104	–	–	–
Executives									
S.D. Allen	35,132	15-Aug-13	1,451,654	–	–	–	–	–	1,975
	52,353	15-Aug-12	1,147,054	–	–	–	–	–	2,942
	59,173	15-Aug-11	1,236,124	14,202	24%	575,181	5,522	238,219	2,217
	29,906	13-Aug-10	1,035,645	9,968	33%	403,704	–	–	560
T.C. Bishop	42,271	15-Aug-13	1,746,638	–	–	–	–	–	2,376
	26,814	15-Aug-12	587,495	–	–	–	–	–	1,506
	71,317	15-Aug-11	1,489,812	17,116	24%	693,198	6,656	291,514	2,672
A.J. Downe	56,362	15-Aug-13	2,328,878	–	–	–	–	–	3,169
	107,259	15-Aug-12	2,350,045	–	–	–	–	–	6,027
	113,721	15-Aug-11	2,375,632	27,294	24%	1,105,407	10,613	461,736	4,260
	99,567	13-Aug-10	3,448,005	33,189	33%	1,344,155	–	–	1,865
	53,500	3-Mar-10	2,265,190	17,834	33%	722,277	–	–	–
G.A. Farrell	56,362	15-Aug-13	2,328,878	–	–	–	–	–	3,168
	98,321	15-Aug-12	2,154,213	–	–	–	–	–	5,525
	79,027	15-Aug-11	1,650,874	18,967	24%	768,164	–	–	3,375
P.J. Maher	53,629	15-Aug-12	1,175,011	–	–	–	–	–	–
	60,587	15-Aug-11	1,265,662	–	–	–	–	–	–
	36,796	13-Aug-10	1,274,245	–	–	–	–	–	–
	13,000	3-Mar-10	550,420	–	–	–	–	–	–
M. McLaughlin	13,151	15-Aug-13	543,399	–	–	–	–	–	739
	15,961	15-Aug-12	349,706	–	–	–	–	–	897
N. Sorbara	35,132	15-Aug-13	1,451,654	–	–	–	–	–	1,974
S. Vrcelj(7)	37,574	15-Aug-13	1,465,331	–	–	–	–	–	2,111
	52,170	15-Aug-11	1,089,831	12,521	24%	507,101	4,869	265,068	1,954
G.C. Ward	48,283	15-Aug-13	1,995,054	–	–	–	–	–	2,714
	58,737	15-Aug-12	1,286,928	–	–	–	–	–	3,301
	67,462	15-Aug-11	1,409,281	16,191	24%	655,736	6,296	270,512	2,527
	44,011	13-Aug-10	1,524,101	14,670	33%	594,135	–	–	824
	26,700	3-Mar-10	1,130,478	8,900	33%	360,450	–	–	–
S. Wikramanayake	56,362	15-Aug-13	2,328,878	–	–	–	–	–	3,169
	116,836	15-Aug-12	2,559,877	–	–	–	–	–	6,566
	87,379	15-Aug-11	1,825,347	20,971	24%	849,326	8,155	356,210	3,273
	24,927	13-Aug-10	863,222	8,309	33%	336,515	–	–	466
	11,500	3-Mar-10	486,910	3,834	33%	155,277	–	–	–

(1) Based on the fair value at grant date.
(2) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2013 were partially achieved and therefore a portion of PSU awards vesting became exercisable. For the portion of PSU awards where performance hurdles were not achieved, those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial year.
(3) Or during the period that the Executive was a KMP.
(4) Based on closing share price at 1 July 2013, being the day the PSUs were forfeited.
(5) Based on the share price at the time of exercise.
(6) Adjustment of PSUs due to consolidation of one ordinary share into 0.9438 ordinary shares for shares held as at the record date for the consolidation.
(7) PSUs were formally issued on 17 February 2014.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2013 PSU allocation has been determined based on a valuation of a PSU at 15 August 2013. The fair value of $41.32 at this date has been estimated using a discounted cash flow method.

The following key assumptions were adopted in determining the value of the PSUs granted:

- interest rate to maturity: 3.33 per cent
- expected vest date: 1 July 2016 and 1 July 2017
- dividend yield: 5.18 per cent per annum

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out in section 1.3.6. For the 2013 grant, the first tranche will vest on 1 July 2016. The PSUs expire on 15 August 2021.

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Option holdings of KMP and their related parties[1]

The following table sets out details of options held during the year for the KMP including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. There were no options issued to KMP during the financial years ended 31 March 2014 and 31 March 2013.

For the year ended 31 March 2014

Name and position	Number of options outstanding at 1 April 2013	Options exercised during the financial year	Other changes[2]	Number of options outstanding at 31 March 2014	Number of options vested during the financial year	Number of options vested at 31 March 2014	Value of options granted as part of remuneration and that are exercised or sold during the financial year $A
Executives							
S. D. Allen	39,400	–	(39,400)	–	–	–	–
T. C. Bishop	116,666	–	(116,666)	–	–	–	–
G. A. Farrell	50,000	–	(50,000)	–	–	–	–
M. McLaughlin	19,000	–	(19,000)	–		–	–
N. Sorbara	7,332	–	(7,332)	–	–	–	–
S. Vrcelj	46,666	–	(46,666)	–	–	–	–

(1) A related party of Mr M.J. Coleman held vested options which lapsed during the year ending 31 March 2014. Mr M.J. Coleman does not influence any investment decision over, nor does he receive any benefit from, this holding.
(2) Includes vested options lapsed and forfeited during the financial year.

Ordinary shares issued as a result of the exercise of options by KMP during the year

There were no options exercised by KMP during the years ending 31 March 2014 and 31 March 2013.

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.

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

Voting Directors' equity participation

At 2 May 2014, the Voting Directors have relevant interests, as notified by the Voting Directors to the Australian Securities Exchange in accordance with the *Corporations Act 2001 (Cth) (the Act)*, in the following shares and share options of Macquarie:

	Fully paid ordinary shares held at 2 May 2014	RSUs held in the MEREP(1)	PSUs held in the MEREP(1)
N.W. Moore	1,455,517	647,252	326,612
G.R. Banks	1,416	–	–
M.J. Coleman	5,663	–	–
P.A. Cross	3,936	–	–
D. J. Grady	3,878	–	–
M.J. Hawker	6,136	–	–
P.M. Kirby	23,913	–	–
H.K. McCann	12,728	–	–
H.M. Nugent	12,276	–	–
N.M. Wakefield Evans	–	–	–
P.H. Warne	14,933	–	–

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in note 33 – Employee equity participation.

During the financial year, Voting Directors received dividends relating to their shareholdings in Macquarie at the same rate as other shareholders.

The relevant interests of Voting Directors as at 2 May 2014 in managed investment schemes made available by subsidiaries of Macquarie and other contracts that confer a right to call for or deliver shares in Macquarie are listed on page 86.

Directors' and officers' indemnification and insurance

Under Macquarie Group's Constitution, Macquarie indemnifies all past and present Directors and Secretaries of Macquarie (including at this time the Voting Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described below):

- every liability incurred by the person in their respective capacity
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity, and
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of Macquarie or of a wholly-owned subsidiary of Macquarie, if that has been approved in accordance with Macquarie policy.

This indemnity does not apply to the extent that:

- Macquarie is forbidden by law to indemnify the person against the liability or legal costs, or
- an indemnity by Macquarie of the person against the liability or legal costs, if given, would be made void by law.

Macquarie has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (Deed) with each of the Voting Directors. Under the Deed, Macquarie, inter alia, agrees to:

- indemnify the Voting Director to the full extent of the indemnity given in relation to officers of Macquarie under its Constitution in force from time to time
- take out and maintain an insurance policy against liabilities incurred by the Voting Director acting as an officer of Macquarie or a wholly-owned subsidiary of Macquarie, or acting as an officer of another company at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Group's position. The insurance policy must also be maintained for seven years after the Voting Director ceases to be a Voting Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings), and
- grant access to the Voting Director to all company papers (including Board papers and other documents).

In addition, Macquarie made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by Macquarie under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. 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 company documents.

The indemnities and insurance arrangements provided for under the Macquarie Constitution, the Deed and the Deed Poll, are broadly consistent with the corresponding indemnities and insurance arrangements provided under the Macquarie Bank Constitution and deeds entered into by Macquarie Bank, and were adopted by Macquarie upon the Consolidated Entity restructure, under which Macquarie replaced Macquarie Bank as the parent company of the Group.

Macquarie maintains a Directors' and Officers' insurance policy 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 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 company 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 subsidiaries of Macquarie Group and other disclosable relevant interests are listed in the table below:

Name and position	Direct interests		Indirect interests	
Executive Voting Director				
N.W.Moore	2004 Macquarie Timber Land Trust units	50	Macquarie Global Infrastructure Fund III (B) units	391,935
	2006 Macquarie Timber Land Trust units	75		
	Macquarie Global Infrastructure Fund III (B) units	1,771,171		
Independent Voting Directors				
G.R. Banks		–		–
M.J. Coleman		–		–
P.A. Cross		–		–
D. J. Grady		–	Macquarie Group Capital Notes	400
M.J. Hawker		–	Macquarie Wrap Cash Account units	14,987
P.M. Kirby		–		–
H.K. McCann		–		–
H.M. Nugent		–		–
N.M. Wakefield Evans		–		–
P.H. Warne		–		–

Environmental regulations

The Consolidated Entity has 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 $A6,130,000. 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 the 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 amounts 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 full 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

Nicholas Moore

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
Chairman – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Kevin McCann joined the Board of Macquarie Group as an Independent Voting Director in August 2007. Mr McCann was appointed as an Independent Voting Director of Macquarie Bank in December 1996 and continues to hold this position. He was appointed Chairman of the Macquarie Group and Macquarie Bank 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.

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

Managing Director and Chief Executive Officer since May 2008
Member – Board Risk Committee

Nicholas Moore joined the Board of Macquarie Group in February 2008 as an Executive Voting Director. Mr Moore was appointed as an Executive Voting Director of Macquarie Bank in May 2008 and continues to hold this position.

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
Member - Board Risk Committee

Gary Banks joined the Boards of Macquarie Group and Macquarie Bank 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
Member – Board Governance and Compliance Committee
Member - Board Risk Committee

Michael Coleman joined the Boards of Macquarie Group and Macquarie Bank 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)

Chairman – Board Risk Committee
Member - Board Audit Committee
Member – Board Remuneration Committee

Patricia Cross joined the Boards of Macquarie Group and Macquarie Bank 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)

Member – Board Governance and Compliance Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Diane Grady joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in 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)

Chairman - Board Governance and Compliance Committee
Member – Board Audit Committee
Member - Board Nominating Committee
Member – Board Risk Committee

Michael Hawker joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in 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
Member – Board Governance and Compliance Committee
Member – Board Risk Committee

Peter Kirby joined the Board of Macquarie Group as an Independent Voting Director in August 2007. He was appointed as an Independent Voting Director of Macquarie Bank in June 2003 and continues to hold this position.

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)

Chairman – Board Remuneration Committee
Member – Board Nominating Committee
Member – Board Risk Committee

Helen Nugent joined the Board of Macquarie Group as an Independent Voting Director in August 2007. She was appointed as an Independent Voting Director of Macquarie Bank in June 1999 and continues to hold this position.

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)

Member – Board Governance and Compliance Committee
Member – Board Risk Committee

Nicola Wakefield Evans joined the Boards of Macquarie Group and Macquarie Bank 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.

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

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

Member – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Peter Warne joined the Board of Macquarie Group as an Independent Voting Director in August 2007. Mr Warne was appointed as an Independent Voting Director of Macquarie Bank in July 2007 and continues to hold this position.

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.

Company secretaries' qualifications and experience

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

Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Company Secretarial Division that is responsible for the Group's company secretarial requirements, professional risks and general 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.

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

Nigel Donnelly is a Division Director of Macquarie and has over 14 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques (now named King & Wood Mallesons) with a general corporate advisory and corporate governance focus.

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group 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 Group Limited and the entities it controlled during the period.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
2 May 2014

Macquarie Group 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	Company 2014 $m	Company 2013 $m
Interest and similar income		**4,611**	4,649	**339**	292
Interest expense and similar charges		**(2,906)**	(3,282)	**(410)**	(366)
Net interest income/(expense)	2	**1,705**	1,367	**(71)**	(74)
Fee and commission income	2	**3,853**	3,379	**9**	–
Net trading income	2	**1,570**	1,234	**5**	–
Share of net profits of associates and joint ventures accounted for using the equity method	2	**149**	92	**–**	–
Other operating income and charges	2	**855**	585	**1,109**	1,262
Net operating income		**8,132**	6,657	**1,052**	1,188
Employment expenses	2	**(3,736)**	(3,273)	**(4)**	(3)
Brokerage, commission and trading-related expenses	2	**(779)**	(604)	**–**	–
Occupancy expenses	2	**(382)**	(390)	**–**	–
Non-salary technology expenses	2	**(323)**	(260)	**–**	–
Other operating expenses	2	**(806)**	(725)	**(3)**	(11)
Total operating expenses		**(6,026)**	(5,252)	**(7)**	(14)
Operating profit before income tax		**2,106**	1,405	**1,045**	1,174
Income tax (expense)/benefit	4	**(827)**	(533)	**15**	23
Profit after income tax		**1,279**	872	**1,060**	1,197
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Securities	5	**(18)**	(21)	**–**	–
Macquarie Income Preferred Securities	5	**(4)**	(4)	**–**	–
Other non-controlling interests		**8**	4	**–**	–
Profit attributable to non-controlling interests		**(14)**	(21)	**–**	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**1,265**	851	**1,060**	1,197
		Cents per share			
Basic earnings per share	6	**383.6**	251.2		
Diluted earnings per share	6	**369.2**	246.1		

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	**Company 2014 $m**	Company 2013 $m
Profit after income tax		**1,279**	872	**1,060**	1,197
Other comprehensive income/(expense)[1]:					
Available for sale investments, net of tax	29	**72**	193	**–**	–
Cash flow hedges, net of tax	29	**21**	(2)	**–**	–
Share of other comprehensive income of associates and joint ventures, net of tax	29	**14**	18	**–**	–
Exchange differences on translation of foreign operations, net of hedge and tax		**612**	(122)	**–**	–
Total other comprehensive income		**719**	87	**–**	–
Total comprehensive income		**1,998**	959	**1,060**	1,197
Total comprehensive income/(expense) attributable to:					
Ordinary equity holders of Macquarie Group Limited		**1,954**	942	**1,060**	1,197
Macquarie Income Securities holders		**18**	21	**–**	–
Macquarie Income Preferred Securities holders		**18**	1	**–**	–
Other non-controlling interests		**8**	(5)	**–**	–
Total comprehensive income		**1,998**	959	**1,060**	1,197

(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	Company 2014 $m	Company 2013 $m
Assets					
Receivables from financial institutions	7	**19,457**	14,806	**–**	–
Trading portfolio assets	8	**22,462**	19,776	**–**	–
Derivative assets		**12,633**	14,704	**–**	–
Investment securities available for sale	9	**14,051**	17,057	**–**	–
Other assets	10	**12,990**	12,397	**270**	156
Loan assets held at amortised cost	11	**58,712**	50,793	**–**	–
Other financial assets at fair value through profit or loss	13	**2,854**	5,033	**–**	–
Due from subsidiaries	31	**–**	–	**8,711**	6,992
Property, plant and equipment	14	**6,311**	5,643	**–**	–
Interests in associates and joint ventures accounted for using the equity method	15	**2,447**	2,048	**–**	–
Intangible assets	16	**1,221**	1,221	**–**	–
Investments in subsidiaries	17	**–**	–	**11,989**	12,972
Deferred tax assets	18	**766**	1,270	**143**	297
Total assets		**153,904**	144,748	**21,113**	20,417
Liabilities					
Trading portfolio liabilities	19	**2,762**	1,497	**–**	–
Derivative liabilities		**11,973**	14,853	**–**	–
Deposits	20	**42,401**	41,103	**33**	38
Other liabilities	21	**13,908**	13,572	**74**	52
Payables to financial institutions	22	**19,654**	18,075	**1,307**	2,370
Other financial liabilities at fair value through profit or loss	23	**1,464**	1,704	**–**	–
Due to subsidiaries	31	**–**	–	**866**	828
Debt issued at amortised cost	24	**45,565**	38,014	**6,265**	4,269
Provisions	25	**205**	213	**–**	–
Deferred tax liabilities	18	**551**	542	**–**	–
Total liabilities excluding loan capital		**138,483**	129,573	**8,545**	7,557
Loan capital					
Macquarie Convertible Preference Securities		**–**	616	**–**	–
Subordinated debt at amortised cost		**3,507**	2,604	**601**	–
Total loan capital	27	**3,507**	3,220	**601**	–
Total liabilities		**141,990**	132,793	**9,146**	7,557
Net assets		**11,914**	11,955	**11,967**	12,860
Equity					
Contributed equity	28	**5,112**	5,907	**7,852**	8,642
Reserves	29	**669**	57	**559**	675
Retained earnings	29	**5,637**	5,439	**3,556**	3,543
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**11,418**	11,403	**11,967**	12,860
Non-controlling interests	29	**496**	552	**–**	–
Total equity		**11,914**	11,955	**11,967**	12,860

(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		6,241	44	4,924	11,209	529	11,738
Profit after income tax		–	–	851	851	21	872
Other comprehensive income/(expense), net of tax		–	91	–	91	(4)	87
Total comprehensive income		–	91	851	942	17	959
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	3	–	–	3	–	3
Purchase of shares by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust)	28	(242)	–	–	(242)	–	(242)
Dividends and distributions paid or provided for	5	–	–	(509)	(509)	–	(509)
Buyback and cancellation of ordinary shares	28	(251)	–	–	(251)	–	(251)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	27	27
Distributions paid or provided for		–	–	–	–	(21)	(21)
Other equity movements:							
Net movement on exchangeable shares	28	(4)	–	–	(4)	–	(4)
MEREP expense	29	–	258	–	258	–	258
Option expense reversal	29	–	(16)	–	(16)	–	(16)
Excess deferred tax on MEREP expense	29	–	13	–	13	–	13
Transfer from share-based payments reserve:							
- to retained earnings	29	–	(173)	173	–	–	–
- to equity for equity settled awards	28,29	160	(160)	–	–	–	–
		(334)	(78)	(336)	(748)	6	(742)
Balance at 31 March 2013		**5,907**	**57**	**5,439**	**11,403**	**552**	**11,955**
Profit after income tax		**–**	**–**	**1,265**	**1,265**	**14**	**1,279**
Other comprehensive income, net of tax		**–**	**689**	**–**	**689**	**30**	**719**
Total comprehensive income		**–**	**689**	**1,265**	**1,954**	**44**	**1,998**
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	**15**	**–**	**–**	**15**	**–**	**15**
Purchase of shares by MEREP Trust	28	**(216)**	**–**	**–**	**(216)**	**–**	**(216)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(1,159)**	**(1,159)**	**–**	**(1,159)**
Capital reduction through SYD distribution		**(803)**	**(72)**	**–**	**(875)**	**–**	**(875)**
Non-controlling interests:							
Distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(86)**	**(86)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(14)**	**(14)**
Change in non controlling ownership interests		**–**	**–**	**(5)**	**(5)**	**–**	**(5)**
Other equity movements:							
MEREP expense	29	–	**257**	**–**	**257**	**–**	**257**
Excess deferred tax on MEREP expense	29	–	**53**	**–**	**53**	**–**	**53**
Transfer from share-based payments reserve:							
- to retained earnings	29	**–**	**(97)**	**97**	**–**	**–**	**–**
- to other liabilities for cash settled awards	29	**–**	**(9)**	**–**	**(9)**	**–**	**(9)**
- to equity for equity settled awards	28, 29	**195**	**(195)**	**–**	**–**	**–**	**–**
Transfer of excess deferred tax on MEREP expense upon vesting to equity	28, 29	**14**	**(14)**	**–**	**–**	**–**	**–**
		(795)	**(77)**	**(1,067)**	**(1,939)**	**(100)**	**(2,039)**
Balance at 31 March 2014		**5,112**	**669**	**5,637**	**11,418**	**496**	**11,914**

[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
							Company
Balance at 1 April 2012		8,952	766	2,678	12,396	–	12,396
Profit after income tax		–	–	1,197	1,197	–	1,197
Total comprehensive income		–	–	1,197	1,197	–	1,197
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	23	–	–	23	–	23
Purchase of shares by MEREP Trust	28	(242)	–	–	(242)	–	(242)
Dividends and distributions paid or provided for	5	–	–	(505)	(505)	–	(505)
Buyback and cancellation of ordinary shares	28	(251)	–	–	(251)	–	(251)
Other equity movements:							
MEREP expense	29	–	258	–	258	–	258
Option expense reversal	29	–	(16)	–	(16)	–	(16)
Transfer from share-based payments reserve							
- to equity for equity settled awards	28,29	160	(160)	–	–	–	–
- to retained earnings	29	–	(173)	173	–	–	–
		(310)	(91)	(332)	(733)	–	(733)
Balance at 31 March 2013		**8,642**	**675**	**3,543**	**12,860**	**–**	**12,860**
Profit after income tax		**–**	**–**	**1,060**	**1,060**	**–**	**1,060**
Total comprehensive income		**–**	**–**	**1,060**	**1,060**	**–**	**1,060**
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	**24**	**–**	**–**	**24**	**–**	**24**
Purchase of shares by MEREP Trust	28	**(216)**	**–**	**–**	**(216)**	**–**	**(216)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(1,144)**	**(1,144)**	**–**	**(1,144)**
Capital reduction through SYD distribution		**(793)**	**(72)**	**–**	**(865)**	**–**	**(865)**
Other equity movements:							
MEREP expense	29	–	**257**	**–**	**257**	**–**	**257**
Transfer from share-based payments reserve:							
- to retained earnings	29	**–**	**(97)**	**97**	**–**	**–**	**–**
- to other liabilities for cash settled awards	29	**–**	**(9)**	**–**	**(9)**	**–**	**(9)**
- to equity for equity settled awards	28,29	**195**	**(195)**	**–**	**–**	**–**	**–**
		(790)	**(116)**	**(1,047)**	**(1,953)**	**–**	**(1,953)**
Balance at 31 March 2014		**7,852**	**559**	**3,556**	**11,967**	**–**	**11,967**

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	Company 2014 $m	Company 2013 $m
Cash flows (used in)/from operating activities					
Interest received		**4,350**	4,503	**339**	292
Interest and other costs of finance paid		**(2,901)**	(3,274)	**(410)**	(396)
Dividends and distributions received		**214**	248	**810**	1,262
Fees and other non-interest income received		**4,686**	4,249	**16**	–
Fees and commissions paid		**(782)**	(769)	**–**	–
Net (payments)/proceeds from trading portfolio assets and other financial assets/liabilities		**(2,067)**	857	**–**	–
Payments to suppliers		**(646)**	(1,063)	**–**	(7)
Employment expenses paid		**(3,122)**	(3,034)	**(4)**	(3)
Income tax paid		**(336)**	(843)	**(115)**	(83)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		**1,191**	2,029	**–**	–
Life investment contract payments and payments for investment assets		**(1,123)**	(1,965)	**–**	–
Net loan assets granted		**(7,793)**	(4,056)	**(1,209)**	337
Recovery of loans previously written off	2	**17**	15	**–**	–
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**8,169**	2,050	**929**	(953)
Net cash flows (used in)/from operating activities	30	**(143)**	(1,053)	**356**	449
Cash flows from investing activities					
Net proceeds from investment securities available for sale		**4,188**	1,160	**–**	–
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**565**	1,045	**–**	–
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(729)**	(1,224)	**–**	–
Proceeds from the disposal of property, plant and equipment, lease assets and intangible assets		**156**	173	**–**	–
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		**(691)**	(553)	**–**	–
Return of capital from a subsidiary		**–**	–	**–**	550
Net cash flows from investing activities		**3,489**	601	**–**	550

[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	Company 2014 $m	Company 2013 $m
Cash flows used in financing activities					
Proceeds from the issue of ordinary shares	28	**15**	3	**15**	3
Proceeds from non-controlling interests		**103**	32	**–**	–
Proceeds from issue of subordinated debt		**359**	1	**600**	–
Repayment of convertible preference shares subordinated debt		**(359)**	(300)	**–**	–
Dividends and distributions paid		**(787)**	(540)	**(755)**	(509)
Payments for buyback and cancellation of ordinary shares	28	**–**	(251)	**–**	(251)
Payments for acquisition of treasury shares	28	**(216)**	(242)	**(216)**	(242)
Net cash flows used in financing activities		**(885)**	(1,297)	**(356)**	(999)
Net increase/(decrease) in cash and cash equivalents		**2,461**	(1,749)	**–**	–
Cash and cash equivalents at the beginning of the financial year		**13,079**	14,828	**–**	–
Cash and cash equivalents at the end of the financial year	30	**15,540**	13,079	**–**	–

(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 financial years presented, unless otherwise stated.

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Company and its subsidiaries (Consolidated Entity) and the consolidated financial report such as:

- fair value of financial assets and liabilities (note 39);
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (notes 1(xii), 1(xiv), 11 and 15);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xiii), 15 and 43);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of structured entities (notes 1(ii) and 36);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 18); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvii) and 16).

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

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

Note 1
Summary of significant accounting policies

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.

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 Company 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 Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to 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 Company 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 NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

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

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

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

(iv) Segment reporting

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

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

Note 1
Summary of significant accounting policies continued

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items 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 to the foreign currency translation reserve through OCI. When a foreign operation is disposed of or any borrowings forming part of the net investment are repaid, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

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

(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 Company's right to receive the dividend is established.

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

- whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital;

- whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;
- 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 when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled under currently enacted tax law.

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

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

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

Tax consolidation

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

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

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

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

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.

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

Note 1
Summary of significant accounting policies continued

(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 profits or losses immediately when the derivative is recognised.

(xi) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 39. 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).

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

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

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

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

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

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

Note 1
Summary of significant accounting policies continued

(xiv) Impairment continued

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.

(xv) Life insurance business

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

Disclosure

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

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xvi) Property, plant and equipment

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

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

Buildings	2.5 to 3.3 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.

(xvii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Licences and trading rights are 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.

(xviii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xix) Provisions

Employee benefits

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

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

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

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

Dividends

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

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

Note 1
Summary of significant accounting policies continued

(xx) Earnings per share

Basic earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

Refer to note 6 for information concerning the classification of securities.

(xxi) Performance based remuneration

Share-based payments

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

Performance hurdles attached to options and Performance Share Units (PSUs) under the MEREP 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 relating to the MEREP plan 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 the Company's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

– interest rate to maturity: 3.33 per cent;
– expected vest dates of PSU: 1 July 2016 and 3 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 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, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

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

Profit share remuneration

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

(xxii) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxiii) 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.

(xxiv) 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.

(xxv) 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 amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost).

(xxvi) 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.

(xxvii) 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.

(xxviii) Comparatives

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

(xxix) Rounding of amounts

The Company 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	Company 2014 $m	Company 2013 $m

Note 2
Profit for the financial year

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Net interest income				
Interest and similar income received/receivable	**4,611**	4,649	**339**	292
Interest expense and similar charges paid/payable	**(2,906)**	(3,282)	**(410)**	(366)
Net interest income/(expense)	**1,705**	1,367	**(71)**	(74)
Fee and commission income				
Base fees	**1,289**	1,019	**–**	–
Performance fees	**219**	164	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**809**	659	**–**	–
Brokerage and commissions	**903**	811	**–**	–
Other fee and commission income	**633**	726	**9**	–
Total fee and commission income	**3,853**	3,379	**9**	–
Net trading income [(1)]				
Equities	**382**	181	**–**	–
Commodities	**1,102**	699	**–**	–
Credit, Interest rate and foreign exchange products	**86**	354	**5**	–
Net trading income	**1,570**	1,234	**5**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**149**	92	**–**	–

(1) Included in net trading income are fair value gains of $484 million (2013: $236 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 principally 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.

Note 2

Profit for the financial year continued

	Consolidated 2014 $m	Consolidated 2013 $m	**Company 2014 $m**	Company 2013 $m
Other operating income and charges				
Net gains/(losses) on sale of investment securities available for sale	**441**	114	**(19)**	–
Impairment charge on investment securities available for sale	**(91)**	(232)	**–**	–
Net gains on sale of associates and joint ventures (note 31)	**61**	208	**–**	–
Impairment charge on interests in associates and joint ventures[1]	**(152)**	(156)	**–**	–
Gain on acquiring, disposing and change in ownership interest in subsidiaries	**26**	24	**–**	
Gain on change of ownership interest[2]	**2**	121	**–**	–
Impairment charge on non-financial assets	**(28)**	(43)	**–**	–
Net operating lease income				
Rental income	**930**	724	**–**	–
Depreciation on operating lease assets (note 14)	**(401)**	(307)	**–**	–
Dividends/distributions received/receivable:			**–**	–
Investment securities available for sale	**208**	142	**–**	–
Subsidiaries (note 31)	**–**	–	**1,128**	1,262
Collective allowance for credit losses provided for during the financial year (note 11)	**(58)**	(3)	**–**	–
Individually assessed provisions:				
Loan assets provided for during the financial year (note 11)	**(119)**	(104)	**–**	–
Other receivables provided for during the financial year	**(32)**	(13)	**–**	–
Recovery of loans previously provided for (note 11)	**11**	12	**–**	–
Recovery of other receivables previously provided for	**7**	–	**–**	–
Loan losses written off	**(62)**	(96)	**–**	–
Recovery of loans previously written off	**17**	15	**–**	–
Other income	**95**	179	**–**	–
Total other operating income and charges	**855**	585	**1,109**	1,262
Net operating income	**8,132**	6,657	**1,052**	1,188

(1) Includes impairment reversals of $5 million (2013: $46 million).

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

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	**Company 2014 $m**	Company 2013 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(3,217)**	(2,806)	**(4)**	(3)
Share-based payments[1]	**(284)**	(273)	**–**	–
(Provision)/ Reversal of annual leave	**(4)**	6	**–**	–
Reversal of long service leave	**–**	1	**–**	–
Total compensation expense	**(3,505)**	(3,072)	**(4)**	(3)
Other employment expenses including on-costs, staff procurement and staff training	**(231)**	(201)	**–**	–
Total employment expenses	**(3,736)**	(3,273)	**(4)**	(3)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(627)**	(468)	**–**	–
Other fee and commission expenses	**(152)**	(136)	**–**	–
Total brokerage, commission and trading-related expenses	**(779)**	(604)	**–**	–
Occupancy expenses				
Operating lease rentals	**(226)**	(226)	**–**	–
Depreciation: buildings, furniture, fittings and leasehold improvements (note 14)	**(84)**	(93)	**–**	–
Other occupancy expenses	**(72)**	(71)	**–**	–
Total occupancy expenses	**(382)**	(390)	**–**	–
Non-salary technology expenses				
Information services	**(140)**	(132)	**–**	–
Depreciation: equipment (note 14)	**(20)**	(32)	**–**	–
Service provider and other non-salary technology expenses	**(163)**	(96)	**–**	–
Total non-salary technology expenses	**(323)**	(260)	**–**	–
Other operating expenses				
Professional fees	**(257)**	(232)	**–**	–
Auditor's remuneration (note 42)	**(24)**	(24)	**–**	–
Travel and entertainment expenses	**(150)**	(134)	**–**	–
Advertising and promotional expenses	**(67)**	(60)	**–**	–
Communication expenses	**(29)**	(31)	**–**	–
Amortisation of intangibles (note 16)	**(66)**	(62)	**–**	–
Other expenses	**(213)**	(182)	**(3)**	(11)
Total other operating expenses	**(806)**	(725)	**(3)**	(11)
Total operating expenses	**(6,026)**	(5,252)	**(7)**	(14)

(1) Includes $27 million (2013: $31 million) of share based payment expense for cash settled awards.

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six 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.

Macquarie Capital comprises the Consolidated Entity's corporate advisory, equity underwriting and debt structuring and distribution businesses, private equity placements and principal products.

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 revenue and results by reportable segment for the financial year:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income/(expense)	**(23)**	**663**	**738**
Fee and commission income/(expense)	**1,720**	**36**	**576**
Share of net profits of associates and joint ventures accounted for using the equity method	**103**	**2**	**1**
Other operating income and charges			
Impairment charges and provisions, net of recoveries	**4**	**(85)**	**(47)**
Other other operating income and charges	**108**	**576**	**47**
Internal management revenue/(charge)	**16**	**15**	**5**
Net operating income	**1,928**	**1,207**	**1,320**
Total operating expenses	**(877)**	**(381)**	**(1,060)**
Profit/(loss) before tax	**1,051**	**826**	**260**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**1,051**	**826**	**260**
Reportable segment assets	**8,582**	**26,543**	**29,612**
Net interest and trading income/(expense)	–	579	642
Fee and commission income/(expense)	1,442	41	645
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	36	(3)	3
Other operating income and charges			
Impairment charges and provisions, net of recoveries	(35)	(58)	(44)
Other other operating income and charges	55	485	36
Internal management revenue/(charge)	16	8	9
Net operating income	1,514	1,052	1,291
Total operating expenses	(760)	(358)	(1,048)
Profit/(loss) before tax	754	694	243
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Net profit/(loss) attributable to ordinary equity holders	755	694	243
Reportable segment assets	9,137	23,405	26,073

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
				Consolidated 2014
234	**(35)**	**1,580**	**118**	**3,275**
633	**727**	**162**	**(1)**	**3,853**
–	**18**	**23**	**2**	**149**
(5)	**(48)**	**(208)**	**(118)**	**(507)**
2	**148**	**132**	**349**	**1,362**
1	**7**	**(7)**	**(37)**	**–**
865	**817**	**1,682**	**313**	**8,132**
(758)	**(548)**	**(956)**	**(1,446)**	**(6,026)**
107	**269**	**726**	**(1,133)**	**2,106**
–	**–**	**–**	**(827)**	**(827)**
–	**11**	**–**	**(25)**	**(14)**
107	**280**	**726**	**(1,985)**	**1,265**
26,015	**2,885**	**44,811**	**15,456**	**153,904**
				Consolidated 2013
132	(59)	1,174	133	2,601
502	586	171	(8)	3,379
–	13	28	15	92
(1)	(63)	(249)	(170)	(620)
24	178	162	265	1,205
6	10	17	(66)	–
663	665	1,303	169	6,657
(713)	(519)	(740)	(1,114)	(5,252)
(50)	146	563	(945)	1,405
–	–	–	(533)	(533)
–	4	–	(26)	(21)
(50)	150	563	(1,504)	851
20,640	2,841	43,413	19,239	144,748

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 real estate/ property development; and

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2014
Revenues from external customers	**2,507**	**3,119**	**2,023**	**4,384**	**12,033**
					Consolidated 2013
Revenues from external customers	2,301	3,281	1,593	3,790	10,965

(iii) Geographical areas

Geographical segments have been determined based upon 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	**5,513**	**2,024**
Americas	**3,584**	**2,556**
Europe, Middle East and Africa	**2,012**	**5,207**
Asia Pacific	**924**	**369**
Total	**12,033**	**10,156**
		Consolidated 2013
Australia	5,091	1,417
Americas	3,254	2,551
Europe, Middle East and Africa	1,902	4,829
Asia Pacific	718	360
Total	10,965	9,157

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment and property held for sale and development.

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 4

Income tax expense

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
(i) Income tax (expense)/benefit				
Current tax expense	**(321)**	(255)	**(21)**	(4)
Deferred tax (expense)/benefit	**(506)**	(278)	**36**	27
Total	**(827)**	(533)	**15**	23
(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable				
Prima facie income tax expense on operating profit[1]	**(632)**	(422)	**(314)**	(352)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**(179)**	(77)	**4**	2
Intra-group dividend	**–**	–	**338**	379
Other items	**(16)**	(34)	**(13)**	(6)
Total income tax (expense)/benefit	**(827)**	(533)	**15**	23
(iii) Tax (expense)/benefit relating to items of other comprehensive income				
Available for sale reserve	**(38)**	(99)	**–**	–
Cash flow hedges	**(11)**	5	**–**	–
Foreign currency translation reserve	**(31)**	(52)	**–**	–
Share of other comprehensive income of associates and joint ventures	**(6)**	(7)	**–**	–
Total tax (expense)/benefit relating to items of other comprehensive income	**(86)**	(153)	**–**	–
(iv) Deferred tax (expense) represents movements in deferred tax assets/liabilities				
Investments in subsidiaries, associates, securities available for sale and joint ventures	**(111)**	93	**–**	–
Fixed assets	**5**	(23)	**–**	–
Leasing and financial instruments	**(198)**	(170)	**(77)**	(84)
Intangible assets	**(15)**	(19)	**–**	–
Other assets and liabilities	**(22)**	(203)	**27**	(9)
Tax Losses	**(165)**	44	**86**	120
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	**(506)**	(278)	**36**	27

[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, Macquarie Group received amended assessments from the Australian Tax Office (ATO), which cover a range of items. A number of these matters have been resolved.

In accordance with ATO practice, the Group 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.

Macquarie has considered its position with respect to the unresolved matters 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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
(i) Dividends paid or provided for				
Ordinary share capital and exchangeable shares				
2013 final dividend paid ($1.25 (2012: $0.75) per share)(1)	**420**	259	**419**	258
2014 interim dividend paid ($1.00 (2013: $0.75) per share)(2),(3)	**345**	252	**336**	251
2014 special dividend paid(4)	**395**	–	**389**	–
Dividends reversed	**(1)**	(2)	**–**	(4)
Total dividends paid or provided for (note 29)	**1,159**	509	**1,144**	505

(1) Final dividend paid by the Consolidated Entity includes $1 million (2013: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in note 28—Contributed equity.

(2) Interim dividend paid by the Consolidated Entity includes $8 million of dividend equivalent amount paid in the current year to Deferred Share Units (DSUs) holders as described in note 33—Employee equity participation.

(3) Interim dividend paid by the Consolidated Entity includes $1 million (2013: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in note 28–Contributed equity.

(4) On 12 December 2013, MGL shareholders approved 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 ordinary share (Refer to note 28 - Contributed equity for further details on capital reduction and share consolidation). Eligible MGL ordinary shareholders received one SYD Security for each MGL ordinary share held. The carrying value of SYD securities on approval date (12 December 2013) was $3.77 per share and at settlement date (13 January 2014) was $3.73 per share. The special dividend component of the SYD Distribution was $1.1563 per ordinary share The amount paid by the Consolidated Entity includes $2 million paid to the holders of the exchangeable shares and $4 million to DSU holders.

The final, interim and special dividend paid during the financial year was 40 per cent franked based on tax paid at 30 per cent (full year to 31 March 2013: unfranked). The dividends paid to holders of exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in note 28—Contributed equity.

(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 the 2014 final dividend of $1.60 per fully paid ordinary share, 40 per cent franked based on tax paid at 30 per cent. The aggregate amount of the proposed dividend expected to be paid on 2 July 2014 from retained profits at 31 March 2014, but not recognised as a liability at the end of the financial year, is $509 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of $6 million to be received on treasury shares (refer to note 28—Contributed equity for further details of these instruments)). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2014.

	Consolidated 2014	Consolidated 2013	Company 2014	Company 2013
			Dividend per ordinary share	
Cash dividend per ordinary share (distribution of current year profits)	**$2.60**	$2.00	**$2.60**	$2.00

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2013: 30 per cent)	**250**	297	**250**	297

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

– franking credits that will arise from the payment of income tax payable as at the end of the financial year, and
– franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

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

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to note 29—Reserves, retained earnings and non-controlling interests for further details on these instruments. No dividends are payable under the preference shares until Macquarie Bank Limited (MBL), a subsidiary, exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise, dividends on the preference shares are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided for)	**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. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity.

Note 6

Earnings per share

	Consolidated 2014	Consolidated 2013
	Cents per share	
Basic earnings per share	**383.6**	251.2
Diluted earnings per share	**369.2**	246.1
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m
Profit after income tax	**1,279**	872
Add (profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	**(18)**	(21)
Macquarie Income Preferred Securities	**(4)**	(4)
Other non-controlling interests	**8**	4
Total profit attributable to ordinary equity holders of MGL	**1,265**	851
Less profit attributable to participating unvested MEREP awards	**(91)**	(61)
Total earnings used in the calculation of basic earnings per share	**1,174**	790
Add back adjusted interest expense on Macquarie Group Capital Notes	**14**	–
Add back adjusted interest expense on Macquarie Convertible Preference Securities[1]	**7**	35
Add back adjusted interest expense on Exchangeable Capital Securities	**9**	13
Add back profit attributable to dilutive participating unvested MEREP awards	**73**	39
Total earnings used in the calculation of diluted earnings per share	**1,277**	877

(1) The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.

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	Consolidated 2014	Consolidated 2013

Note 6
Earnings per share continued

	Number of shares	
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share[1]	**306,081,657**	314,518,789
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid externally held ordinary shares	**306,081,657**	314,518,789
Potential ordinary shares:		
Weighted average options	**38,425**	26,883
Weighted average Macquarie Group Capital Notes	**8,837,685**	–
Weighted average Macquarie Convertible Preference Securities[2]	**3,222,037**	16,167,729
Weighted average Exchangeable Capital Securities	**5,067,970**	6,800,228
Weighted average unvested MEREP awards	**22,645,659**	18,781,003
Weighted average retention securities and options	**–**	59,457
Total weighted average number of externally held ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**345,893,433**	356,354,089

(1) The overall impact of the SYD distribution was that of a share repurchase at fair value, therefore no adjustment has been made to financial year ended 31 March 2013. Refer to note 5 - Dividends and distributions paid or provided for.

(2) The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The exercise price used in this assessment incorporates the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 32,847 (2013: 2,372) options that were converted, lapsed or cancelled during the period. There are a further 64,635 (2013; 8,806,873) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the financial year ended 31 March 2014 and consequently, they are not considered to be dilutive.

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

Macquarie Group Employee Retained Equity Plan

In December 2009, the Company's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP).

Vested MEREP awards are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of vesting.

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average unvested MEREP awards are 3,884,630 (2013: 1,874,531) awards that were vested, lapsed or cancelled during the period. As at 31 March 2014, a further 48,518 (2013: 68,591) MEREP awards have not been included in the balance of weighted average unvested MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer note 28—Contributed Equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Retention Securities and Options

Retention securities and options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The fair value of these securities and options are amortised over the vesting period.

Note 6

Earnings per share continued

Exchangeable Capital Securities

Exchangeable Capital Securities (ECS) (refer to note 27 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued $6 million Macquarie Convertible Preference Securities (CPS) at face value of $100 each. These instruments were potentially convertible to Macquarie ordinary shares and were redeemed during the year ended 31 March 2014. The CPS have not been included in the determination of basic earnings per share and have been included in diluted earnings per share until their date of redemption to the extent to which they are dilutive based on the conversion features measured at their date of redemption.

Macquarie Group Capital Notes

Macquarie Group Capital Notes (MCN) (refer to note 27—Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. The securities have not been included in the determination of basic earnings per share.

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	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 7
Receivables from financial institutions

Cash and other receivables[1]	**8,695**	8,523	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements[2]	**10,762**	6,283	**–**	–
Total receivables from financial institutions[3]	**19,457**	14,806	**–**	–

(1) Included within this balance is $64 million (2013: $92 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 $11,679 million (2013: $6,665 million), which is generally sold or re-pledged.
(3) Margin monies placed of $1,710 million have been reclassed to note 11- Loan assets held at amortised cost for the Consolidated Entity 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.

Note 8
Trading portfolio assets

Equities				
Listed	**7,990**	6,831	**–**	–
Unlisted	**33**	31	**–**	–
Commonwealth government securities	**5,707**	5,601	**–**	–
Commodities	**4,506**	2,261	**–**	–
Corporate securities	**2,190**	2,218	**–**	–
Foreign government securities	**1,756**	1,756	**–**	–
Treasury notes	**173**	252	**–**	–
Promissory notes	**59**	132	**–**	–
Bank bills	**40**	54	**–**	–
Other government securities[1]	**8**	640	**–**	–
Total trading portfolio assets[2],[3]	**22,462**	19,776	**–**	–

(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 $617 million (2013: $1,005 million).
(3) Included within this balance are assets of $7,470 million (2013: $6,993 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.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 9

Investment securities available for sale

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Equity securities				
Listed	**771**	2,236	**–**	–
Unlisted	**1,234**	920	**–**	–
Debt securities[1],[2]	**12,046**	13,901	**–**	–
Total investment securities available for sale[3]	**14,051**	17,057	**–**	–

[1] Included within this balance is $3,909 million (2013: $3,357 million) of Negotiable Certificates of Deposits (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 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, $5,805 million (2013: $6,217 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 10

Other assets

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Security settlements[1]	**6,094**	5,567	**–**	–
Debtors and prepayments	**4,721**	4,455	**23**	6
Life investment contracts and other unitholder assets[2]	**1,113**	1,210	**–**	–
Income tax receivable	**726**	741	**247**	150
Property held for sale and development	**175**	245	**–**	–
Other	**161**	179	**–**	–
Total other assets[3]	**12,990**	12,397	**270**	156

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

[2] In the year ended 31 March 2013, Life investment contracts and other unitholder assets were disclosed as a separate line item in the statement of financial position.

[3] Included within this balance is $53 million (2013: $259 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, $12,654 million (2013: $11,973 million) and $270 million (2013: $156 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and by the Company.

Notes to the financial statements
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continued

Note 11
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	**16,785**	**(260)**	**16,525**	14,164	(214)	13,950
Lease and retail financing	**11,082**	**(72)**	**11,010**	9,740	(85)	9,655
Margin money placed	**5,342**	**–**	**5,342**	5,220	–	5,220
Relationship banking mortgages	**1,613**	**–**	**1,613**	1,244	–	1,244
Investment and insurance premium lending	**1,450**	**(14)**	**1,436**	1,464	(13)	1,451
Total loan assets before collective allowance for credit losses	**59,379**	**(359)**	**59,020**	51,368	(335)	51,033
Less collective allowance for credit losses			**(308)**			(240)
Total loan assets held at amortised cost[(1),(2),(3)]			**58,712**			50,793

(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 $3,508 million (2013: $2,251 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, $15,292 million (2013: $15,450 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

There are no loan assets held at amortised cost in the Company.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 11

Loan assets held at amortised cost continued

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**335**	389	**–**	–
Provided for during the financial year (note 2)	**119**	104	**–**	–
Loan assets written off, previously provided for	**(116)**	(141)	**–**	–
Recovery of loans previously provided for (note 2)	**(11)**	(12)	**–**	–
Transfer from other provisions	**10**	–	**–**	–
Impact of foreign currency translation	**22**	(5)	**–**	–
Balance at the end of the financial year	**359**	335	**–**	–
Individually assessed provisions as a percentage of total gross loan assets	**0.60%**	0.65%	**–**	–
Collective allowance for credit losses				
Balance at the beginning of the financial year	**240**	238	**–**	–
Provided for during the financial year (note 2)	**58**	3	**–**	–
Transfer from other provisions	**1**	–	**–**	–
Impact of foreign currency translation	**9**	(1)	**–**	–
Balance at the end of the financial year	**308**	240	**–**	–

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 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	**1,812**	**(219)**	**1,593**	1,996	(213)	1,783
Later than one year and no later than five years	**4,523**	**(531)**	**3,992**	4,106	(510)	3,596
Later than five years	**269**	**(79)**	**190**	97	(34)	63
Total finance lease receivables	**6,604**	**(829)**	**5,775**	6,199	(757)	5,442

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 12
Impaired financial assets

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	7	9	–	–
Less individually assessed provisions for impairment	(6)	(7)	–	–
Debt investment securities available for sale after individually assessed provisions for impairment	1	2	–	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	848	828	–	–
Less individually assessed provisions for impairment	(434)	(415)	–	–
Loan assets and other financial assets after individually assessed provisions for impairment	414	413	–	–
Total net impaired financial assets	415	415	–	–

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Investment securities				
Equity securities	1,342	2,378	–	–
Debt securities	538	1,177	–	–
Loan assets	974	1,478	–	–
Total other financial assets at fair value through profit or loss[1]	2,854	5,033	–	–

[1] Included within this balance is $867 million (2013: $595 million) provided as security over payables to other financial institutions.

Of the above amounts, $1,222 million (2013: $2,340 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 14
Property, plant and equipment

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Assets for own use				
Land and buildings				
Cost	**290**	185	**–**	–
Less accumulated depreciation	**(8)**	(7)	**–**	–
Total land and buildings	**282**	178	**–**	–
Furniture, fittings and leasehold improvements				
Cost	**584**	675	**–**	–
Less accumulated depreciation	**(396)**	(379)	**–**	–
Total Furniture, fittings and leasehold improvements	**188**	296	**–**	–
Equipment				
Cost	**163**	186	**–**	–
Less accumulated depreciation	**(142)**	(164)	**–**	–
Total equipment	**21**	22	**–**	–
Infrastructure assets				
Cost	**100**	14	**–**	–
Less accumulated depreciation	**(4)**	(2)	**–**	–
Total infrastructure assets	**96**	12	**–**	–
Total assets for own use	**587**	508	**–**	–
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	**–**	–
Others				
Cost	**429**	340	**–**	–
Less accumulated depreciation	**(120)**	(69)	**–**	–
Total others	**309**	271	**–**	–
Total assets under operating lease	**5,724**	5,135	**–**	–
Total property, plant and equipment	**6,311**	5,643	**–**	–

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

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Note 14
Property, plant and equipment continued

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

Assets for own use	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Balance at 1 April 2012	36	374	51	13	474
Acquisitions	159	37	10	–	206
Disposals	–	(8)	(4)	–	(12)
Reclassification	–	1	(1)	–	–
Impairments	(16)	(9)	–	(1)	(26)
Foreign exchange movements	–	(7)	(2)	–	(9)
Depreciation expense (note 2)	(1)	(92)	(32)	–	(125)
Balance at 31 March 2013	**178**	**296**	**22**	**12**	**508**
Acquisitions	**101**	**53**	**18**	**93**	**265**
Disposals	**–**	**(109)**	**(1)**	**–**	**(110)**
Reclassification	**6**	**(2)**	**–**	**(4)**	**–**
Impairments	**(2)**	**–**	**–**	**–**	**(2)**
Foreign exchange movements	**1**	**31**	**2**	**(4)**	**30**
Depreciation expense (note 2)	**(2)**	**(81)**	**(20)**	**(1)**	**(104)**
Balance at 31 March 2014	**282**	**188**	**21**	**96**	**587**

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 $13 million (2013: $80 million).

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at 1 April 2012	3,419	655	460	227	4,761
Acquisitions	72	84	677	125	958
Disposals	(135)	–	(25)	(26)	(186)
Reclassification	(33)	32	–	(3)	(4)
Foreign exchange movements	(17)	(34)	(33)	(3)	(87)
Depreciation expense (note 2)	(160)	(77)	(21)	(49)	(307)
Balance at 31 March 2013	**3,146**	**660**	**1,058**	**271**	**5,135**
Acquisitions	**110**	**176**	**1**	**90**	**377**
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).

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 14

Property, plant and equipment continued

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Assets under operating lease				
Not later than one year	**597**	577	**–**	–
Later than one year and no later than five years	**1,145**	1,203	**–**	–
Later than five years	**138**	183	**–**	–
Total future minimum lease payments receivable	**1,880**	1,963	**–**	–

Note 15

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Loans and investments without provisions for impairment	**2,074**	1,911	**–**	–
Loans and investments with provisions for impairment	**1,052**	720	**–**	–
Less provisions for impairment	**(679)**	(583)	**–**	–
Loans and investments at recoverable amount	**373**	137	**–**	–
Total interests in associates and joint ventures accounted for using the equity method[(1),(2)]	**2,447**	2,048	**–**	–

(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 $2,252 million (2013: $1,804 million) relating to interests in associates and $195 million (2013: $244 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.

(i) Financial information of associates and joint ventures that are individually immaterial is as follows:

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Consolidated Entity's share of:				
Profit or loss from continuing operations	**141**	92	**–**	–
Post-tax profit or loss from discontinued operations	**8**	–	**–**	–
Other comprehensive income	**19**	(4)	**–**	–
Total comprehensive income	**168**	88	**–**	–

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Share incurred jointly with other investors	**17**	24	**–**	–
For which the Consolidated Entity is severally liable	**19**	12	**–**	–

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	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 16
Intangible assets

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Goodwill	**653**	613	**–**	–
Intangible assets with indefinite lives	**242**	243	**–**	–
Customer and servicing contracts	**119**	121	**–**	–
Other identifiable intangible assets	**207**	244	**–**	–
Total intangible assets	**1,221**	1,221	**–**	–

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

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	693	246	146	266	1,351
Acquisitions	–	–	2	68	70
Reclassifications	(1)	–	–	1	–
Adjustments to purchase consideration[1]	(1)	–	–	2	1
Disposals	(67)	–	(2)	(14)	(83)
Impairment	–	–	(3)	(27)	(30)
Amortisation expense (note 2)	–	–	(20)	(42)	(62)
Currency translation difference	(11)	(3)	(2)	(10)	(26)
Balance at 31 March 2013	**613**	**243**	**121**	**244**	**1,221**
Acquisitions	**20**	**–**	**–**	**41**	**61**
Reclassifications	**2**	**–**	**5**	**(6)**	**1**
Adjustments to purchase consideration[1]	**1**	**–**	**–**	**3**	**4**
Disposals	**(49)**	**(28)**	**–**	**(38)**	**(115)**
Impairment	**–**	**–**	**(1)**	**(20)**	**(21)**
Amortisation expense (note 2)	**–**	**–**	**(23)**	**(43)**	**(66)**
Currency translation difference	**66**	**27**	**17**	**26**	**136**
Balance at 31 March 2014	**653**	**242**	**119**	**207**	**1,221**

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

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

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

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

Fair value less costs 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.

Note 17
Investments in subsidiaries

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Investments at cost without provisions for impairment	**–**	–	**11,096**	11,091
Investments at cost with provisions for impairment	**–**	–	**14,058**	15,044
Less provisions for impairment	**–**	–	**(13,165)**	(13,163)
Investments at recoverable amount	**–**	–	**893**	1,881
Total investments in subsidiaries	**–**	–	**11,989**	12,972

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

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

- Delaware Management Company (United States)
- Delaware Management Company, Inc. (United States)
- Delaware Management Holdings, Inc. (United States)
- Macquarie (Asia) PTE Ltd. (Taiwan)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Agricultural Funds Management Ltd (Australia)
- Macquarie Airfinance Acquisitions Holdings Ltd. (Bermuda)
- Macquarie Airfinance Warehouse (No. 1) Limited (Bermuda)
- Macquarie Alpine Inc. (United States)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie B.H. Pty Ltd (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Singapore) PTE. Limited (Singapore)
- Macquarie Capital Group Limited (Australia)
- Macquarie Capital Securities (Singapore) PTE. Limited (Singapore)
- Macquarie Capital Securities Limited (Hong Kong)
- Macquarie Commodities Holdings (USA) LLC (United States)
- Macquarie Corporate And Asset Finance Limited (Australia)
- Macquarie Credit Nexus Master Fund Limited (Cayman Islands)
- Macquarie Energy LLC (United States)
- Macquarie European Investment Holdings Limited (United Kingdom)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Limited (Australia)
- 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 Group (US) Holdings No.1 Pty Ltd (Australia)
- Macquarie Group Services Australia Pty Ltd (Australia)
- Macquarie Holdings (U.S.A.) Inc. (United States)
- Macquarie Infrastructure And Real Assets Inc. (United States)
- Macquarie Infrastructure Management (Asia) Pty Limited (Australia)
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie International Holdings Limited (United Kingdom)
- Macquarie Internationale Investments Limited (United Kingdom)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Prism Pty Limited (Australia)
- Macquarie Real Estate Inc (United States)
- Macquarie Securities South Africa Limited (South Africa)
- Macquarie Services (USA) Partners (United States)
- Map Holding Trust (Australia)
- Meadowlark Capital LLC (United States)
- MIHI 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, 12-1311, 13-0151, 13-0394 and 13-0500, Macquarie Group 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.
- Texas Municipal Gas Acquisition and Supply Corporation III
- Energia del Norte Holding S.A.P.I. de C.V. and Cefiro Capital S.A.P.I de C.V. SOFOM E.N.R.

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 Group, the results and balances included in the consolidation are at the reporting date of 31 March.

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continued

Note 18
Deferred tax assets/(liabilities)

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**622**	546	**16**	(11)
Tax losses	**491**	653	**77**	181
Investments in subsidiaries, securities available for sale, associates and joint ventures	**153**	309	**–**	–
Fixed assets	**108**	103	**–**	–
Set-off of deferred tax liabilities	**(608)**	(341)	**50**	127
Total deferred tax assets	**766**	1,270	**143**	297
Intangible assets	**(137)**	(122)	**–**	–
Other assets and liabilities	**(193)**	(197)	**–**	–
Leasing and financial instruments	**(829)**	(564)	**50**	127
Set-off of deferred tax assets	**608**	341	**(50)**	(127)
Total deferred tax liabilities	**(551)**	(542)	**–**	–
Net deferred tax assets	**215**	728	**143**	297

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

Potential tax assets of approximately $33 million (2013: $63 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 within the same tax paying entity.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 19
Trading portfolio liabilities

Listed equity securities	**1,888**	1,057	**–**	–
Corporate securities	**396**	187	**–**	
Foreign government securities	**363**	253	**–**	–
Commodities	**115**	–	**–**	–
Total trading portfolio liabilities	**2,762**	1,497	**–**	–

Note 20
Deposits

Interest bearing deposits				
Call	**26,225**	24,409	**–**	–
Term	**9,491**	10,451	**33**	38
Client monies, segregated fund and margin money held	**5,527**	5,327	**–**	–
Non-interest bearing deposits	**1,158**	916	**–**	–
Total deposits	**42,401**	41,103	**33**	38

Note 21
Other liabilities

Due to brokers and customers	**6,343**	5,949	**–**	–
Creditors	**4,269**	4,423	**6**	–
Accrued charges and sundry provisions	**1,921**	1,677	**68**	52
Life insurance contracts and other unitholder liabilities(1)	**1,084**	1,181	**–**	–
Income tax payable	**74**	70	**–**	–
Other	**217**	272	**–**	–
Total other liabilities	**13,908**	13,572	**74**	52

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

Note 22
Payables to financial institutions

Cash collateral on securities lent and repurchase agreements	**13,564**	10,495	**–**	–
OECD banks	**4,128**	4,866	**1,307**	2,370
Other	**1,962**	2,714	**–**	–
Total payables to financial institutions	**19,654**	18,075	**1,307**	2,370

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

Equity linked notes	**1,084**	1,663	**–**	–
Credit linked notes	**297**	–	**–**	–
Debt issued at fair value	**83**	41	**–**	–
Total other financial liabilities at fair value through profit or loss	**1,464**	1,704	**–**	–

Notes to the financial statements
for the financial year ended 31 March 2014
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	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

Note 24
Debt issued at amortised cost

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Debt issued at amortised cost[1]	**45,565**	38,014	**6,265**	4,269
Total debt issued at amortised cost	**45,565**	38,014	**6,265**	4,269

[1] Included within this balance are amounts payable to SPE note holders and debt 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	Company 2014 $m	Company 2013 $m
United States dollars	**23,912**	18,951	**5,710**	3,644
Australian dollars	**12,056**	9,085	**65**	139
Canadian dollars	**3,932**	5,868	**–**	–
Japanese yen	**1,998**	2,292	**490**	486
Euro	**1,691**	604	**–**	–
Swiss franc	**1,138**	1,004	**–**	–
Great British pounds	**1,090**	442	**–**	–
South African rand	**636**	592	**–**	–
Korean won	**262**	431	**–**	–
Hong Kong dollars	**174**	250	**–**	–
Singapore dollars	**104**	76	**–**	–
Others	**36**	123	**–**	–
Total by currency	**47,029**	39,718	**6,265**	4,269

The Consolidated Entity's primary sources of 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	Company 2014 $m	Company 2013 $m
Provision for annual leave	**109**	107	**–**	–
Provision for long service leave	**81**	82	**–**	–
Provision for other employee entitlements	**9**	18	**–**	–
Provision for dividends	**6**	6	**–**	–
Total provisions	**205**	213	**–**	–

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

Note 26

Capital management strategy

The Company 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.

A subsidiary of the Company, MBL, is accredited by APRA to apply Basel III 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.

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL 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. Level 3 consists of the Level 2 group plus the Non-Bank Group.

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWA) 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. At the Level 3 group, which involves the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

– MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
– the non-ADI group capital requirement, using the Consolidated Entity's ECAM. Transactions internal to the Consolidated Entity are excluded.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.

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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.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie CPS at face value of $100 each. These instruments were non-cumulative and unsecured and were potentially convertible to Macquarie ordinary shares. These instruments were redeemed during the year.

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400 million of US$ denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option, subject to various conditions, on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035.

The Macquarie PMI bear discretionary fixed-rate coupons at 8.375 per cent per annum, paid semi-annually. If coupons are not paid, the Company will be restricted from paying dividends or returning capital on ordinary shares until two full coupon payments have been made.

The total number of MGL preference shares that would be issued if Macquarie PMI were exchanged at 31 March 2014 would be 400,000 (31 March 2013: 400,000).

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, 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, MBL and the Company 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 the Company 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 MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of the Company'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 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 number of 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).

Macquarie Group Capital Notes

On 7 June 2013, the Company issued six million Macquarie Group Capital Notes (MCN) at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances.

MCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 7 June 2021. The MCN may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

The maximum that MCN Holders will receive in the event of an exchange is $101 worth of ordinary shares per MCN held. The total number of ordinary shares that would be issued if MCN were exchanged at 31 March 2014 would be 10,824,681. The maximum number of ordinary shares that can be issued on an exchange is 70,721,358.

The MCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 4.00 percent per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the MCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Note 27

Loan capital continued

Maturity and currency profiles of loan capital instruments

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

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Less than 12 months	**92**	88	**10**	–
12 November 2014	**–**	9	**–**	–
21 September 2020	**968**	808	**–**	–
7 April 2021	**1,160**	1,098	**–**	–
Subordinated debt	**2,220**	2,003	**10**	–
Instruments with conditional repayment obligations:				
Macquarie CPS[1]	**–**	600	**–**	–
MCN[1]	**600**	–	**600**	–
Macquarie PMI	**431**	384	**–**	–
ECS	**270**	240	**–**	–
Loan capital	**3,521**	3,227	**610**	–
Less directly attributable issue cost	**(14)**	(7)	**(9)**	–
Total Loan capital[2]	**3,507**	3,220	**601**	–

Reconciliation of subordinated debt by major currency:
(In Australian dollar equivalent)

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
United States dollars	**1,915**	1,770	**–**	–
Euro	**996**	841	**–**	–
Australian dollars	**610**	616	**610**	–
Loan capital	**3,521**	3,227	**610**	–
Less directly attributable issue cost	**(14)**	(7)	**(9)**	–
Total loan capital[2]	**3,507**	3,220	**601**	–

(1) Accrued interest of $10 million (31 March 2013: $16 million) is included in the less than 12 months principal sum due to lenders.
(2) The balance is net of fair value hedge accounting adjustments.

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

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

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Note 28
Contributed equity

	Consolidated 2014 Number of shares	Consolidated 2013 Number of shares	Consolidated 2014 $m	Consolidated 2013 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**339,506,578**	348,584,383	**6,882**	7,127
Issue of shares on exercise of options	**423,159**	52,676	**12**	2
Issue of shares on exercise of MEREP awards	**65,141**	21,948	**3**	1
Issue of shares on retraction of exchangeable shares at $80.30 per share	**11,774**	379,687	**1**	30
Issue of shares on retraction of exchangeable shares with vesting conditions at $50.80 per share	**136,066**	244,931	**8**	12
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**–**	32,002	**–**	–
Cancellation of shares under the share buyback program in the range of $24.27 to $28.95 per share	**–**	(9,809,049)	**–**	(251)
Capital reduction through SYD distribution[1]	**–**	–	**(803)**	–
Consolidation of one ordinary share into 0.9438 ordinary share[1]	**(19,067,968)**	–	**–**	–
For employee MEREP awards that have vested during the financial year:				
Transfer of MEREP expense from share-based payments reserve	**–**	–	**195**	160
Transfer of excess deferred tax on MEREP expense from share-based payments reserve	**–**	–	**14**	–
Transfer from treasury shares for shares withdrawn	**–**	–	**(237)**	(199)
Closing balance of fully paid ordinary shares	**321,074,750**	339,506,578	**6,075**	6,882

[1] Represents SYD Distribution to ordinary shareholders recognised as return of ordinary share capital and consolidation of ordinary shares on Sydney Airport stapled securities distribution. Refer note 5 - Dividends and distribution paid or provided for.

As at 31 March 2014, 80,879 (2013: 8,725,398) options granted to employees over unissued ordinary shares were on issue, excluding options which cannot be exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 33—Employee equity participation. Disclosures regarding the Company's DRP are included in note 5 – Dividends and distributions paid or provided for.

	Company 2014 Number of shares	Company 2013 Number of shares	Company 2014 $m	Company 2013 $m

Note 28

Contributed equity continued

Ordinary share capital				
Opening balance of fully paid ordinary shares	**339,506,578**	348,584,383	**9,652**	9,919
Issue of shares on exercise of options	**423,159**	52,676	**12**	2
Issue of shares on exercise of MEREP awards	**65,141**	21,948	**3**	1
Issue of shares on retraction of exchangeable shares in the range of $40.43 to $53.62 (31 March 2013: $24.98 to $37.53) per share	**11,774**	379,687	**1**	13
Issue of shares on retraction of exchangeable shares in the range of $45.64 to $55.06 (31 March 2013: $25.29 to $31.16) per share	**136,066**	244,931	**8**	7
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**–**	32,002	**–**	–
Cancellation of shares under the share buyback program in the range of $24.27 to $28.95 per share	**–**	(9,809,049)	**–**	(251)
Capital reduction through SYD distribution[1]	**–**	–	**(793)**	–
Consolidation of one ordinary share into 0.9438 ordinary share[1]	**(19,067,968)**	–	**–**	–
For employee MEREP awards that have vested during the financial year:				
Transfer of MEREP expense from share-based payments reserve	**–**	–	**195**	160
Transfer from treasury shares for shares withdrawn	**–**	–	**(237)**	(199)
Closing balance of fully paid ordinary shares	**321,074,750**	339,506,578	**8,841**	9,652

(1) Represents SYD Distribution to ordinary shareholders recognised as return of ordinary share capital and consolidation of ordinary shares on Sydney Airport stapled securities distribution. Refer note 5 - Dividends and distribution paid or provided for.

	Consolidated 2014 $m	Consolidated 2013[1] $m	Company 2014 $m	Company 2013[1] $m
Treasury shares				
Opening balance of 28,981,801 (1 April 2012: 24,646,608) treasury shares[1]	**(1,011)**	(968)	**(1,010)**	(967)
Purchase of 4,969,737 (31 March 2013: 8,955,127) shares for employee MEREP awards	**(216)**	(242)	**(216)**	(242)
Transfer of 6,345,371 (31 March 2013: 4,619,934) shares withdrawn/exercised for vested MEREP awards	**237**	199	**237**	199
Consolidation of one (31 March 2013: nil) treasury share into 0.9438 treasury share resulting in a reduction of 1,595,061 treasury shares	**–**	–	**–**	–
Purchase of 1,866,577 (31 March 2013: 2,739,543) shares for DRP share issue by the Company	**(81)**	(78)	**(81)**	(78)
Allocation of 1,866,577 (31 March 2013: 2,739,543) shares under DRP scheme by the Company	**81**	78	**81**	78
Purchase of 702,614 (31 March 2013: nil) shares for DRP share issue by the consolidated entity	**(39)**	–	**–**	–
Allocation of 702,614 (31 March 2013: nil) shares under DRP scheme by the consolidated entity	**39**	–	**–**	–
Purchase of nil (31 March 2013: 9,809,049) shares under the share buyback program pending cancellation	**–**	(251)	**–**	(251)
Cancellation of nil (31 March 2013: 9,809,049) shares under the share buyback program	**–**	251	**–**	251
Closing balance of 26,011,106 (31 March 2013: 28,981,801) treasury shares[2]	**(990)**	(1,011)	**(989)**	(1,010)

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

(2) In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share which is held in shares of the Company by the MEREP Trust is presented as Treasury shares. For further information regarding terms and conditions of MEREP refer to note 33—Employee equity participation.

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Note 28
Contributed equity continued

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Exchangeable shares				
Opening balance of 604,206 (1 April 2012: 1,759,522) exchangeable shares	**36**	82	**–**	–
Issue of nil (31 March 2013: 38,118) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis[(1),(2)]	**–**	–	**–**	–
Retraction of 11,774 (31 March 2013: 379,687) exchangeable shares at $80.30 per share, exchangeable to shares in MGL on a one-for-one basis[(3)]	**(1)**	(30)	**–**	–
Retraction of 136,066 (31 March 2013: 244,931) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis	**(8)**	(12)	**–**	–
Cancellation of nil (31 March 2013: 32,060) exchangeable shares at $80.30 per share	**–**	(3)	**–**	–
Cancellation of 8,804 (31 March 2013: 536,756) exchangeable shares at $50.80 per share	**–**	(1)	**–**	–
Closing balance of 447,562 (31 March 2013: 604,206) exchangeable shares	**27**	36	**–**	–

(1) The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation**. They were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. However, subsequent to the approval of consolidation of Macquarie ordinary shares by Macquarie's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

(2) The number of exchangeable shares was determined on 18 July 2012 pursuant to the settlement of the acquisition agreement with Tristone employees. The corresponding prior period value of the exchangeable shares includes a fair value adjustment due to an earn out mechanism.

(3) The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation.* As per terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. However, subsequent to the approval of consolidation of Macquarie ordinary shares by Macquarie's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.

*As per terms of the original agreement.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Contributed equity	**5,112**	5,907	**7,852**	8,642

Note 29

Reserves, retained earnings and non-controlling interests

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(895)**	(777)	**–**	–
Currency translation differences arising during the financial year, net of hedge and tax	**582**	(118)	**–**	–
Balance at the end of the financial year	**(313)**	(895)	**–**	–
Available for sale reserve				
Balance at the beginning of the financial year	**313**	120	**–**	–
Revaluation movement for the financial year, net of tax	**311**	117	**–**	–
Transfer to income statement for impairment, net of tax	**64**	161	**–**	–
Transfer to profit on realisation, net of tax	**(303)**	(85)	**–**	–
Balance at the end of the financial year	**385**	313	**–**	–
Share-based payments reserve				
Balance at the beginning of the financial year	**688**	766	**675**	766
Option (reversal)/expense for the financial year	**–**	(16)	**–**	–
MEREP expense including related tax effect for the financial year	**257**	258	**–**	–
Excess deferred tax on MEREP expense	**53**	13	**–**	–
Options issued to employees of subsidiaries (note 31)	**–**	–	**–**	(16)
MEREP issued to employees of subsidiaries (note 31)	**–**	–	**257**	258
Transfer to retained earnings in respect of expired and lapsed options and forfeited MEREP awards	**(97)**	(173)	**(97)**	(173)
Transfer to other liabilities on vesting of MEREP awards and exercise of options[1]	**(9)**	–	**(9)**	–
Transfer to share capital on vesting of MEREP awards and exercise of options	**(195)**	(160)	**(195)**	(160)
Transfer of excess deferred tax to share capital on vesting of MEREP awards	**(14)**	–	**–**	–
Balance at the end of the financial year	**683**	688	**631**	675
Share-based payments capital reduction reserve[2]				
Balance at the beginning of the financial year	**–**	–	**–**	–
SYD Distribution to MEREP holders	**(72)**	–	**(72)**	–
Balance at the end of the financial year	**(72)**	–	**(72)**	–
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(49)**	(47)	**–**	–
Revaluation movement for the financial year, net of tax	**21**	(2)	**–**	–
Balance at the end of the financial year	**(28)**	(49)	**–**	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	**–**	(18)	**–**	–
Share of other comprehensive income during the financial year	**14**	18	**–**	–
Balance at the end of the financial year	**14**	–	**–**	–
Total reserves at the end of the financial year	**669**	57	**559**	675
Retained earnings				
Balance at the beginning of the financial year	**5,439**	4,924	**3,543**	2,678
Profit attributable to ordinary equity holders of MGL	**1,265**	851	**1,060**	1,197
Dividends paid on ordinary share capital (note 5)	**(1,159)**	(509)	**(1,144)**	(505)
Transfer from share based payments reserves in respect of expired and lapsed options and forfeited MEREP awards	**97**	173	**97**	173
Change in non-controlling ownership interest	**(5)**	–	**–**	–
Balance at the end of the financial year	**5,637**	5,439	**3,556**	3,543

(1) Represents vested MEREP awards settled through cash.

(2) Represents SYD Distribution to the unvested MEREP holders recognised as return of ordinary share capital on Sydney Airport stapled securities distribution. Refer Note 5 - Dividends and distributions paid or provided for.

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

Note 29

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The Macquarie Income Securities issued by MBL were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent per annum (2013: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS, 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 may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. 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	**Company 2014 $m**	Company 2013 $m
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**–**	–
Less transaction costs for original placement	**(9)**	(9)	**–**	–
Total Macquarie Income Securities	**391**	391	**–**	–
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	**28**	63	**–**	–
Preference share capital	**2**	2	**–**	–
Foreign currency translation reserve	**–**	(16)	**–**	–
Retained earnings	**(1)**	52	**–**	–
Total other non-controlling interests	**29**	101	**–**	–
Total non-controlling interests	**496**	552	**–**	–

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m

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	Company 2014 $m	Company 2013 $m
Receivables from financial institutions[1]	**8,362**	8,312	**–**	–
Trading portfolio assets[2]	**538**	307	**–**	–
Debt securities[3]	**4,208**	2,750	**–**	–
Loan asset at amortised cost[4]	**2,432**	1,710	**–**	–
Cash and cash equivalents at the end of the financial year [5]	**15,540**	13,079	**–**	–

(1) Includes cash and other receivables.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes amounts due from clearing houses.
(5) Cash and cash equivalents include $4,172 million (2013: $3,134 million) held by consolidated securitisation vehicles or in segregated deposit fund and escrow account which are restricted for use.

Reconciliation of profit after income tax to net cash flows from/(used in) operating activities

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Profit after income tax	**1,279**	872	**1,060**	1,197
Adjustments to profit after income tax:				
Depreciation and amortisation	**571**	494	**–**	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(301)**	(388)	**–**	–
Provision and impairment charge on financial and non-financial assets	**524**	635	**–**	–
Interest on available for sale financial assets	**(198)**	(132)	**–**	–
Non-cash dividend received	**–**	–	**(318)**	–
Net gains on sale of investment securities available for sale and associates and joint ventures	**(504)**	(443)	**19**	–
Share-based payments expense	**264**	255	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**(149)**	(92)	**–**	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	**-**	–	**(283)**	23
Change in dividends receivable	**(105)**	3	**–**	–
Change in values of associates due to dividends received	**111**	103	**–**	–
Change in fees and non-interest income receivable	**(148)**	(20)	**–**	–
Change in fees and commissions payable	**(3)**	(122)	**–**	–
Change in tax balances	**523**	(310)	**153**	(129)
Change in provisions for employee entitlements	**(7)**	(20)	**–**	–
Change in loan assets	**(7,793)**	(4,056)	**(1,209)**	337
Change in debtors, prepayments, accrued charges and creditors	**1,024**	112	**6**	5
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(3,381)**	24	**–**	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**8,150**	2,032	**928**	(984)
Net cash flows (used in)/from operating activities	**(143)**	(1,053)	**356**	449

Cash flows used in financing activities do not include the non cash transaction related to SYD distribution. Refer note 5 – Dividends and distribution paid or provided for.

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

Note 31
Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services. Significant transactions between the Company and its subsidiaries are disclosed in the relevant notes to the financial statements.

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 Company except when the parties have the legal right and intention to offset.

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

A list of material subsidiaries is set out in note 17 – Investments in subsidiaries.

The Company as the ultimate parent entity of the Macquarie Group, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2014, current tax assets of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to $241 million (2013: $28 million). As at 31 March 2014, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is $391 million (2013: $150 million receivable). This balance is included in Due from subsidiaries in the Company's separate statement of financial position.

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

	Consolidated 2014 $m	Consolidated 2013 $m	**Company 2014 $m**	Company 2013 $m
Interest income received/receivable	**–**	–	**340**	292
Interest expense paid/payable	**–**	–	**(14)**	(19)
Share-based payments to employees of subsidiaries (note 29)	**–**	–	**(257)**	(242)
Dividends and distributions (note 2)	**–**	–	**1,128**	1,262
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**–**	–	**8,711**	6,992
Amounts payable[1]	**–**	–	**(866)**	(828)

[1] As described in note 1(xxi) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2014 of $285 million (2013: $316 million) for amounts received in advance as at 31 March 2014 from subsidiaries for the MEREP offered to their employees and yet to be recognised as a share-based payment expense by the subsidiary. To the extent that the awards vest, this amount will be retained by the Company as compensation for issuing and releasing the shares to the subsidiary employees.

Outstanding balances are unsecured and are repayable in cash.

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 income/(expense) resulted from transactions with associates and joint ventures:

	Consolidated 2014 $m	Consolidated 2013 $m	**Company 2014 $m**	Company 2013 $m
Interest income received/receivable	**2**	–	**–**	–
Fee and commission income[(1)]	**599**	531	**–**	–
Other income	**2**	1	**–**	–
Gains on sale of securities (note 2)[(2)]	**61**	208	**–**	–
Dividends and distributions[(3)]	**101**	103	**–**	–
Brokerage, commission and trading-related expenses	**(5)**	(5)	**–**	–

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

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

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

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 15 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2014 $m	Consolidated 2013 $m	**Company 2014 $m**	Company 2013 $m
Amounts receivable	**488**	648	**–**	–
Amounts payable	**(235)**	(120)	**–**	–

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 Company during the financial years ended 31 March 2014 and 31 March 2013, unless indicated.

Executive Director[(1)]

N.W. Moore	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 Director listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL 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
T.C. Bishop	Group Head, Macquarie Capital
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, United States of America
N. Sorbara	Chief Operating Officer Group Head, Corporate Operations Group (appointed 1 January 2013)
S. Vrcelj	Group Head, Macquarie Securities Group
G.C. Ward	Deputy Managing Director Group Head, Banking and Financial Services Group (appointed 3 May 2013)
S. Wikramanayake	Group Head, Macquarie Funds Group

Former Executives

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

(1) The Chief Executive Officer and all current Executives are members of the Consolidated Entity's Executive Committee as at 2 May 2014.

The principles of compensation for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 73 to 77.

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail 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	**7,489,696**	**23,019,536**	**–**	**30,509,232**	**14,796,950**	**19,933,068**	**11,051,129**	**76,290,379**
2013	7,416,628	18,812,127	–	26,228,755	10,301,772	17,280,256	2,142,308	55,953,091
Non-Executive Remuneration								
2014	**3,598,415**	**–**	**55,900**	**3,654,315**	**–**	**–**	**–**	**3,654,315**
2013	3,275,223	–	31,600	3,306,823	–	–	–	3,306,823

(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(xxi)—Summary of significant accounting policies.

(4) The current year amortisation for PSUs and options calculated as described in note 1 (xxi)—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.

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

Note 32

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of the Company held during the financial year by Key Management Personnel including their related parties, on a Consolidated Entity basis.

For the financial year ended 31 March 2014

Name and position	Number of shares held at 1 April 2013[1]	Share consolidation[2]	Shares received on withdrawal from the MEREP	Other changes[3]	Number of shares held at 31 March 2014[4]
Executive Directors					
N.W. Moore	1,436,317	(86,667)	105,867	–	1,455,517
Non-Executive Directors					
H.K. McCann	13,485	(757)	–	–	12,728
G.R. Banks[5]	–	(84)	–	1,500	1,416
M.J. Coleman	6,577	(377)	–	143	6,343
P.A. Cross[6]	2,169	(233)	–	2,000	3,936
D.J. Grady	3,253	(230)	–	855	3,878
M.J. Hawker	8,603	(594)	–	2,000	10,009
P.M. Kirby	23,198	(1,422)	–	2,137	23,913
H.M. Nugent	21,176	(1,189)	–	–	19,987
N.M. Wakefield Evans[10]	–	–	–	–	–
P.H. Warne	15,821	(888)	–	–	14,933
Former Non-Executive Directors					
C.B. Livingstone[7]	12,000	–	–	–	12,000
J.R. Niland[8]	10,122	(568)	–	–	9,554
Executives					
S.D. Allen	17,599	(1,019)	28,142	(27,599)	17,123
T.C. Bishop	35,710	(922)	42,071	(61,367)	15,492
A.J. Downe	57,536	(1,702)	46,380	(73,620)	28,594
G.A. Farrell	53,055	–	12,101	(65,156)	–
M. McLaughlin	–	–	32,120	(32,120)	–
N. Sorbara	9,942	(558)	2,699	(2,699)	9,384
S. Vrcelj	–	–	25,743	(25,743)	–
G.C. Ward	8,936	–	29,253	(38,189)	–
S. Wikramanayake	355,320	(21,164)	21,286	–	355,442
Former Executives					
P.J. Maher[9]	214	–	–	–	214

(1) Or date of appointment if later.
(2) Consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the record date for the consolidation.
(3) Includes on-market acquisitions and disposals.
(4) Or date of resignation/retirement if earlier.
(5) Mr Banks was appointed to the Board on 1 August 2013. The opening balance represents his holdings at the date of appointment.
(6) Mrs Cross was appointed to the Board on 7 August 2013. The opening balance represents her holdings at the date of appointment.
(7) Ms Livingstone retired from the Board on 25 July 2013 before the share consolidation on 23 December 2013. The balance at 31 March 2014 represents her holdings at the date of retirement from the Board.
(8) Dr Niland retired from the Board on 31 December 2013. The balance at 31 March 2014 represents his holdings at the date of retirement from the Board.
(9) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013 before the share consolidation on 23 December 2013. The balance at 31 March 2014 represents his holdings at that date.
(10) Ms Wakefield Evans was appointed to the Board on 7 February 2014. The opening balance represents her holdings at the date of appointment.

Note 32

Key Management Personnel disclosure continued

Shareholdings of key management personnel and their related parties

For the financial year ended 31 March 2013

Name and position	Number of shares held at 1 April 2012[(1)]	Shares received on withdrawal from the MEREP	Other changes[(2)]	Number of shares held at 31 March 2013[(3)]
Executive Directors				
N.W. Moore	1,366,453	69,864	–	1,436,317
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
M. Coleman[(4)]	2,694	–	3,883	6,577
D.J. Grady	2,114	–	1,139	3,253
M.J. Hawker	8,603	–	–	8,603
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,203	17,396	(38,000)	17,599
T.C. Bishop	84,238	30,059	(78,587)	35,710
A.J. Downe	62,529	16,175	(21,168)	57,536
G.A. Farrell	131,683	4,852	(83,480)	53,055
P.J. Maher	9,634	13,760	(23,180)	214
M. McLaughlin	–	6,748	(6,748)	–
N. Sorbara[(5)]	9,942	–	–	9,942
S. Vrcelj	–	13,038	(13,038)	–
G.C. Ward	8,936	15,295	(15,295)	8,936
S. Wikramanayake	344,910	10,410	–	355,320

(1) Or date of appointment if later.
(2) Includes on-market acquisitions and disposals.
(3) Or date of resignation/retirement if earlier.
(4) Mr Coleman was appointed to the board on 9 November 2012. The opening balance on 1 April 2012 represents his holdings at the date of appointment.
(5) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents her holdings at the date of appointment.

Notes to the financial statements
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continued

Note 32

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties[1]

The following tables set out details of the MEREP RSU awards held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 78 to 81. Further details in relation to the MEREP RSU awards are disclosed in note 33—Employee equity participation.

For the financial year ended 31 March 2014

Name and position	Number of RSU awards held at 1 April 2013	RSU awards granted during the financial year[2]	Vested RSU awards withdrawn from the MEREP during the financial year[3]	RSU awards consolidation[4]	Number of RSU awards held at 31 March 2014[5]
Executive Directors					
N.W. Moore	679,198	97,531	(90,936)	(38,541)	647,252
Executives					
S.D. Allen[6]	193,653	28,736	(22,620)	(11,226)	188,543
T.C. Bishop[7]	206,397	48,003	(35,415)	(12,306)	206,679
A.J. Downe	351,058	61,647	(35,767)	(21,183)	355,755
G.A. Farrell	209,678	48,983	(12,101)	(13,856)	232,704
M. McLaughlin	267,898	30,189	(32,120)	(14,947)	251,020
N. Sorbara	40,609	13,062	(2,699)	(2,864)	48,108
S. Vrcelj	128,680	–	(20,874)	(6,058)	101,748
G.C. Ward	194,615	33,090	(22,957)	(11,506)	193,242
S. Wikramanayake[8]	154,076	38,098	(13,131)	(10,061)	168,982
Former Executives					
P.J. Maher[9]	188,391	–	–	–	188,391

(1) A related party of Mr M.J. Coleman holds RSU awards. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.

(2) As discussed in note 1(xxi)—Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2013.

(3) Vested RSUs transferred to the KMP's shareholding.

(4) Consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the record date for the consolidation.

(5) Or date of resignation/retirement if earlier.

(6) At 31 March 2014, 64,698 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(7) At 31 March 2014, 57,542 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(8) At 31 March 2014, 40,602 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(9) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. The balance at 31 March 2014 represents his holdings at that date.

Note 32

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties[(1)]

For the financial year ended 31 March 2013

Name and position	Number of RSU awards held at 1 April 2012[(2)]	RSU awards granted during the financial year[(3)]	Vested RSU awards withdrawn from the MEREP during the financial year[(4)]	Number of RSU awards held at 31 March 2013[(5)]
Executive Directors				
N.W. Moore	607,290	141,772	(69,864)	679,198
Executives				
S.D. Allen[(6)]	167,449	43,600	(17,396)	193,653
T.C. Bishop[(7)]	203,228	33,228	(30,059)	206,397
A.J. Downe	265,967	101,266	(16,175)	351,058
G.A. Farrell	121,176	93,354	(4,852)	209,678
P.J. Maher	151,518	50,633	(13,760)	188,391
M. McLaughlin	258,851	15,795	(6,748)	267,898
N. Sorbara[(8)]	40,609	–	–	40,609
S. Vrcelj	141,718	–	(13,038)	128,680
G.C. Ward	160,684	49,226	(15,295)	194,615
S. Wikramanayake[(9)]	102,953	61,533	(10,410)	154,076

(1) A related party of Mr M.J. Coleman holds RSU awards. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.

(2) Or date of appointment if later.

(3) As discussed in note 1(xxi) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2012.

(4) Includes vested RSUs transferred to the KMP's shareholding.

(5) Or date of resignation/retirement if earlier.

(6) At 31 March 2013, 76,051 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(7) At 31 March 2013, 65,261 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(8) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents holdings at the date of appointment.

(9) At 31 March 2013, 46,331 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

Notes to the financial statements
for the financial year ended 31 March 2014
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Note 32
Key Management Personnel disclosure continued
MEREP PSU Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP PSU awards held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details in relation to the MEREP PSU awards are disclosed in note 33—Employee equity participation.

For the financial year ended 31 March 2014

Name and position	Number of PSU awards held at 1 April 2013	PSU awards granted during the financial year[(1)]	Vested PSU awards exercised during the financial year	PSU awards not able to be exercised due to performance hurdles not met[(2)]	PSU awards consolidation during the financial year[(3)]	Number of PSU awards held at 31 March 2014[(4)]	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2014
Executive Directors								
N.W. Moore	365,566	82,664	(14,931)	(87,239)	(19,448)	326,612	–	–
Executives								
S.D. Allen	131,464	35,132	(5,522)	(24,170)	(7,694)	129,210	–	–
T.C. Bishop	98,131	42,271	(6,656)	(17,116)	(6,554)	110,076	–	–
A.J. Downe	305,192	56,362	(10,613)	(78,317)	(15,321)	257,303	–	–
G.A. Farrell	177,348	56,362	–	(18,967)	(12,068)	202,675	6,961	6,961
M. McLaughlin	15,961	13,151	–	–	(1,636)	27,476	–	–
N. Sorbara	–	35,132	–	–	(1,974)	33,158	–	–
S. Vrcelj[(6)]	52,170	37,574	(4,869)	(12,521)	(4,065)	68,289	–	–
G.C. Ward	164,440	48,283	(6,296)	(39,761)	(9,366)	157,300	–	–
S. Wikramanayake	224,667	56,362	(8,155)	(33,114)	(13,474)	226,286	–	–
Former Executives								
P.J. Maher[(5)]	143,081	–	–	–	–	143,081	–	–

(1) As discussed in note 1(xxi)—Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2013.

(2) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2013 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

(3) Adjustment of PSUs due to consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the record date for the consolidation.

(4) Or date of resignation/retirement if earlier.

(5) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. The balance at 31 March 2014 represents his holdings at that date.

(6) PSUs were formally issued on 17 February 2014.

Note 32

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties

For the financial year ended 31 March 2013

Name and position	Number of PSU awards held at 1 April 2012[(1)]	PSU awards granted during the financial year[(2)]	Vested PSU awards exercised during the financial year	PSU awards not able to be exercised due to performance hurdles not met[(3)]	Number of PSU awards held at 31 March 2013	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2013
Executive Directors							
N.W. Moore	293,740	120,667	–	(48,841)	365,566	–	–
Executives							
S.D. Allen	89,079	52,353	–	(9,968)	131,464	–	–
T.C. Bishop	71,317	26,814	–	–	98,131	–	–
A.J. Downe	248,955	107,259	–	(51,022)	305,192	–	–
G.A. Farrell	79,027	98,321	–	–	177,348	–	–
P.J. Maher	106,050	53,629	–	(16,598)	143,081	–	–
M. McLaughlin	–	15,961	–	–	15,961	–	–
N. Sorbara[(4)]	–	–	–	–	–	–	–
S. Vrcelj	52,170	–	–	–	52,170	–	–
G.C. Ward	129,273	58,737	–	(23,570)	164,440	–	–
S. Wikramanayake	119,973	116,836	–	(12,142)	224,667	–	–

(1) Or date of appointment if later.

(2) As discussed in note 1(xxi)—Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2012.

(3) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2012 were not achieved and therefore those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

(4) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents holdings at the date of appointment.

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

Note 32

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties[1]

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 82 to 83. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 33—Employee equity participation. There were no options issued to Key Management Personnel during the financial years ended 31 March 2014 and 31 March 2013.

For the financial year ended 31 March 2014

Name and position	Number of options outstanding at 1 April 2013	Options exercised during the financial year	Other changes[2]	Number of options outstanding at 31 March 2014	Number of options vested during the financial year	Number of options vested at 31 March 2014
Executives						
S.D. Allen	39,400	–	(39,400)	–	–	–
T.C. Bishop	116,666	–	(116,666)	–	–	–
G.A. Farrell	50,000	–	(50,000)	–	–	–
M. McLaughlin	19,000	–	(19,000)	–	–	–
N. Sorbara	7,332	–	(7,332)	–	–	–
S. Vrcelj	46,666	–	(46,666)	–	–	–

(1) A related party of Mr M.J. Coleman held vested options in the MGESOP which lapsed during the year ending 31 March 2014. Mr Coleman does not influence any investment decision over, nor does he receive any benefit from, this holding.

(2) Includes vested options lapsed and forfeited during the financial year.

Note 32

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties[1]

For the financial year ended 31 March 2013

Name and position	Number of options outstanding at 1 April 2012[2],[6]	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met[3]	Other changes[4]	Number of options outstanding at 31 March 2013[5],[6]	Number of options vested during the financial year	Number of options vested at 31 March 2013 [5],[6]
Executive Directors							
N.W. Moore	81,300	–	(81,300)	–	–	–	–
Executives							
S.D. Allen	93,485	–	(19,700)	(34,385)	39,400	–	39,400
T.C. Bishop	273,000	–	(58,334)	(98,000)	116,666	–	116,666
A.J. Downe	59,334	–	(59,334)	–	–	–	–
G.A. Farrell	117,980	–	(25,000)	(42,980)	50,000	–	50,000
P.J. Maher	16,668	–	(16,668)	–	–	–	–
M. McLaughlin	19,000	–	–	–	19,000	6,334	19,000
N. Sorbara[7]	7,332	–	–	–	7,332	–	7,332
S. Vrcelj	82,000	–	(23,334)	(12,000)	46,666	–	46,666
G.C. Ward	17,834	–	(17,834)	–	–	–	–
S.Wikramanayake	71,858	–	(26,668)	(45,190)	–	–	–

(1) A related party of Mr Coleman held vested options in the MGESOP during the year ending 31 March 2013. Mr Coleman does not influence any investment decision over, nor does he receive any benefit from, this holding.

(2) Or date of appointment if later.

(3) Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2012 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2012. The value of those options that failed to become exercisable on 1 July 2012 was $nil.

(4) Includes vested options lapsed and forfeited during the financial year.

(5) Or date of resignation/retirement if earlier.

(6) Options outstanding exclude options that are not exercisable due to performance hurdles not being met.

(7) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents holdings at the date of appointment.

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

Note 32

Key Management Personnel disclosure continued

Details of Share-based payment grant dates affecting compensation for the years ending 31 March 2014 and 31 March 2013

		Grant date	
Year grant relates to	**Type of grant**	**CEO**	**All other KMP**
2007	Options	15 August 2007	15 August 2007
2008	Transition awards	3 March 2010	3 March 2010
	Retained DPS	3 March 2010	3 March 2010
	Options	15 August 2008	15 August 2008 8 April 2008
2009	Retained DPS	3 March 2010	3 March 2010
	PSUs	3 March 2010	3 March 2010
2010	Retained DPS	13 August 2010	30 June 2010
	PSUs	13 August 2010	13 August 2010
2011	Retained DPS	15 August 2011	15 February 2011 15 April 2011 20 June 2011
	PSUs	15 August 2011	15 August 2011
2012	Retained DPS	15 August 2012	7 June 2012
	PSUs	15 August 2012	15 August 2012
2013	Retained DPS	15 August 2013	25 June 2013
	PSUs	15 August 2013	15 August 2013

Note 32

Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000
Total for Key Management Personnel and their related parties	**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.

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year ended 31 March 2014 are as follows

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/retirement 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 his holdings at that date.

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

Note 32

Key Management Personnel disclosure continued

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.

Other transactions with 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 $'000	Consolidated 2013 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**535**	623
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 Director

N.W. Moore

Executives

S.D. Allen, T.C. Bishop, 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 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.

Note 33

Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by the Company 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. The Company 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 Company 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 the Company in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the Company's 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.

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

Note 33
Employee equity participation 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	**24,700,480**	20,768,204
Consolidation of one ordinary share into 0.9438 ordinary shares[(1)]	**(1,356,793)**	–
Granted during the financial year	**5,553,634**	8,913,496
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(5,676,173)**	(4,075,540)
Forfeited during the financial year	**(774,358)**	(905,680)
RSUs on issue at the end of the financial year	**22,446,790**	24,700,480
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**8,327**	15,226

The weighted average fair value of the RSU Awards granted during the financial year was $41.06 (2013: $26.79).

	Number of DSU Awards 2014	Number of DSU Awards 2013
DSUs on issue at the beginning of the financial year	**4,316,880**	3,028,154
Adjustment of DSUs due to 0.9438 for one ordinary share consolidation[(1)]	**(246,149)**	–
Granted during the financial year	**916,603**	2,092,458
Exercised during the financial year	**(878,657)**	(522,544)
Forfeited during the financial year	**(191,463)**	(281,188)
DSUs on issue at the end of the financial year	**3,917,214**	4,316,880
DSUs exercisable at the end of the financial year	**366,064**	280,489

The weighted average fair value of the DSU Awards granted during the financial year was $40.84 (2013: $27.71).

	Number of PSU Awards 2014	Number of PSU Awards 2013
PSUs on issue at the beginning of the financial year	**1,969,394**	1,558,210
Adjustment of PSUs due to 0.9438 for one ordinary share consolidation[(1)]	**(106,710)**	–
Granted during the financial year	**463,293**	650,577
Exercised during the financial year	**(77,663)**	(1,932)
Expired during the financial year	**(456,154)**	(237,461)
PSUs on issue at the end of the financial year	**1,792,160**	1,969,394
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 $41.49 (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	**92,558**	31,795
Consolidation of one ordinary share into 0.9438 ordinary shares[(1)]	**(5,509)**	–
Granted during the financial year	**87,239**	115,869
Released during the financial year	**(35,388)**	(55,106)
Restricted shares on issue at the end of the financial year	**138,900**	92,558

The weighted average fair value of the restricted shares granted during the financial year was $48.39 (2013: $31.65).

(1) Consolidation applied to shares held in the MEREP as at the record date for the consolidation.

Note 33

Employee equity participation 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 to the subsidiary where the Company is not reimbursed or as a liability to the subsidiary where the Company is reimbursed.

For the year ended 31 March 2014, compensation expense relating to the MEREP totalled $283 million (2013: $287 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 MGL and MBL 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).

Notes to the financial statements
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continued

Note 33

Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd 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.

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).

Note 33

Employee equity participation continued

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 MEREP.

Compensation expense relating to these awards for the year ending 31 March 2014 was $0.4 million (2013: $1 million).

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Note 33
Employee equity participation continued

Option Plan

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

Options now on issue are all five year options over unissued ordinary fully paid shares in the Company and were granted to individuals or an 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 24 (2013: 1,460) 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[2] $	Number of options 2013	Weighted average exercise price 2013 $
Outstanding at the beginning of the financial year	**8,725,398**	**52.63**	19,585,781	60.13
Adjustment of Options due to 0.9438 for one ordinary share consolidation[1]	**(6,456)**	**42.79**	–	–
Forfeited during the financial year	**(1,200)**	**50.35**	(1,755,821)	48.53
Exercised during the financial year	**(423,159)**	**31.72**	(52,676)	26.34
Lapsed during the financial year	**(8,213,704)**	**53.76**	(9,051,886)	69.79
Outstanding at the end of the financial year	**80,879**	**48.31**	8,725,398	52.63
Exercisable at the end of the financial year	**80,879**	**48.31**	8,630,026	52.78

For options exercised during the financial year the weighted average share price at the date of exercise was $46.98 (2013: $31.42). The range of exercise prices for options outstanding at the end of the financial year was $36.35 to $54.92 (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 0.43 years (2013: 0.40 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	**–**	**–**	14,668	0.94
20 – 30	**–**	**–**	156,991	0.90
30 – 40	**22,358**	**0.25**	292,629	0.82
40 – 50	**15,102**	**0.56**	176,279	0.63
50 – 60	**43,419**	**0.49**	8,046,447	0.37
60 – 70	**–**	**–**	38,384	0.10
	80,879	**0.43**	8,725,398	0.40

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.

The number of outstanding options as at 2 May 2014 is 80,879.

The market value of shares issued during the year as a result of the exercise of these options was $19.8 million (2013: $1.6 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2014 was $4.68 million (2013: $324 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

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

Note 33

Employee equity participation 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 the Company's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the Company's agreement towards the end of a vesting period, the Company's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

For options granted to the members of MBL and MGL's Executive Committees, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if the Company'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.

If fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid MGL ordinary shares than 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 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 or 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' interests or an advantage to option 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 $0.1 million (2013: credit of $15 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 MBL shares for no cash payment. The Company 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 966 (2013: 826) 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 (2013: $32.85); a total of 17,388 (2013: 24,780) 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 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
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continued

Note 34
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2014 $m	Consolidated 2013 $m	Company 2014 $m	Company 2013 $m
Contingent liabilities exist in respect of:				
Letters of credit	**468**	271	**–**	–
Guarantees	**375**	310	**3,413**	3,057
Performance related contingents	**342**	228	**–**	–
Indemnities	**161**	18	**–**	–
Total contingent liabilities[1]	**1,346**	827	**3,413**	3,057
Commitments exist in respect of:				
Undrawn credit facilities	**4,792**	3,748	**–**	–
Forward asset purchases	**455**	368	**–**	–
Total commitments[2]	**5,247**	4,116	**–**	–
Total contingent liabilities and commitments	**6,593**	4,943	**3,413**	3,057

(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	Company 2014 $m	Company 2013 $m
Non-cancellable operating leases expiring:				
Not later than one year	**170**	166	**–**	–
Later than one year and not later than five years	**482**	482	**–**	–
Later than five years	**382**	430	**–**	–
Total operating lease commitments	**1,034**	1,078	**–**	–

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 revaluation of derivatives, dividends, interest and servicing fees.

Investment funds

SEs formed for the purpose of offering alternative investment opportunities relate primarily to fund-linked or funds of funds products. Investment structures are designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index by issuing credit-linked or equity-linked notes to investors. SEs typically obtain exposure to the underlying asset or index through a derivative instrument (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, interest 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	1,169	–
Derivative assets	4	21
Investment securities available for sale[(1)]	2,430	146
Loan assets held at amortised cost	254	270
Total carrying value of assets	3,857	437
Maximum exposure to loss		
Debt and equity held	3,853	416
Derivatives and undrawn commitments	882	21
Total maximum exposure to loss	4,735	437

(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.

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 $846 million in subordinated interests, with $533 million included in securitisation activities and $313 million included in asset-backed financing activities. These carrying values also represent the maximum exposure to loss.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 38.3. For these reasons, information on size and capital structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

The subordinated asset-backed interests are included within investments available for sale and loans, involve unconsolidated SEs with a 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.

Support

MGL has contractually guaranteed the performance obligations of a consolidated SE. As at 31 March 2014, the notional value of the guarantee is $1,616 million (2013: $1,447 million), which is included in amounts of MGL guarantees disclosed in note 34 - Contingent liabilities and commitments. The guarantee and the performance obligations are eliminated through the process of consolidation, and replaced with a liability of $1,616 million (2013: $1,447 million) owing by the SE to third parties, included in Debt issued at amortised cost in the consolidated statement of financial position.

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 floating rate issued debt used to fund fixed rate asset positions. 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.

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: $134 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.

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 $211 million positive value (2013: $293 million positive value).

During the year fair value losses on the hedging instruments of $82 million have been recognised (2013: $102 million losses), offset by $86 million (2013: $89 million gains) of gains on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its 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 $182 million negative value (2013: $55 million positive value). During the year the Consolidated Entity recognised $nil (2013: $1 million gains) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $5,449 million (2013: $3,355 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of $223 million (2013: $24 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
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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 table below details the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements.

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	5,715	324	2,494
Financial institutions	5,445	88	872	6,072
Other	–	56	407	95
Total Australia	5,445	5,859	1,603	8,661
Asia Pacific				
Governments	–	694	6	43
Financial institutions	2,111	466	312	522
Other	–	336	128	10
Total Asia Pacific	2,111	1,496	446	575
Europe, Middle East and Africa				
Governments	–	52	53	53
Financial institutions	6,143	229	4,534	1,225
Other	–	47	2,302	412
Total Europe, Middle East and Africa	6,143	328	6,889	1,690
Americas				
Governments	–	1,008	22	–
Financial institutions	5,758	714	2,135	716
Other	–	528	1,538	404
Total Americas	5,758	2,250	3,695	1,120
Total gross credit risk	**19,457**	**9,933**	**12,633**	**12,046**

Other financial assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2014
1	60	–	1	8,595
37	443	–	300	13,257
1,173	32,920	578	1,976	37,205
1,211	33,423	578	2,277	59,057
–	6	61	–	810
–	319	–	108	3,838
2,543	567	10	139	3,733
2,543	892	71	247	8,381
–	6	21	–	185
–	3,940	515	643	17,229
2,413	4,589	67	712	10,542
2,413	8,535	603	1,355	27,956
–	127	–	–	1,157
–	4,053	10	503	13,889
4,210	11,682	250	2,211	20,823
4,210	15,862	260	2,714	35,869
10,377	58,712	1,512	6,593	131,263

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
Australia				
Governments	–	6,077	343	3,370
Financial institutions	4,609	120	3,095	5,501
Other	–	126	797	175
Total Australia	4,609	6,323	4,235	9,046
Asia Pacific				
Governments	–	915	–	95
Financial institutions	1,114	426	256	717
Other	–	306	129	–
Total Asia Pacific	1,114	1,647	385	812
Europe, Middle East and Africa				
Governments	–	19	–	63
Financial institutions	3,870	194	5,340	2,730
Other	–	10	1,778	282
Total Europe, Middle East and Africa	3,870	223	7,118	3,075
Americas				
Governments	–	1,135	25	–
Financial institutions	5,213	758	1,448	949
Other	–	567	1,493	19
Total Americas	5,213	2,460	2,966	968
Total gross credit risk	14,806	10,653	14,704	13,901

[1] In the year ended 31 March 2013, margin monies placed of $1,710 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

Other financial assets $m	Loan assets held at amortised cost[1] $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2013
3	155	395	–	10,343
37	425	139	33	13,959
2,201	26,874	1,124	1,669	32,966
2,241	27,454	1,658	1,702	57,268
–	2	–	–	1,012
–	339	–	5	2,857
2,435	463	–	211	3,544
2,435	804	–	216	7,413
–	5	61	–	148
–	3,077	765	143	16,119
2,131	3,881	100	623	8,805
2,131	6,963	926	766	25,072
–	81	–	–	1,241
–	2,830	–	151	11,349
2,637	12,661	71	2,108	19,556
2,637	15,572	71	2,259	32,146
9,444	50,793	2,655	4,943	121,899

Notes to the financial statements
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continued

Note 38.1
Credit risk continued

Maximum exposure to credit risk continued

	Other financial assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
Australia				**Company 2014**
Other	**16**	**8,600**	**506**	**9,122**
Total Australia	**16**	**8,600**	**506**	**9,122**
Asia Pacific				
Other	**–**	**54**	**334**	**388**
Total Asia Pacific	**–**	**54**	**334**	**388**
Europe, Middle East and Africa				
Other	**–**	**2**	**796**	**798**
Total Europe, Middle East and Africa	**–**	**2**	**796**	**798**
Americas				
Other	**–**	**55**	**1,777**	**1,832**
Total Americas	**–**	**55**	**1,777**	**1,832**
Total gross credit risk	**16**	**8,711**	**3,413**	**12,140**
Australia				Company 2013
Other	6	6,955	490	7,451
Total Australia	6	6,955	490	7,451
Asia Pacific				
Other	–	14	284	298
Total Asia Pacific	–	14	284	298
Europe, Middle East and Africa				
Other	–	–	656	656
Total Europe, Middle East and Africa	–	–	656	656
Americas				
Other	–	23	1,627	1,650
Total Americas	–	23	1,627	1,650
Total gross credit risk	6	6,992	3,057	10,055

Note 38.1

Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

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

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains lender's mortgage insurance (LMI) to cover the majority of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is $14,025 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.

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

Note 38.1

Credit risk continued

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		
	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	–
91% to 100%	**2,324**	**1,813**	**–**	1,098	2,420	90
Partly collateralised	**6**	**2**	**–**	33	1	–
Total mortgages	**16,909**	**5,521**	**483**	11,580	7,334	472

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 a LVR of between 50 and 75 per cent and $462 million (2013: $193 million) has a LVR of between 75 and 100 per cent. $13 million (2013: $12 million) is only partly secured by real estate with and 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. Of the investment and insurance premium lending portfolio of $1,126 million (2013: $1,566 million), $728 million (2013: $1,472 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. Of the lease and retail finance portfolio of $10,997 million (2013: $9,387 million), the credit exposure after considering the depreciated value of collateral is $3,110 million (2013: $2,584 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 commecial property and land rights. Of the term lending of $15,856 million (2013: $13,068 million), the credit exposure after collateral and credit enhancements is $3,341 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 at balance date of $644 million (2013: $1,281 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

Note 38.1

Credit risk continued

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 or reserve fund which may be used in the event of default and shortfall of a member. Macquarie has exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2014 of $2,565 million (2013: $2,610 million). Macquarie has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being $2,831 million (2013: $3,459 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

For Over The Counter (OTC) derivative contracts, Macquarie often has 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. Macquarie also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2014, Macquarie held OTC contracts with a positive replacement value of $10,153 million (2013: $9,819 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $6,235 million (2013: $6,170 million) and margins held (excluding the impact of over-collateralisation) of $1,167 million (2013: $687 million). In addition, Macquarie has placed collateral of $1,643 million (2013: $2,043 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts.

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 Australian and Canadian assets under covered bonds.

Other assets

Security settlements of $6,094 million (2013: $5,567 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). Macquarie holds the underlying equity security or cash until settled, which is usually less than 3 days after trade.

Credit commitments and contingent liabilities

Of the Undrawn facilities and lending commitments of $4,792 million (2013: $3,748 million), $2,129 million (2013: $1,591 million) are fully secured by underlying specific assets.

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

Note 38.1
Credit risk continued

Credit quality of financial assets

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	17,478	1,963	16	–	–	19,457
Trading portfolio assets						9,933
Governments	7,417	52	–	–	–	7,469
Financial institutions	913	548	36	–	–	1,497
Other	441	389	137	–	–	967
Derivative assets						12,633
Governments	404	1	–	–	–	405
Financial institutions	7,579	274	–	–	–	7,853
Other	2,985	1,390	–	–	–	4,375
Debt investment securities available for sale						12,046
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,453	82	–	–	–	8,535
Other	136	784	–	–	1	921
Other financial assets						10,377
Governments	–	–	–	–	1	1
Financial institutions	–	–	–	–	37	37
Other	6,649	2,895	20	610	165	10,339
Loan assets held at amortised cost						58,712
Governments	187	12	–	–	–	199
Financial institutions	5,093	3,406	256	–	–	8,755
Other	24,851	22,995	227	–	1,685	49,758
Other financial assets at fair value through profit or loss						1,512
Governments	82	–	–	–	–	82
Financial institutions	508	17	–	–	–	525
Other	32	854	–	–	19	905
Total	85,798	35,662	692	610	1,908	124,670

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

Note 38.1

Credit risk continued

Credit quality – Consolidated 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)]	13,440	1,358	8	–	–	14,806
Trading portfolio assets						10,653
Governments	7,987	159	–	–	–	8,146
Financial institutions	1,042	401	55	–	–	1,498
Other	345	616	48	–	–	1,009
Derivative assets						14,704
Governments	365	3	–	–	–	368
Financial institutions	9,634	505	–	–	–	10,139
Other	2,690	1,507	–	–	–	4,197
Debt investment securities available for sale						13,901
Governments	3,528	–	–	–	–	3,528
Financial institutions	9,877	20	–	–	–	9,897
Other	134	340	–	–	2	476
Other financial assets						9,444
Governments	–	–	–	–	3	3
Financial institutions	–	–	–	–	37	37
Other	6,383	2,190	13	687	131	9,404
Loan assets held at amortised cost[(1)]						50,793
Governments	236	7	–	–	–	243
Financial institutions	4,400	2,242	29	–	–	6,671
Other	20,975	20,727	289	–	1,888	43,879
Other financial assets at fair value through profit or loss						2,655
Governments	456	–	–	–	–	456
Financial institutions	816	88	–	–	–	904
Other	82	1,177	–	–	36	1,295
Total	82,390	31,340	442	687	2,097	116,956

(1) In the year ended 31 March 2013, margin monies placed of $1,710 million were included in Receivable 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.

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

Note 38.1
Credit risk continued

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

Credit quality—Company 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
Other assets						
Other	**3**	**–**	**–**	**13**	**–**	**16**
Due from subsidiaries						
Other	**8,585**	**–**	**–**	**126**	**–**	**8,711**
Total	**8,588**	**–**	**–**	**139**	**–**	**8,727**

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

Credit quality – Company 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
Other assets						
Other	3	–	–	3	–	6
Due from subsidiaries						
Other	6,945	–	–	47	–	6,992
Total	6,948	–	–	50	–	6,998

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

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
					Consolidated 2014	
Debt investment securities available for sale						
Other	–	–	–	–	1	1
Other assets						
Government	1	–	–	–	–	1
Financial institutions	35	1	1	–	–	37
Other	75	27	20	2	41	165
Loan assets held at amortised cost						
Other	752	166	62	340	365	1,685
Other financial assets at fair value through profit or loss						
Other	3	3	1	4	8	19
Total	**866**	**197**	**84**	**346**	**415**	**1,908**
					Consolidated 2013	
Debt investment securities available for sale						
Other	–	–	–	–	2	2
Other assets						
Government	2	1	–	–	–	3
Financial institutions	35	1	1	–	–	37
Other	80	15	11	–	25	131
Loan assets held at amortised cost						
Other	1,003	171	86	260	368	1,888
Other financial assets at fair value through profit or loss						
Other	9	3	4	–	20	36
Total	1,129	191	102	260	415	2,097

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 after provisions is disclosed in the past due analysis.

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

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $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.

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 has taken possession of fixed assets and property assets with a carrying value of $178 million (2013: $210 million). These assets are in the process of being sold.

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

Note 38.2
Liquidity risk

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the 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.

Liquidity policy

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. MGL's risk appetite is set so that MGL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited reduction in franchise businesses.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding.

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 modelling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

The scenarios separately consider the requirements of the Banking Group, Non-Banking Group and the Consolidated 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.

Note 38.2

Liquidity risk continued

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.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	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	–	2,762	–	–	–	2,762
Derivative financial instruments (trading)	–	11,537	–	–	–	11,537
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	2,467	2,222	5,649	620	10,958
Contractual amounts receivable	–	(2,374)	(2,303)	(5,795)	(706)	(11,178)
Deposits	32,631	5,124	4,290	460	14	42,519
Other financial liabilities(1)	–	11,111	–	–	–	11,111
Payables to financial institutions	4,809	10,005	586	3,713	919	20,032
Other financial liabilities at fair value through profit or loss	–	538	342	315	303	1,498
Debt issued at amortised cost(2)	–	8,783	9,659	19,548	17,453	55,443
Loan Capital	–	115	171	2,028	2,189	4,503
Total undiscounted cash flows	37,440	50,068	14,967	25,918	20,792	149,185
Contingent liabilities	–	1,346	–	–	–	1,346
Commitments	–	4,659	199	384	5	5,247
Total undiscounted contingent liabilities and commitments(3)	–	6,005	199	384	5	6,593

(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) 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 the maturity analysis.

(3) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Notes to the financial statements
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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	–	1,497	–	–	–	1,497
Derivative financial instruments (trading)	–	12,220	–	–	–	12,220
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	5,484	2,510	2,886	630	11,510
Contractual amounts receivable	–	(5,492)	(2,729)	(2,988)	(790)	(11,999)
Deposits	29,602	6,054	5,127	440	14	41,237
Other financial liabilities[(1),(2)]	–	11,008	–	–	–	11,008
Payables to financial institutions	4,186	7,843	1,384	4,402	578	18,393
Other financial liabilities at fair value through profit or loss	1	639	488	571	26	1,725
Debt issued at amortised cost[(3)]	–	6,431	7,488	17,778	15,419	47,116
Macquarie Convertible Preference Securities	–	633	–	–	–	633
Loan Capital	–	86	133	1,209	1,996	3,424
Total undiscounted cash flows	33,789	46,403	14,401	24,298	17,873	136,764
Contingent liabilities	–	827	–	–	–	827
Commitments	–	3,642	238	236	–	4,116
Total undiscounted contingent liabilities and commitments[(4)]	–	4,469	238	236	–	4,943

(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 the 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

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Company 2014
Deposits	**–**	**33**	**–**	**–**	**–**	**33**
Other financial liabilities[1]	**–**	**2**	**–**	**–**	**–**	**2**
Payables to financial institutions	**–**	**6**	**17**	**1,393**	**–**	**1,416**
Due to subsidiaries[2]	**484**	**2**	**1**	**65**	**–**	**552**
Debt issued at amortised cost	**–**	**128**	**1,299**	**3,154**	**3,014**	**7,595**
Loan Capital	**–**	**17**	**17**	**719**	**–**	**753**
Total undiscounted cash flows	**484**	**188**	**1,334**	**5,331**	**3,014**	**10,351**
Contingent liabilities	**–**	**3,413**	**–**	**–**	**–**	**3,413**
Total undiscounted contingent liabilities[3]	**–**	**3,413**	**–**	**–**	**–**	**3,413**
						Company 2013
Deposits	–	38	–	–	–	38
Payables to financial institutions	–	14	44	2,484	–	2,542
Due to subsidiaries [2]	511	88	–	–	–	599
Debt issued at amortised cost	–	142	240	2,278	2,867	5,527
Total undiscounted cash flows	511	282	284	4,762	2,867	8,706
Contingent liabilities	–	3,057	–	–	–	3,057
Total undiscounted contingent liabilities[3]	–	3,057	–	–	–	3,057

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Excludes items that are not financial instruments and non-contractual prepayments.
(3) Cash flows on contingent liabilities 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.

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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 per cent confidence level)

The table below shows the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is 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	**5.55**	**8.21**	**2.98**	4.26	6.64	2.78
Interest rates	**10.37**	**15.56**	**6.17**	10.45	14.19	8.19
Foreign exchange and bullion	**3.97**	**8.05**	**1.05**	2.58	7.00	0.42
Commodities	**13.08**	**20.89**	**7.36**	10.02	16.95	6.35
Aggregate	**18.09**	**28.23**	**9.38**	14.95	20.44	10.94

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.

Note 38.3

Market risk continued

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 Consolidated Entity is designed to reduce the sensitivity of the Consolidated Entity's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, 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**	**(320.0)**	+10	(300.2)
GBP	**+10**	**(64.0)**	+10	(32.9)
CAD	**+10**	**(26.6)**	+10	(25.7)
EUR	**+10**	**(31.0)**	+10	(14.5)
Total		**(441.6)**		(373.3)
USD	**–10**	**391.1**	–10	366.8
GBP	**–10**	**78.3**	–10	40.2
CAD	**–10**	**32.4**	–10	31.4
EUR	**–10**	**37.9**	–10	17.8
Total		**539.7**		456.2

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Note 38.3
Market risk continued

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity 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
						Consolidated
Listed						
Australia	**+10**	**–**	**36.1**	+10	0.8	113.4
Asia Pacific	**+10**	**–**	**1.3**	+10	–	1.2
Europe, Middle East and Africa	**+10**	**1.8**	**0.8**	+10	2.9	1.5
Americas	**+10**	**–**	**14.5**	+10	–	37.7
Unlisted	**+10**	**0.6**	**86.0**	+10	0.8	61.6
Listed						
Australia	**–10**	**–**	**(36.1)**	–10	(0.7)	(113.4)
Asia Pacific	**–10**	**–**	**(1.3)**	–10	–	(1.2)
Europe, Middle East and Africa	**–10**	**(1.8)**	**(0.8)**	–10	(2.9)	(1.5)
Americas	**–10**	**–**	**(14.5)**	–10	–	(37.7)
Unlisted	**–10**	**(0.6)**	**(86.0)**	–10	(0.1)	(61.6)

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 Consolidated Entity 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.

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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 creditworthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread;
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- in the financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

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 Company:

	2014 Carrying value $m	2014 Fair value $m	2013 Carrying value $m	2013 Fair value $m
				Consolidated
Assets				
Receivables from financial institutions	**19,457**	**19,457**	14,806	14,806
Other financial assets	**10,377**	**10,377**	9,444	9,444
Loan assets held at amortised cost	**58,712**	**58,875**	50,793	51,366
Total assets	**88,546**	**88,709**	75,043	75,616
Liabilities				
Deposits	**42,401**	**42,413**	41,103	41,116
Other financial liabilities	**10,027**	**10,027**	9,827	9,827
Payables to financial institutions	**19,654**	**19,698**	18,075	18,143
Debt issued at amortised cost	**45,565**	**46,302**	38,014	38,884
Loan capital	**3,507**	**3,744**	3,220	3,353
Total liabilities	**121,154**	**122,184**	110,239	111,323

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 $8,509 million in ‘Receivables from financial institutions’, $5,342 million in ‘Loan assets held at amortised cost’, $31,564 million in ‘Deposits’, $1,595 million in ‘Payables to financial institutions’ and $934 million in 'Loan capital' classified as level 1.

	2014 Carrying value $m	2014 Fair value $m	2013 Carrying value $m	2013 Fair value $m
				Company
Assets				
Other financial assets	**16**	**16**	6	6
Due from subsidiaries	**8,711**	**8,711**	6,992	6,992
Total assets	**8,727**	**8,727**	6,998	6,998
Liabilities				
Deposits	**33**	**33**	38	38
Other Financial Liabilities	**2**	**2**	–	–
Payables to financial institutions	**1,307**	**1,307**	2,370	2,396
Due to subsidiaries	**866**	**866**	828	828
Debt issued at amortised cost	**6,265**	**6,581**	4,269	4,662
Loan capital	**601**	**628**	–	–
Total liabilities	**9,074**	**9,417**	7,505	7,924

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for $628 million in 'Loan capital' classified as level 1.

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 following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				Consolidated 2014
Assets				
Trading portfolio assets	**13,982**	**7,770**	**710**	**22,462**
Derivative assets	**591**	**11,944**	**98**	**12,633**
Investment securities available for sale	**8,897**	**3,930**	**1,224**	**14,051**
Other financial assets at fair value through profit or loss	**244**	**2,457**	**153**	**2,854**
Other financial assets[1]	**353**	**760**	**–**	**1,113**
Total assets	**24,067**	**26,861**	**2,185**	**53,113**
Liabilities				
Trading portfolio liabilities	**1,125**	**1,637**	**–**	**2,762**
Derivative liabilities	**738**	**11,148**	**87**	**11,973**
Other financial liabilities at fair value through profit or loss	**–**	**1,432**	**32**	**1,464**
Other financial liabilities[1]	**351**	**733**	**–**	**1,084**
Total liabilities	**2,214**	**14,950**	**119**	**17,283**
				Consolidated 2013
Assets				
Trading portfolio assets	14,085	5,369	322	19,776
Derivative assets	2,276	12,360	68	14,704
Investment securities available for sale	13,122	3,191	744	17,057
Other financial assets at fair value through profit or loss	1,168	3,796	69	5,033
Other financial assets[1],[2]	407	803	–	1,210
Total assets	31,058	25,519	1,203	57,780
Liabilities				
Trading portfolio liabilities	548	949	–	1,497
Derivative liabilities	2,397	12,411	45	14,853
Other financial liabilities at fair value through profit or loss	–	1,634	70	1,704
Other financial liabilities[1],[2]	404	777	–	1,181
Total liabilities	3,349	15,771	115	19,235

(1) Relates to life insurance contracts and other unitholder investment assets and liabilities.
(2) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note1(i) – Summary of significant accounting policies.

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Notes to the financial statements
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Note 39

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial years ended 31 March 2014 and 31 March 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1 April 2013	**322**	**744**
Purchases	**354**	**583**
Sales	**(196)**	**(237)**
Issues	**–**	**49**
Settlements	**–**	**(3)**
Transfers into Level 3	**312**	**16**
Transfers out of Level 3	**(90)**	**(65)**
Fair value gains/(losses) recognised in the income statement[1]	**8**	**76**
Fair value gains recognised in other comprehensive income[1]	**–**	**61**
Balance at 31 March 2014	**710**	**1,224**
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**	**33**
Balance at 1 April 2012	452	553
Purchases	298	196
Sales	(379)	(95)
Issues	–	–
Settlements	–	–
Transfers into Level 3	233	108
Transfers out of Level 3	(302)	(40)
Fair value gains/(losses) recognised in the income statement[1]	20	(13)
Fair value gains recognised in other comprehensive income[1]	–	35
Balance at 31 March 2013	322	744
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]	28	(5)

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $98 million (2013: $68 million) and derivative liabilities are $87 million (2013: $45 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
			Consolidated 2014
69	**(70)**	**23**	**1,088**
62	**–**	**(33)**	**966**
(40)	**40**	**(2)**	**(435)**
–	**–**	**(5)**	**44**
–	**2**	**(19)**	**(20)**
57	**–**	**11**	**396**
–	**–**	**7**	**(148)**
5	**(4)**	**29**	**114**
–	**–**	**–**	**61**
153	**(32)**	**11**	**2,066**
1	**(4)**	**38**	**77**
			Consolidated 2013
170	(110)	42	1,107
–	–	13	507
(86)	–	(11)	(571)
–	–	(9)	(9)
(10)	40	4	34
–	–	1	342
(3)	1	(33)	(377)
(2)	(1)	16	20
–	–	–	35
69	(70)	23	1,088
2	(2)	9	32

Notes to the financial statements
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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 did not have significant transfers between Level 1 and 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 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
Balance at the beginning of the financial year	**32**	15
Deferral on new transactions	**4**	26
Amounts recognised in the income statement during the year	**(24)**	(9)
Balance at the end of the financial year	**12**	32

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 cash flows, 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	**3**	**75**	**(3)**	**(54)**
Other products	**17**	**7**	**(11)**	**(7)**
Total	**20**	**82**	**(14)**	**(61)**
Product type			Consolidated 2013	
Equity and equity linked products	17	69	(17)	(50)
Other products	28	–	(25)	–
Total	45	69	(42)	(50)

Note 39

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Maximum value
					As at 31 Mar 2014	
Equity and equity linked products	1,022	35	Discounted cash flows	Discount rate	6.8%	25.0%
			Pricing model	Volatility	9.2%	95.0%
				Earnings multiple	0.4x	8.45x
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	-	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	2,185	119				

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.

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for the financial year ended 31 March 2014
continued

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]	10,065	(1)	10,064	(712)	(9,132)	220
Derivative assets	13,563	(1,904)	11,659	(8,388)	(1,167)	2,104
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
Total assets	28,698	(5,383)	23,315	(9,155)	(10,300)	3,860
Derivative liabilities	(13,288)	1,902	(11,386)	8,388	1,300	(1,698)
Deposits	(205)	169	(36)	–	1	(35)
Other liabilities	(3,588)	2,129	(1,459)	55	–	(1,404)
Payables to financial institutions[2]	(8,618)	1	(8,617)	712	7,859	(46)
Other financial liabilities at fair value through profit or loss	(1,150)	1,150	–	–	–	–
Debt issued at amortised cost	(32)	32	–	–	–	–
Total liabilities	(26,881)	5,383	(21,498)	9,155	9,160	(3,183)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Note 40

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	**Amounts offset $m**	**Net amount presented $m**	**Other recognised financial instruments $m**	**Cash and other financial collateral $m**	**Net amount $m**
						Consolidated 2013
Receivables from financial institutions[1]	6,088	–	6,088	(534)	(5,323)	231
Derivative assets	12,922	(1,505)	11,417	(8,780)	(687)	1,950
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
Total assets	**23,059**	**(4,486)**	**18,573**	**(9,390)**	**(6,083)**	**3,100**
Derivative liabilities	(13,385)	1,505	(11,880)	8,780	1,859	(1,241)
Deposits	(245)	171	(74)	1	73	–
Other liabilities	(3,948)	2,612	(1,336)	75	–	(1,261)
Payables to financial institutions[2]	(5,479)	172	(5,307)	534	4,668	(105)
Debt issued at amortised cost	(26)	26	–	–	–	–
Total liabilities	**(23,083)**	**4,486**	**(18,597)**	**9,390**	**6,600**	**(2,607)**

(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
						Company 2014
Due from subsidiaries	**11,635**	**(3,013)**	**8,622**	**–**	**–**	**8,622**
Total assets	**11,635**	**(3,013)**	**8,622**	**–**	**–**	**8,622**
Due to subsidiaries	**(3,299)**	**3,013**	**(286)**	**–**	**–**	**(286)**
Total liabilities	**(3,299)**	**3,013**	**(286)**	**–**	**–**	**(286)**

	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
						Company 2013
Due from subsidiaries	9,602	(2,620)	6,982	–	–	6,982
Total assets	**9,602**	**(2,620)**	**6,982**	**–**	**–**	**6,982**
Due to subsidiaries	(2,896)	2,620	(276)	–	–	(276)
Total liabilities	**(2,896)**	**2,620**	**(276)**	**–**	**–**	**(276)**

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in note 1 (xxiv) "Offsetting financial instruments" and are limited to the gross carrying values of the financial instruments. 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 only in the event of default or other pre determined events, such that their potential effect on the Consolidated Entity's and Company'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 instrument 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.

Note 41

Transfers of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity 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 material transfers of financial assets where the Consolidated Entity or Company retained continuing involvement.

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 or asset swaps.

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 required 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 does not have legal rights to these assets but has full economic exposure to them. 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.

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

Note 41
Transfers of financial assets continued

There were no material transfers of financial assets for the Company where the assets continue to be recognised as at 31 March 2014 and at 31 March 2013. The following table presents information for 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]	**8,771**	**6,037**	**668**
Carrying amount of associated liabilities[2]	**(8,541)**	**(5,580)**	**(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**	**4,057**	**674**
Fair value of associated liabilities	**(724)**	**(4,118)**	**(689)**
Net fair value	**3**	**(61)**	**(15)**
			Consolidated 2013
Carrying amount of transferred assets[1],[2]	7,744	7,822	829
Carrying amount of associated liabilities[2]	(7,600)	(7,299)	(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	5,990	837
Fair value of associated liabilities	(436)	(6,090)	(847)
Net fair value	25	(100)	(10)

(1) The transferred financial assets are presented in note 8 Trading portfolio assets $7,549 million (2013: $7,091 million), note 9 Investment securities available for sale $1,743 million (2013: $1,299 million) and note 11 Loan assets held at amortised cost $6,184 million (2013: $8,005 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 Consolidated Entity 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.

Note 42

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Company and Consolidated Entity, PwC, and its related practices earned the following remuneration:

	Consolidated 2014 $'000	Consolidated 2013 $'000	**Company 2014 $'000**	Company 2013 $'000
PwC – Australia				
Audit and review of financial reports of the Group or controlled entity	**8,664**	8,157	**–**	–
Other audit-related work	**912**	747	**–**	–
Other assurance services	**2,227**	2,881	**–**	–
Total audit and other assurance services	**11,803**	11,785	**–**	–
Other advisory services	**833**	13	**–**	–
Taxation	**198**	423	**–**	–
Total remuneration paid to PwC Australia	**12,834**	12,221	**–**	–
Network firms of PwC Australia				
Audit and review of financial reports of the Group or controlled entity	**9,575**	9,704	**–**	–
Other audit-related work	**206**	225	**–**	–
Other assurance services	**269**	327	**–**	–
Total audit and other assurance services	**10,050**	10,256	**–**	–
Other advisory services	**6**	–	**–**	–
Taxation	**1,479**	1,271	**–**	–
Total remuneration paid to network firms of PwC Australia	**11,535**	11,527	**–**	–
Total remuneration paid to PwC (note 2)	**24,369**	23,748	**–**	–

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company'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 Company'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 and 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:

Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia 3 LLC, Macquarie Renaissance Corporate Finance Holdings Limited, Corona Energy Retail 5 Limited and Macquarie Investment Management Korea Co., Ltd.

Aggregate details of the above entities and 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	**49**	48
Other financial assets	**–**	370
Property, plant and equipment	**1**	669
Goodwill and other intangible assets	**37**	9
Payables, provisions, borrowings and other liabilities	**(9)**	(331)
Total fair value of net assets acquired	**78**	765
Consideration		
Cash consideration	**78**	765
Total consideration	**78**	765
Net cash flow		
Cash consideration	**(78)**	(765)
Less:		
Cash and cash equivalents acquired	**42**	5
Net cash outflow	**(36)**	(760)

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 to Macquarie European Rail, being the significant entity and businesses acquired or consolidated due to acquisition of control.

Note 43

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and 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:

Aviation Technical Services Inc., Bavarian Geothermal Energy Group Limited, Poseidon Infrastructure InvestCo LP BVBA, Macquarie Visor, Rossignol Ski Company, Macquarie European Alpha Fund; Tulare PV I LLC, Tulare PV II LLC, Macquarie Private Wealth Inc, Macquarie Precision Marketing (Japan) Limited, Macquarie Precision Marketing (Australia) Limited, Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia PV 3 LLC, Macquarie Hyperion Limited and Taikansan Kaihatsu 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	**681**	36
Other financial assets	**613**	223
Property, plant and equipment	**106**	23
Goodwill and other intangible assets	**83**	78
Payables, provisions, borrowings and other liabilities	**(1,031)**	(144)
Non-controlling interest	**(173)**	(1)
Total carrying value of assets and liabilities disposed of or deconsolidated	**279**	215
Consideration		
Cash consideration	**269**	218
Deferred consideration	**–**	3
Total consideration	**269**	221
Net cash flow		
Cash consideration	**269**	218
Less:		
Investment retained	**36**	(18)
Cash and cash equivalents disposed of or deconsolidated	**(303)**	(9)
Net cash inflow	**2**	191

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

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 Group Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 95 to 211 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 Company 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 Group 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 102).

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

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
2 May 2014

Independent auditor's report
To the members of Macquarie Group Limited

pwc

Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), 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 Group Limited and the Macquarie Group (the Consolidated Entity). The Consolidated Entity comprises the Company 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 Company 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 Group Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the Company'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 Australia 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.

Independent auditor's report
To the members of Macquarie Group Limited
continued

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 45 to 83 of the directors' report for the year ended 31 March 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. 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 Group Limited for the year ended 31 March 2014, complies with section 300A of the *Corporations Act 2001*.

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
ADR	American Depository Receipt
AEC	Australian Electoral Commission
AGM	Annual General Meeting
AMA	Advanced Measurement Approach
Annual Financial Report	One component of Macquarie Group Limited's 2012 Annual Report which contains the Corporate Governance Statement, Diversity Report, Sustainability Report, Risk Report and Financial Report
Annual Review	One component of Macquarie Group Limited's 2012 Annual Report which contains key financial details, the Chairman and Managing Directors' Report and information about Macquarie's operating Groups and Divisions
ANZ	Australia and New Zealand
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
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
AUM	assets under management
BAC	Board Audit Committee
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
BGCC	Board Governance and Compliance Committee
the Board	the Board of Voting Directors of Macquarie Group Limited
BORMs	Business Operational Risk Managers
BRC	Board Remuneration Committee
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CAMAC	Corporations and Markets Advisory Committee
CDP	Carbon Disclosure Project
CDM	Clean Development Mechanism
CET1	Common Equity Tier 1
CEO	Managing Director and Chief Executive Officer
CER	Certified Emission Reductions
CFO	Chief Financial Officer
the Company	Macquarie Group Limited
the Consolidated Entity	Macquarie Group Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
Directors	the Voting Directors of Macquarie Group Limited (unless the context indicates otherwise)
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
ECM	Equity Capital Markets
EMEA	Europe, Middle East and Africa

Glossary
continued

Environmental Management Plan (EMP)	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Group Limited
FICC	Fixed Income, Currencies and Commodities
FIRB	Foundation Internal Ratings Based Approach
Funds	Macquarie-managed funds
GRI	Global Reporting Initiative
IAD	Internal Audit Division
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPO	initial public offering
LGBTI	Lesbian Gay Bisexual Transgender and Intersex
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Group Limited
M & A	mergers and acquisitions
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie PMI	Macquarie Preferred Membership Interests
MAFM	Macquarie Agricultural Funds Management
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
Management	Macquarie senior management
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MBL	Macquarie Bank Limited
MBSSAP	Macquarie Bank Staff Share Acquisition Plan
MCN	Macquarie Group Capital Notes
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
MFG	Macquarie Funds Group
MGEDSAP	Macquarie Group Executive Director Share Acquisition Plan
MGESOP	Macquarie Group Employee Share Option Plan
MGL	Macquarie Group Limited ABN 94 122 169 279
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIP	Macquarie Infrastructure Partners Inc.
MIPS	Macquarie Income Preferred Securities
MIRA	Macquarie Infrastructure and Real Assets
MIS	Macquarie Income Securities
MPPM	Macquarie Private Portfolio Management
MSG	Macquarie Securities Group

NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
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
NUA	Net usable area
OECD	Organisation for Economic Co-operation and Development
Operating Groups	the Operating Groups consist of BFS, CAF, FICC, Macquarie Capital, MFG and MSG
ORMF	Operational Risk Management Framework
OTC	over-the-counter
PINAI	Philippines Investment Alliance for Infrastructure
PPP	Public Private Partnership
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
RWA	risk-weighted assets
S&P	Standard & Poor's
SPE	Special Purpose Entity
SYD	ASX-listed Sydney Airport
SYD distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders on 13 January 2014
tCO_2-e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TSR	total shareholder return
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Group Limited as defined in the MGL Constitution
WHSE	work health, safety and environmental

Glossary
continued

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